The Directors present their annual report on the affairs of the Group, together with the accounts and independent auditors' report, for the year ended 31 December 2008. Details in relation to health and safety, the environment, business ethics, employment practice and employee consultation and charitable donations are included in the Corporate Responsibility Statement on pages 25 to 27.

Principal activity

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

Enhanced business review

The Company is required to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2008 and of the position of the Group at the end of that financial year together with a description of the principal risks and uncertainties facing the Group. The information that satisfies these requirements can be found in the following sections of the Chief Executive's report; Ultra's 2008 results on pages 10 and 11; divisional review on pages 12 to 17; market trends likely to impact prospects on pages 18 and 19; management of risks and uncertainties on pages 19 to 21 and corporate responsibility on pages 25 to 27.

Results and dividends

Group results and dividends are as follows:

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

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

Future developments

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

Research and development

The Directors are committed to maintaining a significant level of research and development expenditure in order to expand the Group's range of proprietary products. During the year a total of £115.8 million (2007: £105.0 million) was spent on engineering development of which £83.3 million (2007: £74.8 million) was funded by customers and £32.5 million (2007: £30.2 million) by the Group.

Directors and their interests

The Directors who served throughout the year and to the date of signing these financial statements, and their interests in the shares of the Company at 27 February 2009 are listed on page 45.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Substantial shareholdings

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

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

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

Charitable and political contributions

The Group contributed £66,000 (2007: £62,000) to charities and made no contributions for political purposes in either year.

Supplier payment policy

Individual operating businesses are responsible for agreeing the terms and conditions under which they conduct business transactions with their suppliers. It is Group policy that payments to suppliers are made in accordance with those terms, provided that the supplier is also complying with all relevant terms and conditions. Trade payable days of the Group for the year ended 31 December 2008 were 61 days (2007: 53 days), based on the ratio of Group trade payables at the end of the year to the amounts invoiced during the year by suppliers. The Company had no trade payables at either year end.

Capital structure

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

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

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

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

Annual General Meeting

Explanation of special business resolutions is given below:

Resolution 10

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

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

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

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

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

Resolution 11

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

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

TREASURY SHARES REGULATIONS

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

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

Resolution 12

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

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

The Directors will use the share purchase authority with discretion. In reaching a decision to purchase shares of the Company, the Directors would take account of the Company's business and any impact on earnings per share and net tangible assets per share. The decision as to whether any such shares bought back will be cancelled or held in treasury will be made by the Directors on the same basis at the time of the purchase. The Directors have no current intention to exercise the authority sought by this resolution, except for employee share option schemes.

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

As at 27 February 2009, being the latest practicable date before publication of the Notice of AGM, there were outstanding options under the Company's discretionary share incentive plans and employee share savings schemes in respect of 1,216,799 ordinary shares in the capital of the Company, representing approximately 1.79% of the Company's issued ordinary share capital (excluding treasury shares). If the authority to purchase the Company's ordinary shares were exercised in full, such options would represent 1.88% of the Company's issued ordinary share capital.

Resolution 13

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

Auditors

Each of the Directors at the date of approval of this report confirms that:

(1) So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(2) The Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S234ZA of The Companies Act 1985.

By order of the Board,

D. Jeffcoat

Company Secretary

27 February 2009

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

Combined code compliance

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

Main Board

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

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

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

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

As senior independent non-executive Director, Andrew Walker has particular responsibility, on behalf of the Board, for safeguarding the provisions of the Code on corporate governance, and is available to shareholders if they have concerns that contact through the normal channels of Chairman, Chief Executive or Company Secretary has failed to resolve, or for which such contact is inappropriate. Mr Walker has announced his decision to retire at the April 2009 Annual General Meeting (“AGM”). Following this, Christopher Bailey will become senior independent non-executive Director. Ian Griffiths will continue in his role as an independent non-executive Director. Sir Robert Walmsley joined the Board in January 2009 to replace Mr Walker as an independent non-executive Director. Sir Robert had a long career in the UK Royal Navy and, following his retirement from the Navy, he was Chief of Defence Procurement for the UK Ministry of Defence. He is Chairman of the Board of the Major Projects Association, a non-executive Director of Cohort plc and of the General Dynamics Corporation. He is also a senior advisor at Morgan Stanley International plc. Sir Robert will be standing for formal election to the Board at the AGM.

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

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

Meeting attendance

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

[1] Mr Jeffcoat is secretary to the Board and all three sub-committees. He attends all Committee meetings in that capacity.
[2] Resigned 31 July 2008.

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

Conflicts of interest

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

Audit Committee

The Board has overall responsibility for reviewing the effectiveness of internal control procedures that are in place throughout Ultra's operations. The Board is supported in this capacity by the Audit Committee, which monitors the internal financial control procedures that are operated by the Group.

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

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

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

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

It is the policy of the Group that non-audit services provided by Deloitte LLP, Ultra's external auditors, are restricted to regulatory reporting, consultancy services associated with financial restructuring and responding to new reporting requirements, due diligence assessments of potential acquisitions and other attestation work. In connection with due diligence work and consultancy, the Board believes that the auditors' familiarity with Ultra's accounting practices and the techniques that are involved in Ultra's long-term contracting activities serves them well in carrying out such work.

The audit partner employed by Deloitte LLP on the Ultra audit is subject to a strict policy of regular rotation such that there is a change in this role at least once every five years. This is in accordance with professional practice guidelines.

Nominations Committee

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

Remuneration Committee

The Remuneration Committee comprises Andrew Walker, Christopher Bailey and Ian Griffiths. During 2008, the committee, which is chaired by Andrew Walker, met three times. Christopher Bailey will succeed Andrew Walker as Chairman of the Committee when Mr Walker leaves the Board after the AGM. Sir Robert Walmsley joined the Committee with effect from February 2009. The Committee is responsible for evaluating the performance of the executive Directors, including the Chief Executive, and for setting their levels of remuneration. It also meets without the Group Chairman being present to agree his remuneration. The Directors' remuneration report is included on page 40, together with details of the Directors' pension entitlements, long-term incentive share awards and shareholdings. It will be presented for approval by the shareholders at the AGM.

Evaluation of Board and Committee effectiveness

Following the recommendations of the Code, the Board operates an evaluation process in which the effectiveness of the Board, its sub-committees and each individual Director are assessed over a rolling two-year period. The Chairman is responsible, on behalf of the Board, for overseeing this process, which is facilitated by an independent external consultant. He is supported in this regard by the Company Secretary. In 2007 the contribution of each individual Director was assessed by the rest of the Board. This involved a questionnaire that was completed independently by each individual Director. The results of this survey were processed and fed back separately to each individual and in total to the Chairman. In 2008, the main Board and its subcommittees were reviewed, again using a questionnaire that was completed independently by all members of the Board. The scope of the review covered the Board structure, processes and administration, together with the distribution of information. Its results were communicated to the Directors in a written report, considered at a subsequent meeting in a discussion facilitated by the external consultant, and a number of actions were agreed as a result. This review cycle is repeated every two years.

Directors' re-election

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

Succession planning

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

Directors' induction and training

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

Internal controls

The Code states that Directors should review the effectiveness of the Group's entire system of internal controls, covering business risks associated with strategic, operational and financial matters, together with those associated with Ultra's information technology infrastructure.

Ultra's internal controls are designed to meet the Group's particular needs and the risks to which it is exposed. In this context, such controls can provide only reasonable, not absolute, assurance against material errors, losses or fraud. The key features of the internal control system that operated during the year are described below.

Control environment

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

Control environment (continued)

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

Risk management

Management is responsible for identifying the risks facing Ultra's businesses and for putting procedures in place to recognise and mitigate such risks. Strategic risks are assessed formally each year by the Board during the strategic planning process and steps are taken subsequently to ensure that such risks are minimised at all times. Operational risks are monitored as part of the Group's monthly business performance review process. Business units are required to report on all key areas of risk, highlighting situations where normal controls have failed to be fully effective and explaining what remedial actions have been taken. Such situations are then monitored regularly until a satisfactory conclusion is reached. The Chief Executive reports all significant deviations twice a year to the Board.

