The Directors present their annual report on the affairs of the Group, together with the accounts and auditors' report, for the year ended 31 December 2007. 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 2007 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 Executives report: Ultra's 2007 results on pages 14 and 15; divisional review on pages 16 and 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:

		2007 £'000
Balance on retained earnings, beginning of year		**88,362**
Total recognised income and expense		**36,274**
Dividends:	2006 final paid of 12.6p per share	**(8,463)**
	2007 interim paid of 6.7p per share	**(4,515)**
Equity-settled employee share schemes		**35**
Balance on retained earnings, end of year		**111,693**

The final 2007 dividend is proposed to be paid on 6 May 2008 to shareholders on the register at 11 April 2008. The interim dividend was paid on 28 September 2007, making a total of 19.3p (2006: 16.6p) per share paid for the year.

Future developments

A review of the activities and future developments of the Group is contained in the Chief Executives report on pages 3 to 24.

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 £105.0 million (2006: £92.3 million) was spent on engineering development of which £74.8 million (2006: £69.4 million) was funded by customers and £30.2 million (2006: £22.9 million) by the Group.

Directors and their interests

The Directors who served throughout the year and their interests in the shares of the Company are listed on page 43.

Substantial shareholdings

As at 22 February 2008, 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	6.7	4,501,053
F&C Asset Management	Indirect	5.9	3,971,335
Legal & General Group Plc	Direct and indirect	5.0	3,408,593
Aegon UK Plc Group of Companies	Direct and indirect	4.4	2,964,838
Lloyds TSB Plc	Direct and indirect	3.9	2,655,671
Barclays Plc	Indirect	3.8	2,544,048

Charitable and political contributions

The Group contributed £62,000 (2006: £44,000) 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 2007 were 53 days (2006: 54 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.

Annual General Meeting

Explanation of special business resolutions is given below:

Resolution 9

This resolution authorises the Directors to allot shares in the Company up to a maximum nominal amount of £1,131,429, representing one third of the allotted and fully paid up share capital of the Company.

Resolution 10

This resolution authorises the amendment of the performance condition applying to awards granted in 2007 under the Ultra Electronics Long-Term Incentive Plan 2007 and to replace the measure of relative earnings per share ("EPS") performance with a measure of relative total shareholder return ("TSR") performance.

Resolution 11

This resolution authories the substitution of the EPS performance condition applying to awards granted in 2005 and 2006 under the Ultra Electronics Long-Term Incentive Plan 2002-2007 with the TSR performance condition.

Resolution 12

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 5% of the total issued share capital of the Company. Resolutions 9 and 12 comply with the Association of British Insurers' guidelines and renew similar authorities given previously. The authorities expire on the earlier of the conclusion of the next Annual General Meeting of the Company or 15 months after the date of passing these resolutions. The Directors have no current intention to exercise the authorities sought by these resolutions except for employee share option schemes.

Resolution 13

This resolution authorises the Directors to purchase up to a total of 3,394,286 of the Company's shares, representing 5% of the issued share capital of the Company. 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 will use the share purchase authority with discretion. In reaching a decision to purchase shares of the Company the Directors would take account of the Company's business and any impact on earnings per share and net tangible assets per share. The Directors have no current intention to exercise the authority sought by this resolution.

Resolution 14

This resolution proposes various amendments to the Company's Articles of Association in order to bring them into line with best practice and recent changes in Company legislation.

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
22 February 2008
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"). A summary of the Group's compliance position follows with details of any exceptions. Throughout the year ended 31 December 2007, the Group has been in compliance with the Code provision set out in Section 1 of the Code.

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 main Board structure and composition remained unchanged throughout 2007 and comprised the Chairman, three independent non-executive Directors and four executive Directors. 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.

Christopher Bailey and Ian Griffiths continue in their roles as independent non-executive Directors. Although the Code calls for the majority of the Board to be independent non-executive Directors, it is the view of the Directors that the current structure of the Board remains appropriate for Ultra given the relative complexity of the business and their wish to maintain a flexible, rapid and informed decision-making process. Any increase in the number of non-executive Directors at this time would result in slower decisions, reduced focus and higher costs.

Mr 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. Although this does not follow best governance practice, which calls for these roles to be completely separated, Ultra's lean management structure and focus on cost effectiveness discourages the appointment of a completely independent Company Secretary. The Board believes that Mr Jeffcoat is able effectively to separate his two roles sufficiently to avoid significant conflicts of interest.

The Board met ten times during the year. Details of the numbers of meetings of the main Board and its sub-committees that were attended by the individual Directors are set out in the table on page 34.

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 £100 million, the appointment and dismissal of business unit Managing Directors and Presidents, together with their remuneration levels, and the granting of charitable donations. This is done with the advice of an internal charities committee.

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 2007 the Audit Committee consisted of Andrew Walker, Committee Chairman and senior independent non-executive Director, Ian Griffiths and Christopher Bailey.

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 and, through the Committee Chairman, providing an independent point of contact for all employees; and

(g) considering the recommendation to the shareholders of a preferred firm of external auditors.

It is the policy of the Group that non-audit services provided by Deloitte & Touche LLP, Ultra's external auditors, are restricted to regulatory reporting, due diligence assessments of potential acquisitions and other attestation work. The Board believes that the auditors' familiarity with the accounting techniques that are involved in Ultra's long-term contracting activities serves them well in carrying out effective due diligence reviews of other similar companies.

Nominations Committee

The Nominations Committee comprises the non-executive Directors and the Chief Executive. The Committee, which is chaired by Julian Blogh, was not required to meet during 2007. The key responsibility of the Committee is to review all main Board and sub-committee appointments.

Remuneration Committee

The Board Remuneration Committee consists of Andrew Walker, Chairman, Christopher Bailey and Ian Griffiths. It met four times during the year. The Committee is responsible for evaluating the performance of the executive Directors, including the Chief Executive, and for setting their levels of remuneration. It also meets without the Group Chairman being present to agree his remuneration. The Directors' remuneration report is included on page 37, together with details of the Directors' pension entitlements, long-term incentive share awards and shareholdings.

Evaluation of Board and Committee effectiveness

Following the recommendations of the Code, the Board operates an evaluation process in which the effectiveness of the Board, its sub-committees and each individual Director are assessed over a rolling two-year period. The Chairman is responsible, on behalf of the Board, for overseeing this process, which is carried out by an independent external consultant. He is supported in this regard by the Company Secretary. In 2006 the main Board and its subcommittees were reviewed, using a questionnaire that was completed independently by all members of the Board. The scope of the review covered the Board structure, processes and administration, together with the distribution of information. Its results were communicated to the Directors in a written report, considered at a subsequent meeting and a number of actions were agreed as a result. Then during 2007 the contribution of each individual Director was assessed by the rest of the Board. This stage was based upon a questionnaire that was completed by each of the remaining Board members. The results of this survey were processed and fed back separately to each individual and in total to the Chairman. The intention is to repeat this review cycle every two years in the future.

Directors' re-election

Christopher Bailey, non-executive Director, Julian Blogh, Chairman and Frank Hope, executive Director, are all retiring by rotation in accordance with the Articles of Association and standing for re-election. Andrew Walker, senior independent non-executive Director, has served as a Director for more than nine years and is therefore required to stand for re-election annually. The Board has discussed Mr Walker's reappointment specifically and has agreed that his extensive knowledge of Ultra's complex operations, his previous experience as an executive Director of other major Groups and his exposure to corporate governance arrangements as a non-executive Director in other quoted companies all mean that he remains well qualified for his current position on the Board. The Directors' view is that Mr Walker remains highly effective in his role as senior non-executive and that it is in the best interests of the shareholders for him to continue.

Meeting attendance

	Main Board	Audit Committee	Nominations Committee	Remuneration Committee
Number of meetings	10	4	-	4
C. Bailey	9	4	-	4
J. Blogh	10	-	-	-
D. Caster	10	-	-	-
I. Griffiths	9	3	-	3
A. Hamment	10	-	-	-
F. Hope	10	-	-	-
D. Jeffcoat[1]	10	4	-	4
A. Walker	10	4	-	4

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

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 the controls can provide only reasonable, not absolute, assurance against material errors, losses or fraud. The key features of the internal control system that operated during the year are described on the next page.

Control environment

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

All businesses are required to maintain written operating procedure manuals that are consistent with the control principles and policies set out in Ultra's Group Operating Manual. Acquisitions, major capital investments and contract bids above a defined value require main Board approval, with smaller investment decisions delegated to the Chief Executive.

Risk management

Management is responsible for identifying the risks facing Ultra's businesses and for putting in place procedures to recognise and mitigate such risks. Strategic risks are formally assessed each year by the Board during the strategic planning process and steps are taken subsequently to ensure that all such risks are minimised throughout the year. 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 responsible executive Director 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 business units are audited at least once every two years and those judged to represent a higher risk are reviewed more often. 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 and Ernst & Young confirms that risks have been eliminated when they next visit the businesses concerned.

The executive Directors take an active role in identifying and assessing potential risks across all aspects of Ultra's activities. This is achieved both through the normal monthly business review programme and also through day-to-day management contact. The Managing Directors and finance heads of all business units are required to give a formal written representation to the Board every year, confirming that they accept responsibility for maintaining effective internal controls and that they have disclosed full details of any fraud or suspected fraud within their businesses.

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, sales, profit and cash flow. The five year strategic plan and annual budget for each business are approved by the executive Directors. The Board approves the Group's consolidated plan and budget. The actual performance of the Group and the key variances against budget are reported monthly to the Board, normally during the third week of the following month. Revised forecasts for the half-year and full-year are prepared monthly for each business unit, and for the Group as a whole, and presented to the Board.

Shareholder communication

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

Going concern

After making appropriate enquiries the Directors have established that the Group's forward order book provides satisfactory cover for trading in the year to come. They have a reasonable expectation that the Company and Group have adequate financial resources to continue in operational existence for the foreseeable future. The Group's banking facilities were renewed in 2005 for a five-year period, confirming the Group's strong credit standing. The related banking covenants have all been met during the past year with a very comfortable margin and the expectation is that this will continue. For these reasons, the Board continues to adopt a going concern basis in preparing the accounts.

Statement of responsibilities

The Directors are responsible for preparing the Annual Report, Directors remuneration report and the associated financial statements. In accordance with applicable law and regulation they are required to prepare financial statements for the Group in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union but have chosen to prepare company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) and applicable law.

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 period. 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 UK 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:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in 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.

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 Company financial statements 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 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 as published by the London Stock Exchange 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, although they are formally not Committee members.

The remit of the Committee is to make recommendations to the Board on the framework of senior executive remuneration and to determine annually the individual salaries, annual bonuses payable (if any), Long Term Incentive Plan awards and other terms and conditions of employment of the executive Directors. Subject to shareholder approval, the Committee also agrees the terms of any discretionary share schemes in which executive Directors and senior executives may be invited to participate, and the terms of the Company's Savings Related Share Option Scheme and All-Employee Share Ownership Plan ("AESOP").

