positioned for **growth** through **portfolio** strength focused on **customer** need

making a difference

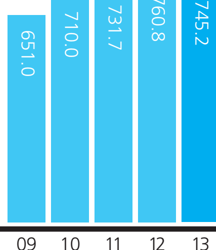
Ultra ELECTRONICS

Financial highlights

Revenue

£745.2m

KPI

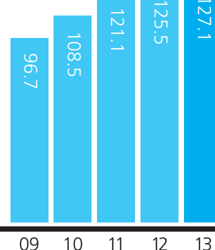


-2.1%
(2012: £760.8m)

Underlying earnings per share*

127.1p

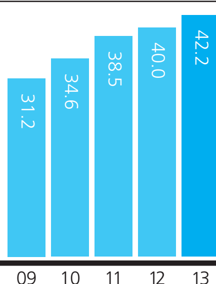
KPI



+1.3%
(2012: 125.5p)

Dividend per share

42.2p

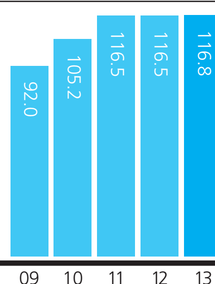


+5.5%
(2012: 40.0p)

Underlying profit before tax*

£116.8m

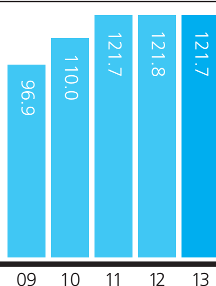
KPI



+0.3%
(2012: £116.5m)

Underlying operating profit*

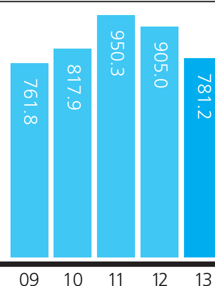
£121.7m



-0.1%
(2012: £121.8m)

Group order book

£781.2m



-13.7%
(2012: £905.0m)

KPI = Key Performance Indicator, **pages 16** and **17** for details

Dividend

The proposed final dividend is **29.5p**, bringing the total dividend for the year to **42.2p** (2012: 40.0p). This represents an annual increase of **5.5%**, with the dividend being covered **3.0 times** (2012: 3.1 times) by underlying earnings per share. If approved at the Annual General Meeting, the dividend will be paid on 2 May 2014 to shareholders on the register on 11 April 2014.

Cautionary statement

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

For more information:
www.ultra-electronics.com/investors/irhome.php

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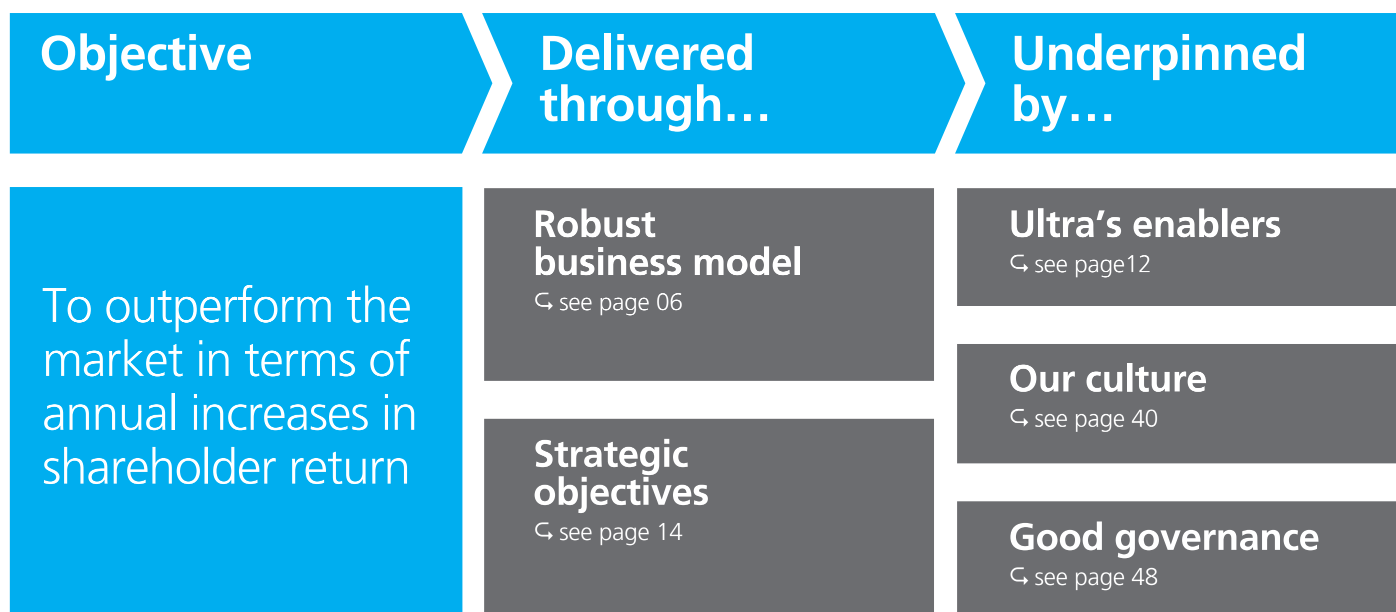
*see footnote on page 1

What is Ultra?

Ultra Electronics is a group of businesses which manages a portfolio of specialist capabilities, generating highly-differentiated solutions and products in the defence & aerospace, security & cyber, transport and energy markets, by applying electronic and software technologies in demanding and critical environments to meet customer needs

The strategic framework, pictured below, is focused on ensuring that Ultra meets its prime objective. This is achieved through the strategies for growth which are described on **pages 14** and **15**, allied with the business model described on **pages 6** to **11**. Underpinning these are Ultra's strategic tenets described on **pages 12** and **13**, which help to shape and define the values and behaviours embodied within Ultra's culture. Ultra's culture is described on **pages 40** and **41**. Good corporate governance is at the heart of Ultra's compliance framework and is described on **pages 48** and **52**.

Ultra's strategic framework



Footnote

underlying operating profit before amortisation of intangibles arising on acquisition, impairment of goodwill and adjustments to contingent consideration net of acquisition costs. IFRS operating profit was £57.4m (2012, as restated: £88.3m). *See Note 36 for reconciliation.*

organic growth (of revenue or profit) is the annual rate of increase in revenue or profit that was achieved, assuming that acquisitions made during the prior year were only included for the same proportion of the current year at constant currencies.

underlying operating margin is the underlying operating profit as a percentage of revenue.

finance charges exclude fair value movements on derivatives, defined benefit pension interest charges and discount on provisions.

underlying profit before tax before amortisation of intangibles arising on acquisition, impairment of goodwill, fair value movements on derivatives, unwinding of discount on provisions, defined benefit pension interest charges and adjustments to contingent consideration net of acquisition costs. Basic EPS 54.8p (2012, as restated: 88.1p). *See Note 36 for reconciliation.*

underlying tax is the tax charge on underlying profit before tax. The underlying tax rate is underlying tax expressed as a percentage of underlying profit before tax.

underlying operating cash flow is cash generated by operations and dividends from associates, less net capital expenditure, R&D and LTIP share purchases.

operating cash conversion is underlying operating cash flow as a percentage of underlying operating profit.

net debt comprises loans and overdrafts less cash and cash equivalents.

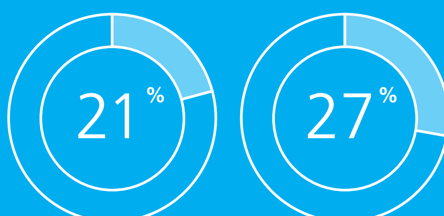
bank interest cover is the ratio of underlying operating profit to finance costs associated with borrowings.

Note: the 2012 profit and loss account has been restated to reflect the adoption of IAS19 (revised 2011) 'Employee Benefits'.

Group at a glance
How Ultra operates

The Group is organised into three divisions: **Aircraft & Vehicle Systems**, **Information & Power Systems** and **Tactical & Sonar Systems**. Ultra's divisions deliver specialist solutions to the **Defence & Aerospace**, **Security & Cyber**, **Transport** and **Energy** markets.

Aircraft & Vehicle Systems



% of Group revenue — % of Group profit*

Number of employees
1,152

Revenue
£155.5m **+5.8%**
2012: £147.0m

Underlying operating profit*
£32.4m **+5.9%**
2012: £30.6m

Order book
£166.0m **+1.5%**
2012: £163.6m

Information & Power Systems

% of Group revenue — % of Group profit*

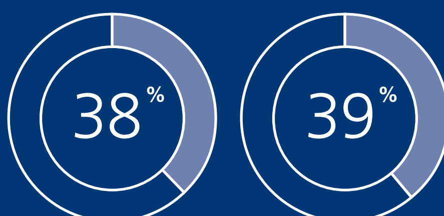
Number of employees
1,756

Revenue
£305.0m **-3.4%**
2012: £315.8m

Underlying operating profit*
£41.2m **-8.2%**
2012: £44.9m

Order book
£330.1m **-15.7%**
2012: £391.4m

Tactical & Sonar Systems



% of Group revenue — % of Group profit*

Number of employees
1,657

Revenue
£284.7m **-4.5%**
2012: £298.0m

Underlying operating profit*
£48.1m **+3.9%**
2012: £46.3m

Order book
£285.1m **-18.5%**
2012: £350.0m

*see footnote on page 1

Capabilities	Highlights in 2013	Major customers in 2013
Ultra specialises in high integrity, safety-critical, real-time control systems for aircraft and vehicle applications. These include airframe and engine ice protection, power distribution and control equipment and noise and vibration cancellation systems. The Group also supplies advanced human-machine interfaces and systems, including those to control unmanned ground and air vehicles. Ultra provides innovative small power sources, including miniature pneumatic systems, propane-powered fuel cells and multi-fuel UAV engines.	• award of a contract by Lockheed Martin UK for the development of a new power distribution system for the British Army's Warrior armoured fighting vehicle • Ultra's teaming partner Raytheon winning the US Joint Miniature Munitions Bomb Release Unit (JMM BRU) • the award of an exclusive long-term supply agreement with Pratt & Whitney for the electronic control unit which manages the Electrical Ice Protection System (EIPS) on the Joint Strike Fighter's F-135 engine	• **Boeing** • **Airbus** • **PA Consulting** • **General Electric** • **BAE Systems** More information about Aircraft & Vehicle Systems can be found on **pages 28** and **29**
Ultra supplies advanced command and control systems for battlespace visualisation, surveillance systems, air defence and naval combat management. The Group provides: perimeter security solutions for critical infrastructure; crisis response planning and management software; secure networks. Ultra's high-integrity sensors and control systems are used for civil and military nuclear reactors and a range of specialist, solid-state electrical power systems which are used for naval vessels and mass transit. Ultra is a world-leading integrator of airport and airline management & information systems.	• a contract for the supply of specialist instrumentation to EDF Energy • a contract to supply specialist electrical power management equipment to a UK submarine programme • a contract with the Republic of Indonesia Ministry of Defence for the mid-life modernisation of the first of the Fatahillah Class corvettes	• **US DoD** • **Oman Ministry of Transport & Communication** • **BAE Systems** • **Rolls-Royce** • **Indonesian MoD** More information about Information & Power Systems can be found on **pages 30** and **31**
Ultra supplies advanced cyber security solutions, high-capacity communication systems, satellite communication equipment and tactical surveillance equipment to support network-enabled warfare. Specialist areas include data links, encryption for information assurance and electronic warfare. The Group also supplies world-leading ship, submarine and airborne sonar equipment and systems to meet the challenges of the underwater battlespace, including anti-submarine warfare and torpedo defence. Ultra has developed a range of highly efficient acoustic hailing devices.	• a contract extension to its End Cryptographic Unit Replacement Programme (ECU RP) for the integration & installation phase of the programme • a contract for the upgrade of the ANZAC Class Frigate electronic support system for the Royal Australian Navy • the US Navy issued a five-year IDIQ competitive tender for sonobuoys for which Ultra, through its JV, was the only bidder	• **US DoD** • **UK MoD** • **Raytheon** • **Thales** • **Australian DoD** More information about Tactical & Sonar Systems can be found on **pages 32** and **33**

Chief Executive's review

Rakesh Sharma Chief Executive

In response to the changing market dynamics, Ultra continues to adapt its behaviours to maintain its agility and focus on customer need.

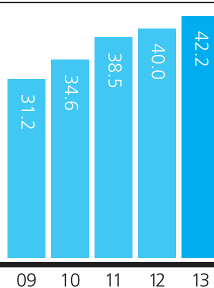
Introduction

Ultra's increasingly wide portfolio of specialist capabilities allows it to offer highly-differentiated solutions into the defence & aerospace, security & cyber and transport and energy market sectors. This broad diversity gives significant resilience to Ultra's financial performance and provides a solid platform for growth. Over the last 12 months the Group has weathered the uncertainty in the US government-funded market, where the lack of clarity has resulted in delays to expected orders, approvals and payments. The continued fiscal pressures in the broader government-funded markets, and changing market dynamics, have tested the Group's business model. However, the Group's sustained investment and constant focus on improving operational efficiencies, together with Ultra's inherent agility has shown the model is robust and is positioning the Group for growth when normality returns.

Dividend per share

42.2p

+5.5%
(2012: 40.0p)

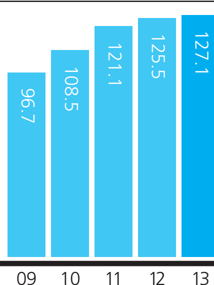


Underlying earnings per share*

127.1p

KPI

+1.3%
(2012: 125.5p)

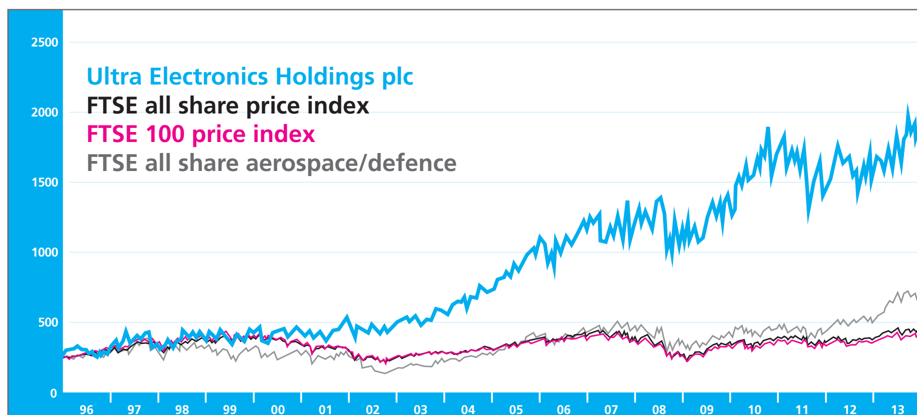


Operational highlights

Features of the Group's accomplishments in the year which will underpin future performance included:

- the award of an exclusive long-term supply agreement with Pratt & Whitney for the electronic control unit which manages the Electrical Ice Protection System (EIPS) on the US Joint Strike Fighter's F-135 engine. The agreement is effective for the life of the engine programme, valued at over $500m
- a £16.1m contract for the supply of specialist instrumentation to EDF Energy. Under this contract, Ultra will manufacture and support safety-critical nuclear reactor instrumentation for use in EDF Energy's current UK nuclear power stations. This is the first contract to benefit from Ultra's recent investment in a state-of-the-art nuclear instrumentation manufacturing facility
- an increase in anti-submarine warfare (ASW) spend which reflects the US 'Pivot to the Pacific' policy. The US Navy has recently changed from issuing an annual sonobuoy tender and issued a five-year IDIQ competitive tender for which Ultra, through its JV, was the only bidder. Contract award is expected in the first quarter of 2014

Ultra's track record of delivering above-average shareholder returns since flotation (pence)



KPI = Key Performance Indicator, see **pages 16 and 17** for details

Ultra's business model

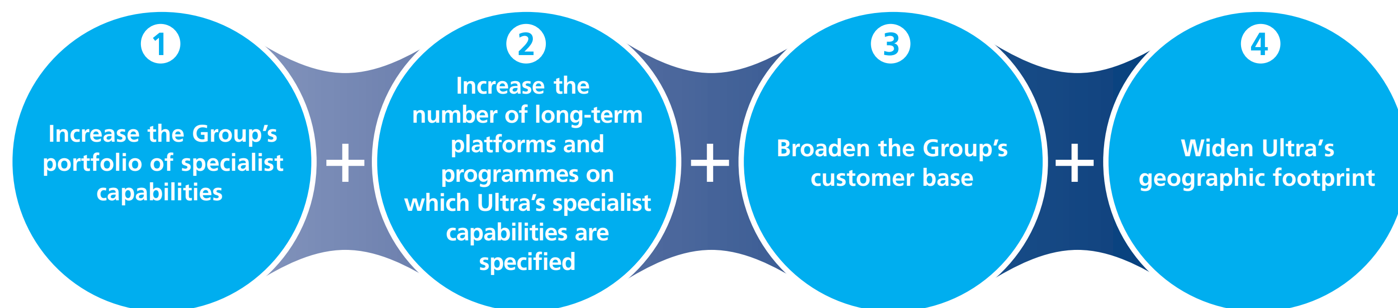
Ultra's prime objective continues to be to outperform the market in terms of annual increases in shareholder value, by delivering above-average increases in earnings and by communicating effectively with shareholders and the financial community. The strategic framework, **page 1**, is focused on ensuring that Ultra meets its prime objective. This is achieved through the strategies for growth which are described on **pages 14** and **15**, allied with the business model described on **pages 6** to **11**. Underpinning these are Ultra's strategic tenets described on **pages 12** and **13**, which help to shape and define the values and behaviours embedded within Ultra's culture, which is further detailed on **pages 40** to **43**.

Positioning for growth

In response to the changing market dynamics, Ultra continues to adapt its behaviours to maintain its agility and focus on customer needs. To support this, the Group has successfully developed and rolled out a number of internal initiatives and tools which help it gain a better understanding of customers' real needs. These improve its ability to offer differentiated and comprehensive solutions in areas of preferential spend across all its market sectors. These key initiatives include: **LEAP**, **LAUNCH** and **Collaborative Autonomy** (more information on these initiatives can be found on **pages 7, 9** and **10**).

*see footnote on page 1

The four main strategies for growth are:



Investment for growth – new capabilities
To increase the breadth of the Group's capabilities, Ultra continues to invest over 5% of revenue on internal development to generate new differentiated offerings. These offerings are aimed at niche market sectors where customers preferentially focus their expenditure. These investment activities are led by the businesses and are robustly reviewed by the Executive Team and the Board.