The Board maintains an internal audit process, carried out by Ernst & Young LLP, to review financial and information systems control procedures throughout the Group. All significant business units are audited at least once every two years. In addition, all newly acquired free-standing businesses are audited within a year of their acquisition date. The leading partner of Ernst & Young reports directly to the Chairman of the Audit Committee and presents the findings of his team twice annually to the Audit Committee. Progress reports on follow-up remedial actions are reported regularly to the Committee. Ernst & Young confirms whether appropriate action has been taken to address the risks when they next visit the business concerned.

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

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

Financial reporting systems

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

Shareholder communication

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

Going concern

Ultra's banking facilities amount to £200m in total, plus a £10m overdraft. These facilities provided more than £100m of borrowing headroom over the gross balance that had been drawn down at the end of 2008. They were established in two tranches. The first was set up in 2005 and is provided by a small syndicate of banks, led by The Royal Bank of Scotland. This element comprises £120m of revolving credit, denominated in Sterling, US dollars and Canadian dollars, which is due to expire in November 2010. A £10m bank overdraft facility is also available for short-term working capital funding. The second tranche provides a further £80m of revolving credit. It was put in place in September 2008 with the support of the existing banking syndicate in order to fund the eight acquisitions that the Group made during the year and to provide headroom for further acquisitions going forward. This additional facility is due to expire in September 2011. As well as funding acquisitions, the banking facilities are used for other balance sheet and operational needs, including the funding of day-to-day working capital requirements. Details of how Ultra manages its liquidity risk can be found in Note 23 – Financial instruments and financial risk management.

The US and Canadian dollar borrowings also represent natural hedges against assets denominated in these currencies. The Group's banking covenants have all been met during the past year with a comfortable margin and the expectation is that this will continue. Ultra will open negotiations with its banking partners in due course regarding the renewal of the first tranche in 2010.

Whilst the current volatility in financial markets has created general uncertainty in respect of the current economic outlook, the long-term nature of Ultra's business taken together with the Group's forward order book provide a satisfactory level of confidence in respect of trading in the year to come. At the beginning of 2009 Ultra had firm orders in place for over 60% of its consensus forecast sales in the year.

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

Statement of responsibilities

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

In the case of UK GAAP company financial statements, the Directors are required to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing these financial statements, the Directors are required to:

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

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

- select and apply appropriate accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of International Financial Reporting Standards is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the accounts on a going concern basis unless, having assessed the ability of the company to continue as a going concern, management intends either to liquidate the entity or to cease trading, or has no realistic alternative but to do so.

Statement of responsibilities (continued)

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

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

UNAUDITED INFORMATION

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

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

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

The remit of the Committee is to make recommendations to the Board on the framework of senior executive remuneration and to determine annually the individual salaries, annual bonuses payable (if any), share based incentive awards and other terms and conditions of employment of the executive Directors. The full terms of reference of the Committee are available on the Company's website.

Wholly independent advice on executive remuneration and share schemes is received from Hewitt New Bridge Street ("HNBS", part of Hewitt Associates). They are appointed by the Committee and provided no other services to the Company during the year, save for ongoing advice in connection with the operation of the Company's share schemes.

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

Remuneration policy

The Company's remuneration policy is to reward senior management competitively, enabling the Company to recruit, motivate and retain executives of high calibre, whilst avoiding making excessive remuneration payments. Further details of the remuneration policy applied by the Committee are set out below. The remuneration practices adopted by a group of equivalent companies that, in the opinion of the Committee, face similar remuneration issues to the Company are considered with guidance from HNBS. The size and nature of each key element of the remuneration package of the executive Directors is determined following this assessment.

It is the aim of the remuneration policy to encourage and reward high performance. The Committee believes that shareholders' interests are best served by setting a moderate level of fixed pay, while providing competitive potential levels of total remuneration through short and longer term incentive arrangements that require the satisfaction of challenging performance conditions. Therefore, a significant proportion of the executive Directors' remuneration is performance-linked.

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

Salaries

The executive Directors' salaries are reviewed annually by the Committee and take effect from 1 January. In addition to the analysis presented by HNBS, the Committee uses published salary surveys and information available in the annual reports of similar companies as sources of salary information.

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

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

The Chairman's remuneration is set by the Committee which meets without him for this purpose. The remaining non-executive Directors' fees are set by a committee comprising the executive Directors. In all cases, the fee levels are based upon published salary surveys, taking account of individual responsibilities. Andrew Walker was Chairman of the Audit and Remuneration Committees during 2008 and received additional fees as a result.

Annual bonus scheme

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

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

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

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

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

2007 LTIP

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

At the 2008 Annual General Meeting shareholders approved a change to the methodology for all awards made under the 2007 LTIP, together with a retrospective change to the awards still outstanding under the previous LTIP scheme (the "2002 LTIP"). As explained last year, this change was made for technical reasons (due to the problems with measuring relative EPS performance in the transition to IFRS), permitting the Company to replace its relative EPS target with a relative Total Shareholder Return ("TSR") condition. Relative TSR will now apply to all new awards made under the 2007 LTIP going forward, as well as to the 2007 awards made under the 2007 LTIP, together with the remaining 2006 award made under the 2002 LTIP. It also applied to the 2005 award which vested in 2008.

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

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

Detailed structure of TSR performance condition

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

The vesting rules under the 2007 LTIP are as follows:

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

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

Alba plc
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

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

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

In addition to the main TSR condition, an "underpin" will apply to these awards requiring average annual growth in headline EPS growth of 7% over the relevant performance period. In the event that this underpin is not met over a specific three-year LTIP measurement period, then the level of vesting will automatically fall to zero. Headline EPS will be defined as earnings per share after adjustments to exclude gains or losses on financial instruments and the amortisation of intangibles arising on acquisition.

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

All-Employee Share Plans

The executive Directors are also eligible to participate in the Company's Inland Revenue approved All-Employee Share Ownership Plan ("AESOP") and the Savings Related Share Option Scheme on the same terms as other employees. Under the AESOP, employees in the UK are offered the opportunity to buy shares up to the value of £1,500 per annum from pre-tax salary. Shares are then held in trust on behalf of employees until the maturity date or until they leave the Company. Under the Savings Related Share Option Scheme, reintroduced during 2007, employees are entitled to save up to £1,200 per annum from net pay towards the purchase of options to buy Ultra shares after a period of either three or five years, depending upon the employee's choice.

Senior Executive Share Ownership Guidelines

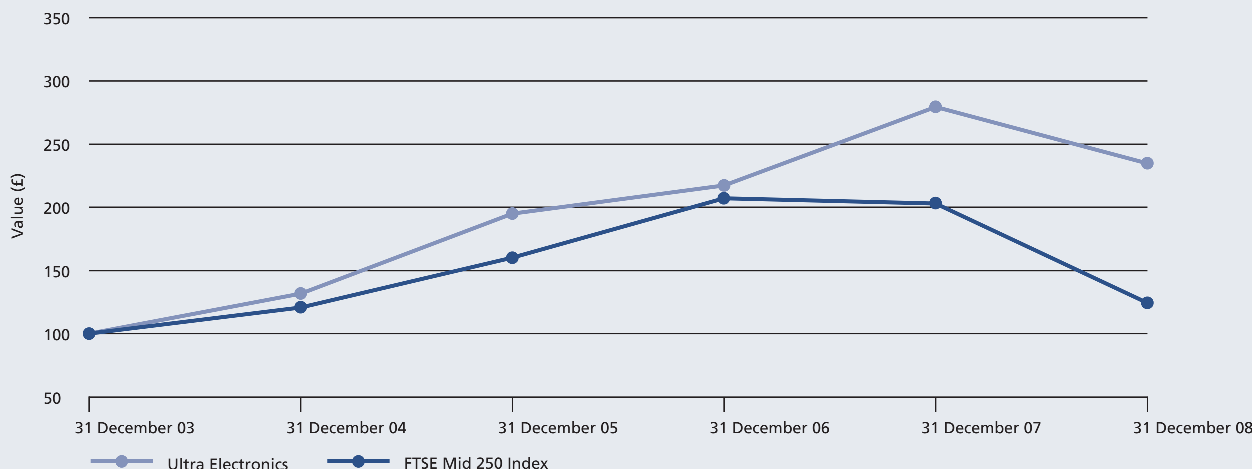
To increase the alignment of interests between senior executives and shareholders, the Committee has introduced a share ownership guideline under which all executive Directors will be encouraged to retain at least 50% of the post-tax shares they acquire on the vesting of LTIP awards until a holding equivalent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

Total Shareholder Return performance graph

The graph below shows the Total Shareholder Return ("TSR") performance of the Company in comparison with the FTSE 250 Index over the past five years. The graph shows the value at the end of 2008 of £100 invested at the start of the evaluation period, in the Company and in the Index. The Committee considers the FTSE 250 a relevant index for the TSR comparison as the Company is a member of the index and because together the index members represent a broad range of UK quoted Companies.