Wholly independent advice on executive remuneration and share schemes is received from New Bridge Street Consultants LLP. They are appointed by the Company 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 which is determined by the Committee in his absence.

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 New Bridge Street Consultants. 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.

Salaries

The executive Directors salaries are reviewed annually by the Committee. In addition to the analysis presented by New Bridge Street Consultants, 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;
- 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 remuneration awards are based upon published salary surveys, taking account of individual responsibilities. Andrew Walker is Chairman of the Audit and Remuneration Committees and receives additional remuneration as a result.

Annual bonus scheme

Bonus payments are based upon the achievement of operating profit and cash flow targets. The maximum bonus for executive Directors is 75% of base salary. In 2007, a maximum of 15% of salary could have been paid subject to the achievement of a £63.1m profit before tax and profit or 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 £61.4m after capitalised development costs, capital expenditure and purchase of long-term incentive plan shares. The actual results for the year led to a bonus pay-out of 31%. The pay-out was below the maximum because both profit and cash performance were below the defined target levels.

Annual bonus scheme (continued)

The Committee will continue to ensure that the targets set under the annual bonus plan remain sufficiently stretching. In 2008, the parameters used to assess payment will be based once again on a combination of a profit target, which will account for up to 15% of salary, and a cash flow objective for the remaining 60%.

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

Due to the expiry of a number of the Company's existing share incentive plans, Ultra sought and gained shareholder approval for the establishment of the following new discretionary share plans at the 2007 Annual General Meeting:

- 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.

Most of the key features of the previous scheme were reflected in the new 2007 LTIP as approved by the shareholders. 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. In designing the new 2007 LTIP, account was taken of changes in best market practice since the previous plan was approved by shareholders.

Proposed change to performance condition for outstanding LTIP awards

Under the 2007 LTIP, conditional awards of shares are made annually to Executive Directors and selected other senior executives that normally vest three years after grant, subject to continued employment and the extent to which a performance condition has been met. The performance condition originally approved by shareholders was the growth in Ultra's adjusted EPS relative to a group of comparator companies over a fixed three-year period. The intention was that, at the end of the performance period, each company's growth in EPS would be calculated over that period, with the companies ranked in descending order according to the growth in their adjusted EPS.

However, after careful consideration, the Remuneration Committee intends, subject to shareholder approval,which will be sought at the forthcoming AGM, to change this methodology for all awards made under the new 2007 LTIP (including the award which was granted in 2007). The intention is to replace the relative EPS-based performance condition with a relative TSR condition. The main reason for this change is that assessing the relative EPS performance of the company has become much more complicated and difficult than in the past. This problem has been exacerbated by the implementation of International Financial Reporting Standards ("IFRS") with effect from 2004, the first year of the award that vested at the end of 2006. As a result the calculation of relative EPS now involves a very detailed review of the Annual Report & Accounts for all of the peer group companies in order to determine the necessary adjustments for factors such as the amortisation of intangibles, gains and losses on financial instruments, pension financing costs and corporate tax rates. Under IFRS this process is proving to be highly complex, with the result that the determination of LTIP vesting levels is in danger of becoming opaque. With more than 30 companies in the current comparator group, the Committee believes that to repeat this process annually would be an inappropriate use of time and resources.

The Committee therefore proposes to move to the use of relative TSR as the performance condition that will apply to all awards made under the new 2007 LTIP going forward. This approach would be also used for the 2007 awards, the first to be made under the new LTIP using the comparator group of Companies. The Committee is satisfied that a TSR target would not be materially easier to achieve than one that is based upon relative EPS.

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

- aligning the performance objectives of the 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 out-turn.

Ultra's larger shareholders have already been consulted regarding the intention to make this change and the feedback has been fully supportive.

Retrospective amendment of targets for 2005 and 2006 awards

There are two awards still pending under the old 2002-2007 LTIP, dating from 2005 and 2006, that were originally made on the assumption that vesting would be determined using Ultra's relative EPS performance between the years 2005-2007 and 2006-2008 respectively. The difficulties described above would be similar in evaluating Ultra's relative EPS performance in 2008 and 2009. Therefore the Committee also proposes to move to a relative TSR basis for these awards, comparing the Company's performance with that of the remaining comparator companies that would have been used for each award. A list of these companies was provided in the 2005 Annual Report and can be found on the Company's website. As with the change in approach for the 2007 LTIP awards, this change to the 2005 and 2006 awards is also subject to approval at the forthcoming Annual General Meeting.

The Committee considers this change to the awards necessary and appropriate for the following reasons:

- the practical difficulties previously explained that are associated with the continued use of a relative EPS measure;
- the alteration will not involve a change to the group of companies against which Ultra's performance was originally to be compared; and
- the use of relative TSR reflects current market practice as well as being the approach that will be adopted for all awards under the new LTIP.

Detailed structure of TSR performance condition

The vesting rules under the revised 2007 LTIP scheme and for the 2005 and 2006 awards that would have been applied will remain unchanged. Accordingly, vesting will be 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%

TSR will be based upon a comparison of the Company's average share price (plus reinvested dividends) during the quarter immediately prior to commencement 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 comparator group for measuring relative TSR for the awards made in 2007 is:

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

The Committee will review the comparator group annually and make such amendments as it sees fit (for example, to take account of Companies which delist during the year).

In addition to the main TSR condition an "underpin" will apply to these awards requiring average annual growth in headline EPS 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.

Other features of 2007 LTIP

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 exceptional circumstances the Committee may make awards of up to 150% of salary. The remaining features of the 2007 LTIP as outlined in detail last year, will remain unchanged.

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. 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

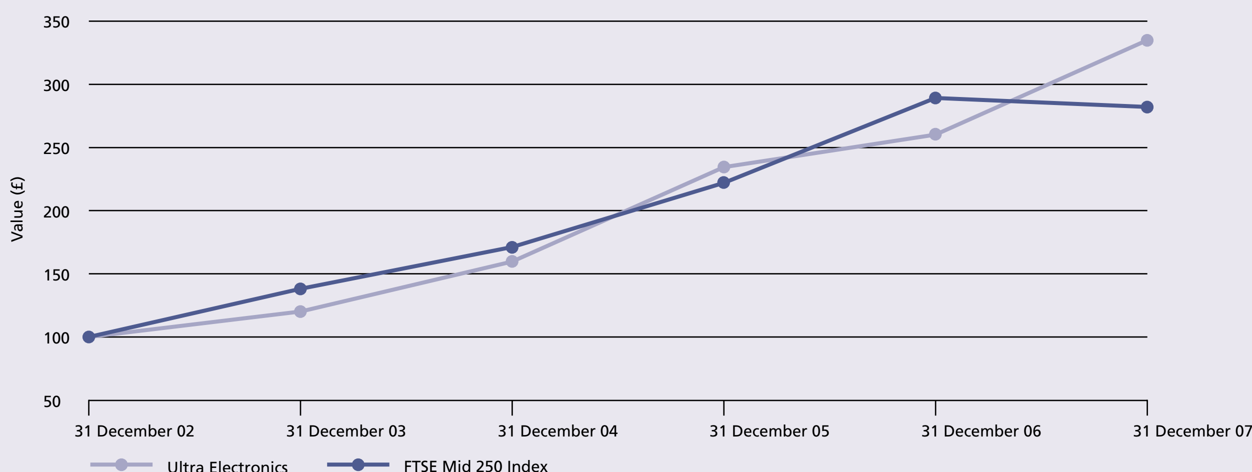
To increase the alignment of interests between senior executives and shareholders, the Committee has introduced a share ownership guideline under which all executive Directors will be encouraged to retain at least 50% of the post-tax shares they acquire on the vesting of LTIP awards until a holding equivalent 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 graphs

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 2007 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 TSR comparison as the Company is a member of this and its index members represent a broad range of UK quoted Companies.

Total Shareholder Return – compared to FTSE 250 Index

Source: Thomson Datastream

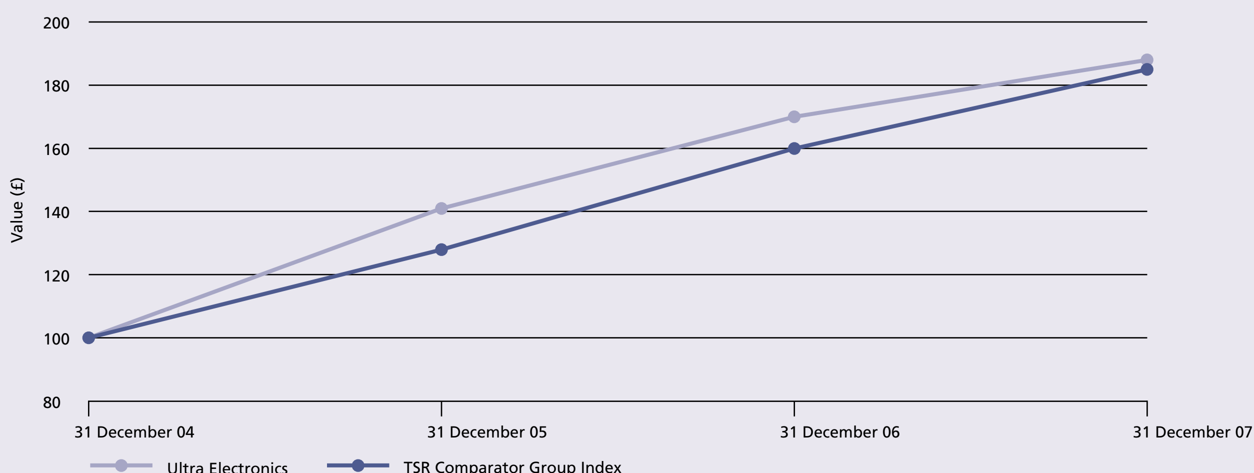


The graph on the next page shows the Company's performance for the last three years against the comparator group that will be used for determining the vesting level for the 2005 LTIP award. This graph has been prepared using a similar methodology to the FTSE 250 comparison, but is based upon the average share price (plus reinvested dividends) during the last quarter of 2007 compared to the average share price (plus reinvested dividends) during the last quarter of 2004. This is consistent with the basis on which the LTIP vesting will be determined.

Total Shareholder Return performance graphs (continued)

Total shareholder return – compared to comparator group index

Source: Thomson 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 exceed one year's salary.

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

Name	Date of contract	Notice period
C. Bailey	16 January 2007	Nil
J. Blogh	15 March 2007	Nil
D. Caster	25 September 1996	12 months
I. Griffiths	27 April 2007	Nil
A. Hamment	1 July 2000	12 months
F. Hope	1 January 1999	12 months
D. Jeffcoat	10 July 2000	12 months
A. Walker	16 January 2007	Nil

No executive Directors have provisions in their contracts for compensation on early termination other than the notice period. The non-executive Directors have fixed twelve-month contracts with no notice period. There are no provisions in their contracts for compensation on early termination.