In parallel, Ultra continues to invest in acquisitions, which bring complementary world-leading niche capabilities and market access to the Group's portfolio. In June 2013, the Group acquired Varisys, a UK business which develops products for high-performance embedded computing applications. Its product portfolio includes bespoke solutions for customers operating in the aerospace, defence, telecommunications and industrial sectors. Varisys is now a part of Ultra's Aircraft & Vehicle Systems division.

In October 2013, Ultra acquired Wood & Douglas Limited (W&D). W&D provides bespoke wireless products, radio networks, video monitoring and wireless data platform capabilities. These are supplied to the defence, homeland security, transportation, emergency services, exploration, healthcare and utilities sectors in the UK and to over 30 countries worldwide. W&D has been integrated into Ultra's Tactical & Sonar Systems division to form a centre of excellence for communication products and services.

Investment for growth – new geographic markets
The Group constantly strives to broaden its customer base and widen its geographic footprint. This not only provides growth, but increases the robustness of the business model. Ultra has made the strategic decision to prioritise on a number of regions and sectors with higher growth. The Group recognises that new markets and geographic sectors take time to enter and so these activities are carried out in a measured and controlled manner, with due consideration of risk. Ultra, as an independent, non-threatening partner, is able to support all of the main prime contractors and local industry partners. The Group is therefore well positioned to bring its specialised equipment, systems and services to new long-term platforms and programmes in new markets and regions. Further details on Ultra's robust business model can be found on pages 6 to 11.

Behaviours for growth
The Group will continue to differentiate itself from its competitors through its technical innovation and high standards of ethical business conduct. Underpinning this cultural drive is a strong ethical policy which is mandatory for all employees across the entire Group. Ultra educates its employees on anti-bribery and corruption policies, including gifts and hospitality practices. In the period, Ultra decided not to pursue business in areas where it was not satisfied that its ethical standards would be maintained.

Executing against the growth strategies, shown above, requires consistency of management focus and drive. The continuity of Ultra's management team ensures that expertise and experience is retained to maintain growth momentum in the Group. Ultra's management team has to balance dealing with the particularly challenging short-term market conditions, whilst also ensuring that it is fully addressing the need to continue positioning for medium- and long-term growth. The members of the Executive Team understand through experience, what makes Ultra different and how to focus the Group's businesses on maintaining competitive advantage in the various specialist market sectors in which Ultra operates.

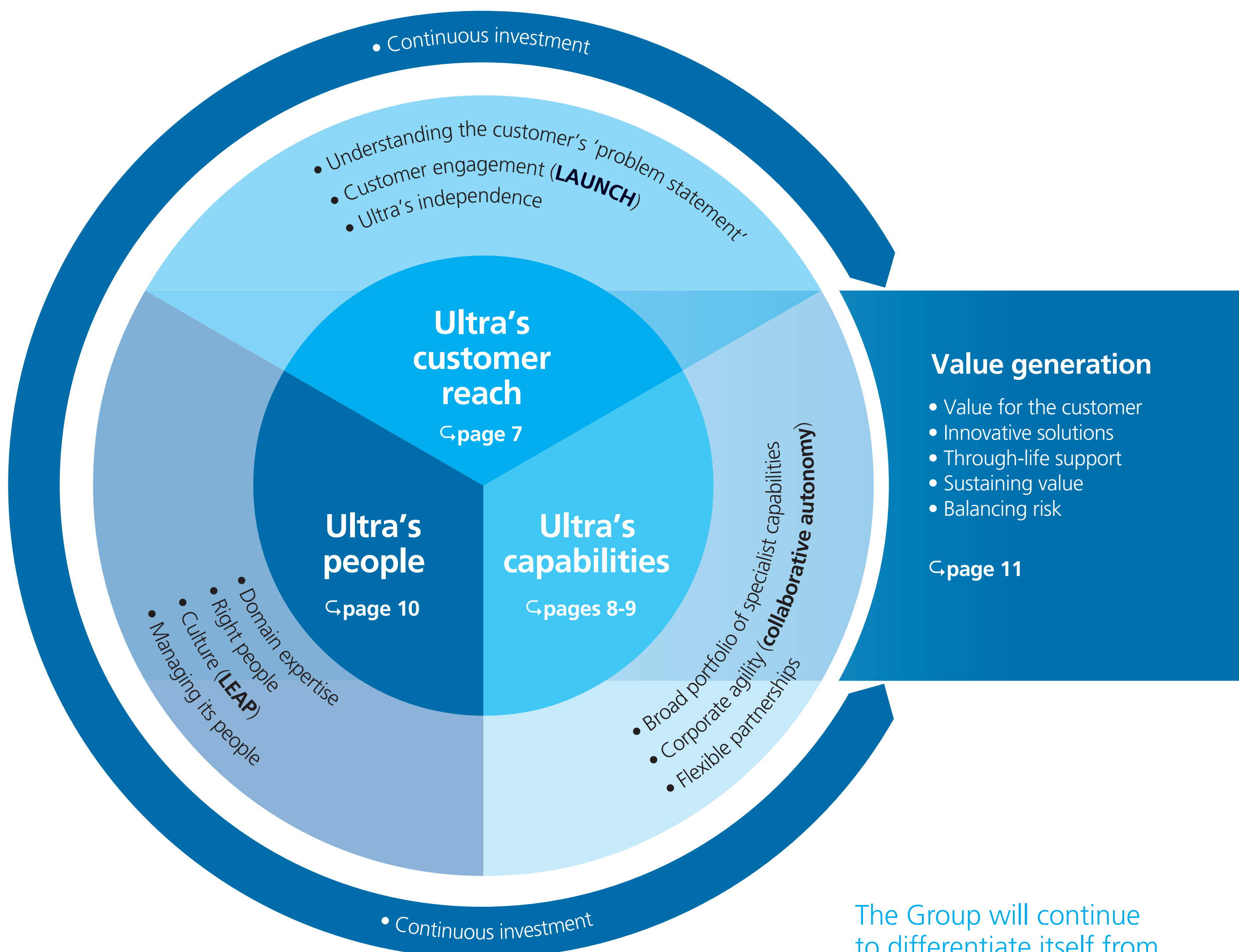
Summary
I am pleased to say that early recognition of current changes in market dynamics, allied with Ultra's robust business model and inherent agility, has enabled the Group to position for future growth in these challenging times.

I would like to finish by thanking all of Ultra's employees for their continued hard work, dedication and enthusiasm. Ultra's reputation as a global leader in electronics and software for defence, security, transport and energy applications is built on the endeavours of its exceptional employees and their ability to develop long-term value-adding relationships with customers. The ability to execute these strategies successfully is entirely reliant upon the engagement, commitment and passion of the Group's employees. I am confident that Ultra is well placed to successfully execute the strategies and plans to meet its prime objective.

Rakesh Sharma
Chief Executive

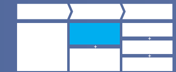
Business model

Ultra's business model is centred around the Group's three core strengths: **customer reach**, **people** and **capabilities**



The Group will continue to differentiate itself from its competitors by:

- technical innovation across its broad portfolio of capabilities
- the endeavours of its exceptional employees
- the ability to develop long-term value-adding relationships with customers



Business model
Ultra's customer reach

Ultra strives to get to the heart of a customer's requirements – it is this that helps Ultra build lasting customer relationships

Ultra focuses on developing innovative, highly-differentiated solutions which are delivered in close collaboration with customers, partners and suppliers.

Ultra is continually evolving its approach to match the markets in which the Group operates. This evolution is in response to:

- changing customer demands
- anticipating the direction of travel of the markets
- the Group striving to be the first to bring new solutions to market

In its specialist capability areas, Ultra's understanding of:

- the customers' domains
- the demanding operational environments
- the projected capability gaps which customers would like addressed

Is a key differentiator for the Group. In short, Ultra's understanding of the customer's 'problem statement' allows it to get to the heart of the customer's requirements and develop effective and innovative solutions.

Putting the customer first

Ultra's businesses constantly innovate to create solutions to customer requirements which are different from, and better than, those of the Group's competitors in a way which the customer values. In identifying differentiated solutions, prime consideration is given to what the customer needs, not to what Ultra would like to sell. This flexibility covers the technical attributes of the product or system and the commercial package, including the training and support in which the customer is interested.

See Partnering on **pages 9**.

Strategic supplier

All Ultra businesses are expected to maximise their relationships with customers for the long-term, through:

- developing a close understanding of customer needs
- sustained on-time delivery of high-quality products and services
- encouraging a long-term strategic relationship

As a result, Ultra's businesses can become part of the customers' extended enterprises to mutual benefit.

Ultra's independence

Ultra's independence, together with its autonomous businesses and its position in the supply chain (see **page 9**) mean that it is able to work with all prime contractors. This allows the Group to sell its wide portfolio of specialist capabilities to a broad range of customers around the world.

Engaging with customers

Ultra's **LAUNCH** is a behaviour which the Group has developed to facilitate customer engagement and relationship building.

L	**Listen** to customers
A	**Ask** the right questions
U	**Understand** what their 'pain' is
N	identify the customers' **Needs**; and get their agreement
C	**Create** a relationship, opportunity and solution
H	**Holistic**. Examine the bigger picture; how can Ultra maximise the scope and value of the opportunity?

LAUNCH is a way for Ultra's businesses to generate long-term customer relationships which leads to a better pipeline of opportunities and so ultimately, enable growth. **LAUNCH** is aligned with the Group's approach to systems engineering and project management.

This approach ensures Ultra understands the real needs of its customers.

LAUNCH case study

One of Ultra's businesses began the process to encourage an existing customer to replace the competitor for the hand controllers for a helicopter weapon system. Using LAUNCH, it succeeded in winning the business by solving several problems experienced by the existing supplier. As a result, the business was able to move from supplying just the high-end electronic components, to supplying the entire fire control system and the helicopter flight control handles.

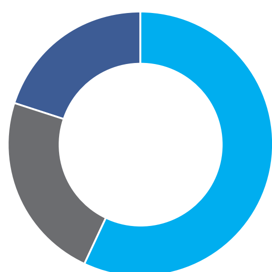
Business model
Ultra's capabilities…

Ultra has a broad portfolio of **specialist capabilities** which can be combined flexibly to generate highly-differentiated solutions for the customer

Capabilities
The Group has a broad portfolio of specialist capabilities which deliver highly-differentiated solutions to the following market sectors:

Defence & Aerospace
Security & Cyber
Transport and Energy

Revenue by capability



Defence & Aerospace	57%
Security & Cyber	23%
Transport and Energy	20%

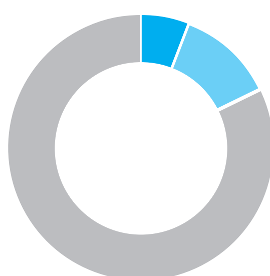
The Group is constantly seeking to increase the number of specialist capabilities in its market niches and to increase the number of long-term platforms and programmes on which Ultra's specialist capabilities are specified.

The expansive spread of specialist capability areas mapped onto so many platforms and programmes:

- provide resilience to Ultra's financial performance
- reduce the Group's risk profile; and
- drive the Group's growth

Investment
The Group has a strategy to invest continuously to strengthen its capabilities across its specialist niche markets. Ultra's deep understanding of the users' domain, its enduring customer relationships and its outward-facing nature (encapsulated in **LAUNCH** and **LEAP** behaviours) inform the Group's investment decisions.

Product and business development spend as a percentage of 2013 revenue



Group-funded	5.8%
Customer-funded	11.7%

Ultra invests consistently over 5% of its revenue in new product and business development. In addition, over 10% of Group revenue is customer-funded product development. In total therefore, over 15% of revenue spend is focused on augmenting the portfolio of capabilities and programme positions which underpin further growth.

Corporate agility
A key differentiator for Ultra is the agility which businesses in the Group exhibit in their dealings with customers.

The Board provides effective leadership and direction in delivering the key corporate objective of reliable and consistent growth in shareholder value. At the operational level, the Executive Team has responsibility for running the Group and for delivery of strategy, financial performance and team development.

Ultra's individual businesses have a high degree of operational autonomy, so that they provide the exceptionally agile and responsive support to customers and partners, normally associated with a smaller business. These benefits of customer focus and agility are augmented by the access to wider and complementary technologies and expertise which lie elsewhere in the Group (**collaborative autonomy**) or with partners and by Ultra's strong financial position.

Ultra's core management processes address four main areas. These are:

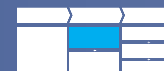
Compliance
- ensuring that the businesses comply fully with all laws and regulations of the countries in which they operate
- maintaining high standards of integrity and ethical behaviour

Strategy
- agreeing and delivering five-year plans, focused on positioning for growth in target markets
- development of innovative and highly-differentiated solutions to meet customer needs

Financial performance
- managing the key financial and business processes, so that the businesses meet or exceed the agreed financial budgets

Developing people
- for each business, developing the team and its individuals so that they grow with the business and do not limit the development of the Group

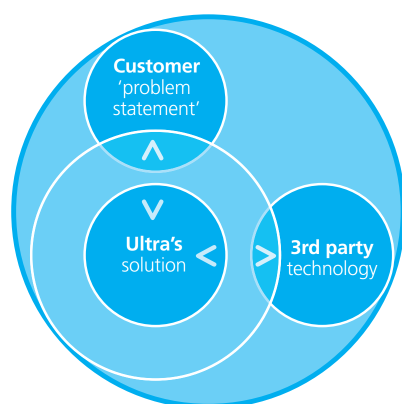
Business model
Ultra's capabilities


Ultra's strategic framework

Ultra focuses on developing innovative solutions which are delivered in close collaboration with **partners**, **suppliers** and **customers**

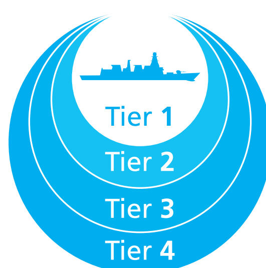
Partnerships

Ultra has an established ability to externally partner and team to offer the proven technology which best meets customers' requirements. The Group is agnostic as to the source of technology which is required to deliver solutions. Where proven technology that meets customers' requirements exists outside the Group, Ultra is happy to form teaming partnerships to access it. Ultra sees these teaming arrangements as a source of competitive advantage, allowing Ultra to deliver differentiated solutions which meet customer needs efficiently, with lower development risk. It is important that these teaming arrangements are of benefit to all parties – by working together, the team members are able to win opportunities which would not be possible in isolation.



Supply chain

Ultra has no strategic aim to be a tier 1, top-level platform provider. The Group is therefore, non-threatening to the tier 1 prime contractors such as BAE Systems or Rolls-Royce and counts them amongst its largest customers. They can rely on Ultra to provide the specialist capabilities at which the Group is expert. Concentrating on tiers 2, 3 and 4, rather than aiming to be a tier 1 platform provider, means that, with the exception of the Oman Airport IT programme, no single platform or programme typically accounts for more than 5% of Group revenue for the year. This means that the cancellation or curtailment of any single programme is unlikely to have a significant adverse impact on the Group.



Platform provider	Tier 1
System integrator	Tier 2
Equipment supplier	Tier 3
Component supplier	Tier 4

Typical tier offerings

Tier 1 (Platform provider)
Responsible for being the prime contractor of the platform in question, examples being a naval vessel or a terminal at an airport.

Tier 2 (System integrator)
Responsible for integrating equipment or components which will make up a functional element of the platform. Examples of system integration which Ultra has completed include integrated sonar systems and wing ice protection systems.

Tier 3 (Equipment supplier)
Ultra has a large presence at this level of the supply chain, supplying equipment such as data links, cryptographic equipment and large electrical transformers.

Tier 4 (Component supplier)
Ultra also provides a broad range of smaller components onto many programmes worldwide, including sensors for measuring the performance of a nuclear reactor and joysticks to control UAVs.

Position in the supply chain

Ultra's specialist capabilities are mainly at tiers 3 and 4, supplying equipment and components to support tier 1 and 2 systems and programmes. The Group does undertake tier 2 system integration, but does this mainly when integrating its own tier 3 offerings. Ultra therefore, understands the tier 3 detailed interfaces and so is able to manage the risk inherent in system integration activities.

Collaborative autonomy

One of Ultra's eight strategic tenets is teaming. See page 13. Working collaboratively increases business opportunities, by allowing Ultra to offer capability from its wide portfolio to best meet the customers' needs. It creates competitive advantage by accessing off-the-shelf technology at lower cost, enabling timely delivery, while avoiding expensive development costs and high project risk.

Collaborative autonomy in action

Fighting vehicle systems…
In early 2013 Ultra's PALS, MSI, AMI and EMS businesses formed a collaborative team to address jointly the armoured fighting vehicle (AFV) market. An initial review of the market identified a significant number of large programmes which might benefit from a joint approach, including upgrades to Warrior and Challenger in the UK and also new-buy programmes in India and Australia. It was clear at an early stage that Ultra's combined AFV capability is wide-ranging and complementary.

Business model
Ultra's people

Ultra would not be able to **deliver value** to **customers** without the innovative and entrepreneurial spirit of its **staff**

The right people
The success which Ultra achieves in innovating to meet customer needs is based on the broad range of skills and capabilities of the Group's employees.

The Board understands this and recognises that the Group's 'right' people are its most important asset (see **page 13**, Ultra's strategic enablers). Ultra strives for an efficient organisation with engaged and competent people. More detail on Ultra's people and their development can be found on **pages 40** to **43**.

Domain expertise
Ultra's deep understanding of its specialist capability areas, combined with knowledge of the users' environment, are key factors in delivering innovative solutions to meet customers' needs. Ultra is continuously developing its domain expertise to ensure that it has the right people available who are best able to support customers in understanding and creating solutions which fulfil their needs.

Culture and LEAP
Ultra has identified four cultural behaviours of its people which are highly valued and encouraged. These are leadership, entrepreneurship, audacity and paranoia. Together they are known as **LEAP...**

Leadership: Good leadership is extremely important to Ultra and a number of models of leadership are incorporated in the development and training programmes which are delivered around the Group.

Entrepreneurship: Being entrepreneurial is a behaviour which underpins the Group's strategy. All Ultra businesses seek to provide customers with solutions which are different from, and better than, those of competitors. Ultra's entrepreneurial culture seeks to maximise the capability to generate excellent ideas and the business skills needed to bring them successfully to market.

Audacity: Audacious thinking is the difference between incremental improvement and business transformation. It takes the idea of innovation, one of Ultra's core values, and invites employees to think about issues in ways which are unconstrained by existing norms, making use of creative approaches in every aspect of the Group's business.

Paranoia: Paranoia, in the business sense, is a concern and fear about competitors and what they may do. It also relates to concerns and fears about things which can go wrong internally. For Ultra, paranoia is important in focusing its staff on maximising their knowledge of the competitive landscape, by constantly asking questions of the Group's individual businesses, customers', teaming partners and suppliers.

How Ultra manages its people
Ultra focuses on delivering agile and responsive support to customers through a high degree of operational autonomy.