Total shareholder return – compared to FTSE 250 Index

Source: Datastream



Directors' service contracts

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

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

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

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

No executive Directors have provisions in their contracts for compensation on early termination other than for the notice period. With the exception of Andrew Walker, whose contract ends at the conclusion of the AGM, the non-executive Directors have fixed twelve-month contracts with no notice period. There are no provisions in their contracts for compensation on early termination.

Directors' pension entitlements

The Company operates a defined benefit pension scheme for current executive Directors. A pension equal to two-thirds of salary at retirement is provided at the normal retirement age of 63 years. Where pensionable service is less than 20 years, the pension is calculated at one-thirtieth of the retirement salary for each year of service. With the Company's consent, executive Directors may retire from age 50. After age 58, Company consent to early retirement is not required. Pensions are reduced in the event of early retirement. Death-in-service cover is a lump sum of four times pensionable earnings. In addition, a spouse's pension of 33% of pensionable earnings is payable, together with an allowance for dependent children up to a maximum of 33% of pensionable earnings where relevant. On the death of a retired Director, a spouse's pension of 50% of the Director's pension is payable. Once the pension is in payment, the part of the Director's pension above the Guaranteed Minimum Pension will be increased each year in line with the increase in the retail price index, capped at 7.5%, above which increases are at the Trustees' discretion.

AUDITED INFORMATION

Directors' pension benefits earned

The table below sets out the pension benefits earned by executive Directors for the year ended 31 December 2008:

	Age at year-end	Accrued benefit at beginning of year	Increase in period (net of indexation)	Transfer value of increase in year	Accrued benefit at end of year	Transfer value at beginning of year	Transfer value at end of year	Movement in transfer value during year*
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
D. Caster	55	176	**10**	**68**	**195**	2,047	**1,959**	**(120)**
A. Hamment	54	71	**9**	**67**	**84**	774	**729**	**(59)**
F. Hope[1]	53	43	**4**	**105**	**47**	469	**1,019**	**545**
D. Jeffcoat	58	28	**4**	**41**	**33**	377	**449**	**62**

*Less Directors' contributions.

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

Directors' remuneration

Directors' emoluments are detailed below:

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

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

Pension contributions to Directors of £134,994 (2007: £137,665) were paid by the Company, including £45,425 (2007: £43,125) in respect of the highest paid Director. Other benefits of executive Directors comprise a car (or allowance), provision of fuel and insurances for life, personal accident and family medical cover. Non-executive Directors are not eligible for pension scheme membership and do not participate in any of the Group's bonus or other incentive plans.

Directors' interests under Long-Term Incentive Plans

Details of the Directors' interests in these arrangements are given below:

Interests under the Ultra Electronics Long-Term Incentive Plan 2002-2007 (the "old LTIP")

Award periods	J. Blogh	D. Caster	A. Hamment	F. Hope	D. Jeffcoat	Market price of shares granted	Crystallising dates of outstanding awards
2005	26,280	26,954	16,576	22,237	21,832	£7.42	April 2008
2006	-	24,727	12,858	17,309	17,309	£10.11	April 2009
Interests at 1 January 2008	26,280	51,681	29,434	39,546	39,141		
2005 award crystallised during the year	(20,188)	(20,706)	(12,733)	(17,082)	(16,771)		
2005 award lapsed during year	(6,092)	(6,248)	(3,843)	(5,155)	(5,061)		
2006 award lapsed during year	-	-	-	(17,309)	-		
Interests at 31 December 2008	**-**	**24,727**	**12,858**	**-**	**17,309**		

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

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

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

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

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

F. Hope's 2007 award lapsed on the date he left the Company.

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

Directors' interests under the All-Employee Share Ownership Plan

As previously described, the Company operates an All-Employee Share Ownership Plan ("AESOP") in which the executive Directors are eligible to participate. Details of the executive Directors' interests in this arrangement are given below:

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

F. Hope's holding is as at the date he left the Company.

During the year, the Share Ownership Plan Trust, established and operated in connection with the AESOP, purchased 44,783 (2007: 43,523) Ultra Electronics Holdings plc shares (nominal value £2,239) for £550,441 (2007: £513,607). One executive Director, David Jeffcoat, is a trustee of the Plan Trust as well as participating in the AESOP.

Directors' interests

Details of Directors' shareholdings are given below:

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

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

Andrew Walker

Chairman of the Remuneration Committee

27 February 2009

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 2008 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense, the related notes numbered 1 to 31 and the statement of Group accounting policies. These Group financial statements have been prepared under the accounting policies set out therein.

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

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

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

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

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

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

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

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

Deloitte LLP
Chartered Accountants and Registered Auditors
Reading, United Kingdom
27 February 2009

Notes: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the Directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Consolidated income statement

For the year ended 31 December 2008

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

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

Consolidated balance sheet

31 December 2008

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

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

On behalf of the Board

D. Caster, *Chief Executive*

D. Jeffcoat, *Finance Director*

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

Consolidated cash flow statement

For the year ended 31 December 2008

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

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

Consolidated statement of recognised income and expense

For the year ended 31 December 2008

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

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

1 Segment information

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

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

All inter-group trading is at arms' length.

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

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

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

Capital expenditure, additions to intangibles, depreciation and amortisation

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

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

1 Segment information (continued)

Total assets by segment

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

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

Total liabilities by segment

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

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

Revenue by destination

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

Other Information (by geographic location)

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

2 Additional performance measures

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

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

Headline operating profit has been shown before the amortisation of intangible assets arising on acquisitions, which relates to acquired intellectual property, customer relationships and profit in acquired order book. To maintain a consistent presentation of financial performance over the longer term, this charge has been excluded from headline operating profit. Headline profit before tax and headline earnings per share *(see note 12)* are also presented before the amortisation of intangible assets arising on acquisition.

IAS 39 requires the Group to 'fair value' the derivative instruments used to manage Ultra's foreign exchange exposures. This creates volatility in the valuation of the outstanding instruments as exchange rates move over time. This will have minimal impact on profit over the full term of the instruments, but can cause significant volatility on particular balance sheet dates. Ultra is therefore stating headline profit before tax and headline earnings per share *(see note 12)* before changes in the valuation of these instruments so that the headline operating performance of the Group can more clearly be seen.

The Group is cash generative and reinvests funds to support the continuing growth of the business. It seeks to use an accurate and appropriate measure of the funds generated internally while sustaining this growth. For this, Ultra uses operating cash flow, rather than cash generated by operations, as its preferred indicator of cash generated and available to cover non-operating expenses such as tax and interest payments. The Group believes that using cash generated by operations, with the exclusion of net expenditure in property, plant and equipment and outflows for capitalised product development and other intangibles, would result in an understatement of the true cash cost of sustaining a growing business.

3 Revenue

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

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

4 Other operating income

Amounts included in other operating income were as follows:

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

5 Other operating expenses

Amounts included in other operating expenses were as follows:

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

6 Profit from operations

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

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

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

Analysis of auditors' remuneration

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

7 Staff costs

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

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

7 Staff costs (continued)

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

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

Information on Directors' remuneration is given in the section of the Remuneration Report described as having been audited, and those elements required by the Companies Act 1985 and the Financial Services Authority form part of these accounts.

