The Directors present their annual report on the affairs of the Group, together with the accounts and auditors' report, for the year ended 31 December 2004. Details in relation to health, safety and the environment, business ethics and employment practice and employee consultation are included in the Corporate Responsibility Statement on page 22.

Principal activity

Ultra Electronics is a group of businesses engaged in the design, development and manufacture of electronic systems for the international defence and aerospace markets.

Results and dividends

The review of operations is contained on pages 4 to 17. Group results and dividends are as follows:

		2004 £'000
Balance on profit and loss account, beginning of year		**34,366**
Profit for the financial year		**23,477**
Dividends:	Interim paid of 4.6p per share	**(3,089)**
	Final proposed of 9.2p per share	**(6,157)**
Foreign exchange differences		**196**
Balance on profit and loss account, end of year		**48,793**

The final 2004 dividend is proposed to be paid on 6 May 2005 to shareholders on the register at 15 April 2005.
The interim dividend was paid on 27 September 2004, making a total of 13.8p (2003: 12.3p) per share for the year.

Future developments

A review of the activities and future developments of the Group is contained in the Chief Executive's Review on pages 4 to 17.

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 £70.4 million (2003: £65.4 million) was spent on engineering development of which £54.9 million (2003: £52.7 million) was funded by customers and £15.5 million (2003: £12.7 million) by the Group.

Directors and their interests

The Directors who served in the year and their interests in the shares of the Company are listed on page 37.

Substantial shareholdings

At 21 February 2005, the Company had been notified in accordance with Sections 198-208 of the Companies Act 1985 that the following were registered as having an interest in 3% or more of the Company's ordinary share capital:

	Percentage of ordinary share capital	Number of 5p ordinary shares
Deutsche Bank AG	13.97	9,343,577
Barclays plc	5.95	3,978,477
Legal and General	3.58	2,397,439
The Aegon UK plc Group of Companies	3.18	2,106,714
Morley Fund Management	3.15	2,106,456
Sun Life Assurance	3.09	2,064,069
Lloyds TSB Group plc	3.02	2,015,937

Charitable and political contributions

The Group contributed £19,000 (2003: £28,000) to charities and made no contributions for political purposes in either year.

Supplier payment policy

Operating divisions 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 creditor days of the Group for the year ended 31 December 2004 were 51 days (2003: 43 days), based on the ratio of Group trade creditors at the end of the year to the amounts invoiced during the year by suppliers. The Company had no trade creditors at either year-end.

Annual General Meeting

Explanation of special business resolutions is given below:

Resolution 8

This resolution authorises the Directors to allot shares in the Company up to a maximum nominal amount of £1,115,075 (one third of the allotted and fully paid up share capital of the Company).

Resolution 9

This resolution authorises the Directors to allot shares for cash, without first having offered to allot such shares to existing shareholders in proportion to their existing holdings, in respect of 5% of the total issued share capital of the Company. Resolutions 8 and 9 comply with the Association of British Insurers' guidelines and renew similar authorities given previously. The authorities expire on the earlier of the conclusion of the next Annual General Meeting of the Company or 15 months after the date of passing these resolutions. The Directors have no current intention to exercise the authorities sought by these resolutions except for employee share option schemes.

Resolution 10

This resolution authorises the Directors to purchase up to a total of 3,345,226 of the Company's shares (representing 5% of the issued share capital of the Company). This authority expires on the earlier of 12 months from the date of passing this resolution or the conclusion of the next Annual General Meeting of the Company.

The Directors will use the share purchase authority with discretion. In reaching a decision to purchase shares of the Company the Directors would take account of the Company's business and any impact on earnings per share and net tangible assets per share. The Directors have no current intention to exercise the authority sought by this resolution.

By order of the Board,

D. Jeffcoat
Company Secretary
21 February 2005

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

Corporate governance

Combined code compliance

The Group complies with the Combined Code provisions on Corporate Governance issued in June 1998. During the past year it has operated all of the procedures necessary to follow the 1999 internal control guidelines and has maintained a reporting process in accordance with them. During 2004, the Group was close to full compliance with the provisions of the new Combined Code ("the Code") on Corporate Governance that was published in July 2003. A summary of the Group's compliance position follows, with details of the exceptions.

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 Combined Code, are set out below.

At the end of 2004 the main Board comprised the Chairman, two independent non-executive Directors and five executive Directors. The Chairman, Peter Macfarlane, will be retiring after the Annual General Meeting. As discussed in the 2003 Annual Report, the Board is proposing to appoint the current Chief Executive of Ultra, Julian Blogh, as his successor. The Board recognises that this step will not conform with the Code guidelines, but believes that this is an exceptional case. Dr Blogh's contribution to Ultra's development since its formation eleven years ago is such that it would be a significant loss to the shareholders if he were to leave the Group completely at this time. He has an outstanding track record in developing and implementing the Group's strategy and has created substantial shareholder value; the average shareholder return during the eight year period since flotation in 1996 is more than 15% per annum. Dr Blogh has a detailed understanding of Ultra's technology, its major programmes and its markets. With this background the Directors believe that he will provide a much more effective and independent challenge to the executive team than a new Chairman recruited from outside the Group. The Board's view has been supported by the Group's major shareholders during a recent series of consultation meetings. Dr Blogh will be replaced as Chief Executive by Douglas Caster, an existing executive Director and currently Chief Operating Officer of Ultra. As senior independent non-executive director, Andrew Walker will have particular responsibility, on behalf of the Board, for safeguarding the provisions of the Combined Code on corporate governance. Mr Walker will be available to shareholders if they have concerns that contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve, or for which such contact is inappropriate.

The Board is proposing to replace Mr Macfarlane as an independent non-executive Director by Christopher Bailey. He was appointed to the Board in January 2005 and is standing for re-election at the Annual General Meeting. Mr Bailey's curriculum vitae can be found on page 26 of this report. These changes will mean that the future composition of the Board will be the Chairman, three independent non-executive Directors and four executive Directors. Although the Code calls for the majority of the Board to be independent non-executive Directors, it is the view of the Directors that the proposed structure will be appropriate for Ultra given the relative complexity of the business and the desire of the Board to maintain a flexible, rapid and informed decision-making process. Any further increase in the number of non-executive Directors at this time would result in reduced focus, slower decisions and a higher cost base.

Mr Jeffcoat, who was appointed to the Board in 2000, is both Finance Director and Company Secretary, reporting to the Chief Executive. The Board believes that Mr Jeffcoat is able effectively to maintain sufficient separation of his two roles to avoid any significant conflicts of interest. Ultra's lean management structure does not permit extra costs to be incurred by appointing an independent Company Secretary.

The Board met eleven times during the year. Details of the numbers of meetings of the main Board and its sub-committees that were attended by the individual directors are set out in the table on page 31.

Key decisions that are delegated to the Chief Executive include the approval of budgeted capital investments below £500,000 in value, major contract bids below £100 million, the appointment and dismissal of business unit Managing Directors and their individual levels of remuneration, and charitable donations with the advice of an internal charities committee.

Audit Committee

The Board has overall responsibility for reviewing the effectiveness of internal control procedures throughout the Group, although the Audit Committee monitors the internal financial control procedures that are operated by the Group and their effectiveness.

During 2004 the Audit Committee has comprised Andrew Walker, senior independent non-executive Director, Ian Griffiths and Peter Macfarlane. Mr Walker was appointed Committee Chairman with effect from January 2004. Mr Macfarlane has been a member of the Committee for a number of years and was the Chairman until 2003. The Board decided that he should continue as a Committee member even though he is the Chairman of the Group and this is not consistent with the provisions of the Code. He is a qualified accountant and was Finance Director of Allied Domecq until the late 1990s. This experience has given him wide ranging financial expertise invaluable to the Committee, where he plays an important role in monitoring the integrity of the Group's financial statements and the overall financial performance of the Group. The proposed new non-executive Director, Mr Bailey, was Group Finance Director of Aggregate Industries plc for seven years until his retirement in 2004. It is the intention of the Board that he will replace Mr Macfarlane as a member of the Committee, where his recent financial experience will be of great benefit to the Board.

The Committee met three times during the year and the main topics considered during the meetings were:

- agreeing the strategy and scope of planned internal and external audit activities;
- reviewing the outcome of internal and external audits carried out and agreeing upon the necessary actions;
- reviewing the financial results of the Group and the formal external announcements relating to them; and
- monitoring the independence and effectiveness of the internal and external audit functions, both of which are carried out by professional accounting firms on behalf of the Group.

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

Nominations Committee

The Nominations Committee comprises the non-executive Directors and the Chief Executive. The Committee is chaired by Peter Macfarlane and met twice during 2004. The key responsibility of the Committee is to review all main Board and sub-committee appointments. The main actions taken by the Committee during the year were to recommend the appointment of Julian Blogh as Chairman as successor to Peter Macfarlane and to recommend the appointment of Douglas Caster as Chief Executive as successor to Dr Blogh.

In addition the Committee initiated the process for the recruitment of Christopher Bailey, a new non-executive Director. The process used to recruit Mr Bailey involved preparing a job description and candidate profile, appointing executive search consultants to recommend a shortlist of potential candidates and conducting a series of interviews with them before selecting Mr Bailey as the most suitable. The Board is confident that this process has resulted in the appointment of a Director who will bring to the Group the benefit of his extensive financial management experience in a long-term contract environment that has many similarities to Ultra's core business.

Remuneration Committee

The Board Remuneration Committee consists of Andrew Walker - Chairman, Peter Macfarlane and Ian Griffiths. It met five times during the year. The Committee is responsible for evaluating the performance of the executive Directors, including the Chief Executive, and for setting their levels of remuneration. It also meets without the Group Chairman being present to agree his remuneration. A Remuneration report is included on page 34, together with details of the Directors' pension entitlements, long-term incentive share awards and shareholdings. It is intended that Mr Bailey will replace Mr Macfarlane as a member of the Committee following his retirement.

Corporate governance (continued)

Evaluation of Board and Committee effectiveness

The Directors conducted a review of the effectiveness of the Main Board and its sub-committees during the year, in accordance with the recommendations of the Code. This review was carried out with the assistance of external consultants and was based upon 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 effectiveness of information dissemination. The results were communicated to the Directors in a written report. This was considered at a dedicated meeting and a number of actions were agreed as a result. Progress on previous actions will be monitored by the Board annually and the review process will be repeated on a regular basis in the future.