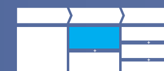
As much authority and responsibility as possible is devolved to the Managing Directors and Presidents of Ultra's individual businesses and their management teams. The Group wants these teams to maintain the agility and sharp focus, that are typical of owner-managed businesses, on customers' requirements.

Developing people
Ultra is committed to developing people and securing the talent pipeline to ensure the continued growth and success of the Group. Each business is responsible for continuously developing the team and its individuals, so that they grow with the business and do not become a constraint on the development of the Group. Great focus is placed on ensuring that the right people are in the right roles. More detail can be found on **pages 40** to **43**.

People in action
With a renewed focus on innovation, Ultra's MSI business ran the second year of its Innovation Initiative and has named its first ever Technology Achievement winner. The winner was a Lead Systems Engineer in MSI's Human Systems Integration business unit. The award is for the work he did developing the new weapon management systems for MSI, in the form of a gun control unit and an armament control panel.

Through collaboration with the customer, diligent collection of requirements and implementation of innovative design methods, he not only significantly improved product functionality, assembly and reliability, but he also paved the way for MSI to enter the weapon systems management market. As a result of these newly-developed capabilities, MSI can now extend its solution offering from the human-machine interface into the wider weapon systems control and management domain.

Business model
Ultra's value generation



Ultra's three strengths of **customer reach**, **people** and **capabilities** combine to enable Ultra to **generate** and sustain **value**

Ultra value for the customers

Ultra generates value by applying electronic and software technologies in demanding and critical environments to provide highly-differentiated solutions to meet customers' needs.

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

Solutions

By applying these differentiated solutions to a wide range of international platforms and programmes, Ultra has built an exceptionally broad portfolio of specialist capability areas. Where the Group has a number of complementary capabilities, it can also combine these to offer broader solutions. In other words, Ultra's products, capabilities and the associated domain expertise uniquely position the Group to be able to meet more complex sub-system and system requirements.

Support

Ultra offers support to customers of its products and systems through the design, delivery and support phases of a programme. Ultra's deep understanding of its specialist capability areas and the users' environment is a key factor in supplying innovative solutions to ensure the capabilities are delivered and sustained in-service and meet the customers' through-life needs.

Sustaining value

In order for Ultra's business model to deliver success over the long-term, it must be sustainable and it must manage any inherent risk well.

Economic

Ultra ensures that all of its businesses are well-managed, control costs and are cash-generative. This allows the Group to self-fund acquisitions which deliver positions in new markets or additional niche capabilities. Since the Group's formation, Ultra has maintained a balance between organic and acquisition growth, having integrated 51 acquisitions since 1993. The Group pursues four parallel strategies for growth which are explained more fully on **pages 14** and **15**.

Social

Ultra understands that the long-term success of the Group will be enhanced through continuous focus on value creation for all its stakeholders. The Group encourages its businesses to support their local communities and environment, as well as discharging their responsibilities to contribute to the broader social well-being. To read how Ultra is making a difference, see **pages 38** and **39**.

Environmental

Ultra recognises that it is important, both for its employees and the communities in which it operates, that effective measures are in place to minimise the environmental impact of its activities, as this will help to secure the long-term future of the Group. Ultra has committed to substantial investments in manufacturing facilities which will, in addition to improving productivity, offer increased efficiencies and reduce energy consumption.

Reducing risk to maintain value

Ultra's business model supports a stable and well-balanced business, with the aim of reducing risk and maintaining the generation of value.

Ultra's strategy is to constantly broaden its portfolio of products and services which are positioned on a large number of international platforms and programmes in the defence, security, transport and energy markets.

The Group remains committed to its strategy of continued investment in its portfolio of differentiated specialist capabilities, to ensure that the business is well-positioned to meet future market demand.

Ultra has an increasingly broad customer base worldwide, with sales outside the UK now representing over 65% of Group revenue. Ultra is constantly repositioning itself in growth sectors within its main defence, security, transport and energy markets.

The above factors, together with Ultra's market agility and organisational flexibility, generate further robustness and resilience in the Group's financial profile and mitigates risk.

More detail on Ultra's approach to risk management and specific risks can be found on **pages 34** to **37**.

Strategic tenets…
Ultra's enablers

Ultra's growth momentum has been sustained by successfully pursuing its strategies for growth. See **pages 14** and **15**. Underpinning these strategies, are eight core strategic tenets. They have been used consistently by the Group over many years. They help shape the culture, defined as values and behaviours which drive results, which is encouraged in Ultra.

Focus on defence, security, transport and energy

The Group's core competencies, domain knowledge and market positions give it particular credibility in these four sectors worldwide. Core competencies include: market positioning through an understanding of customer needs, enabling responses to complex invitations to tender or requests for proposals; managing complex development programmes, where risks need careful identification and control; manufacturing and aftermarket support over long timescales and the discipline to meet the Group's commitments. The strategy is to enhance the capability of the Group such that adjacent market sectors, which exhibit growth, can be served.

Ultra's analysis of the defence, security, transport and energy markets can be found on **pages 20** to **22**.

Through-life product and services portfolio

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

Further information on Ultra's place in the supply chain and its approach to through-life support can be found on **pages 9** to **11**.

Niche player

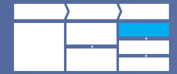
Within the Group's businesses, there is a broad portfolio of specialist capabilities, where the aim is to sustain competitive advantage. These niche capabilities enable Ultra to achieve world-leading positions and result in the potential for superior financial performance. This broad spread gives the Group low dependency on any single contract and provides resilience in the face of technological changes or funding cut-backs.

Further information on Ultra's strategy for developing specialist capabilities can be found on **page 8** and **9**.

Growth

Ultra businesses are expected to contribute to the organic growth of the Group, as well as identifying well-matched acquisition targets. To ensure that an appropriate rate of organic growth is maintained, businesses produce annual five-year strategic plans which target specific opportunities. The focus on cash generation is a key driver to the affordability of suitable acquisitions to augment the Group's growth rate. The Group's acquisition strategy is summarised as being the pursuit of 'bolt-on' and 'bolt-in' acquisitions which enable Ultra to successfully pursue its four main strategies for growth. The normal size of acquisitions, as measured by annual revenue, is currently about £30m to £150m for 'bolt-ons' and up to £30m for 'bolt-ins'. Larger acquisitions will be considered where the case is compelling.

Further information on Ultra's Strategies for Growth can be found on **pages 14** and **15**.



Efficiency and competence

Ultra seeks to maximise efficiency throughout its organisation. The levels of commitment and competency of business management teams is continuously assessed through strategic, budget, organisation, succession and regular business performance reviews. The Group places a high degree of trust in, and has high expectations of, its senior staff and supports their development and improvement activities. Ultra empowers management teams to run their respective businesses to deliver agreed strategies, meet budgets and continuously develop their people. The Group constantly develops its people and structure through a rigorous annual organisation, succession and development planning process.

Further information on Ultra's approach to having an efficient and competent workforce can be found on **pages 38** to **41**.

Teaming

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

Further details on Ultra's approach to partnering and teaming can be found on **page 9**.

Strategic supplier

Ultra businesses are expected to maximise their relationships with customers for the long term, through a close understanding of customer needs, leading to sustained on-time delivery of high-quality products and services. Many of the Group's niche offerings involve the design and supply of complex products and services, which are typically safety- or performance-critical in their application. This creates a shared dependency from the customers' perspectives and encourages a long-term strategic relationship where Ultra's businesses become part of the customers' extended enterprises, to mutual benefit.

Further details on how Ultra drives long-term relationships can be found on **pages 6** to **11**.

Meeting commitments

Ultra has built a reputation for meeting its commitments. This reputation is not only based on businesses meeting their obligations, but also by establishing a culture within the Group, which is based on this principle. Ultra believes that this reputation is one of its defining and most valuable characteristics. Behaving in this way fosters long-term relationships.

More information on Ultra's commitment to developing sustainable and long-term business can be found on **page 44**.

Strategic objectives
Ultra's four strategies for growth

Ultra must add long-term shareholder value, as measured by market capitalisation and the Group's ranking in the FTSE index, more rapidly than other companies to outperform the market. This is facilitated by an above-average rate of revenue growth. Ultra constantly strives to increase its share of the high-growth sectors of the markets in which it has positioned itself. The four main strategic objectives which support this target growth are:

Increase the Group's portfolio of specialist capability areas

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

In 2013…

Ultra added **12 new specialist capability areas** to its portfolio.

Strategies in action…

The acquisition of Wood & Douglas Limited (W&D) brings to Ultra's portfolio of specialist capabilities:

- Bespoke wireless products
- Radio networks
- Video monitoring
- Wireless data platforms

W&D's capabilities are provided to defence, homeland security, transportation, emergency services, exploration, healthcare and utilities sectors in the UK and to over 30 countries worldwide. W&D has been integrated into Ultra's CIS business, to form a centre of excellence for communication products and services.

Increase the number of long-term platforms and programmes on which Ultra's specialist capabilities are specified

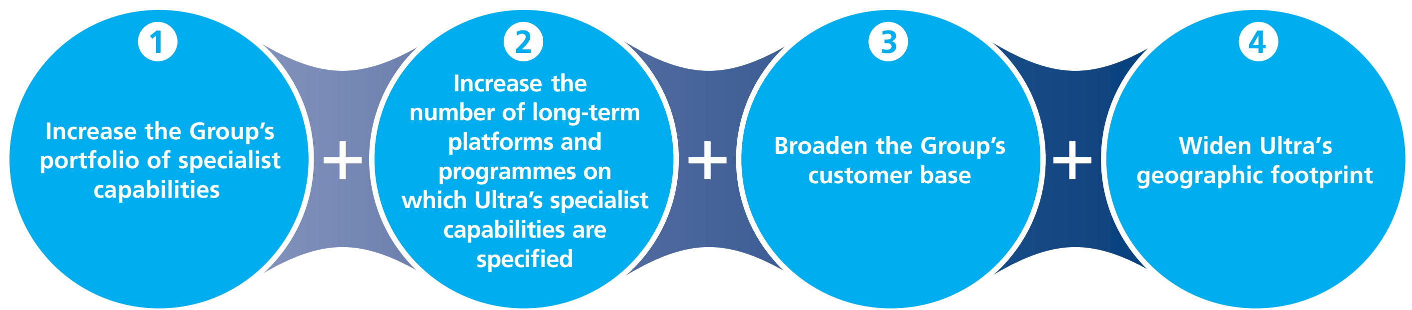
Ultra positions these specialist capabilities on a long list of international platforms and programmes. This breadth of platform and programme coverage creates a flywheel effect which drives Ultra's performance year after year, despite market fluctuations. Ultra is positioned on very many such platforms and programmes.

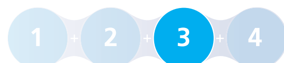
In 2013…

the Group's specialist capabilities were specified on **9 new platforms and programmes**.

Strategies in action…

Ultra's CIS business secured a contract extension to its End Cryptographic Unit Replacement Programme (ECU RP) for the integration & installation phase of the programme. This will see Ultra manage the roll-out and deployment of this critical capability across a multitude of airborne and maritime platforms.





Broaden the Group's customer base

Ultra's independence allows it to sell its wide portfolio of specialist capabilities to a broad range of customers around the world. Ultra supplies to a wide range of different project offices, integrated project teams and platform teams within its customers, the largest of which include; US DoD, UK MoD, MOTC Oman, Rolls-Royce, BAE Systems, Lockheed Martin, Raytheon and Boeing.

Widen Ultra's geographic footprint

Ultra has pursued a strategy of gaining access to the two largest addressable defence budgets in the world. Despite the recent budget reductions, the US still spends more on defence each year than the rest of the nations combined. The majority of Ultra's acquisitions have been in North America and the point has now been reached where the Group has a transatlantic capability and derives more of its revenue from the US and Canada than it does from the UK. Ultra's revenue from the Middle East and Asia Pacific regions is capable of expansion. The Group's growing presence in Australia and the Middle East regions indicates Ultra's intent in this regard.

In 2013…

Ultra won significant* business with **7 new customers**.

In 2013…

the Group was successful in **62 countries** outside of the Group's core markets**.

Strategies in action…

Ultra's CCS business was awarded a contract with the Republic of Indonesia Ministry of Defence for the mid-life modernisation of the first of the Fatahillah Class corvettes, including the development, installation and integration of the combat management system.

Strategies in action…

Ultra's Airport Systems business was awarded a contract to provide a comprehensive suite of Airport Operations and Information Systems at Viracopos International Airport in Campinas, Brazil.

This airport is undergoing significant expansion in preparation for the 2014 FIFA World Cup and the 2016 Summer Olympic games and will soon become the largest airport in South America. Ultra's work commences immediately under a subcontract with Johnson Controls to deploy, integrate and commission a full suite of Airport Operational Systems. The new systems will improve customer service and accommodate the rapid growth in air transport services being experienced throughout Brazil.

*Equivalent to 1% or greater of revenue

**Core markets are defined as Australia, Canada, Oman, UK and USA

Strategic objectives
KPIs charting growth

The indicators shown below have been identified by the Board as giving the best overall indication of the Group's long-term success in improving its FTSE ranking by outperforming the market.

KPI 1

Revenue growth

-2%

2012:
4%

2011:
3%

Description
Growth in total Group revenue, compared to the prior year, providing a quantified indication of the rate at which the Group's business activity is expanding.

Comment
Revenue declined by 2% to £745.2m. The positive effects of both foreign exchange on translation of overseas revenues and the incremental benefit of self-funded acquisitions were outweighed by a decline in underlying constant currency revenues of 4.4%.

KPI 2

Underlying profit before tax growth*

+0.3%

2012:
0%

2011:
10.7%

Description
Growth in Group underlying profit before tax*, compared to the prior year, confirming that additional revenue is being gained without profit margins being compromised, or that profits from new acquisitions are not being diluted.

Comment
Underlying profit before tax increased slightly to £116.8m and the underlying operating margin increased slightly to 16.3%. The additional contribution from acquisitions and favourable foreign currency translation was partly offset by an adverse organic performance, mainly owing to a challenging defence market in 2013.

KPI 3

Growth in underlying earnings per share* over a three-year period

+5%

2012:
9%

2011:
15%

Description
Annual growth in underlying earnings per share*, calculated over a rolling three-year period, indicating progress towards the Board's primary objective.

Comment
Underlying earnings per share in the year were 127.1p (2012: 125.5p), an increase of 1.3%. A final dividend of 29.5p (2012: 27.8p) is proposed. If this is approved at the Annual General Meeting, this will give a full-year dividend of 42.2p (2012: 40.0p) and will be covered 3.0 times by profits.

*see footnote on page 1

KPI 4

Operating cash conversion*

65%

2012:
74%

2011:
110%

Description
Net cash from operating activities, less net purchases of property, plant and equipment, less expenditure on product development and LTIP purchases, expressed as a percentage of underlying operating profit*. Operating cash conversion* is a simple, yet reliable, measure of cash generation, which represents the major element of the Group's short-term incentive bonus scheme.

Comment
Underlying operating cash flow* was £79.0m and the ratio of cash to underlying operating profit was 65%. The cash to operating profit ratio over a rolling five-year period is 91%, despite sustained investment in facilities and R&D over the period.

KPI 5

Total shareholder return

+14% per annum

2012:
+6% per annum

2011:
+9% per annum

Description
Annual total shareholder return (capital growth plus dividends paid, assuming dividends reinvested) over a rolling five-year period.

Comment
Annual total shareholder return over the 5 year period from 2009 to 2013 is 14%.

KPI 6

YOURviews employee engagement survey benchmark for all businesses

81%

2012:
81%

2011:
79%

Description
Ultra's internal employee satisfaction survey, YOURviews, provides an employee engagement rating for each individual business within Ultra and is completed every 1 to 2 years. Answers to various questions are combined to give the overall employee engagement scores.

Comment
Internal engagement in 2013 has been maintained. Drawing on best practice examples, an action plan can be formulated to ensure that employee engagement continues to rise both internally and also against external benchmarks.

In 2012 and prior years, Ultra used a KPI relating to interest cover. This is not included in 2013 as it is becoming less useful measure for the Group. Instead recognising the Group's 'right people' are its most important asset, a non financial KPI relating to the engagement of employees was considered to be a more valuable measure.

Other performance indicators

Ultra's four strategies for growth are described on **pages 14** and **15** of this report. Performance indicators, relating to the Group's success in these four dimensions, are shown on those pages. Performance indicators which relate to the recruitment, retention and development of Ultra's staff are included on **page 41** of this report.

*see footnote on page 1

Market analysis
Ultra's place in the market

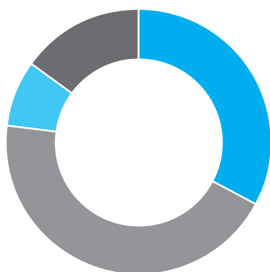
Ultra presents the market with a very wide portfolio of highly-differentiated, specialist capabilities and innovative technologies, applicable across the **Defence** & **Aerospace**, **Security** & **Cyber**, **Transport** and **Energy** domains. In often challenging markets, as government customers wrestle with fiscal uncertainties, Ultra works across the Group and with partners, to offer cost-effective, mature, proven and comprehensive solutions which can best match customer needs and budgets, rather than presenting a standard product. Through this approach, the Group is increasing market access and pursuing areas of customers' preferential spend.

Ultra focuses on constantly and continuously positioning itself in areas of preferential customer spend within its main markets

Markets – where we operate
Ultra is always evolving within its main Defence & Aerospace, Security & Cyber, Transport and Energy markets to sustain growth. Through its proven strategic review process, the Group has demonstrated a long track record of identifying future growth sectors within its core markets. Ultra then invests to create differentiated positions in these sectors.

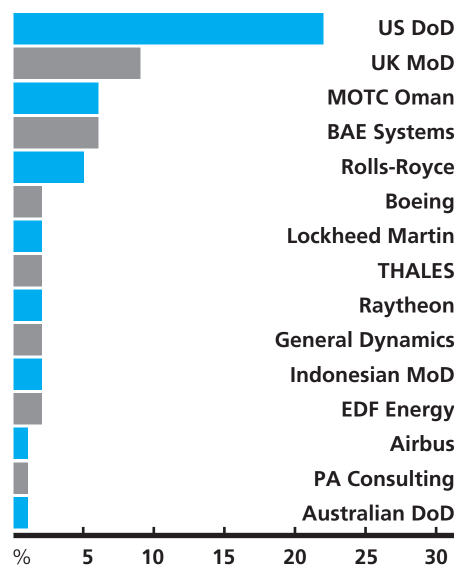
Ultra continues to focus on maximising revenue from the largest addressable defence budgets in the world. The Group has a significant transatlantic capability and derives around half its revenue from North America, where the Group continues to follow a strategy of identifying and pursuing areas of preferential funding. The Middle East and Asia Pacific regions are capable of being larger markets for Ultra. A full analysis of the Group's markets is on the following pages.