8 Investment revenue

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

9 Finance costs

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

10 Tax

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

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

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

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

10 Tax (continued)

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

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

11 Dividends

Amounts recognised as distributions to equity holders in the year:

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

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

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

12 Earnings per share

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

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

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

The adjustments to profit are explained in note 2.

12 Earnings per share (continued)

	2008 Number of shares	2007 Number of shares
The weighted average number of shares is given below:		
Number of shares used for basic earnings per share	**68,007,223**	67,714,368
Number of shares deemed to be issued at nil consideration following exercise of share options	**311,743**	434,033
Number of shares used for fully diluted earnings per share	**68,318,966**	68,148,401

	2008 £'000	2007 £'000
Headline profit before tax	**72,198**	61,069
Tax rate applied for the purposes of headline earnings per share	**24.6%**	27.5%

13 Intangible assets

	Goodwill £'000	Intellectual property £'000	Customer relationships £'000	Development costs £'000	Other £'000	Total £'000
Cost						
At 1 January 2007	116,276	10,136	20,244	9,595	7,675	163,926
Foreign exchange differences	(195)	(53)	(215)	(62)	85	(440)
Acquisition of subsidiary undertakings	13,021	7,935	7,326	-	1,898	30,180
Additions	-	-	-	4,159	1,330	5,489
Adjustments	(292)	-	-	-	-	(292)
At 1 January 2008	**128,810**	**18,018**	**27,355**	**13,692**	**10,988**	**198,863**
Foreign exchange differences	20,320	7,222	15,007	1,652	2,696	46,897
Acquisition of subsidiary undertakings	54,597	5,694	43,171	-	10,644	114,106
Additions	-	-	-	602	1,339	1,941
Transfers from tangible fixed assets	-	-	-	-	101	101
Adjustments	5,835	-	-	-	-	5,835
At 31 December 2008	**209,562**	**30,934**	**85,533**	**15,946**	**25,768**	**367,743**
Accumulated amortisation						
At 1 January 2007	-	(1,651)	(2,777)	(4,330)	(5,410)	(14,168)
Foreign exchange differences	-	27	26	26	(53)	26
Charge	-	(1,289)	(2,237)	(949)	(992)	(5,467)
At 1 January 2008	**-**	**(2,913)**	**(4,988)**	**(5,253)**	**(6,455)**	**(19,609)**
Foreign exchange differences	-	(1,684)	(2,835)	(866)	(1,578)	(6,963)
Charge	-	(2,676)	(5,708)	(1,217)	(5,887)	(15,488)
At 31 December 2008	**-**	**(7,273)**	**(13,531)**	**(7,336)**	**(13,920)**	**(42,060)**
Carrying amount						
At 31 December 2008	**209,562**	**23,661**	**72,002**	**8,610**	**11,848**	**325,683**
At 31 December 2007	128,810	15,105	22,367	8,439	4,533	179,254

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

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

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

13 Intangible assets (continued)

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

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

Goodwill acquired in a business combination is allocated, at acquisition, to the Cash Generating Units (CGUs) that are expected to benefit from that business combination. These consist of the Group's operating businesses. Goodwill has been allocated to CGU's as set out below:

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

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. Following a detailed review, no impairment losses have been recognised in the year.

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

13 Intangible assets (continued)

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

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

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

14 Property, plant and equipment

	Land and Buildings				
	Freehold £'000	Short leasehold £'000	Plant and machinery £'000	Assets under construction £'000	Total £'000
Cost					
At 1 January 2007	7,098	5,202	50,372	-	62,672
Foreign exchange differences	328	30	1,003	-	1,361
Acquisitions	-	-	288	-	288
Additions	211	1,482	6,463	413	8,569
Disposals	-	-	(642)	-	(642)
At 1 January 2008	**7,637**	**6,714**	**57,484**	**413**	**72,248**
Foreign exchange differences	**843**	**604**	**5,805**	**-**	**7,252**
Acquisitions	**1,147**	**152**	**1,233**	**-**	**2,532**
Additions	**919**	**682**	**5,084**	**7,513**	**14,198**
Disposals	**(653)**	**(3)**	**(1,292)**	**-**	**(1,948)**
Transfer to assets held for sale	**(1,043)**	**(58)**	**(205)**	**-**	**(1,306)**
Transfers to intangible fixed assets	**-**	**-**	**(101)**	**-**	**(101)**
At 31 December 2008	**8,850**	**8,091**	**68,008**	**7,926**	**92,875**
Accumulated Depreciation					
At 1 January 2007	(1,705)	(3,316)	(36,837)	-	(41,858)
Foreign exchange differences	(163)	(25)	(858)	-	(1,046)
Charge	(263)	(403)	(5,054)	-	(5,720)
Disposals	-	-	611	-	611
At 1 January 2008	**(2,131)**	**(3,744)**	**(42,138)**	**-**	**(48,013)**
Foreign exchange differences	**(155)**	**(181)**	**(4,113)**	**-**	**(4,449)**
Charge	**(253)**	**(598)**	**(6,175)**	**-**	**(7,026)**
Disposals	**169**	**3**	**1,227**	**-**	**1,399**
Transfer to assets held for sale	**73**	**3**	**54**	**-**	**130**
At 31 December 2008	**(2,297)**	**(4,517)**	**(51,145)**	**-**	**(57,959)**
Carrying amount					
At 31 December 2008	**6,553**	**3,574**	**16,863**	**7,926**	**34,916**
At 31 December 2007	5,506	2,970	15,346	413	24,235

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

15 Interests in associates

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

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

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

16 Inventories

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

17 Long-term contract balances

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

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

18 Trade and other receivables

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

Trade receivables do not carry interest. The average credit period on sale of goods is 46 days (2007: 37 days).

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

Credit risk

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

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

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

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

The carrying amount of financial assets recorded in the financial statements *(see note 23)* net of any allowances for losses represents the Group's maximum exposure to credit risk.

18 Trade and other receivables (continued)

The ageing profile of unprovided overdue debtors was as follows:

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

The Group provides against its trade receivables where there are serious doubts as to future recoverability on a sliding scale based on the length of time that the receivable has been overdue. All trade receivables that have been overdue for more than a year are provided for in full.

Movement in the provision for trade receivables was as follows:

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

19 Assets held for sale

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

20 Trade and other payables

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

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

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

21 Finance leases

Minimum lease payments

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

22 Bank loans

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

23 Financial instruments and financial risk management

Derivative financial instruments

Exposure to currency and interest rate risks arise in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to all significant fluctuations in foreign exchange rates and interest rates.

Financial assets

The financial assets of the Group were as follows:

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

Financial liabilities

The financial liabilities of the Group were as follows:

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

23 Financial instruments and financial risk management (continued)

Liquidity risk

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

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

All bank loans are unsecured. Interest is charged at 0.375% (2007: 0.375%) over base rate.

At 31 December 2008, the Group had available £92,168,206 (2007: £78,187,000) of undrawn, committed borrowing facilities. The £120 million facility expires in November 2010 and the £80 million facility expires in September 2011.

The following table details the Group's remaining contractual maturity for its financial liabilities:

	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	**Total £'000**
2008					
Bank loans and overdrafts	**3,919**	**109,039**	**-**	**-**	**112,958**
Finance leases	**108**	**6**	**-**	**-**	**114**
Trade payables	**61,350**	**-**	**-**	**-**	**61,350**
Currency derivatives used for hedging	**38,934**	**25,460**	**2,688**	**1,307**	**68,389**
Deferred consideration	**23,785**	**7,283**	**4,759**	**-**	**35,827**
Interest rate swaps used for hedging	**-**	**-**	**4,472**	**-**	**4,472**
Accruals	**20,536**	**11**	**39**	**444**	**21,030**
2007					
Bank loans and overdrafts	2,400	2,346	46,229	-	50,975
Finance leases	27	27	4	-	58
Trade payables	42,929	-	-	-	42,929
Currency derivatives used for hedging	1,357	1,548	533	-	3,438
Deferred consideration	2,180	-	-	-	2,180
Interest rate swaps used for hedging	-	65	-	-	65
Accruals	22,218	18	58	296	22,590

Currency risk

The Group utilises currency derivatives in the form of forward currency contracts to hedge its foreign currency risk. The currencies giving rise to this risk are primarily US dollars, Canadian dollars and Euros.