Directors re-election

Christopher Bailey is standing for re-election to the Board, having been appointed by the Directors in January 2005. Julian Blogh and Frank Hope are retiring by rotation in accordance with the Articles of Association and are standing for re-election. Although not standing for re-election this year, Andrew Walker has served as a Director for more than eight years. Given the complexity of the Group's activities, his previous experience as an executive director of several major groups and his extensive knowledge of Ultra mean that he is well qualified for his current position on Ultra's Board. The Directors are convinced that Mr Walker remains highly effective in his role as senior non-executive and that it is in the best interests of the shareholders for him to continue.

Meeting attendance

	Main Board	Audit Committee	Nominations Committee	Remuneration Committee
Number of meetings	**11**	**3**	**2**	**5**
J. Blogh	**11**	**-**	**2**	**-**
D. Caster	**10**	**-**	**-**	**-**
I. Griffiths	**11**	**3**	**2**	**5**
A. Hamment	**11**	**-**	**-**	**-**
F. Hope	**11**	**-**	**-**	**-**
D. Jeffcoat[1]	**11**	**3**	**2**	**4**
P. Macfarlane	**10**	**3**	**2**	**4**
A. Walker	**9**	**2**	**2**	**5**

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

Internal controls

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

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

Control environment

Ultra's organisational structure has clearly defined lines of responsibility and delegated authorities, which have been reviewed by the Board during the year to ensure that they are still relevant given the current size and structure of the Group. Ethical values and control consciousness are communicated to managers and staff via performance appraisal and development and training programmes.

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

Risk management

Management has a responsibility for identifying the risks facing Ultra's businesses and for putting in place procedures to monitor and mitigate such risks. Strategic risks are formally assessed by the Board during the annual strategic planning process and steps are taken following this process to ensure that all such risks are minimised throughout the year.

Operational risks are monitored as part of the Group's monthly business performance review process. Business units are required to report on all key areas of risk, indicating situations that are not compliant with normal controls. Remedial actions must be proposed and such situations are then monitored until a satisfactory conclusion is reached. All significant deviations are reported to the Board by the responsible Director twice annually.

The Board has established an Internal Audit process, carried out by Ernst & Young LLP, to review financial and information systems control procedures throughout the Group. All business units are audited at least once every two years and those judged to represent a higher risk are reviewed more often. In addition all newly acquired businesses are audited within six months of the acquisition date. Internal Audit reports to the Chairman of the Audit Committee and presents its findings to the Committee twice annually. Follow-up actions to deal with any control weaknesses are reported to the Committee every six months and Internal Audit confirms that satisfactory progress has been made during its next visit to the business concerned.

In addition the executive directors take an active role in identifying and assessing potential risks in all areas of the business. This is achieved both through the normal monthly business review programme and also through day-to-day management contact.

Financial reporting systems

The Group has a comprehensive system of financial reporting covering key performance indicators such as sales, profits and cash flow. The annual budget and five year strategic plan for each business are approved by the executive Directors and the Board approves the Group's budget and plan. The actual results for each business and 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 also presented to the Board.

Shareholder communication

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

Effectiveness of controls

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.

Going concern

After making enquiries the Directors have established that the Group's forward order book provides satisfactory cover for trading in the year to come and have a reasonable expectation that the Company and Group have adequate financial

Corporate governance (continued)

Going concern (continued)

resources to continue in operational existence for the foreseeable future. The Board recognises that the Group's banking facilities will fall due for renewal in December 2005. Initial discussions with the Group's bankers have taken place and there is a strong indication that the facility will be renewed without undue difficulty, given Ultra's strong credit standing. For these reasons, the Board continues to adopt a going concern basis in preparing the accounts.

Statement of responsibilities

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group and its cash flows for that period. In preparing those accounts the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

UNAUDITED INFORMATION

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

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

Andrew Walker is the Chairman of the Committee and the other members are Peter Macfarlane and Ian Griffiths. All three members are non-executive Directors.

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

The Committee consulted Dr Julian Blogh, 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.

In addition, wholly independent advice on executive remuneration and share schemes was received from New Bridge Street Consultants who were appointed by the Company and who 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.

Remuneration policy

The policy of the Committee is to reward senior management competitively, enabling the Company to recruit, motivate and retain executives of high calibre, whilst avoiding paying excessive remuneration. Further details of the remuneration policy followed by the Committee are set out below. The remuneration practices adopted by a group of like companies that, in the opinion of the Committee, face similar remuneration issues to the Company are considered, with guidance from the remuneration consultants who advise the Committee. The size and nature of each key element of the remuneration package of executive Directors has been determined following this analysis.

It is the aim of the Committee to encourage and reward high performance. It is the opinion of the Committee 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 which require the satisfaction of challenging performance conditions. Therefore, a significant proportion of the executive Director's remuneration is performance-linked.

Salaries

Salaries of executive Directors are reviewed by the Committee annually. In addition to an analysis presented by New Bridge Street Consultants, the Committee uses published salary surveys and information available in the annual reports of similar companies as sources of market information. The Committee takes account of pay and employment conditions elsewhere in the Group when determining annual salary increases.

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

- the median level of base salary for a similar position within a like group of companies;
- the individual Director's performance; and
- the responsibilities of the respective Director.

The Chairman's remuneration is set by the Committee, which meets without him for this purpose. The remaining non-executive Directors' fees are set by a Committee comprising the executive Directors. In all cases the remuneration awards are based upon published salary surveys, taking account of individual responsibilities. Mr Walker is Chairman of the Audit and Remuneration Committees and receives additional remuneration as a result. In his capacity as Company Chairman, Mr Macfarlane is also Chairman of the Nominations Committee.

Annual bonus scheme

Bonus payments are based upon the achievement of operating profit and cash flow targets. The maximum bonus for 2004 was 50% of base salary, of which 10% related to the achievement of a £39,420,000 profit before tax and goodwill amortisation and 40% to achieving an operating cash flow of £42,231,000 after capital expenditure and purchase of Long-Term Incentive Plan shares. The actual results for the year led to a bonus pay-out of 47.4%. The pay-out was below the maximum despite the above target full year results because of higher working capital levels during the year. The performance measures for bonus payments are reviewed annually by the Committee to ensure that they are appropriate to the current market conditions and position of the Group and, therefore, that they continue to remain challenging. It is the opinion of the Committee that the use of operating profit and cash flow targets remains appropriate for the 2005 bonus scheme.

Long-Term Incentive Plan

In April 2002, shareholders approved the establishment of the Ultra Electronics Long-Term Incentive Plan 2002-2007 (the 'New LTIP') to replace the previous Ultra Electronics Long-Term Incentive Plan (the 'Old LTIP') that had expired. The Committee's current policy is for the New LTIP to be the sole vehicle through which long-term incentives are provided to executive Directors and that executive Directors who participate in the New LTIP will not be granted options under either the Company Share Option Plan or the Executive Share Option Scheme (which are share schemes operated by the Company for the benefit of less senior executives and certain key employees).

Under the New LTIP, a participant may be granted an award over ordinary shares worth up to 100% of gross base salary each year. The vesting of awards is dependent on the extent to which genuinely stretching Earnings Per Share ('EPS') based performance conditions are met over the three-year period following grant. The Committee believes that the most appropriate approach to determine the extent to which these performance targets are achieved is for the relevant calculations to be undertaken by an independent third party. For the purposes of the performance targets, the Company's EPS will be calculated before goodwill amortisation but after exceptional items.

More particularly, the Committee's current policy is for vesting of awards to be dependent upon the Company's EPS growth over this three-year period relative to the EPS growth of the following group of companies:

Alba plc	Domino Printing Sciences plc	Smiths Group plc
Amstrad plc	Halma plc	Spirax-Sarco Engineering plc
BAE Systems plc	Hampson Industries plc	Telemetrix plc
Charter plc	Meggitt plc	TT Electronics plc
Chemring Group plc	Pressac plc	Vitec Group plc
Chloride Group plc	Rolls-Royce plc	Volex Group plc
Cobham plc	Rotork plc	VT Group plc
Delta plc	Senior plc	Whatman plc

Vesting commences at 20% for median performance, rising on a straight-line basis so that the award vests in full for upper-quartile performance. To the extent that the targets are not met at the end of the three-year period, the award lapses. Ultra achieved third quartile EPS growth performance during the period 2001-2003 and therefore the 2001 award vested at 84%.

The Committee believes that the appropriate performance measure for New LTIP awards is comparative EPS, because this measure ensures that the Company's earnings growth must be at the upper-quartile of a group of similar companies before awards vest in full. Such earnings growth performance, sustained over the medium to long-term, should ensure above average share price growth, and hence out performance against market benchmarks in creating shareholder value.

The executive Directors are also eligible to participate in the Company's Inland Revenue approved Savings Related Share Option ('SAYE') Scheme and All-Employee Share Ownership Plan ('AESOP'). Under the SAYE Scheme, participants open an approved savings account. When the saving starts, options are granted to acquire the number of shares that the total savings (plus bonuses payable) will buy when the contract matures.

Long-Term Incentive Plan (continued)

Under the AESOP, employees in the UK are offered the opportunity to buy shares up to the value of £1,500 per year from pre-tax salary. Shares are then held in trust on behalf of employees until the maturity date or until they leave the Company.

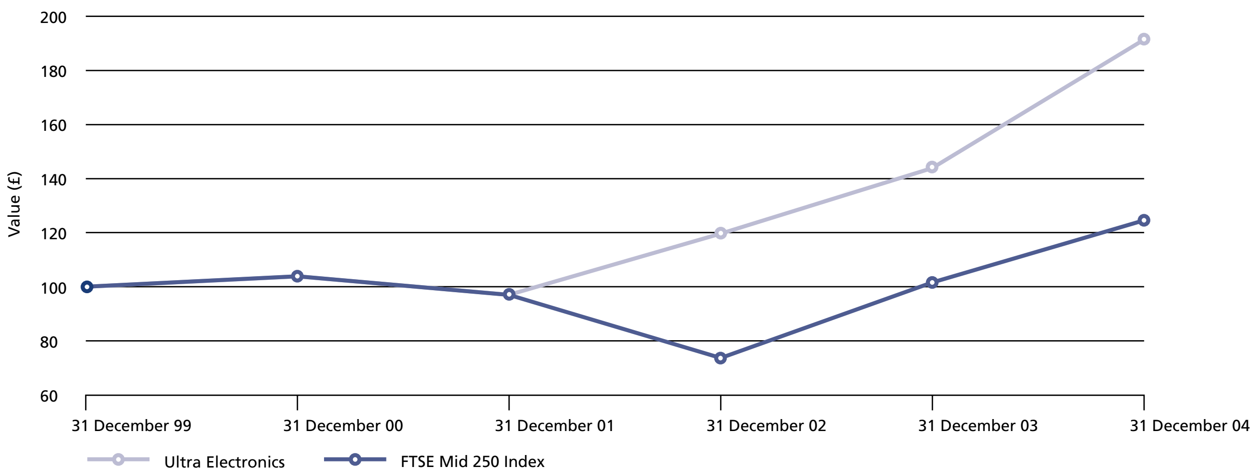
Total Shareholder Return performance graph

The graph below shows the Total Shareholder Return ('TSR') performance of the Company in comparison to the FTSE Mid 250 over the past 5 years. The graph shows the value at the end of 2004 of £100 invested at the end of 1999, in the Company and in the Index.