Directors' pension entitlements

The Company operates a defined benefit pension scheme for current executive Directors. 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 2007:

	Age at year-end	Accrued benefit at beginning of period	**Increase in period (net of indexation)**	**Transfer value of increase in period**	**Accrued benefit at end of period**	Transfer value at beginning of period	**Transfer value at end of period**	**Movement in transfer value during period***
		£'000	**£'000**	**£'000**	**£'000**	£'000	**£'000**	**£'000**
D. Caster	54	145	**26**	**269**	**176**	1,650	**2,047**	**371**
A. Hamment	53	60	**8**	**80**	**71**	642	**774**	**121**
F. Hope	53	39	**3**	**27**	**43**	408	**469**	**53**
D. Jeffcoat	57	23	**4**	**43**	**28**	307	**377**	**63**

*Less Directors' contributions.

Directors' remuneration

Directors' emoluments are detailed below:

	Basic salary	**Other cash emoluments**	**Fees**	**Annual performance bonus**	**Benefits**	**2007 Total**	2006 Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	£'000
C. Bailey	**-**	**-**	**35**	**-**	**-**	**35**	33
J. Blogh	**-**	**-**	**144**	**-**	**-**	**144**	137
D. Caster	**375**	**-**	**-**	**116**	**28**	**519**	452
I. Griffiths	**-**	**-**	**35**	**-**	**-**	**35**	33
A. Hamment	**160**	**12**	**-**	**49**	**2**	**223**	200
F. Hope	**216**	**-**	**-**	**67**	**20**	**303**	281
D. Jeffcoat	**216**	**3**	**-**	**67**	**9**	**295**	272
A. Walker	**-**	**-**	**42**	**-**	**-**	**42**	38
	967	**15**	**256**	**299**	**59**	**1,596**	1,446

Pension contributions to Directors of £137,665 (2006: £130,530) were paid by the Company, including £43,125 (2006: £39,406) 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 and on the following page:

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**
2004	49,443	29,084	23,267	27,727	29,278	£5.16	April 2007
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 2007	75,723	80,765	52,701	67,273	68,419		
2004 award crystallised during the year	(36,093)	(21,231)	(16,984)	(20,240)	(21,372)		
2004 award lapsed during year	(13,350)	(7,853)	(6,283)	(7,487)	(7,906)		
Interests at 31 December 2007	**26,280**	**51,681**	**29,434**	**39,546**	**39,141**		

The 2004 award crystallised during the year as detailed above. The actual date of the award was February 2004. The market price of the shares when granted was £5.16: the market price of the shares on vesting was £12.47. The aggregate gain made by the Directors under the LTIP during the year was £1,445,524 (2006: £902,204). Ultra's share price on 31 December 2007 was £13.75. The range during 2007 was £10.59 to £13.75.

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
Interests at 1 January 2007	-	-	-	-		
2007 award	29,259	12,874	18,005	18,005	£11.11	April 2010
Interests at 31 December 2007	**29,259**	**12,874**	**18,005**	**18,005**		

It is proposed that all of the outstanding awards will be subject to comparative TSR-based performance conditions materially identical to those described earlier. During the year, the Group purchased nil shares relating to the 2007 awards (2006: 47,751 shares – cost of £513,000). This includes £nil worth of Ultra shares for the Directors (2006: £356,660).

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 2007	Partnership shares acquired during year	Interests as at 31 December 2007	Partnership shares acquired from 1 January 2008 to 22 February 2008	Interests as at 22 February 2008
D. Caster	1,556	**153**	**1,709**	**20**	**1,729**
A. Hamment	1,556	**153**	**1,709**	**20**	**1,729**
F. Hope	1,556	**153**	**1,709**	**20**	**1,729**
D. Jeffcoat	1,461	**152**	**1,613**	**20**	**1,633**
Total	6,129	**611**	**6,740**	**80**	**6,820**

During the year, the Share Ownership Plan Trust, established and operated in connection with the AESOP, purchased 43,523 (2006: 44,254) Ultra Electronics Holdings plc shares (nominal value £2,176) for £513,607 (2006: £461,762). 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 22 February 2008
	Direct ownership	Indirect ownership	Direct ownership	Indirect ownership	Direct ownership
C. Bailey	-	2,500	**-**	**2,500**	**-**
J. Blogh	272,971	884,921	**294,054**	**884,921**	**294,054**
D. Caster	545,508	500,576	**908,439**	**150,000**	**908,459**
I. Griffiths	-	-	**-**	**-**	**-**
A. Hamment	62,582	43,535	**72,656**	**43,535**	**72,676**
F. Hope	84,619	-	**96,595**	**-**	**96,615**
D. Jeffcoat	36,237	13,500	**42,373**	**-**	**42,393**
A. Walker	-	12,565	**1,096**	**12,771**	**1,096**

There were no changes in indirect beneficial ownership between 1 January 2008 and 22 February 2008.

Andrew Walker
Chairman of the Remuneration Committee
22 February 2008

Corporate governance

Independent auditors' report – Group

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 2007 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 29 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 2007. We have reported separately on the individual Company financial statements of Ultra Electronics Holdings plc for the year ended 31 December 2007 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 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. We also 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 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 2007 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 2007 and its profit for the year then ended.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Reading, United Kingdom
22 February 2008

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 2007

	Note	2007 £'000	2006 £'000
Continuing operations			
Revenue	*3*	**412,890**	377,040
Cost of sales		**(300,380)**	(274,466)
Gross profit		**112,510**	102,574
Other operating income	*4*	**5,050**	1,505
Distribution costs		**(875)**	(810)
Administrative expenses		**(56,687)**	(46,335)
Other operating expenses	*5*	**(992)**	(2,987)
Profit from operations	*6*	**59,006**	53,947
Headline operating profit	*2*	**62,921**	57,509
Amortisation of intangibles arising on acquisition		**(3,915)**	(3,562)
Profit from operations		**59,006**	53,947
Investment revenue	*8*	**1,092**	4,939
Finance costs	*9*	**(3,500)**	(3,874)
Profit before tax		**56,598**	55,012
Headline profit before tax	*2*	**61,069**	54,915
Amortisation of intangibles arising on acquisition		**(3,915)**	(3,562)
(Loss)/profit on fair value movements on derivatives		**(556)**	3,659
Profit before tax		**56,598**	55,012
Tax	*10*	**(15,363)**	(15,404)
Profit for the year from continuing operations attributable to equity holders of the parent		**41,235**	39,608
Earnings per ordinary share (pence)			
From continuing operations			
Basic	*12*	**60.9**	58.8
Diluted	*12*	**60.5**	58.3

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

Consolidated balance sheet

31 December 2007

	Note	2007 £'000	2006 £'000
Non-current assets			
Intangible assets	*13*	**179,254**	149,758
Property, plant and equipment	*14*	**24,235**	20,814
Deferred tax assets	*22*	**10,634**	11,223
		214,123	181,795
Current assets			
Inventories	*15*	**42,417**	29,198
Trade and other receivables	*17*	**84,226**	83,599
Cash and cash equivalents		**27,419**	25,628
		154,062	138,425
Total assets		**368,185**	320,220
Current liabilities			
Trade and other payables	*18*	**(118,393)**	(110,235)
Tax liabilities		**(9,123)**	(7,387)
Obligations under finance leases	*19*	**(25)**	(22)
Short-term provisions	*23*	**(10,644)**	(10,459)
		(138,185)	(128,103)
Non-current liabilities			
Retirement benefit obligations	*28*	**(40,390)**	(35,143)
Other payables	*18*	**(830)**	(1,158)
Deferred tax liabilities	*22*	**(2,619)**	(2,830)
Obligations under finance leases	*19*	**(29)**	**(48)**
Bank loans	*20*	**(41,608)**	(32,722)
Long-term provisions	*23*	**(2,630)**	(2,825)
		(88,106)	(74,726)
Total liabilities		**(226,291)**	(202,829)
Net assets		**141,894**	117,391
Equity			
Share capital	*24*	**3,394**	3,378
Share premium account	*25*	**35,061**	33,180
Own shares	*25*	**(1,972)**	(2,692)
Hedging and translation reserve	*25*	**(6,282)**	(4,837)
Retained earnings	*25*	**111,693**	88,362
Total equity attributable to equity holders of the parent		**141,894**	117,391

The finanical statements were approved by the Board of Directors and authorised for issue on 22 February 2008.

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 2007

	Note	2007 £'000	2006 £'000
Net cash flow from operating activities	*26*	**49,558**	49,550
Investing activities			
Interest received		**791**	1,216
Purchase of property, plant and equipment		**(8,569)**	(4,759)
Proceeds from disposal of property, plant and equipment		**-**	34
Expenditure on product development and other intangibles		**(5,489)**	(4,676)
Acquisition of subsidiary undertakings (net of cash acquired)	*13*	**(31,016)**	(7,799)
Net cash used in investing activities		**(44,283)**	(15,984)
Financing activities			
Issue of share capital		**1,897**	1,518
Purchase of Long-Term Incentive Plan shares		**-**	(513)
Dividends paid		**(12,978)**	(11,102)
Increase/(repayment) of borrowings		**6,551**	(36,315)
Repayment of obligations under finance leases		**(16)**	(33)
Net cash used in financing activities		**(4,546)**	(46,445)
Net increase/(decrease) in cash and cash equivalents		**729**	(12,879)
Cash and cash equivalents at beginning of year		**25,628**	40,193
Effect of foreign exchange rate changes		**1,062**	(1,686)
Cash and cash equivalents at end of year		**27,419**	25,628

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 2007

	Note	2007 £'000	2006 £'000
Exchange differences on translation of foreign operations		**(1,445)**	(3,847)
Actuarial (losses)/gains on defined benefit pension schemes (net of related deferred tax and exchange rate movements)		**(4,250)**	7,827
Profit on cash flow hedge		**45**	226
Tax on items taken directly to equity (excluding pensions)		**(602)**	(1,923)
Net (expense)/income recognised directly in equity		**(6,252)**	2,283
Transfers			
Transfer to profit and loss on cash flow hedges		**(154)**	(28)
Profit for the year		**41,235**	39,608
Total recognised income and expense for the year attributable to equity holders of the parent	*25*	**34,829**	41,863

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

1 Segment information

	2007			2006		
	External revenue £'000	**Internal revenue £'000**	**Total £'000**	External revenue £'000	Internal revenue £'000	Total £'000
Revenue						
Aircraft & Vehicle Systems	**99,993**	**5,856**	**105,849**	93,907	3,423	97,330
Information & Power Systems	**126,623**	**11,062**	**137,685**	120,517	8,964	129,481
Tactical & Sonar Systems	**186,274**	**5,939**	**192,213**	162,616	11,813	174,429
Eliminations	**-**	**(22,857)**	**(22,857)**	-	(24,200)	(24,200)
Consolidated revenue	**412,890**	**-**	**412,890**	377,040	-	377,040

All inter-group trading is at arms' length.