At 31 December 2008, the fair value of the Group's currency derivatives is estimated to be a liability of approximately £60,134,000 (2007: asset of £1,935,000), comprising £8,255,000 assets (2007: £5,373,000) included in trade and other receivables and £68,389,000 liabilities (2007: £3,438,000) included in trade and other payables. The loss on derivative financial instruments included in the Group's consolidated income statement for the period was £62,069,000 (2007: loss of £556,000).

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

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

Net investment hedges

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

23 Financial instruments and financial risk management (continued)

Interest rate risk

During the year the Group used interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. The interest rate swaps, denominated in US dollars and Canadian dollars, have been entered into to achieve an appropriate mix of fixed and floating rate exposure reflecting the Group's policy. The swaps will mature in December 2011 and have fixed swap rates ranging from 3.93% to 4.29%. The floating rates are US dollar LIBOR and Canadian dollar LIBOR. At the year end the nominal amounts of the interest rate swaps were US dollar 100 million (2007: US dollar 20 million) and Canadian dollar 20 million (2007: Canadian dollar 30 million).

The interest rate swaps are designated effective cash flow hedges and the change in fair value has been charged to equity. At 31 December 2008, the net fair value of interest rate swaps was a liability of £4,472,000 (2007: liability of £55,000), comprising £nil of assets (2007: £10,000) included in trade and other receivables and £4,472,000 of liabilities (2007: £65,000) included in trade and other payables. The amount recycled from the income statement during the year was £195,000 and has been charged to interest cost in the year (2007: an amount of £154,000 was recycled to the income statement and was credited against interest cost in the year). The fair value will be realised in the income statement on a quarterly basis over the next three years (2007: one year).

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

	Effective interest rate	Total £'000	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000
2008					
Cash and cash equivalents	**2.06%**	**43,385**	**43,385**	**-**	**-**
Unsecured bank loans:					
Sterling loan	**5.46%**	**26,383**	**-**	**-**	**26,383**
US dollar loan	**3.83%**	**69,560**	**-**	**-**	**69,560**
Canadian dollar loan	**4.55%**	**11,271**	**-**	**-**	**11,271**
Finance lease liabilities	**8.2%**	**110**	**105**	**5**	**-**
2007					
Cash and cash equivalents	4.05%	27,419	27,419	-	-
Unsecured bank loans:					
Sterling loan	6.20%	16,295	-	-	16,295
US dollar loan	5.24%	10,046	-	-	10,046
Canadian dollar loan	4.61%	15,267	-	-	15,267
Finance lease liabilities	4.25%	54	25	29	-

Fair values

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

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

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

23 Financial instruments and financial risk management (continued)

Market risk sensitivity analysis

Currency risks

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

	10% strengthening		10% weakening		25% strengthening		25% weakening	
	Profit £'000	Equity £'000	Profit £'000	Equity £'000	Profit £'000	Equity £'000	Profit £'000	Equity £'000
2008								
Transaction	**7,689**	**7,689**	**(7,689)**	**(7,689)**	**19,223**	**19,223**	**(19,223)**	**(19,223)**
P&L translation	**3,043**	**609**	**(3,043)**	**(609)**	**7,618**	**975**	**(7,618)**	**(975)**
Foreign exchange derivatives	**(21,369)**	**(21,369)**	**14,543**	**14,543**	**(59,707)**	**(59,707)**	**38,904**	**38,904**
Total foreign exchange	**(10,637)**	**(13,071)**	**3,811**	**6,245**	**(32,866)**	**(39,509)**	**12,063**	**18,706**
2007								
Transaction	5,734	5,734	(5,734)	(5,734)	14,334	14,334	(14,334)	(14,334)
P&L translation	2,731	642	(2,731)	(642)	6,832	1,635	(6,831)	(1,634)
Foreign exchange derivatives	(6,975)	(6,975)	9,937	9,937	(19,068)	(19,068)	14,652	14,652
Total foreign exchange	1,490	(599)	1,472	3,561	2,098	(3,099)	(6,513)	(1,316)

Interest rate risk

The Group has estimated the change to the income statement of a change of 1% in market interest rates, from the average rates applicable during 2008.

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

24 Deferred tax

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

	Accelerated* tax depreciation £'000	Employee share options costs £'000	Derivatives £'000	Retirement benefit obligations £'000	Goodwill £'000	Other £'000	Tax losses £'000	Total £'000
At 1 January 2007	(42)	2,233	(700)	10,543	(3,900)	(242)	501	8,393
Credit/(charge) to income	281	352	56	171	-	(420)	(501)	(61)
Credit/(charge) to equity	-	(320)	-	1,377	(607)	-	-	450
Effect of change in tax rate								
– income statement	43	-	7	-	-	97	-	147
– equity	-	(111)	-	(808)	5	-	-	(914)
At 1 January 2008	282	2,154	(637)	11,283	(4,502)	(565)	-	8,015
Credit/(charge) to income	3,001	107	18,142	189	-	475	-	21,914
Credit/(charge) to equity	(2,725)	(1,035)	1,252	5,040	(447)	-	-	2,085
Arising on acquisition	(17,288)	-	-	-	-	270	-	(17,018)
At 31 December 2008	**(16,730)**	**1,226**	**18,757**	**16,512**	**(4,949)**	**180**	**-**	**14,996**

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

24 Deferred tax (continued)

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

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

25 Provisions

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

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

26 Share capital and share options

	2008		2007	
	No.	**£'000**	No.	£'000
Authorised:				
5p ordinary shares	**90,000,000**	**4,500**	90,000,000	4,500
Allotted, called-up and fully paid:				
5p ordinary shares	**68,132,238**	**3,407**	67,885,730	3,394

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

Share options

During the year to 31 December 2008, the Group operated the following equity-settled share option schemes:

1. Savings Related Share Option Schemes

A Savings Related Share Option Scheme is open to all US employees and provides for a purchase price equal to the average of the daily average market price on the five days before the grant less 10%. The vesting period is two years. If the options remain unexercised after a period of three months from the date of maturity, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

A Savings Related Share Option Scheme is open to all Canadian employees and provides for a purchase price equal to the daily average market price on the day before the grant less 10%. The vesting period is three years. If the options remain unexercised after a period of six months from the date of maturity, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

A Savings Related Share Option Scheme is open to all UK employees and provides for a purchase price equal to the daily average market price on the day before grant less 10%. The vesting periods are three and five years. If the options remain unexercised after a period of six months from the date of maturity, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

26 Share capital and share options (continued)

1. Savings Related Share Option Schemes (continued)

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

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

2. Company Share Option Plan

The Company Share Option Plan provides share options for nominated employees in the UK. The purchase price is set at a mid-market price on the date of grant. This is an approved scheme. From 2000 vesting has been unconditional. Options vest after three years and lapse after ten years from the date of grant.

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

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

3. Executive Share Option Scheme

The Executive Share Option Scheme provides share options for nominated employees in the UK, US and Canada. The purchase price is set at a mid-market price on the date of grant. This is an unapproved scheme. From 2000 vesting has been unconditional. Options vest after three years and lapse after seven years from the date of grant.
At 31 December 2008, share options outstanding under the Executive Share Option Scheme were as follows:

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

26 Share capital and share options (continued)

4. Long-Term Incentive Plan

Details in relation to the LTIP are included in the Directors' Remuneration report on pages 44 and 45.

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

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

The Group recognised total expenses of £1,295,341 (2007: £1,186,000) in relation to equity-settled, share-based payment transactions. Expected volatility was determined by calculating the historic volatility of the Group's share price.