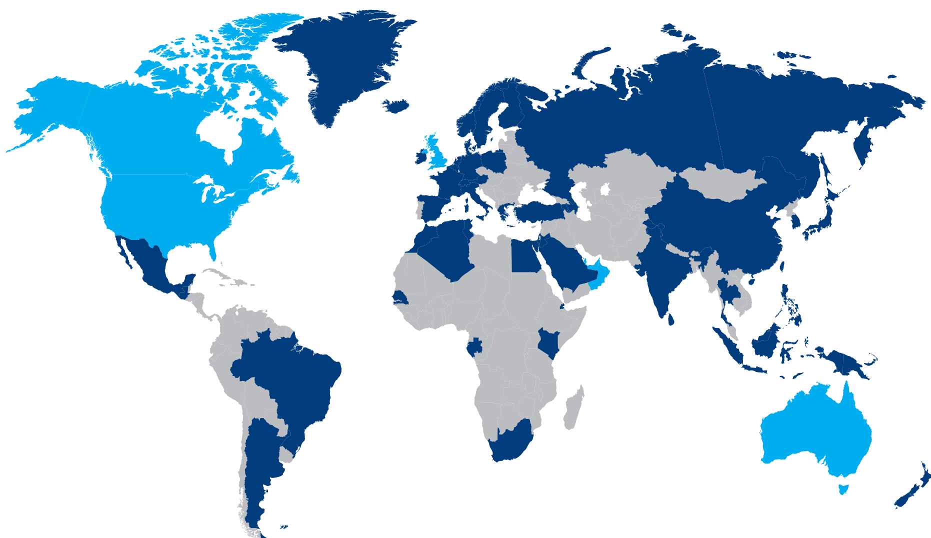
Revenue by region



Region	%
United Kingdom	33%
North America	44%
Mainland Europe	8%
Rest of the world	15%

Ultra's customers
Ultra's independence allows it to work with the world's major prime contractors in its markets and to sell its wide portfolio of specialist capabilities to a broad range of customers around the world. The graphic to the right shows the major customers for the Group's 2013 revenue. Within Ultra's top customers, such as the US Department of Defense (DoD), the UK Ministry of Defence (MoD) and BAE Systems, the Group actually supplies to a wide range of different project offices, integrated project teams and platform teams. Therefore, Ultra deals with a larger number of different partners and customers than the graphic might, at first, suggest.





Geographic reach
A key strategic objective is to broaden the Group's geographic footprint, see **page 15** for more detail. This is carried out in a measured and controlled manner as Ultra continues to focus its resources on a limited number of regions and sectors, where it is seeing growth. Over the last two decades, Ultra has expanded and developed its international footprint and now has significant business in Europe, North America, the Middle East and the Asia Pacific.

Ultra has operations based in the countries shaded light blue on the map above and conducts business in the countries shaded in dark blue.

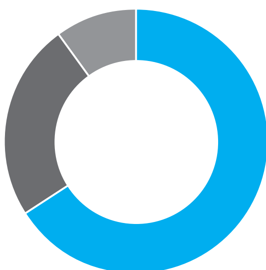
Market analysis
Ultra's view of the market

Defence

Revenue by capability

Defence	57%
Security & Cyber	23%
Transport and Energy	20%

Defence business by domain



Maritime	66%
Air	24%
Land	10%

Within the Group's established markets, defence priorities are shifting from prolonged, land-focused "hold and build" operations back toward the focused intervention and forward presence capabilities which favour maritime, air and special forces. Defence budgets remain under pressure, yet the demand for military readiness or response remains high, in the face of threats from terrorism, piracy, insurgency and regional tensions.

Emerging doctrine places a significant emphasis on intelligence and surveillance assets, together with the secure, wideband connectivity to move data globally and within theatre, down to individual units for improved situational awareness. Cyber protection of this critical data stream, at all levels, remains a high priority. Forward operations in high-risk areas continues to place an emphasis on perimeter surveillance, defensive and counter-measure systems in all war fighting domains. Budget constraints are leading to more life extension projects, phased contract awards and greater reliance upon established, proven solutions, tailored to specific needs. These demands are well matched by the strengths of Ultra's defence portfolio.

USA

The US Government's Bipartisan Budget Act of December 2013 moderated threatened sequester cuts to the total defence budget in FY14 and FY15. Nevertheless an 8% and 2% reduction in the defence investment budget over these two years will need to be found. The subsequent appropriations bills saw policy reflected in sustained, or even increased budgets for intelligence, surveillance and reconnaissance (ISR), maritime and air programmes and cuts in land forces (for example, the Virginia class submarine programme saw a 20% increase in funding, while the US Army's ground combat vehicle project was reduced to a demonstration programme). ISR capabilities will be prioritised, along with capabilities which counter anti-access and area denial systems, designed to counter US maritime and air presence. After a year of budget uncertainty, including the impacts of furloughed staff, threatened staff reductions and even government shutdown, this greater clarity is welcome. Nevertheless, it will take several months for budgets to flow down into contract action and for detailed areas of reduction to become clear. Ultra remains well positioned in the areas of evident programme spend, including increased investment in anti-submarine warfare, intelligence data analysis and secure, high data rate communications.

Strategy in action…

In 2013, Ultra's Flightline business received further contracts for its world-leading wideband sonobuoy receivers relating to the US Navy P-8A programme.

> **The demand for military readiness or response remains high**

Market analysis (continued)
Ultra's view of the market

Defence

UK

The UK defence budget remains anchored upon a core programme with substantial financial contingency, as reiterated in the Defence Equipment Plan, published in January 2014, – a process which has won some much needed headroom. In 2015 the MoD will undertake a Strategic Defence and Security Review (SDSR) in the aftermath of a General Election. Fiscal pressures will undoubtedly remain while other cost pressures, such as the rising cost of manpower, will squeeze the equipment programme, making the choices made in the 2015 SDSR capability debate even more critical. Changes to the MoD equipment customer roles and in the DE&S structure are still hampering some programmes. Ultra has benefited from the improved stability in procurement, most evident in the nuclear submarine programme and is well positioned to deliver capability in priority areas, such as ISTAR, data links, force protection and crypto management.

1 2 3 4

Strategy in action…

In 2013, Ultra's PMES business won a further contract to supply specialist electrical power management equipment to the UK Royal Navy's submarine programme.

Rest of the world

Australia remains an exciting market for Ultra. Following the election in Australia, the government committed to lift defence spending back to 2% of GDP within a decade. A new defence white paper is expected in mid-2015, which will provide much-needed clarity, but Ultra remains well positioned in likely areas of spend including ASW and secure communications. India's comprehensive and ambitious defence modernisation programme provides opportunity, but progress is hampered by a taut procurement regime and the impact of GDP fluctuations on defence funding. Ultra has built strong partnerships with major Indian primes in areas of technological strength, such as high-capacity radios and ASW, that will facilitate access to this growing market. Turkey remains a strong market, despite increasing pressures to favour its growing indigenous defence industry. Ultra continues to partner with Turkish industry to develop the next generation of torpedo defence in a programme which demonstrates its long-term commitment to the region and its willingness to transfer technology. This approach has opened up discussions across the remainder of Ultra's capability portfolio. The Middle East remains a valuable market, primarily through US foreign military sales and through primes, yet Ultra is also seeing emerging, direct opportunities in ASW, vehicle electronics and communications.

1 2 3 4

Strategy in action…

Ultra's GigaSat business won a contract with the New Zealand MoD for the supply of Wideband Global SatCom (WGS) certified fly-away satellite terminals for use as part of the NZDF Strategic Bearer Network.

Market analysis
Ultra's view of the market

Security & Cyber

Revenue by capability

Capability	%
Defence	57%
Security & Cyber	23%
Transport and Energy	20%

At 23% of Group revenue, security & cyber is an important and exciting market for Ultra. Strong investment in the Group's capability portfolio in this area positions Ultra well to access this area of strong budget growth and protected spend.

Budgets for security remain ring-fenced, or are growing substantially, in the face of terrorism, organised crime, drug trafficking and cyber threats. Border security and critical national infrastructure protection opportunities are increasing. Solutions need to be tailored to customer need, comprehensive and fully integrated, drawing upon "best of breed", established and clearly differentiated technologies. Ultra's portfolio approach and access to well-established partners makes the Group highly attractive in this space, both in established markets and other areas of significant interest, such as the Middle East and Central America. Opportunities continue to emerge in this rapidly developing market. For example, an increasing understanding of the vulnerability of internet protocol controlled industrial systems in critical infrastructure is bringing the Group's cyber protection products into new commercial markets, with access through established original equipment manufacturers.

Government, commercial and internet communications and data are increasingly vulnerable to cyber-attack, leading to a developing and diverse marketplace with strong funding. Ultra's investment in this area, strong relationships with national agencies and ability to team with trusted partners, positions it well for opportunities in a number of allied countries. While the commercial market continues to develop, Ultra is investing substantially in its own protection, providing a well-regarded reference capability which can be applied to third parties. While the Snowden leaks have suppressed some opportunities, the demand for intelligence surveillance in sensitive areas (e.g. borders, global event sites, critical infrastructures) remains high.

Strategy in action…

In 2013 Ultra's 3eTI business signed a strategic agreement with Johnson Controls for the provision of Ultra's cyber security technology for use in their industrial control systems.

Strategy in action…

In 2013 Ultra joined the Defence Cyber Protection Partnership: a partnership between the UK government and a group of Britain's leading defence and security companies, working together to bolster the UK's cyber security.

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Market analysis (continued)
Ultra's view of the market

Transport and Energy

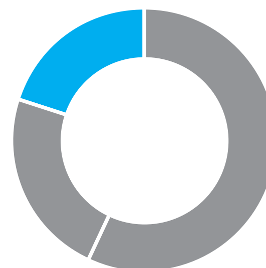
Growing populations, shifts in global financial strength, proliferation of low-cost airlines and a demand for fuel efficiency are driving investment in civil aviation. Increased global air traffic and shifting financial power is driving investment in airport infrastructure. Rail infrastructure, globally, is growing even more rapidly as a key commercial and national enabler in both established and emerging economies. Nuclear energy remains an important part of a low-carbon energy mix in the face of growing energy demand.

Commercial aerospace remains a growing market, with predictions of 6% year-on-year growth in global air traffic in 2014. Growth is very strong in emerging markets (China and the Middle East), but much weaker in the mature markets of US and Europe. Drivers for this sustained demand include air traffic growth and aircraft replacement to introduce improved fuel efficiency, supported by low interest rates. Both Boeing and Airbus secured unprecedented deliveries in 2013, exceeding 2,000 aircraft for the fifth year and they enjoy record back-logs which, combined, exceed 10,000 large aircraft orders. Across the sector, demands for innovative technologies to improve efficiency and increase safety, play well to Ultra's established strengths in control systems and niche aviation technologies, allowing inclusion in a growing number of positions on long-term aerospace programmes.

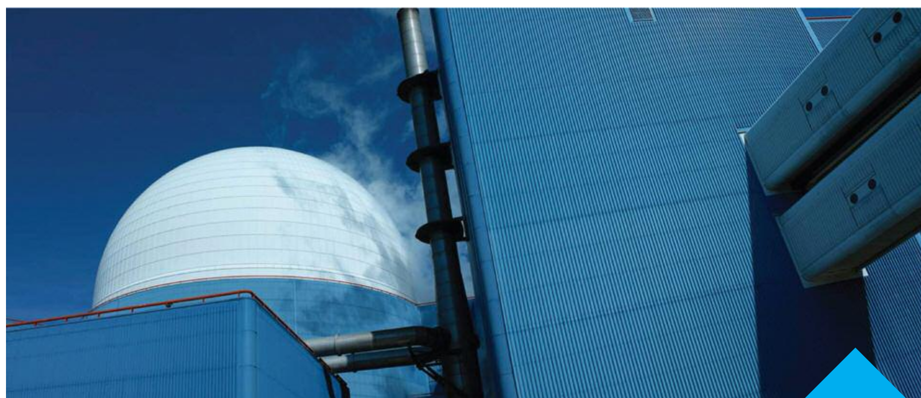
Airport systems and rail remain areas of strong investment in response to the continuing growth in global air traffic. In established economies, infrastructure investment is focused on upgrading existing capabilities and driving economic recovery. In emerging economies, such investment is being used to secure growth, build national capacity and deliver prestigious projects. With an established master systems integrator capability and regional support hub in the Middle East, Ultra is looking for further opportunities in the region over the next five years.

The nuclear energy market continues with steady growth, despite the setbacks following the Fukushima disaster. As national programmes are delayed, there are increased opportunities in life extension and safety system improvements. Meanwhile, the energy debate is driven by growing capacity demands and low-carbon footprint, which makes nuclear an important part of the mix for many countries. Ultra's established position in specialist nuclear sensors, qualified for most major platform designs and the Group's wide-based safety justification and system experience, makes this a growing market for the Group. Smart energy is a potential new market for Ultra, applying its secure communications and database-handling to government and commercial energy management.

Revenue by capability



Defence	57%
Security & Cyber	23%
Transport and Energy	20%



Strategy in action…

In 2013 Ultra's NSPI business was awarded its first contract for nuclear sensors in a non-safety-related application at two US plants, providing access to a broader scope of applications beyond the "reactor island" on the global fleet of Westinghouse nuclear power stations.

Financial review

Mary Waldner Group Finance Director

1.3%

Underlying earnings per share*
up **1.3%** (2012: 3.6%)

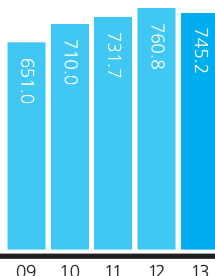
Aircraft & Vehicle Systems saw continuing strong margins, in line with the previous year…

Revenue

£745.2m

KPI

-2.1%
(2012: £760.8m)



Ultra's 2013 results

The order book at the end of 2013 was £781.2m compared with £905.0m (£895.6m at constant currencies) at the end of 2012. Within the order book total, opening firm order cover for 2014, compared with analysts' consensus revenue forecasts, was 57% (2013: 58%).

Revenue

The revenue of £745.2m represented a decline of 2.1%, or £15.6m from the prior year (2012: £760.8m). The positive effects of foreign exchange on translation of overseas revenues and the incremental benefit of acquisitions were outweighed by a decline in underlying constant currency revenues of 4.4%.

With approximately 50% of revenues sold in US dollars, Ultra benefited from a slight decline in the US dollar rate to 1.56 (2012: 1.59) which increased revenues by 0.6%.

Acquisitions contributed a further 1.7% to revenue, reflecting the full-year effects of GigaSat, Barron McCann and RFI, which were acquired in 2012, as well as Varisys and Wood & Douglas, which were purchased in 2013.

The organic revenue decline of 4.4% comprised reductions in two divisions, Information & Power Systems and Tactical & Sonar Systems and an increase in Aircraft & Vehicle Systems.

Reductions in Information & Power Systems reflected primarily the impact on the Group's US businesses of the unexpected federal Government shutdown in October, which impacted the US procurement process, delaying expected orders and approvals. In addition, the reduction in placement of federal service contracts particularly impacted ProLogic's business. Sales from the Indonesian Fatahillah corvette upgrade and strong demand for specialist electrical power management equipment for submarine programmes, in both the UK and US, helped offset revenue reductions in the division. Tactical & Sonar Systems was a mixed picture. Sales into the UK crypto programme, in ASW and surveillance systems in the US were robust. However, this was overshadowed by a significant reduction in sales of tactical radios, both to the export and particularly, the domestic US market. This division was also impacted by the US federal shutdown in October, together with US budget cuts and contract delays. Aircraft & Vehicle Systems sales increased due to the component design and manufacture of an Urgent Operational Requirement (UOR) radio contract for the British Army, together with an increase in sales of Ultra's specialist aircraft ice protection systems.

Operating profit and margins*

Underlying operating profit reduced slightly to £121.7m, with the margin increasing slightly by 0.3pts to 16.3%. The additional contribution from acquisitions and favourable foreign currency translation was offset by an adverse organic performance.

Aircraft & Vehicle Systems saw continuing strong margins, in line with the previous year, reflecting lower engineering costs in the commercial aircraft business and improved business mix. Tactical & Sonar Systems saw margins increase from the previous year, as the decline in the radios business was offset by significant cost reductions in this area, together with the strong performance in US ASW and also the contribution from Litening pods and cryptos in the UK. Information & Power Systems margins reduced as a result of the revenue pressures with, in particular, the sharp decline in software services at ProLogic leading to an under-recovery of overheads. In addition, the Oman IT contract continued to trade at a lower margin than the division as a whole. Ultra continues to invest in research and development to support future opportunities; this investment, at £43.3m, represented 5.8% of group turnover.

Acquisitions contributed an additional £3.5m, primarily reflecting the acquisition of Varisys in June 2013.

Acquisitions contributed an additional £3.5m, primarily reflecting the acquisition of Varisys in June 2013

*see footnote on page 1

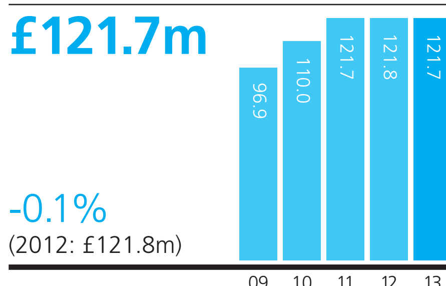
Financial review (continued)

	2013 £m	2012† £m
Underlying profit before tax†	**116.8**	116.5
Amortisation of intangibles arising on acquisition	**(29.1)**	(32.1)
Net interest charge on defined benefit pensions	**(3.4)**	(3.9)
Profit on fair value movements on derivatives	**1.5**	1.4
Acquisition-related costs and adjustments	**9.0**	(1.5)
Unwinding of discount on provisions	**(1.3)**	(0.6)
Impairment of goodwill	**(44.2)**	-
Reported profit before tax	**49.3**	79.8

The table above reconciles the underlying and the reported number.

† the 2012 profit and loss account has been restated to reflect the adoption of IAS19 (revised 2011) 'Employee Benefits'.

Underlying operating profit*



Interest and profit before tax*

Net financing charges*, excluding the unwinding of discounts on provisions, fair value movement on derivatives and the net interest charge on defined benefit pensions, were £4.9m (2012: £5.3m). The reduction reflected lower rates following the renewal of the revolving credit facility in early 2013. The interest on bank debt was covered 25 times (2012: 23 times) by underlying operating profit*.

Underlying profit before tax was £116.8m (2012: £116.5m).

IFRS profit before tax

Ultra's IFRS profit before tax fell from £79.8m (2012) to £49.3m. The principal reason for the reduction was the £44.2m impairment of the acquired goodwill relating to ProLogic.