	2007 £'000	2006 £'000
Profit from operations		
Aircraft & Vehicle Systems	**16,070**	13,190
Information & Power Systems	**19,645**	19,333
Tactical & Sonar Systems	**27,206**	24,986
Headline operating profit *(see note 2)*	**62,921**	57,509
Amortisation of intangibles arising on acquisition*	**(3,915)**	(3,562)
Profit from operations	**59,006**	53,947
Investment revenue	**1,092**	4,939
Finance costs	**(3,500)**	(3,874)
Profit before tax	**56,598**	55,012
Tax	**(15,363)**	(15,404)
Profit after tax	**41,235**	39,608

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

	2007 £'000	2006 £'000
Aircraft & Vehicle Systems	**564**	505
Information & Power Systems	**75**	174
Tactical & Sonar Systems	**3,276**	2,883
	3,915	3,562

Capital expenditure, additions to intangibles, depreciation and amortisation

	Capital expenditure and additions to intangibles (excluding goodwill)		**Depreciation and amortisation**	
	2007 £'000	2006 £'000	**2007 £'000**	2006 £'000
Aircraft & Vehicle Systems	**4,460**	4,579	**1,684**	3,697
Information & Power Systems	**4,963**	2,142	**2,936**	2,930
Tactical & Sonar Systems	**4,635**	2,992	**6,567**	5,439
Total	**14,058**	9,713	**11,187**	12,066

The 2007 depreciation and amortisation expense includes £5,467,000 of amortisation charges (2006: £6,536,000) and £5,720,000 of property, plant and equipment depreciation charges (2006: £5,530,000).

1 Segment information (continued)

Total assets by segment

	2007 £'000	2006 £'000
Aircraft & Vehicle Systems	**99,879**	80,857
Information & Power Systems	**71,473**	68,656
Tactical & Sonar Systems	**153,397**	129,684
	324,749	279,197
Unallocated	**43,436**	41,023
Consolidated total assets	**368,185**	320,220

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

Total liabilities by segment

	2007 £'000	2006 £'000
Aircraft & Vehicle Systems	**30,362**	36,032
Information & Power Systems	**45,682**	40,296
Tactical & Sonar Systems	**53,004**	46,792
	129,048	123,120
Unallocated	**97,243**	79,709
Consolidated total liabilities	**226,291**	202,829

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

Revenue by destination

	2007 £'000	2006 £'000
United Kingdom	**171,729**	150,645
Continental Europe	**43,556**	35,700
Canada	**17,788**	16,022
USA	**154,032**	144,506
Rest of World	**25,785**	30,167
	412,890	377,040

Other Information (by geographic location)

	Total assets		Additions to Property, Plant & Equipment and intangible assets (excluding acquisitions)	
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
United Kingdom	**168,529**	146,564	**9,340**	6,089
North America	**156,220**	132,633	**4,718**	3,624
	324,749	279,197	**14,058**	9,713

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:

	2007 £'000	2006 £'000
Profit from operations	**59,006**	53,947
Amortisation of intangibles arising on acquisition	**3,915**	3,562
Headline operating profit	**62,921**	57,509
Profit before tax	**56,598**	55,012
Loss/(profit) on fair value movements on derivatives	**556**	(3,659)
Amortisation of intangibles arising on acquisition	**3,915**	3,562
Headline profit before tax	**61,069**	54,915
Cash generated by operations *(see note 26)*	**66,249**	66,414
Purchase of property, plant and equipment	**(8,569)**	(4,759)
Proceeds on disposal of property, plant and equipment	**-**	34
Expenditure on product development and other intangibles	**(5,489)**	(4,676)
Purchase of Long-Term Incentive Plan shares	**-**	(513)
Operating cash flow	**52,191**	56,500

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:

	2007 £'000	2006 £'000
Sales of goods	**211,039**	206,210
Revenue from long term contracts	**201,851**	170,830
	412,890	377,040

4 Other operating income

Amounts included in other operating income were as follows:

	2007 £'000	2006 £'000
Foreign exchange gains	**5,050**	1,505

5 Other operating expenses

Amounts included in other operating expenses were as follows:

	2007 £'000	2006 £'000
Amortisation of development costs	**949**	2,234
Foreign exchange losses	**43**	753
	992	2,987

Amortisation of development costs has previously been included within administrative expenses. The comparative figure for 2006 has been restated to show this charge within other operating expenses.

6 Profit from operations

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

	2007 £'000	2006 £'000
Raw materials and other bought in inventories expensed in the year	**169,580**	144,808
Inventories written down and recognised as an expense in the year	**934**	751
Reversals of write-downs of inventory	**(140)**	(364)
Staff costs *(see note 7)*	**119,266**	117,162
Depreciation and amounts written off property, plant and equipment	**5,720**	5,530
Amortisation of internally generated intangible assets	**949**	2,234
Amortisation of acquired intangible assets	**4,518**	4,302
Net foreign exchange gains	**(5,007)**	(575)
Loss on disposal of property, plant and equipment	**31**	21
Operating lease rentals		
– plant and machinery	**969**	1,034
– other	**4,562**	4,323
Research and development costs	**26,040**	19,080
Auditors' remuneration for statutory audit work (including expenses)	**386**	379

The Company only audit fee included in the Group audit fee shown above was £10,000 (2006: £10,000).

Analysis of auditors' remuneration

	2007 £'000	2006 £'000
Fees payable for the audit of the annual accounts	**140**	147
Fees payable for the audit of subsidiaries	**246**	232
Total for statutory Group audit services	**386**	379
Analysis of non-audit services:		
Non-audit fees – due diligence work on potential acquisitions	**37**	15
Total for non-audit services	**37**	15

7 Staff costs

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

	2007 £'000	2006 £'000
Wages and salaries	**101,575**	99,450
Social security costs	**10,774**	10,306
Other pension costs	**6,917**	7,406
	119,266	117,162

7 Staff costs (continued)

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

	2007 Number	2006 Number
Production	**1,129**	1,157
Engineering	**1,275**	1,198
Selling	**207**	195
Support services	**443**	439
	3,054	2,989

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

	2007 £'000	2006 £'000
Bank interest	**791**	1,216
Fair value movement on derivatives	**-**	3,659
Retirement benefit scheme finance income	**301**	64
	1,092	4,939

9 Finance costs

	2007 £'000	2006 £'000
Amortisation of finance costs of debt	**71**	65
Interest payable on bank loans and overdrafts	**3,025**	3,835
Interest payable on finance leases	**2**	2
Transfers from equity on cash flow hedges	**(154)**	(28)
Total borrowing costs	**2,944**	3,874
Fair value movement on derivatives	**556**	-
	3,500	3,874

10 Tax

	2007 £'000	2006 £'000
UK taxes		
Corporation tax	**8,062**	8,272
Adjustment in respect of prior years	**(552)**	(460)
	7,510	7,812
Overseas taxes		
Current taxation	**7,970**	6,044
Adjustment in respect of prior years	**(31)**	(854)
	7,939	5,190
Total current tax	**15,449**	13,002
Deferred tax		
Origination and reversal of timing differences		
UK deferred tax	**(649)**	1,118
Overseas deferred tax	**563**	1,284
Total deferred tax	**(86)**	2,402
Total tax charge	**15,363**	15,404

Corporation tax in the UK is calculated at 30% (2006: 30%) of the estimated assessable profit for the year. On 21 March 2007, the Chancellor announced that with effect from 1 April 2008 the standard rate of UK corporation tax will reduce from 30 per cent to 28 per cent.

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 22.

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:

	2007 £'000	2006 £'000
Group profit before tax	**56,598**	55,012
Tax on Group profit at standard UK corporation tax rate of 30% (2006: 30%)	**16,979**	16,504
Tax effects of:		
Income/expenses that are not taxable/allowable in determining taxable profits	**(1,933)**	(861)
Losses not previously recognised	**(19)**	-
Different tax rates of subsidiaries operating in other jurisdictions	**919**	1,075
Adjustments in respect of prior periods	**(583)**	(1,314)
Tax expense for the year	**15,363**	15,404

11 Dividends

Amounts recognised as distributions to equity holders in the year:

	2007 £'000	2006 £'000
Final dividend for the year ended 31 December 2006 of 12.6p (2005: 10.7p) per share	**8,463**	7,150
Interim dividend for the year ended 31 December 2007 of 6.7p (2006: 5.9p) per share	**4,515**	3,952
	12,978	11,102
Proposed final dividend for the year ended 31 December 2007 of 14.5p (2006: 12.6p) per share	**9,792**	8,450

The 2007 proposed final dividend was approved by the Board after 31 December 2007 and has not been included as a liability as at 31 December 2007.

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

	2007 pence	2006 pence
Basic headline *(see below)*	**65.4**	58.4
Diluted headline *(see below)*	**65.0**	57.9
Basic	**60.9**	58.8
Diluted	**60.5**	58.3

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

	2007 £'000	2006 £'000
Earnings		
Earnings for the purposes of earnings per share being profit for the period from continuing operations	**41,235**	39,608
Headline earnings		
Profit for the period from continuing operations	**41,235**	39,608
Loss/(profit) on fair value movements on derivatives (net of tax)	**492**	(2,616)
Amortisation of intangibles arising on acquisition (net of tax)	**2,576**	2,349
Earnings for the purposes of headline earnings per share	**44,303**	39,341

The adjustments to profit are explained in note 2.

12 Earnings per share (continued)

	2007 Number of shares	2006 Number of shares
The weighted average number of shares is given below:		
Number of shares used for basic earnings per share	**67,714,368**	67,421,160
Number of shares deemed to be issued at nil consideration following exercise of share options	**434,033**	529,555
Number of shares used for fully diluted earnings per share	**68,148,401**	67,950,715

13 Intangible assets

	Goodwill £'000	Intellectual property £'000	Customer relationships £'000	Development costs £'000	Other £'000	Total £'000
Cost						
At 1 January 2006	115,377	11,424	19,447	6,202	6,369	158,819
Foreign exchange differences	(2,564)	(1,398)	(2,344)	(369)	(403)	(7,078)
Acquisition of subsidiary undertakings	3,312	110	3,141	-	519	7,082
Additions	118	-	-	3,762	1,192	5,072
Disposals	-	-	-	-	(19)	(19)
Transfers	33	-	-	-	17	50
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
Disposals	-	-	-	-	-	-
Adjustments	(292)	-	-	-	-	(292)
At 31 December 2007	**128,810**	**18,018**	**27,355**	**13,692**	**10,988**	**198,863**
Accumulated amortisation						
At 1 January 2006	-	(739)	(898)	(2,256)	(4,432)	(8,325)
Foreign exchange differences	-	89	108	160	309	666
Charge	-	(1,001)	(1,987)	(2,234)	(1,314)	(6,536)
Disposals	-	-	-	-	19	19
Transfers	-	-	-	-	8	8
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)
Disposals	-	-	-	-	-	-
Transfers	-	-	-	-	-	-
At 31 December 2007	**-**	**(2,913)**	**(4,988)**	**(5,253)**	**(6,455)**	**(19,609)**
Carrying amount						
At 31 December 2007	**128,810**	**15,105**	**22,367**	**8,439**	**4,533**	**179,254**
At 31 December 2006	116,276	8,485	17,467	5,265	2,265	149,758

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

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

During the year a reduction of £292,000 was made to the value of goodwill held in respect of Audiopack. This was due to a successful claim made against certain warranties included in the Sale and Purchase Agreement, which resulted in a refund of £292,000 of the consideration.