The Committee considers the FTSE Mid 250 index a relevant index for TSR comparison as the index members represent a broad range of UK quoted companies.

Total Shareholder Return

Source: Datastream



Directors' service contracts

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

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

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

Name	Date of contract	Notice period
C. Bailey	28 January 2005	N/A
J. Blogh	25 September 1996	12 months
D. Caster	25 September 1996	12 months
I. Griffiths	1 April 2004	N/A
A. Hamment	1 July 2000	12 months
F. Hope	1 January 1999	12 months
D. Jeffcoat	10 July 2000	12 months
P. Macfarlane	1 January 2004	N/A
A. Walker	1 January 2004	N/A

No executive Directors have provisions in their contracts for compensation on early termination other than the notice period. The non-executive Directors have fixed twelve-month contracts with no notice period. There are no provisions in their contracts for compensation on early termination. Christopher Bailey was appointed as a Director on 28 January 2005. Mr Bailey received no emoluments or benefits for 2004 and holds no shares in the Company as at 21 February 2005.

Remuneration report (continued)

AUDITED INFORMATION

Directors' pension entitlements

The Company operates a contributory 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.

The table below sets out the pension benefits earned by executive Directors for the year ended 31 December 2004:

	Age at year-end	Accrued benefit at beginning of period	Increase in period (net of indexation)	Transfer value of increase in period	Accrued benefit at end of period	Transfer value at beginning of period	Transfer value at end of period	Movement in transfer value during period*
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
J. Blogh	61	147	33	499	185	2,152	2,842	675
D. Caster	51	56	17	154	75	521	736	202
A. Hamment	50	43	3	16	46	366	424	50
F. Hope	50	27	3	20	30	228	276	41
D. Jeffcoat	54	11	3	29	15	122	172	40

*Less Director's contributions.

Directors' remuneration

Directors' emoluments are detailed below:

	Basic salary	Other cash emoluments	Fees	Annual performance bonus	Benefits	2004 Total	2003 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
P. Macfarlane	-	-	70	-	-	70	66
J. Blogh	220	1	-	104	19	344	401
D. Caster	188	-	-	89	20	297	244
I. Griffiths	-	-	27	-	-	27	19
A. Hamment	123	11	-	58	2	194	197
F. Holroyd	-	-	-	-	-	-	14
F. Hope	161	-	-	76	19	256	233
D. Jeffcoat	162	11	-	77	7	257	242
A. Walker	-	-	32	-	-	32	26
	854	23	129	404	67	1,477	1,442

Pension contributions to Directors of £118,600 (2003: £104,500) were paid by the Company, including £33,075 (2003: £34,400) 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

As described above, the Company operated the Old LTIP until its expiry and replacement by the New LTIP. Details of the executive Directors' interests in these arrangements are given below:

Interests under the Ultra Electronics Long-Term Incentive Plan (the 'Old LTIP')

Award periods	No. of shares J. Blogh	D. Caster	A. Hamment	F. Hope	D. Jeffcoat	Market price of shares granted	Crystallising dates of outstanding awards
2001	45,455	28,671	23,310	26,340	30,303	£4.29	April 2004
2002	52,170	31,302	24,662	29,879	32,013	£4.22	April 2005
Interests at 1 January 2004	97,625	59,973	47,972	56,219	62,316		
2001 award crystallised during the year	(38,182)	(24,084)	(19,580)	(22,126)	(25,455)		
2001 award lapsed during year	(7,273)	(4,587)	(3,730)	(4,214)	(4,848)		
Interests at 31 December 2004	**52,170**	**31,302**	**24,662**	**29,879**	**32,013**		

The 2001 award crystallised during the year as detailed above. This award was granted under the Old LTIP that was subject to the same performance conditions disclosed above in relation to the New LTIP. The actual date of the award was February 2001. The market price of the shares when granted was £4.29: the market price of the shares on vesting was £5.89. The aggregate gain made by the executive Directors under the Old LTIP during the year was £762,325 (2003: £539,589).

No awards were made under the Old LTIP in 2004, nor shall be made in the future.

Interests under the Ultra Electronics Long-Term Incentive Plan 2002-2007 (the 'New LTIP')

Award periods	No. of shares J. Blogh	D. Caster	A. Hamment	F. Hope	D. Jeffcoat	Market price of shares granted	Crystallising dates of outstanding awards
2003	50,864	30,386	24,221	29,065	31,047	£4.54	April 2006
Interests at 1 January 2004	50,864	30,386	24,221	29,065	31,047		
2004	49,443	29,084	23,267	27,727	29,278	£5.44	April 2007
Interests at 31 December 2004	**100,307**	**59,470**	**47,488**	**56,792**	**60,325**		

These awards are subject to the comparative EPS-based performance conditions described above. During the year, the Group purchased 196,878 shares (nominal value of £9,844) for a net £1,124,000 relating to the 2004 awards (2003: 205,506 shares – £859,000). This includes £907,000 worth of Ultra shares for the Directors (2003: £771,000). The Group's purchase of 196,878 shares for the 2004 awards includes 78,059 shares purchased at the then mid-market price from Directors who sold shares on crystallisation of the 2001 awards as noted above. The mid-market price was £5.67 on the date of purchase. Shares were sold by J. Blogh (16,256), D. Caster (10,254), A. Hamment (8,336), F. Hope (22,126) and D. Jeffcoat (21,087).

Directors' interests under the Savings Related Share Option Scheme

As described above, the Company operates a Savings-Related Share Option Scheme in which the executive Directors are eligible to participate. Details of the executive Directors' interests in this arrangement are given below:

Name of Director	Options held at start of year	Options held at end of year
F. Hope	890	-

All of the options were granted at £3.79 per share. The options were exercised in December 2004 when the market value was £6.56. The gain on date of exercise was £2,465.

In 1999, the Company set up an Employee Share Ownership Trust to satisfy options granted under the Group's SAYE schemes. During the year, the Trust purchased 1,735 (2003: 30,484) newly allotted Ultra Electronics Holdings plc shares (nominal value £87) for £11,600 (2003: £138,000).

Directors' interests under the All-Employee Share Ownership Plan

As described above, 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 2004	Partnership shares acquired during year	Interests as at 31 December 2004	Partnership shares acquired from 1 January 2005 to 21 February 2005	Interests at 21 February 2005
D. Caster	909	**272**	**1,181**	**35**	**1,216**
A. Hamment	909	**272**	**1,181**	**35**	**1,216**
F. Hope	909	**272**	**1,181**	**35**	**1,216**
D. Jeffcoat	819	**271**	**1,090**	**34**	**1,124**
Total	3,546	**1,087**	**4,633**	**139**	**4,772**

During the year, the Share Ownership Plan Trust, established and operated in connection with the AESOP, purchased 65,672 (2003: 69,936) Ultra Electronics Holdings plc shares (nominal value £3,284) for £394,475 (2003: £343,760). 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 21 February 2005
	Direct ownership	Indirect beneficial ownership	Direct ownership	Indirect beneficial ownership	Direct ownership
P. Macfarlane	192,653	194,300	**191,293**	**192,940**	**191,293**
J. Blogh	210,074	884,921	**232,000**	**884,921**	**232,000**
D. Caster	506,488	500,576	**520,590**	**500,576**	**520,625**
I. Griffiths	-	-	**-**	**-**	**-**
A. Hamment	43,638	43,535	**55,154**	**43,535**	**55,189**
F. Hope	49,521	-	**50,683**	**-**	**50,718**
D. Jeffcoat	819	13,500	**5,458**	**13,500**	**5,492**
A. Walker	300	-	**1,096**	**469**	**1,096**

There were no changes in indirect beneficial ownership between 1 January and 21 February 2005.

Andrew Walker

Chairman of the Remuneration Committee

21 February 2005

To the members of Ultra Electronics Holdings plc

We have audited the accounts of Ultra Electronics Holdings plc for the year ended 31 December 2004 which comprise the Consolidated Profit and Loss Account, the Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the related Notes numbered 1 to 26 and the Statement of Accounting Policies. These accounts have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Remuneration 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

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Remuneration report. Our responsibility is to audit the accounts and the part of the Remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the accounts, if 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 transactions with the Company and other members of the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the July 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the Directors' Report and other information contained in the Annual Report for the above year as described in the contents section, including the unaudited part of the Remuneration report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies within the accounts.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts and the part of the 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 accounts and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, 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 accounts and the part of the 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 accounts and the part of the Remuneration report described as having been audited.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit of the Group for the year then ended and the accounts and part of the Remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, England
21 February 2005

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 accounts 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 accounts differs from legislation in other jurisdictions.

Consolidated profit and loss account

For the year ended 31 December 2004

	Note	2004 £'000	2003 £'000
Turnover			
– existing operations		**311,583**	284,350
– acquisitions		**8,086**	-
Continuing operations	*1*	**319,669**	284,350
Cost of sales			
– existing operations		**(230,107)**	(210,688)
– acquisitions		**(4,910)**	-
Continuing operations		**(235,017)**	(210,688)
Gross profit			
– existing operations		**81,476**	73,662
– acquisitions		**3,176**	-
Continuing operations		**84,652**	73,662
Other operating expenses (net)	*2*	**(48,082)**	(40,997)
Operating profit			
– existing operations		**35,590**	32,665
– acquisitions		**980**	-
Continuing operations	*1*	**36,570**	32,665
Finance charges (net)	*3*	**(2,785)**	(3,173)
Profit on ordinary activities before taxation	*4*	**33,785**	29,492
Tax on profit on ordinary activities	*6*	**(10,308)**	(9,086)
Profit on ordinary activities after taxation, being the profit for the financial year		**23,477**	20,406
Dividends paid and proposed on equity shares	*7*	**(9,246)**	(8,173)
Retained profit for the year		**14,231**	12,233
Earnings per ordinary share (pence):			
After goodwill amortisation			
Basic	*8*	**35.2**	30.8
Diluted	*8*	**35.0**	30.7
Before goodwill amortisation			
Basic	*8*	**44.1**	38.2

A statement of movements on reserves is given in note 20 to the accounts.