A severely constrained budget environment and reduction in placement of US service contracts, exacerbated by the federal shutdown in October, has impacted ProLogic's software services business. The services element of the ProLogic business has now been restructured and ProLogic's products remain a critical element of Ultra's crypto capabilities.

The £9m of acquisition related adjustments included the release of a £9.4m provision relating to the GigaSat earn out agreement for which the 2013 target was not met.

Tax, EPS and dividends

The underlying tax rate* reduced to 24.3% (2012: 25.3%) due to a combination of lower UK rates and the release of provisions, following the close of certain tax enquiries around the world.

Underlying earnings per share* were 127.1p (2012: 125.5p), an increase of 1.3%. A final dividend of 29.5p (2012: 27.8p) is proposed. If this is approved at the Annual General Meeting, this will give a full-year dividend of 42.2p (2012: 40.0p) and will be covered 3.0 times.

Operating cash flow

Underlying operating cash flow* was £79.0m and the ratio of cash to underlying operating profit was 65%. This represented a reduction from the £89.6m (74% conversion) recorded in 2012, due predominantly to the phasing of working capital movements. The cash to operating profit ratio over a rolling five-year period is 91%, despite sustained investment in facilities and R&D.

Capital expenditure on property, plant and equipment was £13.9m, down from £20.5m in the previous year. The major expenditure in the year related to: the acquisition of new facilities for the Precision Air & Land Systems (PALS) business in Cheltenham; the development of a Neutron Flux Detector facility to support long-term programmes at the Nuclear Controls Systems (NCS) business in Wimborne and the creation of Cyber Protection Facilities in Greenford and Cheltenham.

*see footnote on page 1

91%

The cash to operating profit ratio over a rolling five-year period is **91%** (2012: 98%)

Capital expenditure on intangible assets (not acquired through acquisitions) was £7.7m (2012: £4.7m), with the increase predominantly due to investment to support the next generation multi-mission radio, the Remote Crypto Monitoring System (RCMS) and development of proximity sensing systems for the Controls business. Amortisation of the same asset class was £2.9m (2012: £3.2m).

There was a net outflow of working capital of £32.4m, compared to an outflow of £10.7m in 2012. There was an outflow of inventories of £4.2m (2012: £2.7m) across a range of businesses, notably in the Group's PALS business, to support customer inspections following the site move, and in its other aerospace businesses also to support customer requirements. The outflow for receivables of £43.1m (2012: £6.0m) and an inflow of payables of £14.9m (2012: £2.0m outflow) includes the impact of an increased debt in Oman, relating to the prolongation of the Airport IT project, which was partially offset by an increase in payables on the project. Receivables were also impacted by a delay in payment approvals following the US shutdown and changes in customer cash management behaviours.

Non-operating cash flow

From the underlying operating cash flow* of £79.0m (2012: £89.6m), the Group funded various non-operating items with net debt reducing slightly to £42.2m (2012: £43.0m). The main non-operating items were:

- cash tax of £25.6m in line with the previous year (2012: £25.6m)
- acquisition spend of £24.7m (2012: £37.0m) including acquisition fees and retention payments, with the majority of the spend related to the two acquisitions completed in the year
- dividend payments of £28.1m, (2012: £26.9m)

Treasury and balance sheet matters

Effect of acquisitions

The two acquisitions made in the year (Varisys and Wood & Douglas) were made at a total purchase consideration of £26.7m, including acquisition fees of £0.3m. The purchase consideration includes cash acquired of £4.6m.

Banking facilities

Ultra's current banking facilities amount to £190m in total, together with a £15m overdraft. They are provided by a small club of banks, led by the Royal Bank of Scotland, and comprise two tranches. The first tranche is a £90m revolving credit facility, which can be drawn down in any major currency and is due to expire in January 2016. The second tranche provides a further £100m of revolving credit, was signed in December 2012 and is due to expire in December 2017. This second tranche is effectively the renewal of the £120m facility which was due to expire in September 2013, but was refinanced early to ensure continuity of funding. Both facilities have the same covenants.

The Group also has a 'shelf' facility with Prudential Investment Management Inc ('Pricoa'). This agreement effectively gives the Group access to the US private placement market on a bilateral basis. The facility is non-committed, but is for up to $195m. At 31 December 2013, $70m of loan notes had been issued, which will mature in 2018 and 2019. By using the Pricoa facility, Ultra has been able to extend the term profile of its debt at a competitive rate and reduce its current liabilities.

As well as being used to fund acquisitions, the financing facilities are also used for other balance sheet and operational needs, including funding day-to-day working capital requirements. The US dollar borrowings also represent natural hedges against assets denominated in that currency.

At the year-end, the total borrowings drawn from the revolving facilities were £27.0m (2012: £29.2m), giving headroom of £163.0m (2012: £180.8m) in addition to the £15m overdraft. £42.4m (2012: £43.3m) of Pricoa loan notes had been issued. The Group also held £30.6m of cash, which was held for working capital purposes and to fund acquisitions.

Interest rate management

Much of the Group's current financing has been taken on to fund acquisitions in North America. To reduce the risks associated with interest rate fluctuations and the associated volatility in reported earnings, Ultra has issued a total of $70m of fixed-rate, seven-year, notes to Pricoa. Consequently, the Group has extended the term profile of its debt and has also fixed a substantial proportion of its interest for the same seven-year period. The amount of fixed-term debt and the associated interest rate policy is kept under regular review.

*see footnote on page 1

Financial review (continued)

100%

Foreign Exchange risks: **100%** of the expected exposure for 2014 is covered

Ultra offers company-funded retirement benefits to all employees in its major countries of operation

Pensions
Ultra offers company-funded retirement benefits to all employees in its major countries of operation. Many UK staff with longer service still participate in the Ultra Electronics Limited defined benefit scheme, which was closed to new entrants in 2003. This is a contributory scheme in which the company makes the largest element of the payments, which are topped up by employee contributions. The scheme was actuarially assessed, using the projected unit method at 31 December 2013, when the net scheme deficit, calculated in accordance with IAS19, was £68.2m, compared to £63.2m in 2012. The present value of the liabilities rose by £34.8m in 2013, mainly because of the lower discount rate, driven by the lower yield on corporate bonds. The increase in the scheme liabilities was partially offset by a £31.6m increase in the value of the scheme assets.

There was a full actuarial assessment carried out as of April 2013, the result of which was a funding deficit relating to past service of £99.8m before tax, representing an increase of £36.2m from the previous funding deficit. Following the completion of the assessment, Ultra reached agreement with the pension scheme trustee board to eliminate the deficit through additional deficit payments over a 10.5 year period; £8.0m in 2014, rising to £8.5m in 2015 and £9.0m for the following 8.5 years. The next valuation will take place as of April 2016.

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

All staff who have joined Ultra in the UK since the defined benefit scheme was closed in 2003, have been invited to become members of the Ultra Electronics Group Personal Pension Plan and since April 2011, the Ultra Electronics Group Flexible Retirement Plan. Under the terms of this defined contribution scheme, company payments are supplemented by contributions from employees.

Certain employees at TCS in Canada participate in a defined benefit scheme. This scheme is closed to new employees and had an IAS19 net deficit of £0.6m at the end of the year (2012: £0.7m). Regular payments continue to be made, with both company and employees making contributions, so as to maintain a satisfactory funding position. The Group's remaining Canadian employees participate in a number of defined contribution pension plans. In the US, Ultra offers a defined contribution 401(k) retirement benefit plan to all full-time employees. Under this plan, Ultra provides participating and contributing employees with matching contributions, subject to plan and US Internal Revenue Service limitations.

Foreign exchange risks
Ultra's results are affected by both the translation and transaction effects of foreign currency movements. By their nature, currency translation risks cannot be mitigated, but the transaction position is actively managed.

The majority of sales made by Ultra's businesses are made in local currency, thus avoiding any transaction risk. However, this risk does arise when businesses make sales and purchases which are denominated in foreign currencies, most often in US dollars. To reduce the potential volatility, Ultra attempts to source, in US dollars, a high proportion of the product sold in US dollars. For the remaining net expense, the Group's policy is to hedge forward the foreign currency trading exposure in order to increase certainty. The expected flows are reviewed on a regular basis and additional layers of cover are taken out so that, for 2014, 100% of the expected exposure is covered, reducing to 30% of the exposure for 2016. Exposure to other currencies is hedged as it arises on specific contracts.

Mary Waldner
Group Finance Director

Financial review (continued)

Ultra's three divisions…

Financial review (continued)

Aircraft & Vehicle Systems

In September 2013, Ultra's **Precision Air & Land Systems** business was awarded a study contract to propose a flammability reduction system for the fuel system of a new passenger aircraft in development. The study helps the client address the changing FAA regulations to meet the stricter new fleet-wide flammability design requirements, as part of a continual drive to improve flight safety. Ultra's solution addresses regulatory and safety requirements and at the same time, satisfies manufacturers' and airlines' needs for lighter, fuel-efficient and cost-effective aircraft sub-systems.

Innovative solutions…

Ultra provides innovative solutions for safety critical and high integrity applications. Products range from in-cockpit equipment and safety critical control systems to fuel tank inerting systems.

Revenue
£155.5m **+5.8%**
2012: £147.0m

Underlying operating profit*
£32.4m **+5.9%**
2012: £30.6m

Order book
£166.0m **+1.5%**
2012: £163.6m

The division specialises in high integrity, safety-critical, real-time control systems for aircraft and vehicle applications. These include airframe and engine ice protection, power distribution and control equipment and noise and vibration cancellation systems. The Group also supplies advanced human-machine interfaces and systems, including those to control unmanned ground and air vehicles. Ultra provides innovative small power sources, including miniature pneumatic systems, propane-powered fuel cells and multi-fuel UAV engines.

Revenue in the period was lifted by increased sales in Ultra's specialist ice protection systems business and by a short-term UOR radio contract for the British Army, as a well as a positive contribution from the Varisys acquisition.

Underlying operating profit reflected a good contribution from the UOR, ice protection sales and the Airbus A400M cargo handling system, as well as operational efficiencies from the site move by Ultra's Precision Air & Land Systems business. These factors more than offset the negative impacts of the under-recovery of overheads and labour from the fuel cell business as a result of delayed UAV orders. These factors, together with lower R&D costs at this point in the division's development cycle, enabled the operating margin to be sustained at 20.8% (2012: 20.8%*).

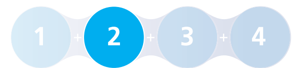
The increase in the order book reflected the receipt of the delayed Lockheed Martin Warrior contract in the second half of the year.

Highlights of activities in the year which will underpin the division's future performance included:

- a £26.3m contract awarded by Lockheed Martin UK under the Warrior Capability Sustainment Programme for the development of a new power distribution system for the British Army's Warrior armoured fighting vehicle
- Ultra's teaming partner Raytheon winning the US Joint Miniature Munitions Bomb Release Unit. Ultra's work share will include the provision of the complete stored energy system. Contract award is expected in the first quarter of 2014
- the award of an exclusive long-term supply agreement with Pratt & Whitney for the electronic control unit which manages the Electrical Ice Protection System on the Joint Strike Fighter's F-135 engine. The agreement is effective for the life of the engine programme

Strategy in action…

Ultra's AMI business is working with partners across the United States to develop innovative power solutions which provide critical power backup to traffic intersections. First responders are often trapped in the traffic jams, caused by the power outages, and the signal crews are often left trapped themselves, unable to reach the signal to restore power or reset the signal. In 2013 during trials in Houston, the city experienced a major storm, which resulted in power outages across the city. Those traffic intersections fitted with Ultra's fuel cell as a backup power source, remained operational throughout this period, minimising the time first responders were delayed in traffic jams and maintaining the safety and integrity of the transportation system.



◀ **Pictured, L to R:** Vassilis Moraris, Performance Analysis Engineer; Brendon Barrett, ILS Manager; Nick Metcalfe, Lead Engineer; Richard Mabbett, Lead Engineer; Keith Scivier, Business Development Manager; Martin Carpenter, Engineering Director; Andy Chilton, New Products Manager; Mike Taylor, Chief Engineer.

*see footnote on page 1

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Information & Power Systems

In June 2013, Ultra's **Nuclear Control Systems** business was awarded a £16.1m contract for the supply of specialist instrumentation by EDF Energy. Under this contract, Ultra will manufacture and support safety-critical nuclear reactor instrumentation for use in EDF Energy's current UK nuclear power stations. This is the first contract to benefit from Ultra's recent investment in a new state-of-the-art nuclear instrumentation manufacturing facility. Ultra is a supplier of nuclear-qualified instrumentation and control systems to key nuclear plant manufacturers and operators around the world. It currently supplies safety-based equipment to 186 reactors in 16 countries.

Nuclear qualified products…

Ultra is at the forefront in the development and manufacture of sensors for critical measurements within the nuclear power plant.

Revenue
£305.0m **-3.4%**
2012: £315.8m

Underlying operating profit*
£41.2m **-8.2%**
2012: £44.9m

Order book
£330.1m **-15.7%**
2012: £391.4m

The division supplies advanced command and control systems for battlespace visualisation, surveillance systems, air defence and naval combat management. The Group provides: perimeter security solutions for critical infrastructure; crisis response planning and management software and secure networks. Ultra's high-integrity sensors and control systems are used for civil and military nuclear reactors and a range of specialist, solid-state electrical power systems which are used for naval vessels and mass transit. Ultra is a world-leading integrator of airport and airline management & information systems.

Revenue in this division was reduced by delays in the federal procurement process, impacting expected orders, milestone approvals and payments and further exacerbated by the unexpected US Government shutdown. The reduction in the placement of US service contracts particularly impacted ProLogic's business. Sales from the Indonesian Fatahillah corvette upgrade and strong demand for specialist electrical power management equipment for submarine programmes in both the UK and US helped offset revenue reductions in the division.

The underlying operating profit reduction largely reflects revenue pressures. In particular the sharp decline in software services at ProLogic led to an under-recovery of overheads. The divisional margin reduced to 13.5% (2012: 14.2%*) with the Oman airport IT contract continuing to trade at a lower margin than the division as a whole.

The order book reduced at the end of the period reflecting the trading of the Oman Airport IT contract, US order intake delays and foreign exchange translation.

Highlights of activities in the year which will underpin the division's future performance included:

- a £16.1m contract for the supply of specialist instrumentation to EDF Energy. Under this contract Ultra will manufacture and support safety-critical nuclear reactor instrumentation for use in EDF Energy's current UK nuclear power stations
- a contract to supply specialist electrical power management systems and equipment to the UK Royal Navy's submarine programme
- a contract worth £32m with the Republic of Indonesia Ministry of Defence for the mid-life modernisation of the first of the Fatahillah Class corvettes, including the development, installation and integration of the combat system

Strategy in action…

Ultra's Airport Systems business, following a five-year contract renewal in 2013, has upgraded its successful UltraTrak Baggage Management System, hosted in Johannesburg, South Africa. The renewal until 2018 guarantees enhanced airline security and improved business performance through UltraTrak's powerful reconciliation, tracking and reporting capabilities. UltraTrak has been used in South Africa since 2008, having originally been deployed in Johannesburg, with hosted operations via WAN at Durban, Cape Town and Port Elizabeth airports. The operational efficiency benefits it delivered drove expansion of the system into 3 further airports: Bloemfontein, George and East London. UltraTrak results in improvement to the service offered to customers by the airlines and reduced delays for the airlines.

◄ **Pictured, Back row, L to R:** Nick Kyprianou, Programmes Manager; Jefferson Ridgway, Physicist; Robert Heath, Instrumentation Team Leader; Kevin Pilley, Nucleonics Test Engineer; Paul Kent, Nucleonics Team Leader; Jonathan Hughes, Supply Chain Development Manager. **Middle row, L to R:** Rikki Douglas, Sales Manager; Charlotte Massey, Project Physicist; Kevin Steele, Mechanical Assembly Operator. **Front:** Andy Russell, Director, Sensors & Radiation Monitoring.

*see footnote on page 1

Financial review (continued)

Tactical & Sonar Systems

In September 2013, Ultra's **Maritime Systems** business announced the award of funding from Industry Canada's Strategic Aerospace and Defence Initiative (SADI). This long-term funding allowed Maritime Systems to kick off a six-year $27.4m internal R&D project which will enable it to leapfrog its international competitors in the fast-growing military towed low-frequency active-passive sonar market. The products developed under this project will introduce next-generation acoustic sensing, data transport, and acoustic projector technologies, culminating with an in-field demonstration capability which Ultra can use to showcase this Canadian technology to its international customers.

Undersea surveillance…

Ultra provides unique engineering, development, testing, evaluation, and management capabilities to develop and deliver technologically advanced underwater battlespace systems.

Revenue
£284.7m **-4.5%**
2012: £298.0m

Underlying operating profit*
£48.1m **+3.9%**
2012: £46.3m

Order book
£285.1m **-18.5%**
2012: £350.0m

The division supplies advanced cyber security solutions, high-capacity communication systems, satellite communication equipment and tactical surveillance equipment to support network-enabled warfare. Specialist areas include data links, encryption for information assurance and electronic warfare. The Group also supplies world-leading ship, submarine and airborne sonar equipment and systems to meet the challenges of the underwater battlespace, including anti-submarine warfare and torpedo defence. Ultra has developed a range of highly efficient acoustic hailing devices.

The period saw good sales in the US for ASW, a strong performance on a UK crypto programme and further sales of surveillance systems in both the UK and US, which partially offset the continued lower sales of tactical radios and the impact of US budget cuts and contract delays.

The increase in underlying operating profit was driven by the performance of the UK cryptographic programme with development and production risks being retired as the programme is delivered. This, together with good contributions from the sales of Litening pods in the UK and ASW sales in the US, resulted in the division's underlying operating margin increasing to 16.9% (2012: 15.5%*).

The order book reduction reflected the trading of the End Cryptographic Unit Replacement Programme (ECU RP) contract and US order intake delays, with the balance largely due to foreign exchange translation. This division also saw increased use by customers of IDIQs and annual 'call-off' contract awards which are not reflected in the order book.

Highlights of activities in the year which will underpin the division's future performance included:

- a £14m contract extension to its End Cryptographic Unit Replacement Programme (ECU RP) for the integration & installation phase of the programme
- a A$15m contract for the upgrade of the ANZAC Class Electronic Support System for the Royal Australian Navy
- an increase in ASW spend reflecting the US 'Pivot to the Pacific' policy. The US Navy has recently issued a five-year IDIQ competitive tender, for which Ultra, through its JV, was the only bidder. Contract award is expected in the first quarter of 2014

Strategy in action…

Ultra's Tactical Communications Systems business has won an order to supply a number of next generation high-capacity radios, for "proof of concept" trials with the US Army, as a precursor to additional WIN-T contracts. This new multi-mission radio (MMR) is the culmination of Ultra's considerable investment and delivers a radio which combines high-bandwidth throughput, performance and operational flexibility within a small form-factor and provides multi-channel high-capacity connectivity across networks. In addition to trials with the US Army, the radio has also been successfully down-selected to compete in trials for a number of major overseas customers.