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. The carrying amount of goodwill was allocated as follows:

	2007 £'000	2006 £'000
DF Group	**35,375**	35,375
Radamec	**5,267**	5,267
SML	**5,495**	5,495
UnderSea Sensor Systems Inc.	**14,172**	14,172
Tactical Communication Systems	**19,305**	19,305
DNE Technologies	**13,869**	14,106
Ocean Systems	**5,321**	5,321
Criticom	**5,465**	-
BCF Designs	**5,335**	-
Other (comprising several CGUs)	**19,206**	17,235
	128,810	116,276

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumptions for the value-in-use calculations are those regarding the discount rates, growth rates and expected changes to both selling prices and direct costs during the period. Management estimates discount rates using rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets and strategic plan approved by management for the next five years and extrapolates cash flows for the following five years based on an estimated growth rate of nil per cent.

The rate used to discount the forecast cash flows is 8.2%.

An impairment review of goodwill at 31 December 2007 has been performed and the Directors consider that no adjustment is required.

Acquisitions during the year

In aggregate, consideration of £31,016,000 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	31,195
Deferred consideration on subsidiaries acquired in prior year	200
Cash acquired with subsidiaries	(379)
Net cash outflow	31,016

Aggregate assets and liabilities acquired comprised intangible assets of £17,157,000, property, plant and equipment of £288,000, cash of £379,000, inventories of £1,014,000, receivables of £4,103,000 and current liabilities of £3,096,000.

13 Intangible assets (continued)

Criticom Inc.

On 11 July 2007, the Group, through a subsidiary, purchased all of the share capital of Criticom Inc., a Company based in Lanham, Maryland, USA, for an initial cash consideration before expenses of £13.8 million. This represents the fair value of consideration payable. The aggregate net assets acquired and their provisional fair values based on the Directors initial assessment of net realisable value were as follows:

	Book value	Revaluations	Fair value
	£'000	£'000	£'000
Intangible assets	-	9,160	9,160
Property, plant and equipment	82	-	82
Current assets:			
Inventories	230	(17)	213
Receivables	2,345	(18)	2,327
Current liabilities	(1,688)	-	(1,688)
Net assets acquired	969	9,125	10,094
Goodwill arising on acquisition			5,465
Purchase consideration, including acquisition costs			15,559

Consideration satisfied by:

	£'000
Cash (including £1,680,000 of deferred consideration)	15,441
Directly attributable costs	118
Total consideration	15,559
Less deferred consideration	(1,680)
Net cash outflow arising on acquisition	13,879

Criticom contributed a profit after tax of £405,000 in the period from the date of acquisition to 31 December 2007.

The intangible assets acquired as part of the acquisition relate to customer relationships, intellectual property rights and the estimated profit in the acquired order book, the fair value of which is dependent on estimates of attributable future revenues, profitability and cash flows. The goodwill arising on the acquisition is attributable to the anticipated future profits resulting from the access to new markets for the Group's existing products.

Atkins & Partners Limited

On 14 November 2007, the Group purchased all of the share capital of Atkins & Partners Limited, a Company based in Doncaster, England, for a cash consideration before expenses of £4,379,000. This represents the fair value of the consideration payable. The aggregate net assets acquired and their provisional fair values, based on the Directors' initial assessment of net realisable value, were as follows:

	Book value	Revaluations	Fair value
	£'000	£'000	£'000
Intangible assets	28	1,969	1,997
Property, plant and equipment	25	-	25
Current assets:			
Cash at bank	379	-	379
Inventories	1	-	1
Receivables	108	-	108
Current liabilities	(232)	-	(232)
Net assets acquired	309	1,969	2,278
Goodwill arising on acquisition			2,142
Purchase consideration, including acquisition costs			4,420

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13 Intangible assets (continued)

Consideration satisfied by:

	£'000
Cash	**4,379**
Directly attributable costs	**41**
Total consideration	**4,420**
Less cash acquired	**(379)**
Net cash outflow arising on acquisition	**4,041**

Atkins incurred a loss after tax of £36,000 in the period from date of acquisition to 31 December 2007 after incurring a charge of £80,000 arising on the amortisation of intangibles attributable to the acquisition. The goodwill arising on the acquisition is attributable to the anticipated future profits resulting from the access to new markets for the Group's existing products.

BCF Designs Limited

On 30 November 2007, the Group purchased all of the share capital of BCF Designs Limited, a Company based in Cirencester, England, for a cash consideration before expenses of £12,500,000. This represents the fair value of the consideration payable. The aggregate net assets acquired and their provisional fair values, based on the Directors' initial assessment of net realisable value, were as follows:

	Book value	Revaluations	Fair value
	£'000	£'000	£'000
Intangible assets	**187**	**5,813**	**6,000**
Property, plant and equipment	**178**	**-**	**178**
Current assets:			
Inventories	**800**	**-**	**800**
Receivables	**1,403**	**-**	**1,403**
Current liabilities	**(1,102)**	**-**	**(1,102)**
Net assets acquired	**1,466**	**5,813**	**7,279**
Goodwill arising on acquisition			**5,335**
Purchase consideration, including acquisition costs			**12,614**

Consideration satisfied by:

	£'000
Cash	**12,500**
Directly attributable costs	**114**
	12,614

BCF Designs Limited contributed a profit after tax of approximately breakeven in the period from date of acquisition to 31 December 2007 after incurring a charge of £234,000 arising 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.

Telemus Inc.

On 1 July 2007, the Group, through a subsidiary, purchased all of the share capital of Telemus Inc., a Company based in Ontario, Canada, for a cash consideration of £282,000. Goodwill arising on acquisition amounted to £79,000.

If the above acquisitions had been completed on the first day of the financial year, Group revenues for the year would have been £424.0 million and Group profit attributable to equity holders of the parent would have been £43.1 million.

14 Property, plant and equipment

	Land and Buildings				
	Freehold £'000	Short leasehold £'000	Plant and machinery £'000	Assets under construction £'000	Total £'000
Cost					
At 1 January 2006	7,544	4,735	51,624	-	63,903
Foreign exchange differences	(471)	(130)	(2,534)	-	(3,135)
Acquisition of subsidiary undertakings	-	-	(28)	-	(28)
Additions	25	609	4,125	-	4,759
Disposals	-	(12)	(2,057)	-	(2,069)
Transfers	-	-	(758)	-	(758)
At 1 January 2007	**7,098**	**5,202**	**50,372**	**-**	**62,672**
Foreign exchange differences	**328**	**30**	**1,003**	**-**	**1,361**
Acquisition of subsidiary undertakings	**-**	**-**	**288**	**-**	**288**
Additions	**211**	**1,482**	**6,463**	**413**	**8,569**
Disposals	**-**	**-**	**(642)**	**-**	**(642)**
At 31 December 2007	**7,637**	**6,714**	**57,484**	**413**	**72,248**
Accumulated Depreciation					
At 1 January 2006	(1,669)	(3,025)	(36,365)	-	(41,059)
Foreign exchange differences	149	45	1,823	-	2,017
Charge	(185)	(347)	(4,998)	-	(5,530)
Disposals	-	11	2,003	-	2,014
Transfers	-	-	700	-	700
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 31 December 2007	**(2,131)**	**(3,744)**	**(42,138)**	**-**	**(48,013)**
Carrying amount					
At 31 December 2007	**5,506**	**2,970**	**15,346**	**413**	**24,235**
At 31 December 2006	5,393	1,886	13,535	-	20,814

Freehold land amounting to £1,566,000 (2006: £1,540,000) has not been depreciated. The net book value of plant and machinery held under finance leases was £32,000 (2006: £56,000).

15 Inventories

	2007 £'000	2006 £'000
Raw materials and consumables	**26,523**	18,029
Work in progress	**12,804**	9,323
Finished goods and goods for resale	**3,090**	1,846
	42,417	29,198

16 Long-term contract balances

	2007 £'000	2006 £'000
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables	**21,475**	23,072
Amounts due to contract customers included in trade and other payables	**(24,552)**	(29,176)
	(3,077)	(6,104)
Contract costs incurred plus recognised profits less recognised losses to date	**740,320**	606,720

Advances received from customers for contract work amounted to £24,341,000 (2006: £28,628,000).

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17 Trade and other receivables

	2007 £'000	2006 £'000
Trade receivables	**52,059**	52,783
Provisions against receivables	**(527)**	(640)
Net trade receivables	**51,532**	52,143
Amounts due from contract customers *(note 16)*	**21,475**	23,072
Derivatives at fair value	**5,383**	4,172
Other receivables	**3,233**	1,876
Prepayments and accrued income	**2,603**	2,336
	84,226	83,599

Trade receivables do not carry interest. The average credit period on sale of goods is 37 days.

The Directors consider that the carrying amount of trade and other receivables approximates 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 banks with high credit ratings assigned by international credit-rating agencies.

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

The carrying amount of financial assets recorded in the financial statements *(see note 21)* net of any allowances for losses represents the Group's maximum exposure to credit risk.

The ageing profile of unprovided overdue debtors was as follows:

	2007 £'000	2006 £'000
1 to 3 months	**9,630**	9,198
4 to 6 months	**1,848**	684
7 to 9 months	**113**	121
Over 9 months	**148**	155
Total overdue	**11,739**	10,158

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:

	2007 £'000	2006 £'000
Balance at beginning of year	**640**	761
Foreign exchange differences	**-**	(11)
Decrease in provision recognised in profit or loss in the year	**(113)**	(110)
Balance at end of year	**527**	640

18 Trade and other payables

	2007 £'000	2006 £'000
Amounts included in current liabilities:		
Trade payables	**42,929**	37,868
Amounts due to contract customers *(note 16)*	**24,552**	29,176
Derivatives at fair value	**3,503**	1,627
Other payables	**15,178**	12,830
Accruals and deferred income	**32,231**	28,734
	118,393	110,235
Amounts included in non current liabilities:		
Other payables	**255**	541
Accruals and deferred income	**575**	617
	830	1,158

19 Finance leases

Minimum lease payments

	2007 £'000	2006 £'000
Amounts payable under finance leases:		
Within one year	**27**	24
Between one and five years	**31**	51
	58	75
Less: future finance charges	**(4)**	(5)
Present value of finance lease liabilities	**54**	70
Present value of finance lease liabilities – payments due:		
Within one year	**25**	22
Between one and five years	**29**	48
	54	70

20 Bank loans

	2007 £'000	2006 £'000
Bank loans are payable as follows:		
Between two and five years	**41,813**	32,998
	41,813	32,998
Less: unamortised finance costs of debt	**(205)**	(276)
	41,608	32,722

21 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:

	2007 £'000	2006 £'000
Cash	**27,419**	25,628
Fair value through profit and loss – designated at recognition	**5,383**	4,172
Amounts due from contract customers	**21,475**	23,072
Loans and receivables	**51,532**	52,143

Financial liabilities

The financial liabilities of the Group were as follows:

	2007 £'000	2006 £'000
Fair value through profit and loss – designated at recognition	**3,503**	1,627
Other financial liabilities:		
Bank loans and overdrafts	**41,608**	32,722
Finance leases	**54**	70
Trade payables	**42,929**	37,868
Accruals	**22,590**	19,331

Liquidity risk

The Group maintains committed bank 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. This facility, which was renewed in 2005, provides up to £120 million of revolving credit over a five year period, is denominated in Sterling, US dollars and Canadian dollars and is 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% (2006: 0.375%) over base rate.