Share options were exercised on a regular basis throughout the year. The weighted average share price during the year was £12.03. The fair value of options granted during the year was £1,470,425 (2007: £1,993,343).

The Group's equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The fair value for all schemes other than the 2007 and 2008 LTIP schemes is measured by use of the Black Scholes option pricing model using the following assumptions:

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

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

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

For the 2007 and 2008 LTIP awards, the stochastic model has been used to calculate the fair value of the awards at grant date as this is the most accurate way of modelling the TSR performance condition. The fair value of these schemes has been calculated using the following assumptions:

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

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

26 Share capital and share options (continued)

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

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

27 Equity

	Share capital £'000	Share premium account £'000	Reserve for own shares £'000	Hedging and translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2007	3,378	33,180	(2,692)	(4,837)	88,362	117,391
Total recognised income and expense	-	-	-	(1,445)	36,274	34,829
Disposal of own shares	-	-	720	-	(720)	-
Equity settled employee share scheme	16	1,881	-	-	755	2,652
Dividends to shareholders	-	-	-	-	(12,978)	(12,978)
Balance at 31 December 2007	3,394	35,061	(1,972)	(6,282)	111,693	141,894
Total recognised income and expense	**-**	**-**	**-**	**28,897**	**(13,536)**	**15,361**
Own shares acquired	**-**	**-**	**(674)**	**-**	**-**	**(674)**
Disposal of own shares	**-**	**-**	**672**	**-**	**(672)**	**-**
Equity settled employee share scheme	**13**	**1,366**	**-**	**-**	**1,334**	**2,713**
Dividends to shareholders	**-**	**-**	**-**	**-**	**(15,225)**	**(15,225)**
Balance at 31 December 2008	**3,407**	**36,427**	**(1,974)**	**22,615**	**83,594**	**144,069**

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

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

28 Notes to the cash flow statement

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

28 Notes to the cash flow statement (continued)

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

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

Net debt comprised the following:

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

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

29 Guarantees and other financial commitments

a) Capital commitments

At the end of the year capital commitments were:

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

b) Lease commitments

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

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

30 Retirement benefit schemes

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

Defined contribution schemes

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

Defined benefit schemes

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

30 Retirement benefit schemes (continued)

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

	UK 2008	Canada 2008	UK 2007	Canada 2007
Discount rate	**6.25%**	**6.0%**	5.8%	5.8%
Inflation rate	**3.0%**	**3.0%**	3.25%	3.25%
Expected rate of salary increases	**4.25%**	**4.25%**	4.5%	4.5%
Future pension increases (pre 6/4/08)	**2.8%**	**2.8%**	3.0%	3.0%
Future pension increases (post 6/4/08)	**2.4%**	**n/a**	n/a	n/a

For each of these assumptions there is a range of possible values. Relatively small changes in some of these variables can have a significant impact on the level of the total obligation. For the UK scheme, a 0.25% increase in the inflation assumption to 3.25% and a 0.1% reduction in the discount rate to 6.15% would increase the schemes liabilities by 5.1% and 2.0% respectively. If the members were to experience the mortality of an individual one year older the scheme liabilities would drop by 1.7%.

The key demographic assumption used was in relation to the mortality rates of current and future pensioners. Due to the size of the scheme the mortality rates were based on standard tables namely:

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

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

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

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

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

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

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

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

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

30 Retirement benefit schemes (continued)

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

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

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

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

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

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

Scheme assets were as follows:

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

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

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

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

30 Retirement benefit schemes (continued)

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

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

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

31 Acquisitions

Acquisitions during the year

In aggregate, consideration of £78,838,000 was paid in respect of acquisitions, all of which was discharged by means of cash and cash equivalents and was made up as follows:

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

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

Magneto Inductive Systems Ltd

On 22 May 2008, the Group acquired the entire share capital of Magneto Inductive Systems Ltd (MISL) of Canada and the USA for a cash consideration of £18.0 million. The aggregate net assets acquired and their provisional fair values based on the Directors' initial assessment of net realisable value together with details of the purchase consideration were as follows:

	Book value £'000	Revaluations £'000	Fair value £'000
Intangible assets	**54**	**8,462**	**8,516**
Property, plant and equipment	**469**	**(60)**	**409**
Net cash	**393**	**-**	**393**
Inventories	**99**	**(10)**	**89**
Receivables	**1,411**	**-**	**1,411**
Payables	**(1,353)**	**(2,718)**	**(4,071)**
Net assets acquired	**1,073**	**5,674**	**6,747**
Goodwill arising on acquisition			**11,281**
Purchase consideration, including acquisition costs			**18,028**

	£'000
Total consideration	**18,028**
Less deferred consideration	**(5,472)**
Net cash outflow arising on acquisition	**12,556**

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

31 Acquisitions (continued)

Harris Acoustic Products

On 23 May 2008, the Group acquired the trade and assets of Harris Acoustic Products Corporation from Channel Technologies Inc. for an initial cash consideration of £3.7 million. The aggregate net assets acquired and their provisional fair values, based on the Directors' initial assessment of net realisable value, together with details of the purchase consideration were as follows:

	Book value	Revaluations	Fair value
	£'000	£'000	£'000
Intangible assets	-	2,331	2,331
Property, plant and equipment	15	-	15
Inventories	1,266	(493)	773
Receivables	155	-	155
Payables	(303)	(38)	(341)
Provisions	(52)	-	(52)
Net assets acquired	**1,081**	**1,800**	**2,881**
Goodwill arising on acquisition			781
Purchase consideration, including acquisition costs			**3,662**

	£'000
Cash outflow arising an acquisition	3,662

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

ProLogic Incorporated

On 13 June 2008, the Group acquired the entire share capital of ProLogic Incorporated for a cash consideration of £32.7 million including costs. The aggregate net assets acquired and their provisional fair values, based on the Directors' initial assessment of net realisable value, together with details of the purchase consideration were as follows:

	Book value	Revaluations	Fair value
	£'000	£'000	£'000
Intangible assets	-	17,624	17,624
Property, plant and equipment	393	-	393
Net cash	25	-	25
Receivables	6,601	-	6,601
Payables	(5,204)	(6,167)	(11,371)
Net assets acquired	**1,815**	**11,457**	**13,272**
Goodwill arising on acquisition			19,474
Purchase consideration, including acquisition costs			**32,746**

	£'000
Total consideration	32,746
Less deferred consideration	(3,464)
Net cash outflow arising on acquisition	29,282

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

31 Acquisitions (continued)

Audiosoft Limited

On 29 August 2008, the Group acquired the entire share capital of Audiosoft Limited for a cash consideration of £10.7 million. The aggregate net assets acquired and their provisional fair values, based on the Directors' initial assessment of net realisable value, together with details of the purchase consideration were as follows:

	Book value	Revaluations	Fair value
	£'000	£'000	£'000
Intangible assets	-	6,088	6,088
Property, plant and equipment	135	-	135
Net cash	3,318	-	3,318
Inventories	422	(242)	180
Receivables	916	-	916
Payables	(1,479)	(1,705)	(3,184)
Provisions	(132)	-	(132)
Net assets acquired	3,180	4,141	7,321
Goodwill arising on acquisition			3,349
Purchase consideration, including acquisition costs			10,670

	£'000
Total consideration	10,670
Less deferred consideration	(3,051)
Net cash outflow arising on acquisition	7,619

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

Nuclear Sensors & Process Instrumentation

On 12 November 2008, the Group acquired the entire share capital of Nuclear Sensors & Process Instrumentation (acquired as Weed Instrument Co. Inc.) for a cash consideration of £22.2 million. The aggregate net assets acquired and their provisional fair values, based on the Directors' initial assessment of net realisable value, together with details of the purchase consideration were as follows:

	Book value	Revaluations	Fair value
	£'000	£'000	£'000
Intangible assets	-	11,544	11,544
Property, plant and equipment	1,424	-	1,424
Net cash	845	-	845
Inventories	2,108	-	2,108
Receivables	1,790	-	1,790
Payables	(1,358)	(3,974)	(5,332)
Provisions	(764)	-	(764)
Net assets acquired	4,045	7,570	11,615
Goodwill arising on acquisition			10,558
Purchase consideration, including acquisition costs			22,173

	£'000
Total consideration	22,173
Less deferred consideration	(10,054)
Cash outflow arising on acquisition	12,119

The profit contribution from NSPI was approximately £0.2 million in the period from date of acquisition to 31 December 2008, before a charge of £0.3 million relating to the amortisation of intangibles arising on acquisition.