The accompanying notes are an integral part of this consolidated profit and loss account.

Balance sheets

31 December 2004

	Note	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Fixed assets					
Tangible assets	*9*	**20,213**	19,170	**33**	21
Intangible assets – Patents and trademarks	*10*	**515**	560	**-**	-
Intangible assets – Goodwill	*11*	**106,766**	90,287	**-**	-
Investments	*12*	**-**	-	**127,048**	118,159
		127,494	110,017	**127,081**	118,180
Current assets					
Stocks	*13*	**21,137**	17,364	**-**	-
Debtors: Amounts falling due within one year	*14*	**66,899**	63,761	**23,901**	21,464
Debtors: Amounts falling due after more than one year	*14*	**-**	-	**5,252**	5,644
Cash at bank and in hand		**24,975**	19,047	**1**	2
		113,011	100,172	**29,154**	27,110
Creditors: Amounts falling due within one year	*15*	**(146,956)**	(87,516)	**(99,655)**	(41,164)
Net current (liabilities)/assets		**(33,945)**	12,656	**(70,501)**	(14,054)
Total assets less current liabilities		**93,549**	122,673	**56,580**	104,126
Creditors: Amounts falling due after more than one year	*16*	**(1,794)**	(50,186)	**(12,966)**	(63,305)
Provisions for liabilities and charges	*18*	**(10,636)**	(7,813)	**-**	-
Net assets		**81,119**	64,674	**43,614**	40,821
Capital and reserves					
Called-up share capital	*19*	**3,345**	3,318	**3,345**	3,318
Share premium account	*20*	**30,306**	28,096	**30,306**	28,096
Profit and loss account	*20*	**48,793**	34,366	**11,288**	10,513
Own shares	*21*	**(1,325)**	(1,106)	**(1,325)**	(1,106)
Equity shareholders' funds	*22*	**81,119**	64,674	**43,614**	40,821

Signed on behalf of the Board

J. Blogh, *Chief Executive*

D. Jeffcoat, *Finance Director*

21 February 2005

The accompanying notes are an integral part of these balance sheets.

Consolidated cash flow statement
For the year ended 31 December 2004

	Note	2004 £'000	2003 £'000
Net cash inflow from operating activities	23	**53,297**	55,986
Returns on investments and servicing of finance	23	**(2,621)**	(3,125)
Taxation – UK		**(6,120)**	(7,810)
– Overseas		**(2,197)**	(1,642)
Capital expenditure	23	**(5,243)**	(6,806)
Acquisitions	23	**(23,288)**	(18,258)
Equity dividends paid		**(8,531)**	(7,676)
Cash inflow before financing		**5,297**	10,669
Financing	23	**(290)**	(66)
Increase in cash in the year		**5,007**	10,603

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

Consolidated statement of total recognised gains and losses
For the year ended 31 December 2004

	2004 £'000	2003 £'000
Group profit for the financial year	**23,477**	20,406
Gain/(loss) on foreign currency translation	**196**	(3,355)
Total recognised gains and losses relating to the year	**23,673**	17,051

The accompanying notes are an integral part of this consolidated statement of total recognised gains and losses.

Notes to accounts
31 December 2004

1 Segment information

All turnover and results for the year were generated by a single class of business. Turnover by geographical destination for the year was as follows:

	2004 £'000	2003 £'000
United Kingdom	**127,126**	122,074
Continental Europe	**37,835**	36,799
North America	**114,582**	99,532
Rest of the World	**40,126**	25,945
	319,669	284,350

Turnover, trading profit and net operating assets by geographical source for the year were as follows:

	United Kingdom		North America		Group	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000	2004 £'000	Restated 2003 £'000
Turnover	**207,243**	186,278	**112,426**	98,072	**319,669**	284,350
Trading profit	**29,599**	26,606	**12,869**	10,937	**42,468**	37,543
Goodwill amortisation					**(5,898)**	(4,878)
Operating profit					**36,570**	32,665
Finance charges (net)					**(2,785)**	(3,173)
Profit before tax					**33,785**	29,492
Net operating assets	**51,345**	55,498	**65,353**	48,851	**116,698**	104,349
Net non-operating liabilities					**(35,579)**	(39,675)
Net assets					**81,119**	64,674

Operating assets have been adjusted to include goodwill. Net non-operating liabilities represent net debt, dividends and taxation.

Turnover and trading profit by division were as follows:

	Turnover		Profit	
	2004 £'000	2003 £'000	2004 £'000	2003 £'000
Division				
Aircraft & Vehicle Systems	**81,943**	79,890	**14,694**	13,901
Information & Power Systems	**115,635**	95,474	**14,764**	10,972
Tactical & Sonar Systems	**122,091**	108,986	**13,010**	12,670
	319,669	284,350	**42,468**	37,543
Goodwill amortisation			**(5,898)**	(4,878)
Operating profit			**36,570**	32,665

Net assets by division were as follows:

	2004 £'000	2003 £'000
Division		
Aircraft & Vehicle Systems	**27,608**	28,961
Information & Power Systems	**29,829**	33,134
Tactical & Sonar Systems	**59,261**	42,254
	116,698	104,349
Net non-operating liabilities	**(35,579)**	(39,675)
Net assets	**81,119**	64,674

Net non-operating liabilities represent net debt, dividends and taxation.

2 Other operating expenses (net)

	2004			2003
	Existing Operations £'000	Acquisitions £'000	Total £'000	Total £'000
Selling and distribution costs	**14,242**	**1,002**	**15,244**	12,413
Administrative expenses	**31,371**	**1,194**	**32,565**	28,787
Other operating charges/(income)	**273**	**-**	**273**	(203)
	45,886	**2,196**	**48,082**	40,997

3 Finance charges (net)

	2004 £'000	2003 £'000
Interest receivable and similar income	**(157)**	(77)
Amortisation of finance costs of debt	**130**	143
Interest payable on bank loans and overdraft	**2,809**	3,091
Interest payable on finance leases	**3**	6
Other finance charges	**-**	10
	2,785	3,173

4 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting):

	2004 £'000	2003 £'000
Depreciation and amounts written off tangible fixed assets		
– owned	**5,053**	4,197
– held under finance leases and hire purchase contracts	**16**	52
Loss on disposal of fixed assets	**58**	39
Amortisation of LTIP awards	**900**	774
Amortisation of goodwill	**5,898**	4,878
Amortisation of patents and trademarks	**45**	45
Operating lease rentals		
– plant and machinery	**1,147**	1,250
– other	**3,773**	3,683
Research and development		
– current year expenditure *(see also Directors' report)*	**15,480**	12,667
Auditors' remuneration		
– Group audit fees and expenses	**248**	238
– other fees and expenses *(see below)*	**46**	20
Government grants received	**-**	(31)

Other fees paid to Deloitte & Touche LLP represent £46,000 for audit related services (2003: £4,000) and nil in respect of acquisition due diligence that did not complete in the period (2003: £16,000). In addition to the above, Deloitte & Touche LLP received fees of £31,000 for due diligence work connected with acquisitions completed by the Group in the period (2003: £42,000). These have been included within the cost of the relevant investment. The audit fees above include £10,000 in respect of the Company (2003: £10,000).

5 Staff costs

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

Employee costs during the year amounted to:

	2004 £'000	2003 £'000
Wages and salaries	**87,290**	78,284
Social security costs	**8,988**	7,654
Other pension costs *(see also note 25)*	**5,524**	4,668
	101,802	90,606

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

	2004 Number	2003 Number
Production	**1,105**	1,002
Engineering	**1,048**	995
Selling	**163**	143
Support services	**362**	365
	2,678	2,505

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.

6 Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises:

	2004 £'000	2003 £'000
UK taxes		
Corporation tax	**8,276**	6,876
Adjustment in respect of prior years	**(1,307)**	(550)
	6,969	6,326
Overseas taxes		
Current taxation	**3,383**	1,673
Adjustment in respect of prior years	**688**	346
	4,071	2,019
Total current tax	**11,040**	8,345
Deferred tax		
Origination and reversal of timing differences		
UK deferred tax	**(337)**	794
Overseas deferred tax	**(395)**	(53)
Total deferred tax *(see note 18)*	**(732)**	741
Total tax on profit on ordinary activities	**10,308**	9,086

6 Tax on profit on ordinary activities (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:

GROUP

	2004 £'000	2003 £'000
Group profit on ordinary activities before tax	**33,785**	29,492
Tax on Group profit on ordinary activities at standard UK corporation tax rate of 30% (2003: 30%)	**10,136**	8,848
Effects of:		
Expenses not deductible for tax purposes	**596**	964
Capital allowances less depreciation	**(23)**	(157)
Other timing differences	**232**	(15)
Utilisation of UK tax losses	**(171)**	(614)
Utilisation of US tax losses	**(544)**	(839)
Higher tax rates on overseas earnings	**1,433**	362
Adjustments to tax charge in respect of previous periods	**(619)**	(204)
Group current tax charge for the year	**11,040**	8,345

7 Dividends paid and proposed on equity shares

	2004 £'000	2003 £'000
Interim ordinary dividend paid of 4.6p per share (2003: 4.1p)	**3,089**	2,730
Final ordinary dividend proposed of 9.2p per share (2003: 8.2p)	**6,157**	5,443
	9,246	8,173

8 Earnings per share

The weighted average number of shares and earnings used to calculate earnings per share are given below:

	2004 No. of shares	2003 No. of shares
Number of shares used for basic earnings per share	**66,645,930**	66,204,198
Number of shares deemed to be issued at nil consideration following exercise of share options	**450,434**	290,515
Number of shares used for diluted earnings per share	**67,096,364**	66,494,713

Earnings attributable to ordinary shareholders:

	2004 £'000	2003 £'000
After goodwill amortisation	**23,477**	20,406
Before goodwill amortisation*	**29,375**	25,284

*Presented as an alternative performance measure.