At 31 December 2007, the Group had available £78,187,000 (2006: £87,002,000) of undrawn, committed borrowing facilities. These undrawn facilities all expire within three years (2006: within four years).

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**
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**
Derivatives at fair value	**1,357**	**1,613**	**533**	**-**	**3,503**
Accruals	**22,218**	**18**	**58**	**296**	**22,590**
2006					
Bank loans and overdrafts	1,529	1,561	36,157	-	39,247
Finance leases	24	23	28	-	75
Trade payables	37,868	-	-	-	37,868
Derivatives at fair value	831	789	7	-	1,627
Accruals	19,166	-	-	165	19,331

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 2007, the fair value of the Group's currency derivatives is estimated to be an asset of approximately £1,935,000 (2006: asset of £2,491,000), comprising £5,373,000 assets (2006: £4,105,000) included in trade and other receivables and £3,438,000 liabilities (2006: £1,614,000) included in trade and other payables. The loss on derivative financial instruments included in the Group's consolidated income statement for the period was £556,000 (2006: gain of £3,659,000).

21 Financial instruments and financial risk management (continued)

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

	2007			2006		
	Not exceeding 1 year	**Between 1 year and 5 years**	**Total**	Not exceeding 1 year	Between 1 year and 5 years	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
US dollars/Sterling	**(44,201)**	**(45,206)**	**(89,407)**	(31,678)	(18,394)	(50,072)
US dollars/Canadian dollars	**(13,461)**	**(10,950)**	**(24,411)**	(21,715)	(20,437)	(42,152)
Canadian dollars/Sterling	**2,751**	**-**	**2,751**	2,525	1,695	4,220
Other currencies	**(3,655)**	**(9,929)**	**(13,584)**	(550)	(5,298)	(5,848)
	(58,566)	**(66,085)**	**(124,651)**	(51,418)	(42,434)	(93,852)

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.

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 over the next year and have fixed swap rates ranging from 4.56 per cent to 5.19 per cent. The floating rates are US dollar LIBOR and Canadian dollar LIBOR. The nominal amounts of the interest rate swaps are US$20 million (2006: US$30 million) and CAD$30 million (2006: CAD$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 2007, the net fair value of interest rate swaps was a liability of £55,000 (2006: assets of £54,000), comprising £10,000 of assets (2006: £67,000) included in trade and other receivables and £65,000 of liabilities (2006: £13,000) included in trade and other payables. The amount recycled into the income statement during the year was £154,000 (2006: £28,000) and has been credited against interest cost in the period. The fair value will be realised in the income statement on a quarterly basis over the next year (2006: two years).

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

	Effective interest rate	**Total £'000**	**Within 1 year £'000**	**1 to 2 years £'000**	**2 to 5 years £'000**
2007					
Cash and cash equivalents	**4.05%**	**27,419**	**27,419**	**-**	**-**
Unsecured bank loans:					
GBP 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**	**-**
2006					
Cash and cash equivalents	3.81%	25,628	25,628	-	-
Unsecured bank loans:					
GBP loan	5.16%	2,724	-	-	2,724
US dollar loan	5.19%	15,330	-	-	15,330
Canadian dollar loan	4.51%	14,668	-	-	14,668
Finance lease liabilities	4.25%	70	22	48	-

21 Financial instruments and financial risk management (continued)

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
	2007 £'000	**2007 £'000**	2006 £'000	2006 £'000
Cash and cash equivalents	**27,419**	**27,419**	25,628	25,628
Interest rate swaps	**(55)**	**(55)**	54	54
Foreign exchange contracts	**1,935**	**1,935**	2,491	2,491
Unsecured bank loans	**(41,608)**	**(41,608)**	(32,722)	(32,722)
Finance lease liabilities	**(54)**	**(54)**	(70)	(70)

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

Market risk sensitivity analysis

Currency risks

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

	10% strengthening		**10% weakening**	
	Profit before tax £'000	**Equity £'000**	**Profit before tax £'000**	**Equity £'000**
2007				
Currency transaction sensitivity	**5,734**	**5,734**	**(5,734)**	**(5,734)**
Currency translation sensitivity	**2,731**	**642**	**(2,731)**	**(642)**
Foreign exchange derivatives sensitivity	**(6,975)**	**(6,975)**	**9,937**	**9,937**
2006				
Currency transaction sensitivity	6,524	6,524	(6,524)	(6,524)
Currency translation sensitivity	2,487	707	(2,487)	(707)
Foreign exchange derivatives sensitivity	(8,426)	(8,426)	7,536	7,536

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 2007.

	1% change
	Profit before tax £'000
2007	
Interest rate sensitivity	**160**
2006	
Interest rate sensitivity	126

22 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 2006	(697)	2,156	343	14,000	(1,977)	1,675	652	16,152
Credit/(charge) to income	655	156	(1,043)	(102)	-	(1,917)	(151)	(2,402)
Credit/(charge) to equity	-	(79)	-	(3,355)	(1,923)	-	-	(5,357)
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 31 December 2007	**282**	**2,154**	**(637)**	**11,283**	**(4,502)**	**(565)**	**-**	**8,015**

The Group has not recognised deferred tax assets of £0.93 million (2006: £0.71 million) relating to tax losses, due to uncertainty as to their recoverability.

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

23 Provisions

	Warranties £'000	Contract related provisions £'000	Total £'000
At 1 January 2007	7,899	5,385	13,284
Created	278	2,421	2,699
Utilised	(1,485)	(1,509)	(2,994)
Exchange differences	87	198	285
At 31 December 2007	**6,779**	**6,495**	**13,274**
Included in current liabilities	5,606	5,038	10,644
Included in non current liabilities	1,173	1,457	2,630
	6,779	**6,495**	**13,274**

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.

24 Share capital and share options

	2007		2006	
	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	**67,885,730**	**3,394**	67,557,441	3,378

328,289 ordinary shares having a nominal value of £16,414 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received was £1,897,324.

Share Options

During the year to 31 December 2007, 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.

At 31 December 2007, share options outstanding under the Savings Related Share Option Schemes were as follows:

	Number of shares		Option	Exercise
Options granted	**2007**	2006	**price (£)**	**dates**
2006 – Canadian scheme	**34,481**	42,018	9.21	September 2009 - March 2010
2007 – US scheme	**81,883**	-	10.34	September 2009 - December 2009
2007 – UK 3 year scheme	**78,729**	-	10.39	December 2010 - June 2011
2007 – UK 5 year scheme	**132,453**	-	10.39	December 2012 - June 2013

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 2007, share options outstanding under the Company Share Option Plan were as follows:

	Number of shares		Option	Exercise
Options granted	**2007**	2006	**price (£)**	**dates**
1998	**6,405**	6,829	4.05	March 2001 - March 2008
1999	**11,792**	14,843	4.15	March 2002 - March 2009
2000	**13,167**	17,582	3.86	May 2003 - May 2010
2001	**10,419**	15,547	4.39	March 2004 - March 2011
2002	**15,159**	22,764	4.49	March 2005 - March 2012
2003	**8,660**	17,776	4.53	March 2006 - March 2013
2004	**10,214**	56,729	5.97	March 2007 - March 2014
2005	**38,961**	43,803	7.28	March 2008 - March 2015
2006	**29,232**	30,733	10.32	February 2009 - February 2016
2007	**57,478**	-	12.07	May 2010 - May 2017

24 Share capital and share options (continued)

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 2007, share options outstanding under the Executive Share Option Scheme were as follows:

Options granted	Number of shares 2007	Number of shares 2006	Option price (£)	Exercise dates
2000	**-**	26,205	3.855	May 2003 - May 2007
2001	**33,810**	45,742	4.385	March 2004 - March 2008
2002	**74,467**	93,387	4.485	March 2005 - March 2009
2003	**105,778**	138,458	4.525	March 2006 - March 2010
2004	**107,135**	194,770	5.97	March 2007 - March 2011
2005	**173,806**	192,074	7.28	March 2008 - March 2012
2006	**145,158**	159,365	10.32	February 2009 - February 2013
2007	**119,756**	-	12.07	May 2010 - May 2014

4. Long-Term Incentive Plan

Details in relation to the LTIP are included in the Directors' Remuneration report on pages 42 and 43.

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

	Weighted average exercise price (£) 2007	**Number of options 2007**	Weighted average exercise price (£) 2006	Number of options 2006
Beginning of year	**4.76**	**1,605,237**	3.83	1,879,847
Granted during the year	**9.05**	**577,120**	7.09	346,477
Forfeited during the year	**3.49**	**(43,388)**	5.98	(90,268)
Expired during the year	**0.36**	**(52,208)**	0.00	(101,679)
Exercised during the year	**4.10**	**(461,429)**	3.44	(429,140)
Outstanding at the end of the year	**6.65**	**1,625,332**	4.76	1,605,237
Exercisable at the end of the year	**4.89**	**397,006**	4.40	401,945

The Group recognised total expenses of £1,186,000 (2006: £648,000) in relation to equity-settled share based payment transactions. Expected volatility was determined by calculating the historic volatility of the Group's share price.

Share options were exercised on a regular basis throughout the year. The weighted average share price during the year was £11.79. The fair value of options granted during the year was £1,993,343 (2006: £1,266,482).

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

	Share save*	CSOP*	ESOS*	LTIP*
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 similar schemes.

24 Share capital and share options (continued)

As outlined in the Director's Remuneration report, the Directors intend, subject to shareholder approval, to change the methodology for all awards made under the new 2007 LTIP and replace the relative EPS based performance condition with a relative total shareholder return ("TSR") condition. For the 2007 LTIP award, the stochastic model has been used to calculate the fair value of the award as this is the most accurate way of modelling the TSR performance condition. Assumptions used in the valuation model were as follows:

Exercise price (£)	0.0
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 Directors also intend, subject to shareholder approval, to change the performance condition for all outstanding awards under the old 2002-2007 LTIP (2005 and 2006 awards) to a relative TSR condition. In accordance with IFRS 2, this change to a market based performance condition has resulted in an additional fair value share options charge of £187,000 during 2007 in respect of these outstanding awards.