◄ **Pictured, back row L to R:** Jeff Vienneau, Software Developer; John Caldwell, In-Line Source Program Manager; Drew McDade, AUSS Project Director; Mike Murphy, Test Engineer;

Middle row left to right:
Dr. James Crawford, Senior Transducer Designer; Andrew Keast, Principal Electrical Engineer; Dr. Jeff Bates, Towed Array Mechanical Designer;

Front row left to right: Curtis Somers, Senior Software Developer; Mike Morris, Sonar Systems Engineer; Christian Baribeau, Senior Software Engineer

*see footnote on page 1

1. Introduction
2. Strategic report
3. Governance
4. Group financials
5. Company financials
6. Five-year review

Risk management

Risk is identified, collated, assessed and managed at the most appropriate level of the business (Board, Executive or Business level) as part of the annual strategic planning round. Resulting risks are reviewed regularly to ensure that appropriate mitigations are in place.

Ultra encourages its businesses to challenge the market through innovation and to exhibit audacity. Profitable growth is not achieved without considered risk, so review of business activity and the management of resultant risk has become an integral part of Ultra's processes. Risks are considered and managed as business decisions are made, so that the Group's collective exposure is well understood and controlled.

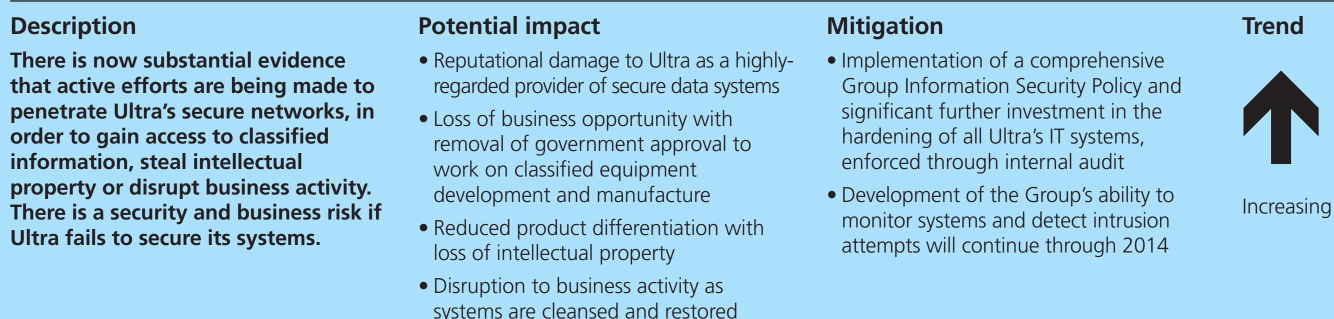
This table illustrates the business activities that are routinely reviewed. The table is illustrative, not exhaustive:

Business activity	Typical review points	Reviewed by: Board	Executive team	Division	Business	Internal peer group	Internal audit
Strategy (competitive)	Vision; market analysis; competitor analysis; differentiation; innovation roadmap; teaming plans	●	●	●	●	●	
Strategy (corporate)	Objectives; culture; strategic moves; acquisition strategy; available financing	●	●	●			
Acquisitions	Specialist capabilities; customers and programmes; synergies; financial performance; financial projections	●	●	●	●	●	
Bids	Plan-to-win, customer understanding; maturity of solution; competitive position; embedded risk (technical and engineering); resources available; cash profile; contract conditions	○	●	●	●		
Contract execution	Progress against plan and milestones; costs incurred/to complete/at completion; risk register	◉	◉	●	●		
Business performance	Orders, sales, profit and cash; month, year-to-date, forecasts; variances to budget and forecast; marketing pursuits; projects under development; compliance matrix	●	●	●	●		
Team development	Organisation review; succession planning; training plans; management and team development activities; performance vs. potential review	●	●	●	●		
Business processes	Quality systems; segregation of duties; disaster recovery; health, safety & environmental management; IT penetration testing	●	●	●	●	●	●
Regulatory and compliance	Compliance with: local laws and regulations, export regulations, security requirements	●	●	●	●		●
Risk management of cyber	Status of the Group's cyber security protection capability against known and anticipated threats	●	●	●	●	●	●

● reviewed as normal practice
○ major only, in accordance with delegated authorities
◉ by exception

Annually, businesses identify risks to the successful delivery of their strategic plan and these are assessed at the divisional level. Risks which are corporate in nature or which span Ultra businesses, are elevated to the Executive Team for management. Resulting strategic risks (shown below and over the page) are assessed and reviewed at Board level.

Risk 1. Cyber-attack (Probability – High)



Description

There is now substantial evidence that active efforts are being made to penetrate Ultra's secure networks, in order to gain access to classified information, steal intellectual property or disrupt business activity. There is a security and business risk if Ultra fails to secure its systems.

Potential impact

- Reputational damage to Ultra as a highly-regarded provider of secure data systems
- Loss of business opportunity with removal of government approval to work on classified equipment development and manufacture
- Reduced product differentiation with loss of intellectual property
- Disruption to business activity as systems are cleansed and restored

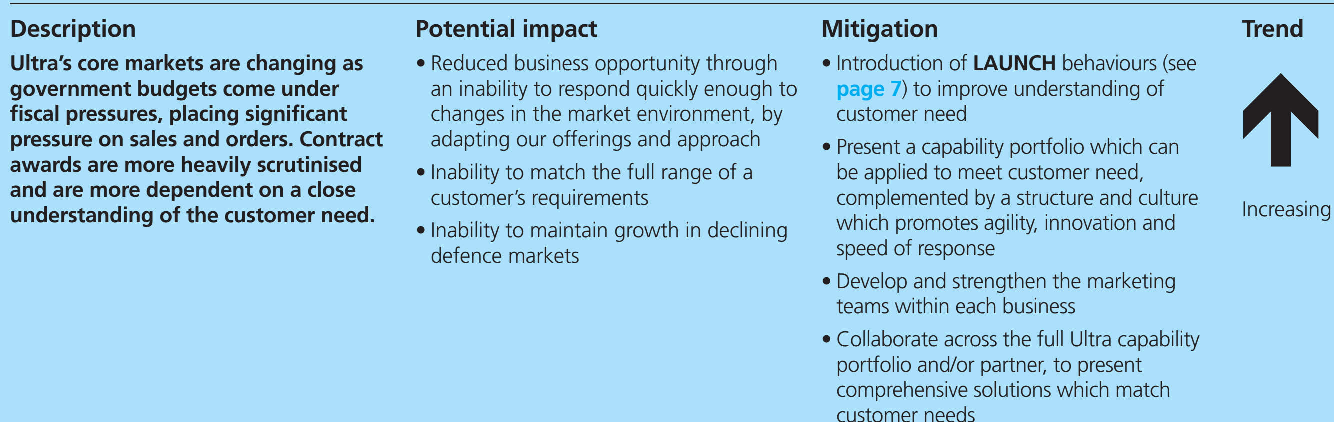
Mitigation

- Implementation of a comprehensive Group Information Security Policy and significant further investment in the hardening of all Ultra's IT systems, enforced through internal audit
- Development of the Group's ability to monitor systems and detect intrusion attempts will continue through 2014

Trend

Increasing

Risk 2. Changing market environment (Probability – High)



Description

Ultra's core markets are changing as government budgets come under fiscal pressures, placing significant pressure on sales and orders. Contract awards are more heavily scrutinised and are more dependent on a close understanding of the customer need.

Potential impact

- Reduced business opportunity through an inability to respond quickly enough to changes in the market environment, by adapting our offerings and approach
- Inability to match the full range of a customer's requirements
- Inability to maintain growth in declining defence markets

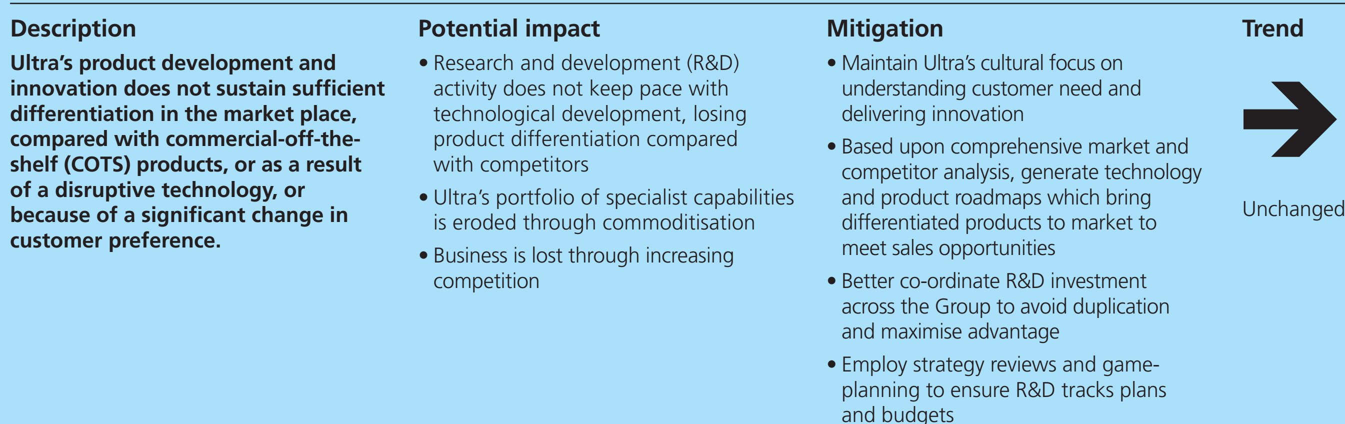
Mitigation

- Introduction of **LAUNCH** behaviours (see **page 7**) to improve understanding of customer need
- Present a capability portfolio which can be applied to meet customer need, complemented by a structure and culture which promotes agility, innovation and speed of response
- Develop and strengthen the marketing teams within each business
- Collaborate across the full Ultra capability portfolio and/or partner, to present comprehensive solutions which match customer needs

Trend

Increasing

Risk 3. Sustaining product differentiation (Probability – High)



Description

Ultra's product development and innovation does not sustain sufficient differentiation in the market place, compared with commercial-off-the-shelf (COTS) products, or as a result of a disruptive technology, or because of a significant change in customer preference.

Potential impact

- Research and development (R&D) activity does not keep pace with technological development, losing product differentiation compared with competitors
- Ultra's portfolio of specialist capabilities is eroded through commoditisation
- Business is lost through increasing competition

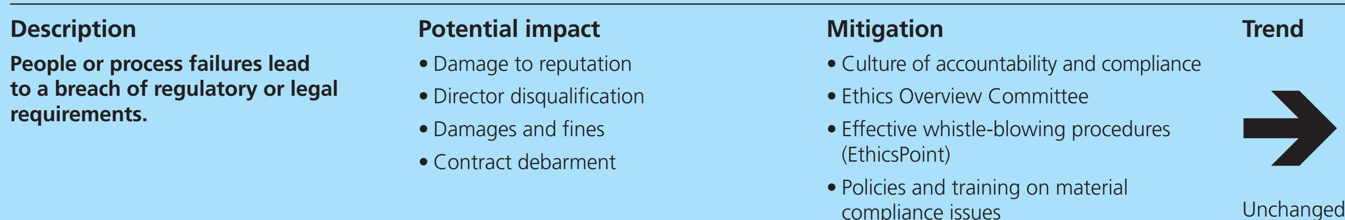
Mitigation

- Maintain Ultra's cultural focus on understanding customer need and delivering innovation
- Based upon comprehensive market and competitor analysis, generate technology and product roadmaps which bring differentiated products to market to meet sales opportunities
- Better co-ordinate R&D investment across the Group to avoid duplication and maximise advantage
- Employ strategy reviews and game-planning to ensure R&D tracks plans and budgets

Trend

Unchanged

Risk 4. Material legal/regulatory breach (Probability – Low)



Description

People or process failures lead to a breach of regulatory or legal requirements.

Potential impact

- Damage to reputation
- Director disqualification
- Damages and fines
- Contract debarment

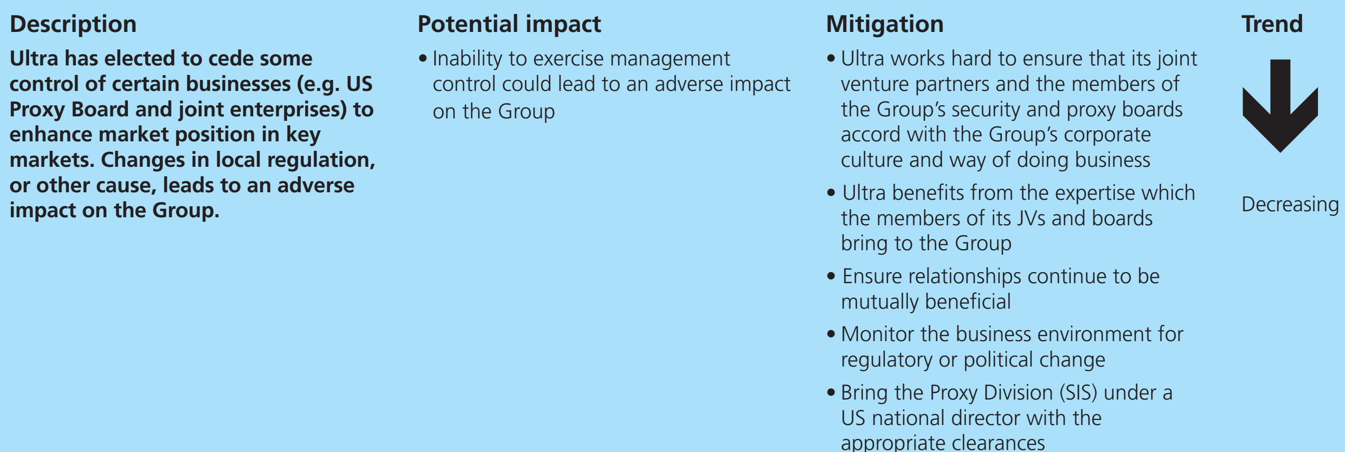
Mitigation

- Culture of accountability and compliance
- Ethics Overview Committee
- Effective whistle-blowing procedures (EthicsPoint)
- Policies and training on material compliance issues

Trend

Unchanged

Risk management (continued)



Risk 5. Business control **(Probability – Low)**

Description

Ultra has elected to cede some control of certain businesses (e.g. US Proxy Board and joint enterprises) to enhance market position in key markets. Changes in local regulation, or other cause, leads to an adverse impact on the Group.

Potential impact

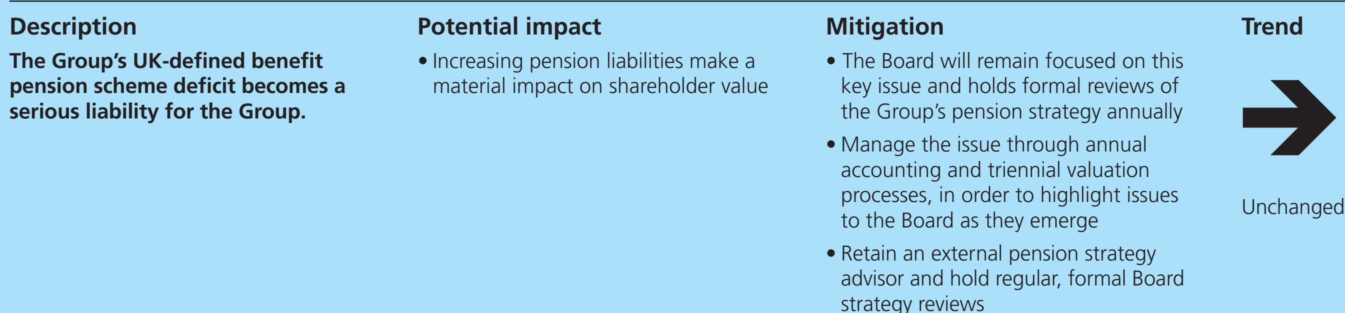
- Inability to exercise management control could lead to an adverse impact on the Group

Mitigation

- Ultra works hard to ensure that its joint venture partners and the members of the Group's security and proxy boards accord with the Group's corporate culture and way of doing business
- Ultra benefits from the expertise which the members of its JVs and boards bring to the Group
- Ensure relationships continue to be mutually beneficial
- Monitor the business environment for regulatory or political change
- Bring the Proxy Division (SIS) under a US national director with the appropriate clearances

Trend

Decreasing



Risk 6: Pensions **(Probability – Medium)**

Description

The Group's UK-defined benefit pension scheme deficit becomes a serious liability for the Group.

Potential impact

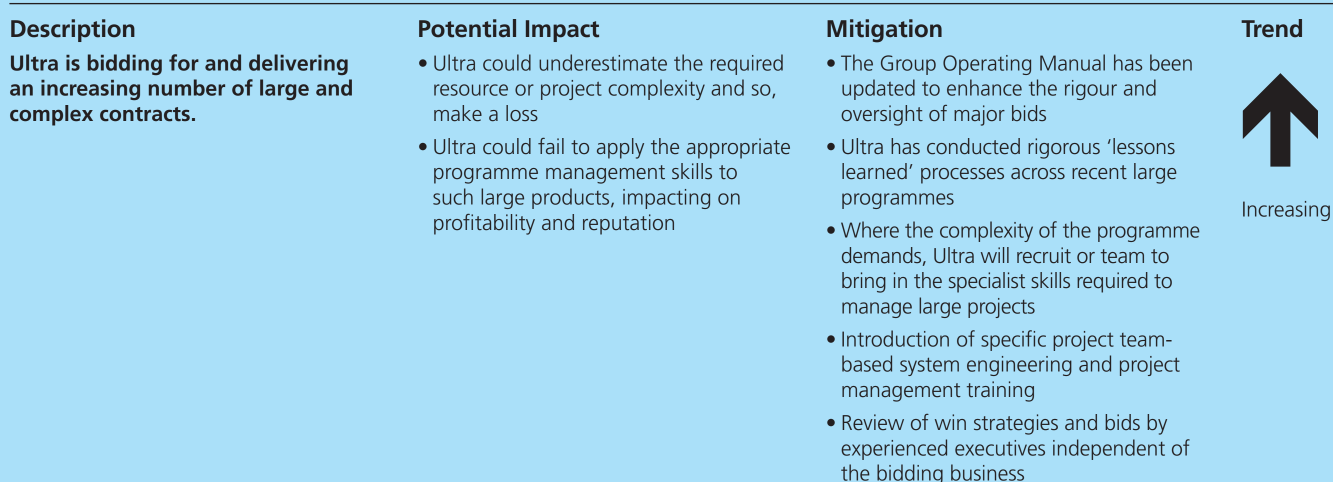
- Increasing pension liabilities make a material impact on shareholder value

Mitigation

- The Board will remain focused on this key issue and holds formal reviews of the Group's pension strategy annually
- Manage the issue through annual accounting and triennial valuation processes, in order to highlight issues to the Board as they emerge
- Retain an external pension strategy advisor and hold regular, formal Board strategy reviews

Trend

Unchanged



Risk 7: Execution of contracts **(Probability – Medium)**

Description

Ultra is bidding for and delivering an increasing number of large and complex contracts.