Notes to accounts (continued)

9 Tangible fixed assets

The movement in the year was as follows:

GROUP

	Land and Buildings Freehold £'000	Land and Buildings Short leasehold £'000	Plant and machinery £'000	Total £'000
Cost				
Beginning of year	6,223	4,012	41,280	51,515
Foreign exchange differences	(19)	(32)	(551)	(602)
Acquisition of subsidiary undertakings	-	186	956	1,142
Additions	34	187	5,059	5,280
Disposals	-	(51)	(537)	(588)
Transfers	-	(101)	101	-
End of year	**6,238**	**4,201**	**46,308**	**56,747**
Depreciation				
Beginning of year	1,170	2,361	28,814	32,345
Foreign exchange differences	3	(5)	(351)	(353)
Charge	162	284	4,623	5,069
Disposals	-	-	(527)	(527)
End of year	**1,335**	**2,640**	**32,559**	**36,534**
Net book value				
Beginning of year	5,053	1,651	12,466	19,170
End of year	**4,903**	**1,561**	**13,749**	**20,213**

Freehold land amounting to £1,175,600 (2003: £1,373,300) has not been depreciated. Plant and machinery includes fixtures and fittings, tooling and test rigs, computers and motor vehicles. The net book value of plant and machinery held under finance leases was £38,000 (2003: £17,000).

COMPANY

	Plant and machinery £'000
Cost	
Beginning of year	237
Additions	26
End of year	**263**
Depreciation	
Beginning of year	216
Charge	14
End of year	**230**
Net book value	
Beginning of year	21
End of year	**33**

10 Intangible assets – Patents and trademarks

	Group £'000
Cost	
Beginning and end of year	717
Amortisation	
Beginning of year	157
Charge	45
End of year	**202**
Net book value	
Beginning of year	560
End of year	**515**

The Company held no patents or trademarks at either year-end.

11 Intangible assets – Goodwill

	Group £'000
Cost	
Beginning of year	107,017
Additions *(see below)*	22,377
End of year	**129,394**
Amortisation	
Beginning of year	16,730
Charge	5,898
End of year	**22,628**
Net book value	
Beginning of year	90,287
End of year	**106,766**

a) Acquisitions during the year

DNE Systems Inc.

On 29 July 2004, the Group, through a subsidiary, purchased all of the share capital of DNE Systems Inc. ('DNE'), a group based in Wallingford, Connecticut, USA, for a cash consideration before expenses of £22.0 million. This represents the fair value of the consideration payable. The aggregate net assets acquired and their provisional fair values, based on the Directors' initial assessment of net realisable value, were as follows:

11 Intangible assets – Goodwill (continued)

	Book value £'000	Revaluations £'000	Fair value £'000
Tangible fixed assets	**1,092**	**-**	**1,092**
Current assets:			
Stocks	**3,050**	**(936)**	**2,114**
Debtors	**2,035**	**(244)**	**1,791**
Creditors falling due within one year	**(1,936)**	**(418)**	**(2,354)**
Provisions:			
Warranty	**(17)**	**-**	**(17)**
Net assets acquired	**4,224**	**(1,598)**	**2,626**
Goodwill capitalised			**19,625**
Purchase consideration, including acquisition costs			**22,251**

DNE's results for the period 1 January 2004 to 28 July 2004, based on accounting policies followed prior to acquisition, were turnover $15,300,000, gross profit $5,800,000, other operating expenses $3,200,000 resulting in an operating profit of $2,600,000. DNE had $1,100,000 of taxation payable, giving a profit after tax of $1,500,000.

DNE had a profit after tax of $3,600,000 in the year ended 31 December 2003. In the period from the date of acquisition, DNE had an operating cash inflow of $2,217,000, with capital expenditure of $225,000 and tax payments of $83,000.

Videcom

On 1 July 2004, the Group, through a subsidiary, purchased the trade and assets of the airline and airport IT systems business of Videcom International Limited, a private company based in Henley-on-Thames, England for a consideration before expenses of £1.5 million. This represents the fair value of the consideration payable. The aggregate net assets acquired and their provisional fair values, based on the Directors' initial assessment of net realisable value, were as follows:

	Book value £'000	Revaluations £'000	Fair value £'000
Tangible fixed assets	**50**	**-**	**50**
Current assets:			
Stocks	**264**	**-**	**264**
Debtors	**648**	**(259)**	**389**
Creditors falling due within one year	**(544)**	**(31)**	**(575)**
Provisions:			
Warranty	**(57)**	**-**	**(57)**
Net assets acquired	**361**	**(290)**	**71**
Goodwill capitalised			**1,459**
Purchase consideration, including acquisition costs			**1,530**

11 Intangible assets – Goodwill (continued)

Videcom International Limited had a turnover of £800,000 for the period 1 April 2004 to 30 June 2004, based on information available. Videcom International Limited incurred a loss after tax of £5,261 for the year ended 31 March 2004. These results include other business segments of Videcom International Limited which were not purchased. It has not been possible to determine the cash flows of the Videcom business following acquisition as it has been combined with the Manchester based Airport Systems business.

b) Revisions to provisional fair values – Radamec Defence Systems Limited

Fair values on acquisition have been adjusted for Radamec Defence Systems Limited ('Radamec') which was purchased in July 2003. The revisions in value relate to further stock provisions and the final assessment of long-term contract balances:

	Book value	Adjustments as at 31 December 2003	Further adjustments	Fair value
	£'000	£'000	£'000	£'000
Intangible fixed assets – development costs	**922**	**(922)**	**-**	**-**
Tangible fixed assets	**350**	**(201)**	**-**	**149**
Current assets:				
Stocks	**1,244**	**(697)**	**(197)**	**350**
Debtors	**2,825**	**(616)**	**-**	**2,209**
Cash	**426**	**-**	**-**	**426**
Deferred tax	**-**	**686**	**-**	**686**
Creditors falling due within one year	**(1,407)**	**(350)**	**(1,089)**	**(2,846)**
Provisions:				
Warranty	**(46)**	**(165)**	**-**	**(211)**
Net assets acquired	**4,314**	**(2,265)**	**(1,286)**	**763**
Goodwill capitalised				**5,353**
Purchase consideration, including acquisition costs				**6,116**

c) Ocean Systems Inc.

An additional £7,000 expenses were incurred during the year relating to the acquisition of Ocean Systems Inc. which completed in November 2003.

12 Investments

a) Principal subsidiary undertakings

The Company owns 100% of the ordinary share capital of the following principal subsidiary undertakings:

Name	Place of registration or incorporation
Ultra Electronics Limited	England and Wales
Advanced Programming Concepts Inc.	Texas, USA
DNE Systems Inc.	Delaware, USA
Flightline Electronics Inc.	New York, USA
Measurement Systems Inc.	Delaware, USA
Ocean Systems Inc.	Delaware, USA
Ultra Electronics Canada Defence Inc.	Canada
UnderSea Sensor Systems Inc.	Delaware, USA

The principal activity of the subsidiary undertakings is the design, development and manufacture of electronic systems.

12 Investments (continued)

b) Investment in subsidiary undertakings

	Company Total £'000
Cost	
Beginning of year	118,159
Foreign exchange differences	425
Additions	19,534
Redemption of long-term loans	(11,070)
End of year	**127,048**
Net book value	
Beginning of year	118,159
End of year	**127,048**

The acquisition of DNE Systems Inc. was part funded by a subsidiary undertaking.

13 Stocks

	Group 2004 £'000	Group 2003 £'000
Raw materials and consumables	**16,544**	13,810
Work-in-progress	**12,717**	9,188
Finished goods and goods for resale	**2,230**	1,979
Payments on account	**(10,963)**	(9,007)
	20,528	15,970
Long-term contract balances		
– costs less foreseeable losses	**2,134**	3,133
– less payments on account	**(1,525)**	(1,739)
	609	1,394
	21,137	17,364

The Company held no stock at either year-end.

14 Debtors

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Amounts falling due within one year:				
Trade debtors	**40,812**	40,798	**-**	-
Amounts recoverable on contracts	**20,411**	18,808	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**23,299**	20,676
Deferred tax assets *(see note 18)*	**1,768**	1,224	**24**	18
Other debtors	**2,112**	1,244	**332**	606
Prepayments and accrued income	**1,796**	1,687	**246**	164
	66,899	63,761	**23,901**	21,464
Amounts falling due after more than one year:				
Amounts owed by subsidiary undertakings	**-**	-	**5,252**	5,644
	-	-	**5,252**	5,644

15 Creditors: Amounts falling due within one year

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Obligations under finance leases	**21**	5	**-**	-
Bank loans and overdraft *(see note 16)*	**48,104**	-	**87,204**	30,447
Payments received on account	**27,859**	31,686	**-**	-
Trade creditors	**25,088**	21,207	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**4,099**	3,469
Other creditors:				
– Corporation tax payable	**8,030**	5,019	**-**	-
– VAT	**2,304**	2,084	**178**	116
– social security and PAYE	**3,404**	2,875	**209**	162
– other creditors	**6,910**	4,946	**722**	515
Pension related liabilities	**555**	432	**-**	-
Accruals and deferred income	**18,524**	13,819	**1,086**	1,012
Proposed dividends	**6,157**	5,443	**6,157**	5,443
	146,956	87,516	**99,655**	41,164

16 Creditors: Amounts falling due after more than one year

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Obligations under finance leases	**10**	7	**-**	-
Bank loans	**-**	49,370	**-**	49,370
Payments received on account	**751**	-	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**12,966**	13,935
Other creditors	**262**	-	**-**	-
Pension related liabilities	**771**	809	**-**	-
	1,794	50,186	**12,966**	63,305

The bank loans are unsecured and due for repayment in 1 year. Interest is charged at 0.75% above base rates.

Borrowings fall due as analysed below:

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Bank loans and overdraft				
In one year or less, or on demand	**48,227**	-	**87,327**	30,447
In more than one year but not more than two years	**-**	49,493	**-**	49,493
	48,227	49,493	**87,327**	79,940
Less: unamortised finance costs of debt	**(123)**	(253)	**(123)**	(253)
	48,104	49,240	**87,204**	79,687
Less: included in Creditors: Amounts falling due within one year	**(48,104)**	-	**(87,204)**	(30,447)
Add: included in Debtors: Amounts falling due within one year	**-**	130	**-**	130
	-	49,370	**-**	49,370

	Group 2004 £'000	Group 2003 £'000
Finance leases		
In one year or less, or on demand	**21**	5
In more than one year but not more than two years	**10**	7
	31	12
Less: included in Creditors: Amounts falling due within one year	**(21)**	(5)
	10	7

The Company had no finance leases at either year-end.