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

31 Acquisitions (continued)

Dascam

On 28 November 2008, the Group acquired the entire share capital of Blue Sky Group (International) Ltd, of which the principal trading entity is Dascam Consulting (Dascam) located in the United Arab Emirates, for a cash consideration of £19.7 million. The aggregate net assets acquired and their provisional fair values, based on the Directors' initial assessment of net realisable value, together with details of the purchase consideration were as follows:

	Book value	Revaluations	Fair value
	£'000	£'000	£'000
Intangible assets	-	8,584	8,584
Interest in associate	1,986	-	1,986
Property, plant and equipment	98	-	98
Net cash	174	-	174
Receivables	1,738	-	1,738
Payables	(1,041)	-	(1,041)
Net assets acquired	2,955	8,584	11,539
Goodwill arising on acquisition			8,179
Purchase consideration, including acquisition costs			19,718

	£'000
Total consideration	19,718
Less deferred consideration	(5,865)
Cash outflow arising on acquisition	13,853

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

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

Radmon

On 12 December 2008, the Group acquired the trade and assets of Radmon for a cash consideration of £4.9 million including costs. The aggregate net assets acquired and their provisional fair values, based on the Directors' initial assessment of net realisable value, together with details of the purchase consideration were as follows:

	Book value	Revaluations	Fair value
	£'000	£'000	£'000
Intangible assets	-	3,836	3,836
Property, plant and equipment	58	-	58
Inventories	1,202	-	1,202
Receivables	298	-	298
Payables	(859)	-	(859)
Net assets acquired	699	3,836	4,535
Goodwill arising on acquisition			415
Purchase consideration, including acquisition costs			4,950

	£'000
Total consideration	4,950
Less deferred consideration	(4,800)
Cash outflow arising on acquisition	150

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

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

31 Acquisitions (continued)

Graytronics Ltd

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

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

Prior year acquisitions

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

Statement of accounting policies in respect of the Group's consolidated financial statements

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

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore comply with Article 4 of the EU IAS regulations.

At the date of authorisation of these financial statements, the following Standards and Interpretations, which have not been applied in these statements, were in issue but not yet effective:
IAS 1 (revised) Presentation of financial statements
IAS 23 (revised) Borrowing costs
IAS 27 (amended) Consolidated and Separate Financial Statements
IFRS 3 (revised) Business combinations
IFRS 8 Operating segments
IFRIC 13 Customer Loyalty Programmes
IFRIC 15 Agreements for the construction of real estate
IFRIC 16 Hedges of a Net Investment in a Foreign Operation

The Directors do not anticipate that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Group, except for additional disclosures when the relevant standards come into effect.

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

Basis of consolidation

The consolidated financial information includes the results, cash flows and assets and liabilities of Ultra Electronics Holdings plc ("the Company") and its subsidiaries (together, "the Group") made up to 31 December each year.

Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary that meet the conditions for recognition under IFRS 3 are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to the income statement in the period of acquisition.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and will not be included in determining any subsequent profit or loss on disposal.

Investments in associates

An associate is an entity over which the group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes. Sales of goods are normally recognised when goods are delivered and title has passed.

Revenue from long-term contracts is recognised in accordance with the Group's accounting policy on long-term contracts *(see accounting policy **'Long-term contracts'**)*.

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

Long-term contracts

Where the outcome of a long-term contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at the actual exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the income statement.

The trading results and cash flows of overseas undertakings are translated into sterling, which is the functional currency of the Company, using the average rates of exchange during the relevant financial period. The balance sheets of overseas subsidiary undertakings are translated into sterling at the rates ruling at the year-end. Exchange differences arising from the retranslation of the opening balance sheets and results are classified as equity and transferred to the Group's hedging and translation reserve.

Goodwill and fair value adjustments on the acquisition of foreign entities are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRSs as sterling denominated assets and liabilities.

Borrowing costs

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

Government grants

Government grants are recognised in the income statement so as to match them with the expenditure towards which they are intended to contribute, to the extent that the conditions for receipt have been met and there is reasonable assurance that the grant will be received.

Retirement benefit costs
The Group provides pensions to its employees and Directors through defined benefit and defined contribution pension schemes. The schemes are funded and their assets are held independently of the Group by trustees.

For defined benefit retirement schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. The actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets.

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

Research and development
Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Any internally generated intangible asset arising from development activities is recognised only if an asset is created that can be identified, it is probable that the asset created will generate future economic benefit and the development cost of the asset can be measured reliably.

Internally generated assets are amortised on a straight-line basis over their useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets
Costs associated with producing or maintaining computer software programmes for sale are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, that will generate economic benefits exceeding costs beyond one year and that can be measured reliably, are recognised as intangible assets. Capitalised software development expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation is provided on a straight-line basis over the useful life of the related asset.

Acquired computer software licenses for use within the Group are capitalised as intangible assets on the basis of the costs incurred to acquire and bring to use the specific software.

Patents and trademarks are stated initially at historical cost. Patents and trademarks have definite useful lives and are carried at cost less accumulated amortisation and impairment losses.

Intangible assets arising from a business combination whose fair value can be reliably measured are separated from goodwill and amortised on a straight line basis over their remaining useful lives.

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

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

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

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

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

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

Freehold land and assets under the course of construction are not depreciated.

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

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

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

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

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

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

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

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

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

Trade payables
Trade payables are stated at their fair value.

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

Share-based payments

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

Provisions

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

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

Equity instruments

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

Taxation

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

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

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

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

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

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

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

Derivative financial instruments

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

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

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

Derivative financial instruments (continued)

Where the hedging relationship is classified as a fair value hedge, the carrying amount of the hedged asset or liability will be adjusted by the increase or decrease in its fair value attributable to the hedged risk and the resulting gain or loss will be recognised in the income statement where, to the extent that the hedge is effective, it will be offset by the change in the fair value of the hedging instrument.

Where the hedging relationship is classified as a cash flow hedge or as a net investment hedge, to the extent that the hedge is effective, changes in the fair value of the hedging instrument will be recognised directly in equity rather than in the income statement. Any gain or loss relating to the ineffective portion is recognised immediately in the income statement. For cash flow hedges of forecasted future transactions, when the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in equity will be either recycled to the income statement or, if the hedged items results in a non-financial asset, will be recognised as adjustments to its initial carrying amount.

Critical accounting judgements and key sources of estimation uncertainty

CONTRACT REVENUE AND PROFIT RECOGNITION

A significant proportion of the Group's activities are conducted under long term contract arrangements and are accounted for in accordance with IAS 11 Construction Contracts.

Revenue and profit on such contracts is recognised according to the stage of completion of the contract activity at the balance sheet date of the particular contract and is calculated by reference to reliable estimates of contract revenue and expected costs. Expected costs are calculated after taking account of the perceived contract risks related to performance not yet proven.

Owing to the complexity of some of the contracts undertaken by the Group the cost estimation process requires significant judgement and is carried out using the experience of the Group's engineers, project managers and finance and commercial professionals. Because of the level of judgement required, cost estimates are reviewed and updated on a regular basis using the Group's established project management processes. Some of the factors that will impact upon cost estimates include the availability of suitably qualified labour, the nature and complexity of the work to be performed, the availability of materials, the impact of change orders and the performance of sub-contractors.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately as an expense.

Where services are rendered, sales are recognised when the stage of completion of the services and the related revenue and costs can be measured reliably.

Where goods are delivered under arrangements not considered to fall under the scope of IAS 11 Construction Contracts, revenue is recognised when substantially all of the risks and rewards of ownership have transferred to the customer.