Potential Impact

- Ultra could underestimate the required resource or project complexity and so, make a loss
- Ultra could fail to apply the appropriate programme management skills to such large products, impacting on profitability and reputation

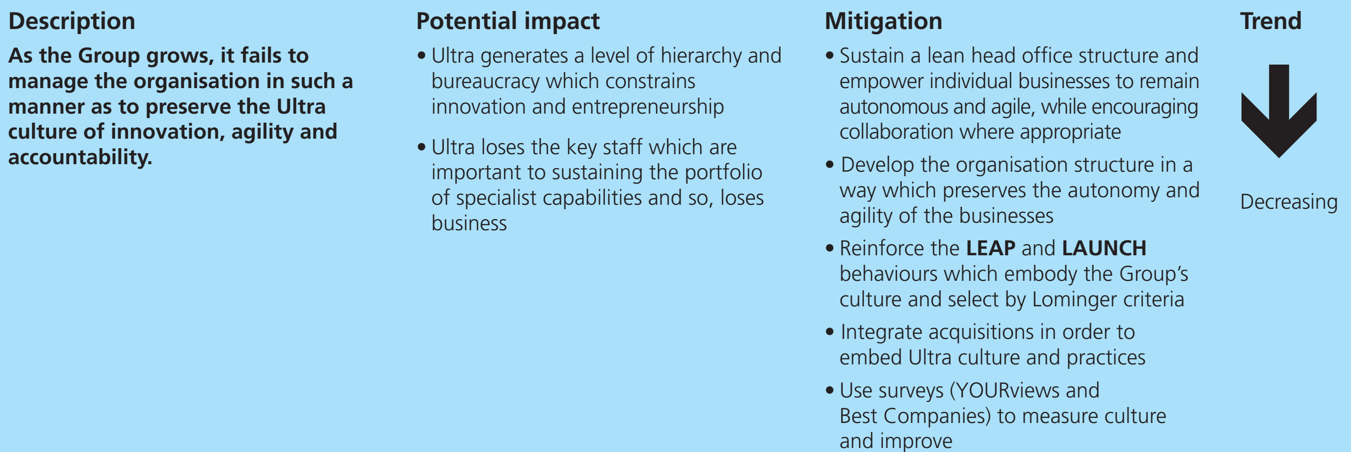
Mitigation

- The Group Operating Manual has been updated to enhance the rigour and oversight of major bids
- Ultra has conducted rigorous 'lessons learned' processes across recent large programmes
- Where the complexity of the programme demands, Ultra will recruit or team to bring in the specialist skills required to manage large projects
- Introduction of specific project team-based system engineering and project management training
- Review of win strategies and bids by experienced executives independent of the bidding business

Trend

Increasing

Risk 8. Ultra culture **(Probability – Medium)**



Description

As the Group grows, it fails to manage the organisation in such a manner as to preserve the Ultra culture of innovation, agility and accountability.

Potential impact

- Ultra generates a level of hierarchy and bureaucracy which constrains innovation and entrepreneurship
- Ultra loses the key staff which are important to sustaining the portfolio of specialist capabilities and so, loses business

Mitigation

- Sustain a lean head office structure and empower individual businesses to remain autonomous and agile, while encouraging collaboration where appropriate
- Develop the organisation structure in a way which preserves the autonomy and agility of the businesses
- Reinforce the **LEAP** and **LAUNCH** behaviours which embody the Group's culture and select by Lominger criteria
- Integrate acquisitions in order to embed Ultra culture and practices
- Use surveys (YOURviews and Best Companies) to measure culture and improve

Trend

Decreasing

Risk 9. New markets **(Probability – Medium)**

Description

Entry into new markets is necessary to maintain growth, but they often have very different, unfamiliar procurement processes and constraints. These are also more likely to require mature products, delivered as packaged capabilities rather than individual products.

Potential impact

- Ultra fails to fully understand the commercial practices and market dynamics of the new regions it is entering, so loses business opportunities while expending resource on presence

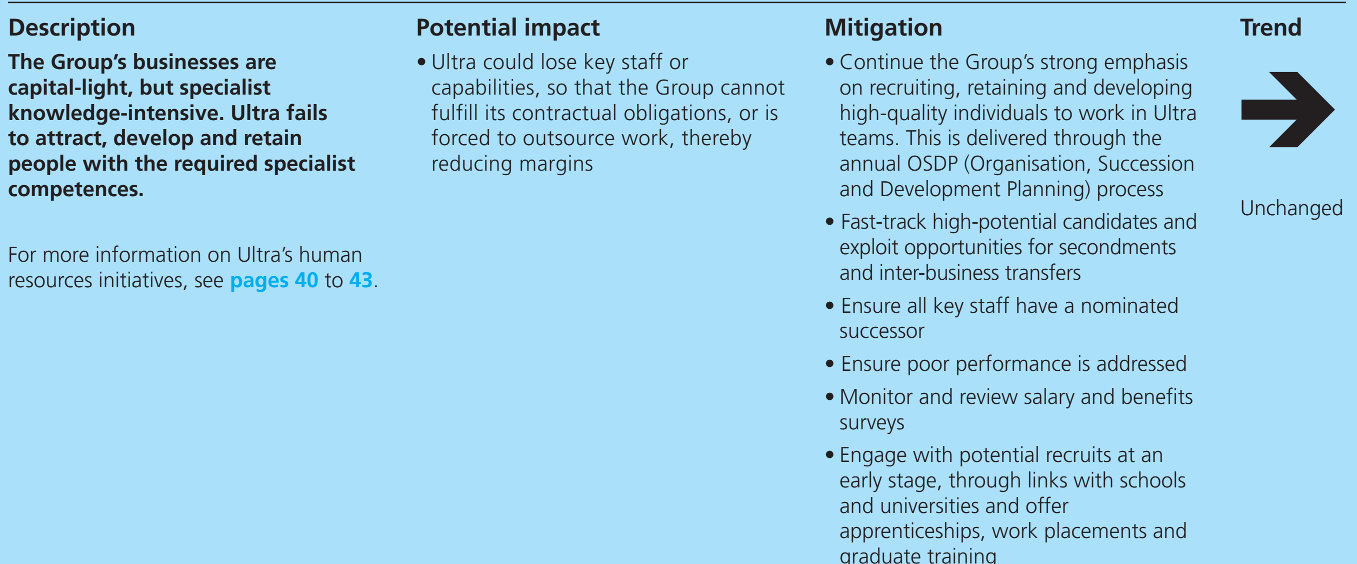
Mitigation

- Engage closely with UKTI and Embassies to improve local knowledge
- Access consultants, local legal expertise and research to better understand target regions
- Use of Regional Marketing Managers
- Develop sound regional partnerships in developing markets to meet offset needs, while maintaining product differentiation and profitability
- Develop lessons learnt from Turkey, Oman, Australia and brief to the wider Group

Trend

Unchanged

Risk 10: Staff retention **(Probability – Medium)**



Description

The Group's businesses are capital-light, but specialist knowledge-intensive. Ultra fails to attract, develop and retain people with the required specialist competences.

For more information on Ultra's human resources initiatives, see **pages 40** to **43**.

Potential impact

- Ultra could lose key staff or capabilities, so that the Group cannot fulfill its contractual obligations, or is forced to outsource work, thereby reducing margins

Mitigation

- Continue the Group's strong emphasis on recruiting, retaining and developing high-quality individuals to work in Ultra teams. This is delivered through the annual OSDP (Organisation, Succession and Development Planning) process
- Fast-track high-potential candidates and exploit opportunities for secondments and inter-business transfers
- Ensure all key staff have a nominated successor
- Ensure poor performance is addressed
- Monitor and review salary and benefits surveys
- Engage with potential recruits at an early stage, through links with schools and universities and offer apprenticeships, work placements and graduate training

Trend

Unchanged

Making a difference

Ultra recognises that the long-term success of the Group will be enhanced through continuous focus on value creation for ALL its stakeholders: shareholders, customers, employees, local communities, the environment and suppliers.

Making a difference… to **Shareholders**:

Ultra aims to extend its long track record of delivering above-average shareholder returns. The Group's primary objective is to continue to outperform the market by delivering above-average increases in earnings and by communicating effectively with shareholders and the financial community.

to **Customers:**

Ultra aims to be an excellent strategic supplier to its customers. To do so, Ultra's businesses are focused on helping customers identify their true needs whilst, developing long-term relationships, based on performance excellence and meeting its commitments. As evidence of this approach, today, Ultra's businesses have built long-term, mutually beneficial relationships with their customers and have become part of the customers' extended enterprises. Examples from 2013 highlight Ultra's commitments to its broad customer base:

- Engineers from Ultra's Sonar Systems business supported three major Royal Navy exercises in the Gulf in 2013. Sonar Systems received letters of commendation from the Royal Navy for its support of these exercises, as well as other initiatives during the year
- Ultra's GigaSat business, a global provider of mobile and fly-away satellite stations, has customers in 70 countries. To support these customers, GigaSat has instituted a "follow the sun" policy, offering global customers 24/7 access to technical support, with calls being routed to support teams in the US, UK, Australia and the Phillippines. The backstop for the system is GigaSat's Technical Director, to whom calls are routed to ensure that customer questions are answered. GigaSat received the Queen's Award for Enterprise for creating local employment
- Ultra's Airport Systems and Ithra businesses, between them, support more than 180 airports around the globe. Airport Systems' and Ithra's customers include private companies, as well as governments, which have vested interests in generating local employment. In 2013, Airport Systems hired local team members in Brazil, Oman and China, facilitating local skills transfer

to **Employees**:

Ultra's ability to innovate to meet customer needs is based on the skills and capabilities of its employees. Ultra believes that the right people are its most important asset. Ultra is committed to developing people and securing the talent pipeline to ensure the Group's continuing growth and success.

Group initiatives for talent development and retention are detailed in the section on Developing Ultra's People on **pages 40** to **43**. However, ultimate responsibility for individual talent development resides within Ultra's businesses, a number of which have launched unique initiatives to ensure continuing employee development. A few examples include:

- Ultra's 3eTI business held an Engineering Challenge in 2013 to identify new product opportunities. Structured as a competitive challenge, the initiative enabled employees to creatively develop new technology concepts. One product was identified to be taken to market. The employee received a commendation for his efforts. This same business runs "3eTI University", which provides consistent training to its employees on subjects ranging from project management to finance and accounting
- Ultra's Advanced Tactical Systems (ATS) business is known throughout the Ultra Group for its purpose-driven leadership. ATS has the following to say about its unique operational model: "We believe that employee engagement is driven largely by a sense of purpose. As such, our most important value is to 'Put the warfighter first'. Our employees understand that what we do really matters to our customers. Along with a sense of purpose, we strive to give the employees as much autonomy as possible."
- Ultra's PMES business periodically presents its "Above & Beyond Awards" to employees who have exceeded expectations. This employee recognition has served to create a cohesive community within the business

in **the Community**:

Ultra's businesses are active and engaged corporate stewards in their local communities. In 2013, Ultra's businesses collectively raised in excess of £100,000 for non-profit organisations around the globe. Many of the businesses have formed special relationships with education institutes in their surrounding communities: hosting company visits, offering graduate training programmes, helping with school science fairs and taking part in the broader dialogue on STEM* education. Each operating business has its own locally-managed charitable budget, which it directs to maintain and grow connections with its local community. The Group encourages and supports employees who undertake voluntary work in the local community or at national levels. Some noteworthy examples in 2013 include:

- Ultra's Maritime Systems business, based in Nova Scotia, Canada focuses its charitable efforts on the "Feeding Others Of Dartmouth" non-profit organisation. Maritime Systems conducted numerous fund-raising activities throughout the year to support this charity and contributed approximately C$5,000 in 2013. The business also fund-raises for prostate and breast cancer, Salvation Army Christmas and Military Families Fund, which yielded another C$5,000 in charitable donations
- Ultra's PMES business raised over £17,000 in 2013 for charitable causes. Local causes include St Giles Hospice, St Joseph's & Etheldreda Church in Rugeley and Birmingham Children's Hospital. National causes include Whizz Kids, Cancer Research, Marie Curie Cancer Care, Help for Heroes, Children in Need and The Princes Trust. Events have included: Climbing Mt Everest, the Palace to Palace Cycle Ride, the London Marathon, Keswick to Barrow Walk, as well as various raffles, sales, quizzes and events
- Ultra's AMI business, located in Ann Arbor, Michigan, is well known in that University town for its contributions to the local entrepreneurial community. AMI supports the University of Michigan Center for Entrepreneurships and participates in AA Spark, an organisation dedicated to the economic prosperity of the greater Ann Arbor region

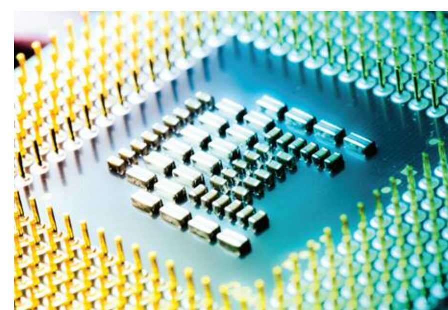
to the environment...

Ultra is cogniscent of its environmental responsibilities. Here, life-expired sonobuoys are being dismantled for recycling and re-use of components.

to **the Environment**:

Ultra recognises that effective measures need to be taken to minimise the environmental impact of its activities. In 2013, Ultra launched a pilot programme with the Carbon Trust, to assess the environmental impact of its Loudwater, UK operating businesses. The study identified opportunities for reducing the environmental performance of the Loudwater site, while identifying material cost-savings which will benefit shareholders. On the back of this pilot programme, Ultra will survey additional sites in 2014.

Ultra has committed to substantial investments in manufacturing facilities which will offer increased efficiencies and reduce energy consumption, while improving productivity across the business.



to **Suppliers**:

Ultra considers its suppliers to be part of the extended Ultra enterprise. Ultra's businesses are reliant on their suppliers to help to deliver the complex products and services, many of which are safety- or performance-critical in their end markets. Ultra is focused on delivering innovative and differentiated solutions which can only be generated through working in partnership with suppliers and customers.

*STEM (Science, Technology, Engineering & Maths)

Developing Ultra's people

The success Ultra achieves in innovating to meet customer needs, is based on the broad range of skills and capabilities of the Group's employees. Ultra recognises this and is committed to having an efficient organisation, with engaged and competent people.

Culture

Ultra defines its culture as the values, role models, processes, procedures and behaviours of its employees which drive the Group's success. Many individuals join the Ultra team each year, through organic growth, natural staff turnover and acquisitions. Ultra is committed to ensuring that its culture is not diluted as the Group grows. The Group's culture, values and behaviours are shaped by the strategic tenets, described on **pages 12** and **13**, with the fifth tenet calling for "an efficient organisation with engaged and competent people". To achieve this, Ultra has identified four cultural behaviours of its people which are highly valued and encouraged. These are leadership, entrepreneurship, audacity and paranoia. Together, they are known within the Group as **LEAP**.

Further information on **LEAP** can be found on **page 10**.

Continuing to ensure that Ultra has positively engaged people, is a key factor in driving forward the performance of the Group…

Ultra is committed to ensuring that its culture is not diluted as the Group grows

What people mean to Ultra

The success Ultra achieves in innovating to meet customer needs, is based on the broad range of skills and capabilities of its employees. All managers in Ultra work towards the aim of delivering an efficient organisation, with engaged and committed people to meet the Group's business commitments. It is vital to the continuing growth and success of Ultra that the quality of the leadership teams is constantly improved. Many companies state that their people are the company's most important asset. Ultra varies this slightly: the Group's 'right people' are its most important asset.

Growth through engagement

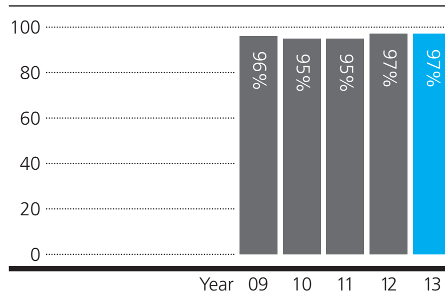
An additional complementary set of behaviours, called **LAUNCH**, was introduced. These behaviours are designed specifically to support improved customer relationship building.

LAUNCH is a way for Ultra's businesses to generate more opportunities and ultimately, to deliver increased growth through enhanced customer engagement.

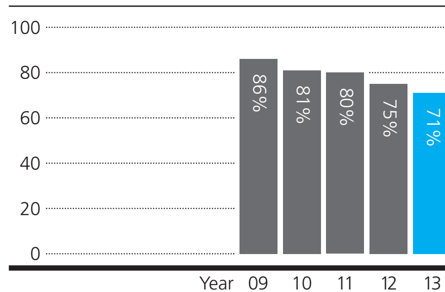
Further information on **LAUNCH** can be found on **page 7**.

Continuing to ensure that Ultra has positively engaged people, is a key factor in driving the performance of the Group forward and Ultra businesses provide a diverse range of opportunities for their employees to become involved with the local community. See **page 39** (in the community).

Retention of 'high-performers'



Internal appointments at Executive Team, divisional and MD/President level (%)



Succession planning and retention
To ensure that Ultra has the right people in the right place in the organisation, each of Ultra's businesses prepares an annual 'organisation, succession and development plan'. In this, individuals are assessed against their performance in their current role and their potential to perform a larger role in the short or longer term. This assessment is recorded in Ultra's Talent & Succession system and gives a 'performance versus potential' rating for each employee. It recognises that any role within Ultra may become more challenging as the business grows and so, the business needs to ensure a supply of suitable talent is available when required. Equal attention is given to enhancing the performance and retention of those individuals throughout the organisation, who meet and exceed standard performance levels and to addressing the challenges of the people who fall into the 'partially meet' or 'does not meet' categories for performance. This does not always mean that those individuals must leave Ultra; it often means that they need to be placed in a role, more suited to their talents and in which they can start to perform to the expected standards of the business. Ultra has achieved high retention rates of those individuals on the business senior management teams, who are continually meeting or exceeding expectations in terms of their performance, or who are high-potential and still developing in their new role. By developing and retaining the identified high potential individuals, the Group is creating its next generation of business leaders, who will be able to take up the challenge of continuing the growth and expansion of Ultra.