17 Financial risk management

The Group's approach to managing financial risk is described in the Financial Review on page 20. Certain financial assets, such as investments in subsidiary undertakings, are excluded from the scope of these disclosures. As permitted by FRS 13, short-term debtors and creditors have been excluded from the disclosures except for the currency risk disclosures.

a) *Interest rate profile*

	At floating interest rates 2004 £'000	At floating interest rates 2003 £'000
Financial assets		
Sterling	**5,994**	2,900
US dollar	**13,325**	12,293
Canadian dollar	**4,203**	3,336
Korean won	**868**	518
Euro	**443**	-
Other	**142**	-
	24,975	19,047

The financial assets of the Group comprised:

	2004 £'000	2003 £'000
Cash	**24,975**	19,047

	At fixed interest rates 2004 £'000	At floating interest rates 2004 £'000	Financial liabilities on which no interest is paid 2004 £'000	Total 2004 £'000
Financial liabilities				
Sterling	**14,892**	**-**	**951**	**15,843**
US dollar	**16**	**13,292**	**62**	**13,370**
Canadian dollar	**-**	**19,935**	**771**	**20,706**
	14,908	**33,227**	**1,784**	**49,919**

	At fixed interest rates 2003 £'000	At floating interest rates 2003 £'000	Financial liabilities on which no interest is paid 2003 £'000	Total 2003 £'000
Financial liabilities				
Sterling	22,889	-	-	22,889
US dollar	-	3,641	-	3,641
Canadian dollar	-	22,852	809	23,661
	22,889	26,493	809	50,191

17 Financial risk management (continued)

a) *Interest rate profile (continued)*

The financial liabilities of the Group comprised:

	2004 £'000	2003 £'000
Total borrowings and finance leases	**48,135**	49,382
Creditors: Amounts falling due after more than one year		
– Payments received on account	**751**	-
– Other creditors	**262**	-
– Pension related liabilities	**771**	809
	49,919	50,191

The benchmark rate for floating interest rates is the Royal Bank of Scotland base rate.

The Group has loans of C$46 million and US$25.5 million to hedge overseas net investments. An interest rate swap has been taken out to fix the interest rate on a £15 million loan at 6.7% (before margin of 0.75%). The weighted average profile is as follows:

2004

	Fixed rate financial liabilities	
	Weighted average interest rate %	**Weighted average period for which rate is fixed Years**
Currency		
Sterling	**7.5**	**1**

2003

	Fixed rate financial liabilities	
	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Currency		
Sterling	7.5	2

b) *Currency risk*

The table below shows the extent to which Group companies have monetary assets and liabilities in currencies other than their functional currencies. Foreign exchange differences on translation of such assets and liabilities are taken to the profit and loss account:

Net foreign currency monetary assets/(liabilities)

	US$ 2004 £'000	C$ 2004 £'000	Korean Won 2004 £'000	Other 2004 £'000	Total 2004 £'000	US$ 2003 £'000	C$ 2003 £'000	Korean Won 2003 £'000	Euro 2003 £'000	Total 2003 £'000
Functional currency of Group operations										
Sterling	**8,507**	**1,530**	**834**	**111**	**10,982**	3,208	350	517	429	4,504
US dollar	**-**	**-**	**-**	**-**	**-**	-	-	-	-	-
Canadian dollar	**1,762**	**-**	**-**	**-**	**1,762**	3,065	-	-	(162)	2,903
	10,269	**1,530**	**834**	**111**	**12,744**	6,273	350	517	267	7,407

The amounts shown in the above table take into account the effect of forward foreign currency contracts taken out to manage these currency risks.

17 Financial risk management (continued)

c) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, other than short-term creditors such as trade creditors and accruals, at 31 December 2004 was as follows:

	2004 £'000	2003 £'000
In one year or less, or on demand	**48,125**	5
In more than one year but not more than two years	**488**	49,519
In more than two years but not more than five years	**726**	667
In more than five years	**580**	-
	49,919	50,191

d) Undrawn committed borrowing facilities

The Group's undrawn committed borrowing facilities available at 31 December 2004, in respect of which all conditions precedent have been met, were as follows:

	2004 £'000	2003 £'000
Expiring in one year or less	**31,773**	-
Expiring in more than one year but not more than two years	**-**	30,507
	31,773	30,507

e) Fair value of financial instruments

The book value of the Group's financial instruments approximate to their fair value, except for the following:

	2004 Book value £'000	**2004 Fair value £'000**	2003 Book value £'000	2003 Fair value £'000
Derivative financial instruments held to hedge the interest rate profile and currency profile				
– Interest rate swap	**-**	**(134)**	-	(689)
Derivative financial instruments held to hedge the currency exposure on expected future sales				
– Forward foreign exchange contracts	**-**	**2,268**	-	1,736
	-	**2,134**	-	1,047

The fair value of the interest rate swap has been calculated using option pricing models. The fair value of forward exchange contracts represents the unrealised gain or loss on revaluation of the contracts to year-end exchange rates.

17 Financial risk management (continued)

f) Gains and losses on hedges

Forward exchange contracts are used to hedge exchange exposures arising on forecast receipts and payments in foreign currencies. Gains and losses are taken to the profit and loss account on maturity of these contracts. The interest rate swap is used to manage the interest rate profile. Gains and losses disclosed below are based on market values at 31 December 2004.

	Gains £'000	**Losses £'000**	**Total net gains/(losses) £'000**
Unrecognised gains and (losses) on hedges at 31 December 2003	**4,156**	**(3,109)**	**1,047**
(Gains) and losses arising before 31 December 2003, recognised in 2004	**(3,544)**	**2,154**	**(1,390)**
Gains and (losses) arising before 31 December 2003, not recognised in 2004	**612**	**(955)**	**(343)**
Gains and (losses) arising in 2004, not recognised in 2004	**3,038**	**(561)**	**2,477**
Unrecognised gains and (losses) on hedges at 31 December 2004	**3,650**	**(1,516)**	**2,134**
Of which:			
Gains and (losses) expected to be recognised in 2005	**2,757**	**(1,055)**	**1,702**
Gains and (losses) expected to be recognised in 2006 and beyond	**893**	**(461)**	**432**

18 Provisions for liabilities and charges

GROUP

	Deferred taxation £'000	Warranties £'000	Contract related provisions £'000	**Total £'000**
Beginning of year	102	6,444	1,267	7,813
Exchange differences	-	(16)	(8)	(24)
Reclassifications	-	232	(160)	72
Acquisition of subsidiary undertakings	-	74	-	74
Utilised during the year	-	(1,566)	(451)	(2,017)
Transfer to deferred tax assets	(102)	-	-	(102)
Charge to the profit and loss account	-	3,294	1,526	4,820
End of year	**-**	**8,462**	**2,174**	**10,636**

The Company had no provisions at either year-end. Warranty and contract related provisions will be utilised over the period as stated in the contract to which each specific provision relates. The Company's deferred tax asset is included in 'Debtors: Amounts falling due within one year'.

Deferred taxation

Net deferred tax movements during the year were as follows:

	Group 2004 £'000	**Company 2004 £'000**
Beginning of year	(1,122)	(18)
Exchange differences	86	-
Credit to the profit and loss account	(732)	(6)
End of year	**(1,768)**	**(24)**

18 Provisions for liabilities and charges (continued)

Deferred tax balances are analysed as follows:

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Accelerated/(deferred) capital allowances	**644**	713	**(7)**	(8)
Other timing differences relating to current assets and liabilities	**(2,412)**	(1,835)	**(17)**	(10)
Deferred tax asset	**(1,768)**	(1,122)	**(24)**	(18)

These balances are shown as follows:

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Debtors: Amounts falling due within one year *(see note 14)*	**(1,768)**	(1,224)	**(24)**	(18)
Provisions for liabilities and charges *(see above)*	**-**	102	**-**	-
	(1,768)	(1,122)	**(24)**	(18)

Deferred tax in respect of the Group's defined benefit pension schemes is disclosed in note 25. The Group has not recognised deferred tax assets of £1.04 million (2003: £1.87 million) relating to tax losses, due to uncertainty as to their recoverability.

19 Called-up share capital

	2004 No.	2004 £'000	2003 No.	2003 £'000
Authorised:				
5p ordinary shares	**90,000,000**	**4,500**	90,000,000	4,500
Allotted, called-up and fully paid:				
5p ordinary shares	**66,904,519**	**3,345**	66,359,150	3,318

545,369 ordinary shares having a nominal value of £27,268 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received by the Company was £2,237,000.

19 Called-up share capital (continued)

Share options

At 31 December 2004 the following options granted to staff remained outstanding:

	Options granted	Number of shares 2004	Number of shares 2003	Option price (£)	Exercise dates
Savings Related Share	1999	**22,695**	137,327	3.79	December 2002 - May 2005
Option Scheme	2000	**-**	1,374	3.87	August 2003 - February 2004
	2003	**86,351**	97,428	4.83	September 2005 - March 2006
		109,046	236,129		
Company Share Option Plan	1996	**10,624**	17,856	2.87	March 2000 - November 2006
	1998	**15,891**	30,093	4.05	March 2001 - March 2008
	1999	**34,733**	60,455	4.15	March 2002 - March 2009
	2000	**32,967**	64,420	3.855	May 2003 - May 2010
	2001	**31,436**	85,548	4.385	March 2004 - March 2011
	2002	**74,196**	87,188	4.485	March 2005 - March 2012
	2003	**54,798**	60,741	4.525	March 2006 - March 2013
	2004	**66,703**	-	5.97	March 2007 - March 2014
		321,348	406,301		
Executive Share Option Scheme	1998	**4,533**	16,403	4.05	March 2001 - March 2005
	1999	**38,562**	104,534	4.15 to 4.265	March 2002 - September 2006
	2000	**60,216**	156,933	3.855	May 2003 - May 2007
	2001	**119,866**	221,774	4.385	March 2004 - March 2008
	2002	**230,263**	250,076	4.485	March 2005 - March 2009
	2003	**267,988**	291,949	4.525	March 2006 - March 2010
	2004	**224,592**	-	5.97	March 2007 - March 2011
		946,020	1,041,669		

20 Reserves

	Group Share premium £'000	Group Profit and loss account £'000	Company Share premium £'000	Company Profit and loss account £'000
Beginning of year	28,096	34,366	28,096	10,513
Retained profit for the year	-	14,231	-	775
Issue of new shares	2,210	-	2,210	-
Foreign exchange differences	-	196	-	-
End of year	**30,306**	**48,793**	**30,306**	**11,288**

Cumulative goodwill written off directly to reserves is £33,294,000 (2003: £33,294,000). The Company's retained profit for the year is after dividends of £9,246,000.