RETIREMENT BENEFIT PLANS

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

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

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

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

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

Details of the pension scheme assumptions and obligation at 31 December 2008 are provided in note 30.

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

INTANGIBLE ASSETS

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

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

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

DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivatives in the normal course of business to manage its exposure to fluctuations in interest and foreign currency rates. Derivatives are accounted for in the consolidated balance sheet as assets or liabilities at fair value in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'.

Accounting for derivatives is complex and significant judgements and estimates are involved in estimating the fair value of these instruments. Generally, fair value estimates of derivative contracts involve the selection of an appropriate valuation model and determining the appropriate inputs to use in that model.

In evaluating whether a particular relationship qualifies for hedge accounting, the Group determines whether the relationship meets the strict criteria to qualify for exemption from ongoing effectiveness testing. For a relationship that does not meet these criteria, effectiveness is tested at inception and bi-annually thereafter by determining whether changes in the fair value of the derivative offset, within a specified range, changes in the fair value of the hedged item. If fair value changes fail this test, hedge accounting is no longer used.

GOING CONCERN

Ultra's banking facilities amount to £200m in total, plus a £10m overdraft. These facilities provided more than £100m of borrowing headroom over the gross balance that had been drawn down at the end of the year. They were established in two tranches. The first was set up in 2005 and is provided by a small syndicate of banks, led by The Royal Bank of Scotland. This element comprises £120m of revolving credit, denominated in sterling, US dollars and Canadian dollars, which is due to expire in November 2010. A £10m bank overdraft facility is also available for short-term working capital funding. The second tranche provides a further £80m of revolving credit. It was put in place in September 2008 with the support of the existing banking syndicate in order to fund the eight acquisitions that the Group made during the year and to provide headroom for further acquisitions going forward. This additional facility is due to expire in September 2011. As well as being used to fund acquisitions, the banking facilities are also used for other balance sheet and operational needs, including the funding of day-to-day working capital requirements. Details of how Ultra manages its liquidity risk can be found in Note 23 – Financial instruments and financial risk management.

The US and Canadian dollar borrowings also represent natural hedges against assets denominated in these currencies. The Group's banking covenants have all been met during the past year with a comfortable margin and the expectation is that this will continue. Ultra will open negotiations with its banking partners in due course regarding the renewal of the first tranche in 2010.

Whilst the current volatility in financial markets has created general uncertainty in respect of the current economic outlook, the long-term nature of Ultra's business taken together with the Group's forward order book provide a satisfactory level of confidence in respect of trading in the year to come. At the beginning of 2009 Ultra had firm orders in place for over 60% of its consensus forecast sales in the year.

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

To the members of Ultra Electronics Holdings plc

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

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

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

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

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

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

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

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

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

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

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

Basis of audit opinion

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

Basis of audit opinion (continued)

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

Opinion

In our opinion:

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

Deloitte LLP
Chartered Accountants and Registered Auditors
Reading, United Kingdom
27 February 2009

Notes: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the Directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Company balance sheet

31 December 2008

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

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

On behalf of the Board

D. Caster, *Chief Executive*

D. Jeffcoat, *Finance Director*

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

32 Staff costs

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

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

	2008 number	2007 number
Support services	**13**	10

33 Tangible fixed assets

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

34 Investments

a) Principal subsidiary undertakings

The Company owns either directly or indirectly 100% of the ordinary share capital of the following principal subsidiary undertakings:

Name	Place of registration or incorporation
Ultra Electronics Limited	England and Wales
Ultra Electronics Inc.	USA
Ultra Electronics Canada Defence Inc.	Canada

The principal activity of the subsidiary undertakings is the design, development and manufacture of electronic systems for the international defence and aerospace markets.

34 Investments (continued)

b) Investment in subsidiary undertakings

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

35 Debtors

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

36 Deferred tax

Movements in the deferred tax asset were as follows:

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

The deferred tax balances are analysed as follows:

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

These balances are shown as follows:

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

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

37 Creditors: amounts falling due within one year

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

38 Creditors: amounts falling due after more than one year

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

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

Borrowings fall due as analysed below:

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

39 Called-up share capital

	2008		2007	
	No.	**£'000**	No.	£'000
Authorised:				
5p ordinary shares	**90,000,000**	**4,500**	90,000,000	4,500
Allotted, called-up and fully paid:				
5p ordinary shares	**68,132,238**	**3,407**	67,885,730	3,394

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

40 Reserves

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

The profit and loss account includes £65,400,000 which is not distributable. Further details in respect of dividends are presented in note 11 to the Group financial statements.

41 Own shares

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

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

42 Guarantees and other financial commitments

Lease commitments

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

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

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

Basis of accounting

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

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

Fixed assets and depreciation

Tangible fixed assets are shown at original historical cost, net of depreciation and any provision for impairment.

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

Plant and machinery	3 to 20 years

Taxation

UK Corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements. These arise from including gains and losses in tax assessments in different periods from those recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not discounted.

Retirement benefit costs

The Company provides pensions to its employees and Directors through defined benefit and defined contribution pension schemes. The schemes are funded and their assets are held independently of the Group by trustees.

The amount charged to the profit and loss account for defined benefit schemes is the estimated regular cost of providing the benefits accrued in the period adjusted to reflect variations from the cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll.

Any difference between the amount charged to the profit and loss account and contributions paid to the pension scheme is shown as a separately identifiable liability or asset in the balance sheet.

Certain employees and Directors participated in the UK defined benefit scheme operated by Ultra Electronics Limited. Paragraph 9(b) of FRS 17 allows for a defined benefit scheme to be accounted for as a defined contribution scheme where there are multi-employers and one employer is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis. The Ultra Electronics Limited defined benefit scheme has been accounted for on this basis. The deficit in the scheme at 31 December 2008 was £57.6 million (2007: £40.9 million). Further disclosures in relation to this pension scheme are given in note 30 to the financial statements.

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

Investments

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

Foreign currency

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

Share-based payments

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

Bank loans and overdrafts

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

Shareholder analysis

31 December 2008

By category of shareholder

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

By size of holding

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

Financial calendar

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

Financial highlights

	2004 £m	2005 £m	2006 £m	2007 £m	**2008 £m**
Revenue					
Aircraft & Vehicle Systems	76.6	84.4	93.9	100.0	**130.1**
Information & Power Systems	113.7	117.3	120.5	126.6	**161.5**
Tactical & Sonar Systems	120.4	140.7	162.6	186.3	**223.7**
Total revenue	310.7	342.4	377.0	412.9	**515.3**
Headline operating profit[1]					
Aircraft & Vehicle Systems	14.9	15.9	13.2	16.1	**19.7**
Information & Power Systems	15.0	18.1	19.3	19.6	**22.2**
Tactical & Sonar Systems	13.4	17.1	25.0	27.2	**35.2**
Total headline operating profit[1]	43.3	51.1	57.5	62.9	**77.1**
Margin[1]	13.9%	14.9%	15.3%	15.2%	**15.0%**
Profit/(loss) before tax	40.1	40.7	55.0	56.6	**(2.9)**
Profit after tax	29.2	29.4	39.6	41.2	**1.8**
Operating cash flow[2]	46.9	53.8	56.5	52.2	**79.0**
Free cash flow before dividends, acquisitions and financing[3]	36.0	38.1	40.9	36.3	**54.7**
Net debt at year-end[4]	24.1	34.3	7.2	14.2	**63.9**
Headline earnings per share (p)[5]	43.7	50.7	58.4	65.4	**80.1**
Dividends per share (p)[6]	13.8	15.9	18.5	21.2	**26.0**
Average employee numbers	2,678	2,880	2,989	3,054	**3,582**

[1] Before amortisation of intangibles arising on acquisition.

[2] Cash generated by operations, less net capital expenditure, R&D and LTIP share purchases.

[3] Free cash flow before dividends, acquisitions and financing has been adjusted to include the purchase of Long-Term Incentive Plan shares, which are included in financing activities.

[4] Bank overdrafts and loans less cash and cash equivalents.

[5] Before amortisation of intangibles arising on acquisition and fair value movement on derivative financial instruments.

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