The weighted average fair value of options granted during the year was £4.45 (2006: £3.66).

25 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 2006	3,361	31,679	(2,641)	(990)	53,647	85,056
Total recognised income and expense	-	-	-	(3,847)	45,710	41,863
Own shares acquired	-	-	(513)	-	-	(513)
Disposal of own shares	-	-	462	-	(462)	-
Equity settled employee share scheme	17	1,501	-	-	569	2,087
Dividends to shareholders	-	-	-	-	(11,102)	(11,102)
Balance at 31 December 2006	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**

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.

26 Notes to the cash flow statement

	2007 £'000	2006 £'000
Profit from operations	**59,006**	53,947
Adjustments for:		
Depreciation of property, plant and equipment	**5,720**	5,530
Amortisation of intangible assets	**5,467**	6,258
Cost of equity settled employee share schemes	**1,186**	648
Increase/(decrease) in post employment benefit obligation	**797**	(259)
Loss on disposal of property, plant and equipment	**31**	21
(Decrease)/increase in provisions	**(312)**	2,553
Operating cash flow before movements in working capital	**71,895**	68,698
Increase in inventories	**(12,055)**	(3,419)
Decrease/(increase) in receivables	**6,116**	(6,929)
Increase in payables	**293**	8,064
Cash generated by operations	**66,249**	66,414
Income taxes paid	**(13,723)**	(13,032)
Interest paid	**(2,968)**	(3,832)
Net cash from operating activities	**49,558**	49,550

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

	2007 £'000	2006 £'000
Net increase/(decrease) in cash and cash equivalents	**729**	(12,879)
Cash (inflow)/outflow from (increase)/decrease in debt and finance leasing	**(6,535)**	36,348
Change in net debt arising from cash flows	**(5,806)**	23,469
Amortisation of finance costs of debt	**(71)**	(65)
Translation differences	**(1,202)**	3,709
Movement in net debt in the year	**(7,079)**	27,113
Net debt at start of year	**(7,164)**	(34,277)
Net debt at end of year	**(14,243)**	(7,164)

Net debt comprised the following:

	2007 £'000	2006 £'000
Cash and cash equivalents	**27,419**	25,628
Bank loans	**(41,608)**	(32,722)
Obligations under finance leases included in current liabilities	**(25)**	(22)
Obligations under finance leases included in non-current liabilities	**(29)**	(48)
	(14,243)	(7,164)

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

27 Guarantees and other financial commitments

a) Capital commitments

At the end of the year capital commitments were:

	2007 £'000	2006 £'000
Contracted but not provided	**421**	573

b) Lease commitments

At 31 December 2007, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2007 £'000	2006 £'000
Within one year	**4,987**	4,385
Between one and five years	**14,416**	13,887
After five years	**8,301**	9,076
	27,704	27,348

28 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 £2,563,000 (2006: £2,125,000).

Defined benefit schemes

The UK defined benefit scheme was actuarially assessed at 31 December 2007 using the 'projected unit' method. The Canadian defined benefit schemes were actuarially assessed at 31 December 2007 using the 'projected unit' method.

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

	UK 2007	**Canada 2007**	UK 2006	Canada 2006
Discount rate	**5.8%**	**5.8%**	5.2%	5.1%
Inflation rate	**3.25%**	**3.25%**	2.9%	3.0%
Expected rate of salary increases	**4.5%**	**4.5%**	4.15%	4.25%
Future pension increases	**3.0%**	**3.0%**	2.65%	2.75%

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 3.5% and a 0.1% reduction in the discount rate to 5.7% would increase the schemes liabilities by 5.3% and 2.2% respectively.

The key demographic assumption used was in relation to the mortality rates of current and future pensioners. There is evidence to suggest that mortality rates are continuing to improve, meaning that people are living longer, with the result that pensions will be payable for a longer period. 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:

	2007	2006	2005
Current pensioners (at 65) – males	**22 years**	18 years	18 years
Current pensioners (at 65) – females	**25 years**	21 years	21 years
Future pensioners (at 65) – males	**23 years**	20 years	20 years
Future pensioners (at 65) – females	**26 years**	23 years	23 years

28 Retirement benefit schemes (continued)

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

	UK 2007 £m	Canada 2007 £m	Total 2007 £m	UK 2006 £m	Canada 2006 £m	Total 2006 £m
Current service cost	**6.3**	**0.2**	**6.5**	(5.9)	(0.2)	(6.1)
Interest on pension scheme liabilities	**7.9**	**0.3**	**8.2**	(6.7)	(0.3)	(7.0)
Expected return on pension scheme assets	**(8.1)**	**(0.4)**	**(8.5)**	6.8	0.3	7.1
	6.1	**0.1**	**6.2**	(5.8)	(0.2)	(6.0)

Of the current service cost for the year, £4.0 million (2006: £3.6 million) has been included in cost of sales, and £2.5 million (2006: £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 2007 £m	Canada 2007 £m	Total 2007 £m	UK 2006 £m	Canada 2006 £m	Total 2006 £m
Fair value of scheme assets	**120.3**	**7.3**	**127.6**	113.6	6.1	119.7
Present value of scheme liabilities	**(161.2)**	**(6.8)**	**(168.0)**	(148.7)	(6.1)	(154.8)
Scheme (deficit)/surplus	**(40.9)**	**0.5**	**(40.4)**	(35.1)	-	(35.1)
Related deferred tax asset/(liability)	**11.5**	**(0.2)**	**11.3**	10.5	-	10.5
Net pension (liability)/asset	**(29.4)**	**0.3**	**(29.1)**	(24.6)	-	(24.6)

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

	UK 2007 £m	Canada 2007 £m	Total 2007 £m	UK 2006 £m	Canada 2006 £m	Total 2006 £m
Present value of obligation at 1 January	**(148.7)**	**(6.1)**	**(154.8)**	(139.9)	(6.5)	(146.4)
Service cost	**(6.3)**	**(0.2)**	**(6.5)**	(5.9)	(0.2)	(6.1)
Interest cost	**(7.9)**	**(0.3)**	**(8.2)**	(6.7)	(0.3)	(7.0)
Contributions from scheme members	**-**	**-**	**-**	(0.4)	-	(0.4)
Actuarial gains and losses	**(0.8)**	**0.7**	**(0.1)**	1.9	0.1	2.0
Exchange difference	**-**	**(0.9)**	**(0.9)**	-	0.8	0.8
Benefits paid	**2.5**	**-**	**2.5**	2.3	-	2.3
Present value of obligation at 31 December	**(161.2)**	**(6.8)**	**(168.0)**	(148.7)	(6.1)	(154.8)

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

	UK 2007 £m	Canada 2007 £m	Total 2007 £m	UK 2006 £m	Canada 2006 £m	Total 2006 £m
Fair value at 1 January	**113.6**	**6.1**	**119.7**	95.2	4.6	99.8
Expected return on scheme assets	**8.1**	**0.4**	**8.5**	6.8	0.3	7.1
Actuarial gains and losses	**(4.3)**	**(0.4)**	**(4.7)**	8.5	0.6	9.1
Exchange differences	**-**	**0.9**	**0.9**	-	(0.8)	(0.8)
Employer contributions	**5.4**	**0.3**	**5.7**	5.0	1.4	6.4
Employee contributions	**-**	**-**	**-**	0.4	-	0.4
Benefits paid	**(2.5)**	**-**	**(2.5)**	(2.3)	-	(2.3)
Fair value at 31 December	**120.3**	**7.3**	**127.6**	113.6	6.1	119.7

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

	2007	2006
Expected return:		
Equities	**7.5%**	7.5%
Bonds	**4.5%**	4.6%
Other assets	**5.5%**	5.0%
Other policies	**7.5%**	7.5%

28 Retirement benefit schemes (continued)

Scheme assets were as follows:

	UK 2007 £m	Canada 2007 £m	Total 2007 £m	UK 2006 £m	Canada 2006 £m	Total 2006 £m
Fair value:						
Equities	**91.2**	**4.3**	**95.5**	99.3	3.7	103.0
Bonds	**16.3**	**2.0**	**18.3**	14.1	2.4	16.5
Other assets	**12.8**	**1.0**	**13.8**	0.2	-	0.2
	120.3	**7.3**	**127.6**	113.6	6.1	119.7

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

	UK 2007 £m	Canada 2007 £m	Total 2007 £m	UK 2006 £m	Canada 2006 £m	Total 2006 £m
Actual return less expected return on pension scheme assets	**(4.2)**	**(0.5)**	**(4.7)**	8.5	0.6	9.1
Experience (losses)/gains arising on scheme liabilities	**(1.8)**	**0.4**	**(1.4)**	(0.7)	0.5	(0.2)
Changes in assumptions underlying the present value of the scheme liabilities	**0.9**	**0.4**	**1.3**	2.6	(0.4)	2.2
	(5.1)	**0.3**	**(4.8)**	10.4	0.7	11.1

Cumulative actuarial losses, net of deferred tax, recognised in the consolidated statement of recognised income and expense at 31 December 2007 were £7.5 million (2006: £3.2 million).

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

	2007 £m	2006 £m	2005 £m	2004 £m	2003 £m
Present value of defined benefit obligations	**(168.0)**	(154.8)	(146.4)	(116.3)	(96.1)
Fair value of scheme assets	**127.6**	119.7	99.8	76.1	66.8
Scheme deficit	**(40.4)**	(35.1)	(46.6)	(40.2)	(29.3)
Experience adjustments on scheme liabilities	**(1.8)**	(0.2)	2.5	(1.6)	1.4
Percentage of scheme liabilities	**1.0%**	0.1%	1.7%	1.4%	1.5%
Experience adjustment on scheme assets	**(4.7)**	9.1	13.9	2.1	5.4
Percentage of scheme assets	**(3.7%)**	8.0%	14.0%	2.5%	8.1%

The amount of contributions expected to be paid to defined benefit schemes during the 2008 financial year is £5,500,000.

29 Related party transactions

On 3 August 2007, Ultra disposed of all of its 40% holding in Interpacific Technologies Limited. In the period to the date of disposal, the Group raised sales invoices to a value of £174,000 (2006: £167,000) to Interpacific Technologies Limited that were under normal commercial terms.

A summary of the Group's principal accounting policies, all of which have been applied consistently throughout the year and preceding year, are set out below:

a) 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.

In the current year, the Group has adopted IFRS 7 Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007.