21 Own shares

Group and Company	Own shares £'000	Long-Term Incentive Plan shares £'000	Total £'000
Cost			
Beginning of year	7	2,485	2,492
Additions	12	1,124	1,136
Disposals	(19)	-	(19)
Adjustment	-	2	2
Transfer to participants	-	(802)	(802)
End of year	**-**	**2,809**	**2,809**
Amortisation			
Beginning of year	-	1,386	1,386
Charge	-	900	900
Transfer to participants	-	(802)	(802)
End of year	**-**	**1,484**	**1,484**
Net book value			
Beginning of year	7	1,099	1,106
End of year	**-**	**1,325**	**1,325**

The Group, through the Company, holds 643,375 Own shares (2003: 608,836 Own shares).

22 Reconciliation of movements in Group equity shareholders' funds

	2004 £'000	2003 £'000
Retained profit for the financial year	**14,231**	12,233
Foreign exchange differences	**196**	(3,355)
Movement in Own shares during the year	**(219)**	(56)
Issue of new shares	**2,237**	1,221
Net increase to equity shareholders' funds	**16,445**	10,043
Opening equity shareholders' funds	**64,674**	54,631
Closing equity shareholders' funds	**81,119**	64,674

Notes to accounts (continued)

23 Cash flow information

Reconciliation of operating profit to operating cash flow

	2004 £'000	2003 £'000
Operating profit	**36,570**	32,665
Depreciation and amounts written off tangible fixed assets	**5,069**	4,249
Amortisation of goodwill	**5,898**	4,878
Amortisation of patents and trademarks	**45**	45
Amortisation of LTIP awards	**900**	774
Loss on disposal of tangible fixed assets	**58**	39
(Increase)/decrease in stocks	**(2,151)**	8,313
Increase in debtors	**(1,663)**	(272)
Increase in creditors	**5,722**	3,492
Increase in provisions	**2,849**	1,803
Net cash inflow from operating activities	**53,297**	55,986

Analysis of cash flows

	2004 £'000	2003 £'000
Returns on investments and servicing of finance		
Interest received	**157**	77
Interest paid	**(2,775)**	(3,196)
Interest element of finance lease rentals	**(3)**	(6)
Net cash outflow from returns on investments and servicing of finance	**(2,621)**	(3,125)
Capital expenditure		
Capital expenditure	**(5,246)**	(6,816)
Sale of tangible fixed assets	**3**	10
Net cash outflow from capital expenditure	**(5,243)**	(6,806)
Acquisitions		
Purchase of subsidiary undertakings	**(23,288)**	(18,878)
Net cash acquired with subsidiary undertakings	**-**	620
Net cash outflow from acquisitions	**(23,288)**	(18,258)
Financing		
Issue of ordinary share capital (net of expenses)	**2,237**	1,220
Purchase of Long-Term Incentive Plan shares	**(1,124)**	(859)
Capital element of finance lease rental payments	**(3)**	(45)
Debt due within one year	**(1,400)**	(1,341)
Debt due after more than one year	**-**	959
Net cash outflow from financing	**(290)**	(66)

23 Cash flow information (continued)

Analysis of changes in net debt

	At start of year £'000	Cash flow £'000	Acquisitions (excluding cash & overdrafts) £'000	Transfer £'000	Foreign exchange £'000	At end of year £'000
2004						
Cash at bank and in hand	19,047	**5,007**	**-**	**-**	**921**	**24,975**
Debt due within one year	-	**1,400**	**-**	**(49,370)**	**(134)**	**(48,104)**
Debt due after more than one year	(49,370)	**-**	**-**	**49,370**	**-**	**-**
Finance leases	(12)	**3**	**(19)**	**-**	**(3)**	**(31)**
	(30,335)	**6,410**	**(19)**	**-**	**784**	**(23,160)**

Reconciliation of net cash flow to movement in net debt

	2004 £'000	2003 £'000
Increase in cash in the year	**5,007**	10,603
Cash outflow from decrease in debt and lease financing	**1,403**	427
Change in net debt resulting from cash flows	**6,410**	11,030
Amortisation of finance costs of debt	**-**	(260)
Finance leases acquired with subsidiary undertakings	**(19)**	(14)
Translation difference	**784**	(1,835)
Movement in net debt in the year	**7,175**	8,921
Net debt at start of year	**(30,335)**	(39,256)
Net debt at end of year	**(23,160)**	(30,335)

There have been no major non-cash transactions in either year. The acquisition of DNE resulted in £1.6 million of funds being placed in escrow until 31 March 2005. This has been included in cash because the conditions of the earn-out agreement are considered unlikely to be met.

24 Guarantees and other financial commitments

a) Capital commitments

At the end of the year capital commitments were:

	Group	Group	**Company**	Company
	2004 £'000	2003 £'000	**2004 £'000**	2003 £'000
Contracted but not provided	**748**	353	**-**	-

24 Guarantees and other financial commitments (continued)

b) Lease commitments

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

	Group	Group	Company	Company
	Land and buildings £'000	Plant and machinery £'000	Land and buildings £'000	Plant and machinery £'000
2004				
Operating lease rentals which expire				
– within one year	**42**	**299**	**-**	**20**
– between two to five years	**1,230**	**1,152**	**-**	**13**
– after five years	**2,657**	**23**	**-**	**-**
	3,929	**1,474**	**-**	**33**
2003				
Operating lease rentals which expire				
– within one year	276	263	-	25
– between two to five years	1,115	1,221	-	29
– after five years	2,816	-	-	-
	4,207	1,484	-	54

25 Pension arrangements

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 has been introduced for other employees and new joiners in the UK. The Group also operates two defined contribution schemes for overseas employees.

The pension cost for the year was £5,524,000 (2003: £4,668,000) of which £4,205,000 (2003: £3,845,000) related to the regular cost of the defined benefit schemes. Contribution balances prepaid or payable at the year-end are shown in the balance sheet under prepayments or accruals as appropriate. Pension contributions have been made in accordance with actuarial advice. The contribution rate for the UK defined benefit scheme in 2004 was 15% of pensionable earnings and the agreed contribution rate for 2005 is 16% of pensionable earnings. The cost of the overseas pension schemes was £943,000 (2003: £594,000).

The UK defined benefit scheme was actuarially assessed at 6 April 2004 using the projected unit method. The principal assumptions adopted in the valuation were that the scheme's discount rate would be 7.25% per annum before retirement and 5.5% per annum after retirement. Salary increases would be 4.0% per annum for staff members and 4.5% for Directors, and pensions would increase by 2.25% per annum. The market value of the UK scheme at 6 April 2004 was £66.2 million. The solvency of the scheme was established at 75% using the scheme's normal funding assumptions.

Tactical Communication Systems, based in Montreal, Canada and acquired in 2002, has three defined benefit schemes. The Canadian defined benefit schemes were actuarially assessed at 28 September 2002 using the projected unit method. The principal assumptions adopted in the valuations were that the scheme's yield would be 6.75% per annum, salary increases would be 4.0% per annum for staff members, and pensions would increase by 4.0% per annum. The market value of the schemes at 28 September 2002 was C$12.2 million. The solvency of the schemes was established at 83% using the scheme's normal funding assumptions.

25 Pension arrangements (continued)

FRS 17 retirement benefits

The FRS 17 disclosure has been based on membership data used for the most recent actuarial valuations: 6 April 2004 for the UK scheme and 28 September 2002 for the Canadian schemes. The results from these valuations have been projected forward to 31 December 2004 and have been recalculated by reference to the FRS 17 assumptions in order to assess the liabilities of the Ultra Electronics Pensions Scheme and the Canadian defined benefit schemes on the FRS 17 basis at that date. Scheme assets are stated at their market value on 31 December 2004.

The financial assumptions used to calculate pension scheme liabilities under FRS 17 are:

Valuation method	**Projected unit 2004**	Projected unit 2003	Projected unit 2002
Discount rate	**5.5% pa**	5.5% pa	5.5% pa
Inflation rate	**2.5% pa**	2.5% pa	2.25% pa
Increases to pensions in payment	**2.25% pa**	2.25% pa	2.0% pa
Salary increases – Directors	**5.0% pa**	5.0% pa	5.0% pa
– Staff	**3.75% pa**	3.75% pa	3.5% pa

	Long-term rate of return expected at 31 December 2004 per annum	**UK £m**	**Canada £m**	**Value at 31 December 2004 Total £m**
Equities	**7.5%**	**61.7**	**1.9**	**63.6**
Bonds	**4.6%**	**8.0**	**1.4**	**9.4**
Other assets	**4.6%**	**1.5**	**-**	**1.5**
Other policies	**7.5%**	**1.6**	**-**	**1.6**
Total market value of assets		**72.8**	**3.3**	**76.1**
Present value of scheme liabilities		**(111.5)**	**(4.8)**	**(116.3)**
Deficit in the scheme		**(38.7)**	**(1.5)**	**(40.2)**
Related deferred tax asset		**11.6**	**0.5**	**12.1**
Net pension liability		**(27.1)**	**(1.0)**	**(28.1)**

	Long-term rate of return expected at 31 December 2003 per annum	UK £m	Canada £m	Value at 31 December 2003 Total £m	Long-term rate of return expected at 31 December 2002 per annum	Value at 31 December 2002 Total £m
Equities	7.5%	54.7	-	54.7	7.0%	42.9
Bonds	4.8%	4.2	-	4.2	5.5%	5.0
Other assets	4.8%	3.3	-	3.3	4.5%	4.1
Other policies	7.5%	1.9	-	1.9	-	-
Corporate bonds	5.5%	-	2.8	2.8	5.5%	2.2
Total market value of assets		64.1	2.8	66.9		54.2
Present value of scheme liabilities		(91.8)	(4.3)	(96.1)		(84.4)
Deficit in the scheme		(27.7)	(1.5)	(29.2)		(30.2)
Related deferred tax asset		8.4	0.5	8.9		9.2
Net pension liability		(19.3)	(1.0)	(20.3)		(21.0)

25 Pension arrangements (continued)

Movement in scheme deficit during the year:

	UK £m	**Canada £m**	**Year ended 31 December 2004 Total £m**	UK £m	Canada £m	Year ended 31 December 2003 Total £m
At beginning of year	**(27.7)**	**(1.5)**	**(29.2)**	(29.2)	(1.0)	(30.2)
Current service cost *(see below)*	**(3.8)**	**(0.2)**	**(4.0)**	(4.0)	(0.2)	(4.2)
Contributions	**3.9**	**0.3**	**4.2**	3.5	0.3	3.8
Net finance charges *(see below)*	**(0.5)**	**(0.1)**	**(0.6)**	(1.0)	(0.1)	(1.1)
Actuarial (loss)/profit *(see below)*	**(10.6)**	**-**	**(10.6)**	3.0	(0.5)	2.5
Deficit at end of year	**(38.7)**	**(1.5)**	**(40.2)**	(27.7)	(1.5)	(29.2)

Analysis of the amount which would be charged to operating profit under FRS 17:

	UK £m	**Canada £m**	**Year ended 31 December 2004 Total £m**	UK £m	Canada £m	Year ended 31 December 2003 Total £m
Current service cost	**(3.8)**	**(0.2)**	**(4.0)**	(4.0)	(0.2)	(4.2)

Analysis of the amount which would be debited to net finance charges under FRS 17:

	UK £m	**Canada £m**	**Year ended 31 December 2004 Total £m**	UK £m	Canada £m	Year ended 31 December 2003 Total £m
Expected return on pension scheme assets	**4.5**	**0.1**	**4.6**	3.5	0.1	3.6
Interest on pension scheme liabilities	**(5.0)**	**(0.2)**	**(5.2)**	(4.5)	(0.2)	(4.7)
	(0.5)	**(0.1)**	**(0.6)**	(1.0)	(0.1)	(1.1)

Analysis of the actuarial (loss)/profit in the statement of total recognised gains and losses under FRS 17:

	UK £m	**Canada £m**	**Year ended 31 December 2004 Total £m**	UK £m	Canada £m	Year ended 31 December 2003 Total £m
Actual return less expected return on pension scheme assets	**2.1**	**-**	**2.1**	5.4	-	5.4
Experience (losses)/gains arising on the scheme liabilities	**(1.6)**	**-**	**(1.6)**	1.5	-	1.5
Changes in assumptions underlying the present value of the scheme liabilities	**(11.1)**	**-**	**(11.1)**	(3.9)	(0.4)	(4.3)
Foreign exchange differences	**-**	**-**	**-**	-	(0.1)	(0.1)
	(10.6)	**-**	**(10.6)**	3.0	(0.5)	2.5

25 Pension arrangements (continued)

History of experience gains and losses

Difference between the actual and expected return on scheme assets:

	2004	2003	2002
Amount (£m)	**2.1**	5.4	(17.5)
Percentage of scheme assets	**2.8%**	8.1%	32.3%

Experience (losses)/gains on scheme liabilities:

	2004	2003	2002
Amount (£m)	**(1.6)**	1.5	1.3
Percentage of the present value of scheme liabilities	**1.4%**	1.6%	1.5%

Total actuarial (loss)/gain in the statement of total recognised gains and losses:

	2004	2003	2002
Amount (£m)	**(10.6)**	2.5	(18.2)
Percentage of the present value of scheme liabilities	**9.1%**	2.6%	21.6%

If the pension liability was recognised in the accounts, the Group's net assets and profit and loss reserve would be as follows:

	2004 £m	2003 £m
Net assets excluding pension liability	**81.8**	65.6
Pension liability	**(28.1)**	(20.3)
Net assets including pension liability	**53.7**	45.3
Profit and loss reserve excluding pension liability	**49.5**	35.3
Pension liability	**(28.1)**	(20.3)
Profit and loss reserve including pension liability	**21.4**	15.0

26 Related party transactions

There have been no related party transactions with Directors other than the payment of emoluments in the normal course of business, as disclosed in the Remuneration report.

Statement of accounting policies

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

a) Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards and law.

b) Basis of consolidation

The Group's accounts consolidate the accounts of Ultra Electronics Holdings plc and all of its subsidiary undertakings each year using the acquisition method of accounting. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of control passing or up to the date of control being relinquished.

No profit and loss account is presented for Ultra Electronics Holdings plc, as permitted by section 230 of the Companies Act 1985. The Company's retained profit for the year is disclosed in note 20.

c) Turnover

Group turnover comprises the value of sales (excluding VAT and similar taxes, trade discounts and intra-Group transactions) of goods and services in the normal course of business. Turnover applicable to long-term contracts represents the value of work completed during the year, calculated with reference to the total expected value of the contracts.

d) Research and development

Research expenditure is written off in the year of expenditure. Funded development expenditure incurred on specific contracts is treated as a contract cost in accordance with the general policy for contract work-in-progress. Unfunded development expenditure incurred on certain projects is carried forward when its recoverability can be foreseen with reasonable assurance, and amortised in relation to the sales from such projects. The Directors consider that this treatment results in a proper matching of costs and revenue. All other development expenditure is written off in the year of expenditure.

e) Pension 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.

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 that cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from regular cost are charged or credited to the profit and loss account over the estimated average remaining working life of scheme members. The amount charged to the profit and loss account for defined contribution schemes is the contribution payable for the period.

Any difference between amounts charged to the profit and loss account and contributions paid to the independent pension schemes is shown as a separately identified liability or asset in the balance sheet.

f) Warranty

Provision is made for the anticipated cost of repair and rectification of products under warranty, based on known exposures and historical occurrences.

g) Government grants

Government grants are recognised in the profit and loss account 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.

h) Goodwill

Goodwill, representing the excess of the fair value of consideration given over the fair value of separable net assets acquired, is capitalised as an intangible asset and is amortised over a period of 20 years, being the Directors' assessment of its useful economic life. Provision is made for any impairment.

For acquisitions made prior to 30 December 1997 goodwill was considered separately for each acquisition and was written off immediately to the goodwill reserve as a matter of accounting policy, depending on the Directors' assessment of its likely future value to the Group. That reserve has since been offset against the profit and loss account balance. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

i) Tangible fixed assets

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:

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

Freehold land is not depreciated.

j) Patents and trademarks

Patents and trademarks are included at cost and depreciated in equal annual instalments over the Directors' estimate of their useful economic life. Provision is made for any impairment in value.

k) Investments

Fixed asset investments are shown at cost less any amounts written off. Provision is made for any impairment in value.

l) Stocks

Stocks and work-in-progress are valued at the lower of cost (determined on a first-in, first-out basis and including an appropriate proportion of overheads) and net realisable value, less payments on account. Provision is made for any obsolete, slow moving or defective items. Profit is recognised on long-term contracts by reference to an assessment of the outcome and the proportion of work completed.

m) Taxation

Current tax, including UK corporation tax and foreign 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 Group's taxable profits and its results as stated in the accounts. These arise from including gains and losses in tax assessments in different periods from those recognised in the accounts.

m) Taxation (continued)

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 differences 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.

n) Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at 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.

The trading results and cash flows of overseas undertakings are translated into sterling using average rates of exchange during the relevant financial period. The balance sheets of overseas subsidiary undertakings are translated into sterling at rates ruling at the year-end. Exchange differences arising from the re-translation of the opening balance sheets and results are dealt with through reserves.

o) Leases

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

Rentals under operating leases are charged on a straight-line basis over the lease term.

p) Derivative financial instruments and financing costs

Forward exchange contracts are used to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. Gains and losses are taken to the profit and loss on maturity of the hedge.

Costs associated with arranging Group finance are written off in accordance with FRS 4. The costs are offset against the loan and amortised over the life of the loan.

q) Own shares

Shares acquired by the Ultra Electronics Qualifying Employee Share Ownership Trust to satisfy options granted under the Company's SAYE scheme are held at cost less any amounts written off for impairment in value. The cost of shares purchased for the Company's Long-Term Incentive Plan is amortised over the performance period of the award.

Shareholder analysis

31 December 2004

By category of shareholder

	Shares held Number '000	% share capital
Unit trusts	**22,875**	**34**
Pension funds	**17,081**	**26**
Insurance companies	**7,921**	**12**
Private investors	**3,432**	**5**
Investment trusts and other funds	**3,252**	**5**
Charities	**1,980**	**3**
Other	**10,364**	**15**
	66,905	**100**

By size of holding

	Holders		Shares held	
	Number	% of holders	Number '000	% share capital
1-100	**76**	**5**	**4**	**-**
101-500	**450**	**33**	**118**	**-**
501-1,000	**300**	**22**	**227**	**-**
1,001-5,000	**285**	**21**	**576**	**1**
5,001-10,000	**42**	**3**	**319**	**1**
10,001-50,000	**95**	**7**	**2,177**	**3**
50,001-100,000	**31**	**2**	**2,411**	**4**
100,000 and over	**100**	**7**	**61,073**	**91**
	1,379	**100**	**66,905**	**100**

Financial calendar

15 April 2005	Record date for 2004 final dividend
22 April 2005	Annual General Meeting
6 May 2005	2004 final dividend paid
1 August 2005	Interim results announced
September 2005	Interim dividend paid

Five year review

	2000 £m	2001 £m	Restated 2002 £m	Restated 2003 £m	**2004 £m**
Turnover					
Aircraft & Vehicle Systems	73.9	78.4	76.4	79.9	**82.0**
Information & Power Systems	68.6	74.4	82.9	95.5	**115.6**
Tactical & Sonar Systems	84.4	86.7	101.1	109.0	**122.1**
Total turnover	226.9	239.5	260.4	284.4	**319.7**
Operating profit (before goodwill amortisation)					
Aircraft & Vehicle Systems	13.1	13.0	12.5	13.9	**14.7**
Information & Power Systems	8.2	7.6	11.0	11.0	**14.8**
Tactical & Sonar Systems	9.0	11.1	10.0	12.6	**13.0**
Total	30.3	31.7	33.5	37.5	**42.5**
Operating profit margin % (before goodwill amortisation)	13.4%	13.2%	12.8%	13.2%	**13.3%**
Profit before goodwill amortisation and tax	25.6	27.1	29.9	34.4	**39.7**
Profit after taxation	15.8	16.3	17.9	20.4	**23.5**
Cash inflow from operating activities *(see note 1 below)*	16.5	35.2	38.7	48.3	**46.9**
Free cash flow before dividends, acquisitions and financing *(see note 2 below)*	7.5	21.8	28.0	35.7	**36.0**
Net debt at year-end	(55.9)	(40.6)	(39.3)	(30.3)	**(23.2)**
Headline earnings per share (p) *(see note 3 below)*	28.7	30.5	33.2	38.2	**44.1**
Dividends per share (p)	9.7	10.4	11.2	12.3	**13.8**
Average employee numbers	2,303	2,376	2,395	2,505	**2,678**

Notes

1. Cash flow from operating activities is stated after capital expenditure and purchase of Long-Term Incentive Plan shares. 2002 and 2003 have been restated to reflect this measure.
2. Free cash flow in 2002 and 2003 has been adjusted to include the purchase of Long-Term Incentive Plan shares, which are included in financing.
3. Headline earnings per share is calculated before goodwill amortisation and earnings dilution.

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