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 7 Applying the restatement approach under IAS 29
IFRIC 8 Scope of IFRS 2
IFRIC 9 Reassessment of embedded derivatives
IFRIC 10 Interim financial reporting and impairment
IFRIC 11 IFRS 2: Group and treasury share transactions
IFRIC 12 Service concession arrangements[1)]
IFRIC 13 Customer Loyalty Programmes
IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

[1)] May not be adopted prior to endorsement for arrangements currently accounted for under IFRIC 4

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.

The consolidated financial information has been prepared on the historical cost basis except for derivatives which are measured at fair value.

b) 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 and 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.

c) 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.

c) Goodwill (continued)

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.

d) 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* ***'e) – Long-term contracts'****)*.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

e) 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.

f) 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.

g) Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

h) 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.

i) 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.

i) Retirement benefit costs (continued)
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.

j) 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.

k) 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.

l) 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.

m) 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 is 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.

n) 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.

Operating lease rentals are charged to income on a straight-line basis over the term of the relevant lease.

o) 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.

p) 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.

q) 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.

r) Trade payables

Trade payables are stated at their fair value.

s) 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.

t) 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.

u) 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.

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

w) 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.

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

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

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

Where the hedging relationship is classified as a fair value hedge, the carrying amount of the hedged asset or liability will be adjusted by the increase or decrease in 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.

y) 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 2007 are provided in note 28.

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 loss calculations are provided in note 13.

To the members of Ultra Electronics Holdings plc

We have audited the individual Company financial statements (the "Company financial statements") of Ultra Electronics Holdings plc for the year ended 31 December 2007 which comprise the Company balance sheet, the related notes 30 to 40 and the statement of accounting policies for the Company. These 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 2007.

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 Generally Accepted Accounting Practice are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the Company financial statements and the part of the Directors' Remuneration report described as having been audited 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 Company financial statements give a true and fair view in accordance with the relevant framework and whether the 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 report to you whether, in our opinion, the information given in the Directors' report is consistent with the 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. 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 Directors' report and the other information contained in the Annual Report for the above year and described in the contents section including the unaudited part of the Directors' Remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the 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 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 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 2007;
- 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 & Touche LLP
Chartered Accountants and Registered Auditors
Reading, United Kingdom
22 February 2008

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 2007

	Note	2007 £'000	2006 £'000
Fixed assets			
Tangible assets	*31*	**285**	208
Investments	*32*	**227,817**	150,594
		228,102	150,802
Current assets			
Debtors: Amounts falling due within one year	*33*	**1,296**	1,222
		1,296	1,222
Creditors: Amounts falling due within one year	*35*	**(62,910)**	(49,289)
Net current liabilities		**(61,614)**	(48,067)
Total assets less current liabilities		**166,488**	102,735
Creditors: Amounts falling due after more than one year	*36*	**(41,987)**	(46,169)
Net assets		**124,501**	56,566
Capital and reserves			
Called-up share capital	*37*	**3,394**	3,378
Share premium account	*38*	**35,061**	33,180
Profit and loss account	*38*	**88,018**	22,700
Own shares	*39*	**(1,972)**	(2,692)
Equity shareholders' funds		**124,501**	56,566

The financial statements were approved by the Board of Directors and authorised for issue on 22 February 2008.

On behalf of the Board
D. Caster, *Chief Executive*
D. Jeffcoat, *Finance Director*
22 February 2008

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

30 Staff costs

	2007 £'000	2006 £'000
Employee costs during the year amounted to:		
Wages and salaries	**1,549**	1,806
Social security costs	**416**	322
Other pension costs	**255**	185
	2,220	2,313

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

	2007 number	2006 number
Support services	**10**	9

31 Tangible fixed assets

	Plant and machinery £'000
Cost	
At 1 January 2006	287
Additions	184
At 1 January 2007	471
Additions	148
At 31 December 2007	**619**
Accumulated depreciation	
At 1 January 2006	244
Charge	19
At 1 January 2007	263
Charge	71
At 31 December 2007	**334**
Net book value	
At 31 December 2007	**285**
At 31 December 2006	208

32 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.

32 Investments (continued)

b) Investment in subsidiary undertakings

	Total 2007 £'000
Cost	
At 1 January 2007	**150,594**
Foreign exchange differences	**1,648**
Additions	**159,332**
Disposals	**(48,896)**
Redemption of long-term loans	**(34,861)**
At 31 December 2007	**227,817**
Net book value	
At 31 December 2007	**227,817**
At 31 December 2006	150,594

33 Debtors

	2007 £'000	2006 £'000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**263**	-
Deferred tax assets	**676**	998
Other debtors	**331**	203
Prepayments and accrued income	**26**	21
	1,296	1,222

34 Deferred tax

Movements in the deferred tax asset were as follows:

	2007 £'000	2006 £'000
Beginning of year	**998**	19
Credit to the profit and loss account	**202**	987
Debit to equity	**(524)**	(8)
	676	998

The deferred tax balances are analysed as follows:

	2007 £'000	2006 £'000
Accelerated capital allowances	**(1)**	(2)
Timing differences relating to share schemes	**663**	987
Other timing differences relating to current assets and liabilities	**14**	13
Deferred tax asset	**676**	998

These balances are shown as follows:

	2007 £'000	2006 £'000
Debtors: Amounts falling due within one year	**676**	998

35 Creditors: Amounts falling due within one year

	2007 £'000	2006 £'000
Bank loans and overdraft	**39,733**	26,525
Amounts owed to subsidiary undertakings	**21,614**	21,557
Other creditors:		
– VAT	**128**	-
– social security and PAYE	**173**	157
– other creditors	**354**	353
Accruals and deferred income	**908**	697
	62,910	49,289

36 Creditors: Amounts falling due after more than one year

	2007 £'000	2006 £'000
Bank loans	**41,987**	32,722
Amounts owed to subsidiary undertakings	**-**	13,447
	41,987	46,169

The bank loans are unsecured and due for repayment in 3 years. Interest is charged at 0.375% over base rate.

Borrowings fall due as analysed below:

	2007 £'000	2006 £'000
Bank loans and overdraft		
In one year or less, or on demand	**39,733**	26,525
In more than one year but less than five years	**42,192**	32,998
	81,925	59,523
Less: unamortised finance costs of debt	**(205)**	(276)
	81,720	59,247
Less: included in creditors: amounts falling due within one year	**(39,733)**	(26,525)
Less: included in creditors: amounts falling due after more than one year	**(41,987)**	(32,722)
	-	-

37 Called-up share capital

	2007		2006	
	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	**67,885,730**	**3,394**	67,557,441	3,378

328,289 ordinary shares having a nominal value of £16,414 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received by the Company was £1,897,324.

38 Reserves

	Share premium £'000	Profit and loss account £'000
Beginning of year	33,180	22,700
Disposal of own shares	-	(720)
Share based payments	-	765
Retained profit for the year	-	78,251
Dividends paid	-	(12,978)
Issue of new shares	1,881	-
End of year	**35,061**	**88,018**

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.

39 Own shares

	Long-Term Incentive Plan shares £'000
Cost	
Beginning of year	(2,692)
Disposals	720
End of year	**(1,972)**

The Company holds 356,189 own shares (2006: 491,740).

40 Guarantees and other financial commitments

Lease commitments

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

	Plant and machinery 2007 £'000	Plant and machinery 2006 £'000
Operating lease rentals which expire		
– within one year	**18**	20
– between two to five years	**14**	10
	32	30

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:

a) 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 38.

b) 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
IT hardware and software	3 to 5 years

c) 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.

d) 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 2007 was £40.9 million (2006: £35.1 million). Further disclosures in relation to this pension scheme are given in note 28 to the financial statements.

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

e) Investments

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

f) 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.

g) Leases

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease term and their useful lives. The capital element of future lease obligations are recorded as liabilities, whilst the interest elements are charged to the profit and loss account over the period of the leases to produce a constant rate of charge on the balance of the capital repayments outstanding. Hire purchase transactions are dealt with similarly, except that assets are depreciated over their useful lives.

Rentals under operating leases are charged on a straight line basis over the lease term, even if the payments are not made on such a basis.

h) 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 24.

i) 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 2007

By category of shareholder

	Shares held	
	Number '000	% share capital
Unit trusts	**25,970**	**38**
Pension funds	**13,605**	**20**
Insurance companies	**6,017**	**9**
Private investors	**3,213**	**5**
Investment trusts and other funds	**1,901**	**3**
Charities	**1,660**	**2**
Other	**15,520**	**23**
	67,886	**100**

By size of holding

	Holders		Shares held	
	Number	% of holders	Number '000	% share capital
1-100	**141**	**9**	**8**	**-**
101-500	**521**	**34**	**141**	**-**
501-1,000	**283**	**18**	**212**	**-**
1,001-5,000	**290**	**19**	**629**	**1**
5,001-10,000	**55**	**3**	**410**	**1**
10,001-50,000	**118**	**8**	**2,888**	**4**
50,001-100,000	**38**	**2**	**2,767**	**4**
100,001 and over	**108**	**7**	**60,831**	**90**
	1,554	**100**	**67,886**	**100**

Financial calendar

11 April 2008	Record date for 2007 final dividend
25 April 2008	Annual General Meeting
6 May 2008	2007 final dividend paid
30 July 2008	Interim results announced
September 2008	2008 interim dividend paid

	UK GAAP	IFRS			
	Restated 2003 £m	2004 £m	2005 £m	2006 £m	**2007 £m**
Revenue					
Aircraft & Vehicle Systems	79.9	76.6	84.4	93.9	**100.0**
Information & Power Systems	95.5	113.7	117.3	120.5	**126.6**
Tactical & Sonar Systems	109.0	120.4	140.7	162.6	**186.3**
Total revenue	284.4	310.7	342.4	377.0	**412.9**
Headline operating profit[1]					
Aircraft & Vehicle Systems	13.9	14.9	15.9	13.2	**16.1**
Information & Power Systems	11.0	15.0	18.1	19.3	**19.6**
Tactical & Sonar Systems	12.6	13.4	17.1	25.0	**27.2**
Total headline operating profit[1]	37.5	43.3	51.1	57.5	**62.9**
Margin[1]	13.2%	13.9%	14.9%	15.3%	**15.2%**
Profit before tax	34.4	40.1	40.7	55.0	**56.6**
Profit after tax	20.4	29.2	29.4	39.6	**41.2**
Operating cash flow[2]	48.3	46.9	53.8	56.5	**52.2**
Free cash flow before dividends, acquisitions and financing[3]	35.7	36.0	38.1	40.9	**36.3**
Net debt at year-end[4]	(30.3)	(24.1)	(34.3)	(7.2)	**(14.2)**
Headline earnings per share (p)[5]	38.2	43.7	50.7	58.4	**65.4**
Dividends per share (p)[6]	12.3	13.8	15.9	18.5	**21.2**
Average employee numbers	2,505	2,678	2,880	2,989	**3,054**

[1] Before amortisation of goodwill and 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 goodwill amortisation, amortisation of intangibles arising on acquisition and profit or loss on derivative financial instruments.

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