The succession planning element of the process aims to ensure that there are suitable successors for all the management team roles across each business and for other senior level roles. Ultra has, as a result, been able to appoint a high proportion of its leaders at Board, divisional and business levels, through internal promotion.

Businesses must also make sure that the talent pool is deep enough to cope with these internal appointments. Therefore, as well as the people listed as successors, each business also identifies people with high potential. The combined list represents Ultra's 'high-flyer' talent pool and is used regularly to find the right people to fill internal vacancies, via the Group's online Talent & Succession system. In a typical year, Ultra recruits over 600 new employees. Over and above this, acquisitions bring new people into the Ultra team. Ultra businesses attend a large number of graduate and undergraduate fairs, utilising current graduates as the Group's ambassadors. Attendance has seen applications for graduate schemes increase and this in turn, helps to ensure that there is a future supply of engineers for the Group.

Ultra has a number of programmes which help the Group to attract the best people, as well as encouraging students to develop careers in engineering or business

Developing Ultra's people (continued)

Engineering Education Schemes case study

A four-strong student team, with the support of Ultra's staff, was set the task of making and testing a dynamic pneumatic hinge. The students were challenged to design a joint which could be dynamic at -40˚C and achieve 250,000 cycles, extending and contracting through an angular motion of 90 degrees, while containing dry air at a pressure of 350bar.

The students completed a design for the joint, which included looking at electrical and hydraulic connections across the hinge. They then used Computer Aided Design tools to model its components and to create animation of the joint moving dynamically. The design was then partially prototyped, through use of 3D printing. With the support of Ultra's recent graduate engineers, a bespoke rig was developed and built, allowing the students to complete the testing of the design ahead of issuing their final report.

Training and development
Ultra actively supports and invests in training and development, linked to business needs. Each business is responsible for identifying the training needs of its employees and managing its own training budget. This typically takes place through individual employee performance and development reviews, which are held at least annually. Ultra has its Learning Academy, an online portal, available to all of the Group's businesses, which enables the scheduling of training, hosts online courses and retains the training records of Ultra's employees.

Specific training programmes are provided for individuals as necessary. In 2013, over 25 different in-house training courses were run in the UK and in North America. Many of these are courses tailored to the specific requirements of Ultra and the trainers have an intimate knowledge of how the Group operates across all its businesses. These training events include programmes on leadership and management, along with workshops on Ultra's successful competitive strategy, strategic selling, programme management and systems engineering. The Group's employees in Oman partnered with Oman Sail, to take part in a three-day leadership and development course. Although based around sailing, the course focused on the strategic, physical and mental activities, critical to the development of leadership and proved extremely valuable to both the employees and the business.

The Group's employees in Oman partnered with Oman Sail, to take part in a three-day leadership and development course

Ultra's businesses have developed corporate partnerships with engineering institutions, including the Institution of Engineering and Technology, in order to support and encourage employees to pursue professional recognition (in the form of CEng, IEng, or EngTech status) for both their current and previous work and academic achievements. Opportunity to participate in national schemes, such as the Engineering Education Scheme (run by the Engineering Development Trust) and competitions promoting STEM* careers, gives students access to real-life current work challenges and enables Ultra employees to develop their management and leadership skills.

Securing the talent pipeline
Ultra has been committed to developing people ever since it was formed in 1993 and has a number of programmes which help the Group to attract the best people, as well as encouraging students to develop careers in engineering or business. Examples of how Ultra businesses do this are:

- Ultra businesses have formed special relationships with schools in their surrounding communities, hosting company visits, helping with school science fairs and providing work experience opportunities. Success stories have seen school work experience students return to Ultra for paid vacation work, be sponsored through their university degree, complete their undergraduate placement year and then begin work as a graduate for the Group
- Ultra has sponsored students through their last years at school. This provides students with support and mentoring during their studies and has led to students electing to undertake STEM degree courses
- Many Ultra businesses have well established and successful apprenticeship programmes, which have gone on to provide the Group with engineering leaders

*STEM (Science, Technology, Engineering & Maths)

- Ultra businesses also provide opportunities for students to work on real projects through work placements, co-operative programmes and paid internship schemes
- Ultra has excellent links with universities around the world. It allows the Group access to leading research and to develop relationships with students who may ultimately join Ultra. The Group sees benefit in working with universities to collaborate on innovation and to recruit students who can make a difference
- Ultra has worked with SEPnet to provide summer work placements to students to help advance and sustain physics as a strategically important subject for the UK economy
- Ultra businesses worldwide have a variety of links with their local business forums and chamber of commerce members in their local areas, helping to encourage STEM* activities. In Indiana (USA), this has included supporting the IPFW Society of Women Engineers and hosting local high school teachers to help influence career choices and retain talent within the region
- Ultra's businesses are members of Engineering UK, Cyber Challenge UK and other bodies which research and develop new ways to attract people into engineering careers, as well as helping to forecast future trends in the sector

Ultra has worked with SEPnet to provide summer work placements to students to help advance and sustain physics as a strategically important subject for the UK economy

Ultra has worked with local schools, helping to encourage and support girls in pursuing careers in engineering

Many Ultra businesses have well-established, successful apprenticeship programmes, which have gone on to provide the Group with engineering leaders for its future

*STEM (Science, Technology, Engineering & Maths)

Sustainability

Ultra believes that a successful and sustainable business is built on more than just financial results. Ultra has a long, consistent track record of development and growth and has built a reputation for meeting its commitments. This reputation is based on Ultra's businesses meeting their obligations and on the manner in which they do so.

Ultra is committed to maintaining high standards of business ethics. The Group's corporate responsibility initiatives are focused in the following key areas:

- **Human rights**
- **Diversity and inclusion**
- **Ethical business conduct**
- **Health and safety**
- **Environment**

Human rights
Ultra acknowledges the UN Guiding Principles on Business and Human Rights and adheres to all relevant government guidelines, designed to ensure that its products are not incorporated into weapons or other equipment used for the purposes of terrorism, internal repression or the abuse of human rights. Ultra's Board requires that the Group should, at all times, be a responsible corporate citizen and, as such, the Group complies with all applicable legislation in the countries in which it operates.

Diversity and inclusion
Ultra is committed to maintaining a work environment which provides equal opportunities for all employees, regardless of nationality, gender, ethnic background, sexual orientation, religious beliefs, marital status, disability or age. The Group complies with all applicable employment rights and legislation in the countries in which it operates.

Ultra uses rigorous recruiting practices to ensure the best candidate is selected, based on objective requirements and assessments. Ultra monitors gender and age diversity.

Ethical business conduct
Ultra is committed to ethical business conduct. In this regard, the Group:

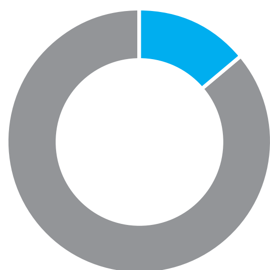
- complies with legal and ethical standards in all countries in which it operates
- provides guidance and training to employees
- has the benefit of an independent Ethics Overview Committee which offers advice and guidance

Meeting legal and ethical standards
Ultra requires all employees, businesses and third parties, who act on Ultra's behalf, to comply fully with the Group's standards of business ethics and with the applicable laws and regulations of the countries in which it does business.

Ultra is committed to operating in accordance with all legislative requirements, including those pertaining to anti-bribery and corruption practices, relevant national export control regulations and competition and anti-trust laws.

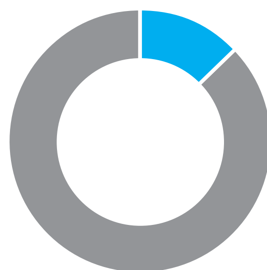
Ultra has a corporate ethics policy, which encompasses a gifts and hospitality policy. All the Ultra's businesses are required to report on compliance with the corporate ethics policy monthly.

Diversity – Board of Directors



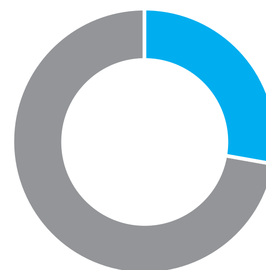
Female	14%
Male	86%

Diversity – Senior management



Female	13%
Male	87%

Diversity – All of Ultra Electronics



Female	28%
Male	72%

In addition, the Board reviews compliance with the corporate ethics policy twice a year.

Providing guidance and training to employees

The Group has continued to strengthen its policies, processes and training to ensure employees have the clear guidance they need in identifying and managing ethical matters.

A Group-wide independent, confidential web- and telephone-based hotline anonymously enables all employees to report concerns about possible improprieties and other compliance issues.

Reports made to the hotline are compiled by the independent operator and forwarded to the Chairman of the Audit Committee (or for US businesses, forwarded to the Directors of the Special Security Arrangement Board or Proxy Board as appropriate) for action. Any employee found to be in breach of the ethics policy is subject to appropriate disciplinary action.

Independent Ethics Overview Committee

An independent Ethics Overview Committee provides independent guidance, advice to, and scrutiny of Ultra's businesses. The Committee provides assurance that Ultra's business is being conducted in line with the Group's policies, processes and in accordance with relevant legislation. It does this through discussions with senior managers, receiving reports and visits to Ultra businesses.

The Committee comprises six permanent members, three of whom, including the Chairman, are independent. To maintain the highest degree of impartiality, the independent members of the Committee are self-selecting. The appointment of the Chairman is also exclusively within the remit of the independent members.

Health and safety

Ultra's commitment to the safety and well-being of the Group's employees and visitors is a key priority. A healthy, committed workforce, working in a safe environment, is necessary to achieve superior business results. Across the Group, the businesses manage a wide range of safety risks. These range from office employees, manufacturing employees and employees providing services at customer sites, including military bases and platforms.

The safety of the products and services provided to users and customers is also of key importance to Ultra. The individual operating businesses ensure that the appropriate legal and ethical levels of safety are met across a product's life cycle, with particular emphasis on the manufacturing, in-service and disposal phases.

The Chief Executive is the Board member with overall health and safety responsibility. All Ultra operating businesses are required to have a written health and safety policy. Each Managing Director or President is responsible for the management of health and safety within their business and for providing adequate resource to meet the requirements of the health and safety policy. Compliance is assessed through independent external audits which take place bi-annually.

Each operating business is required to submit a separate annual report on health and safety performance which, along with the result of the audits, is reviewed by the Board. The reportable/recordable accident rate has been maintained over recent years and is shown in **figure 1**. Lost time accident data per 200,000 hours has been recorded for the whole Group since 2010 and is shown in **figure 2**.

The reportable/recordable accident rate per employee for 2013, fell from 1.06% to 0.77%.

Ultra's continuous safety improvement activities are focused on ensuring that the Group's facilities, infrastructure, processes, products and services are as safe as reasonably practical for Ultra's employees, visitors, customers and users.

Figure 1 Reportable/recordable accidents per employee (%)

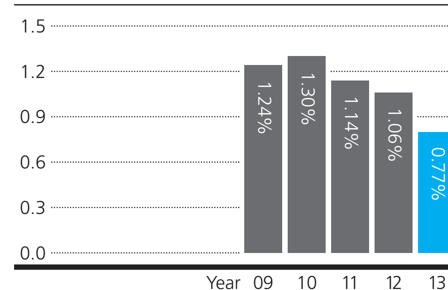
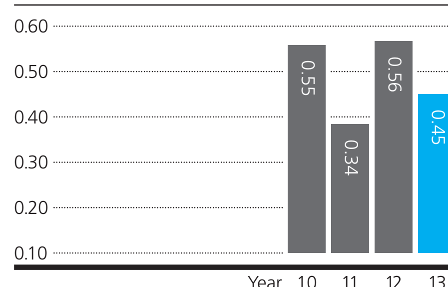


Figure 2 Lost time accidents per 200,000 hours



Sustainability (continued)

Environment
Ultra recognises that it is important, both for its employees and the communities, in which it operates, that effective measures are in place to minimise the environmental impact of its activities, as this will help to secure the long-term future of the Group. These measures include both the operational business environment and the products and services which the Group provides.

Products
The processes and practices in the individual operating businesses ensure that environmental considerations are taken into account throughout a product's life cycle, from concept through to disposal. The individual operating businesses work with their suppliers to reduce the impact of their products and to maximise the use of environmentally-acceptable components. Ultra ensures the full co-operation of all employees to minimise environmental impact and maximise the conservation of materials.

Operational
The Chief Executive is the main Board member with overall environmental responsibility. The Managing Directors and Presidents of the operating businesses are responsible for the implementation of the policy. Where appropriate, individual businesses have ISO14001 accreditation.

Ultra has a formal environmental policy which addresses compliance with environmental legislation, conformity with standards for air, waste disposal and noise, the economical use of materials and the establishment of appropriate environmental performance standards. Progress is monitored through annual reporting and a bi-annual external audit process, the most recent of which took place in 2013.

Compliance with environmental requirements is planned and managed by each site and the processes for the storage, handling and disposal of hazardous or pollutant materials are reviewed on a continuous basis. Ultra has caused no contamination of land in 2013, continuing the excellent track record of the previous four years.

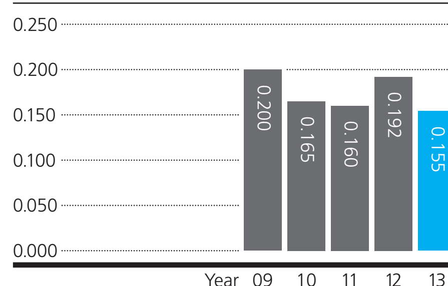
In the UK, Ultra measures and reports on its packaging waste annually and this is shown in the chart below. Businesses are encouraged and incentivised to reduce the net amount of waste they produce.

Energy consumption is measured annually and the data compared with previous years. The Group is increasing its efforts to address energy conservation and emissions.

Ultra in the UK, is registered with the Environment Agency as part of the Carbon Reduction Commitment programme. The Group's compliance emissions grew from 6,511 tonnes (2011/12) to 8,912 tonnes (2012/13) of CO_2, an increase of 37%. Analysis shows that this rise is due to the increased number of operating sites (following several recent acquisitions) and a colder winter when compared to 2011/12.

Ultra's position in the 2012/13 CRC Performance League Table (PLT) is available on the Environment Agency's website.

Packaging Waste
(t/£m sales) in UK businesses



Greenhouse gas emissions
Ultra is committed to the systematic reduction of greenhouse gas emissions and to becoming a good steward for the environment. In compliance with the 2013 Greenhouse Gas Emissions Regulations, Ultra has collected and consolidated information on carbon dioxide (CO_2) emissions from across its portfolio of 28 businesses; 2013 will serve as a baseline year, from which progress against reduction targets will be tracked.

Methodology
In 2013, each business reported on the appropriate greenhouse gas metrics. These metrics were aggregated to produce the figures reported below to which standard DEFRA conversion factors were applied.

Additional environmental initiatives
In 2013, in addition to tracking its carbon emissions, Ultra partnered with the Carbon Trust to conduct a holistic Energy Review of Ultra's Command & Control Systems (CCS) business, headquartered in Loudwater, UK. The CCS survey captured the facility's grid-imported electricity, natural gas and specific annual energy performance. The study identified savings opportunities of approximately £50,000 per annum, which could be realised with £175,000 of upfront investment in energy-saving technologies. In 2014, the Carbon Trust survey will be conducted at several other Ultra businesses.

Ultra's Greenhouse gas emissions – tonnes of CO_2 (tCO_2)

Total tCO_2 emitted by all Ultra businesses	**19,097**
Total tCO_2 from Ultra's business activities (scope 1)	**6,285**
Total tCO_2 purchased by Ultra (scope 2)	**12,812**
Ultra's annual emissions in relation to Ultra's business activities shown as tCO_2 per £m of revenue	**25.63**

Total tonnes of CO_2 emitted by all Ultra businesses

Total tCO_2 (scope 1)	**33%**
Total tCO_2 (scope 2)	**67%**

Ultra is committed to the systematic reduction of greenhouse gas emissions

Governance
Chairman's Governance Statement

Ultra is committed to effective corporate governance. Having the right people, doing the right things and in the right way, is at the core of Ultra's compliance framework.

Ultra is committed to effective corporate governance. Having the right people, doing the right things and in the right way, is at the core of Ultra's compliance framework. The Board sets the tone for ethical standards across the Group. High standards of integrity and ethical behaviour are expected from every employee. Ultra's values of responsibility, authority and accountability and an established commitment of 'delivering on our promises', promote and endorse this behaviour.

During the year, the Board has been engaged in ensuring the Group's governance framework meets the changes introduced by the September 2012 edition of the UK Corporate Governance Code (the Code) and the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the Regulations). The strength of our embedded governance framework and our underlying processes mean, in the main, only changes in how we report the Board's activities within the Annual Report and Accounts, are required. These changes can been seen in our Audit Committee Report on **page 60**, our Directors' Remuneration Report on **page 63** and the Strategic Report on **pages 4** to **47**. Our additional reporting includes the statement, made by the Directors on **pages 58** and **59**, that they consider the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and providing the information necessary for shareholders to assess the Group's performance, business model and strategy. The processes which underpin and support the Directors' confidence in making this statement (which are explained in this Corporate Governance Report) are long-established and fully embedded in Ultra's governance framework.

Having the right people in the right roles extends to Ultra's Board, which is composed of individuals from a wide range of professional and sector experience. This ensures that we have a truly balanced Board, with the right skills and experience to contribute to, and challenge, decision-making. During the year, Mary Waldner joined the Board as the Group Finance Director. Mary has a broad range of experience in a number of sectors and an excellent track record of achievement.

Last year, I wrote to Ultra's major shareholders advising them that, in view of the change of Financial Director and internal auditors in the year, the Board had decided to extend Mr Chris Bailey's tenure, as Non-Executive Director, into a tenth year. He will continue as Chair of the Remuneration, Audit and Nominations Committees. Chris is a highly-experienced, former large plc Finance Director, who brings vital specialist and general management expertise to Ultra's Board. He will provide continuity and risk reduction of the finance function during this period. The Board expects to appoint a replacement finance specialist Non-Executive Director to seek election at the Annual General Meeting in the spring of 2015.

Douglas Caster CBE, Chairman
28 February 2014

Governance
Board of Directors
For the year ended 31 December 2013

Douglas Caster CBE BSc MIET

Chairman
Time with Ultra:
20 years 2 months
Time in position:
2 years 8 months

Douglas Caster is a highly-experienced engineer and manager of electronics businesses. He has a long track record of driving growth through effective acquisition and superior financial performance in the companies he has led.

Douglas Caster started his career as an electronics design engineer with the Racal Electronics Group in 1975, before moving to Schlumberger in 1986 and then to Dowty as Engineering Director of Sonar & Communication Systems in 1988. In 1992, he became Managing Director of that business and, after participating in the management buy-out which formed Ultra Electronics, joined the Board in October 1993. In April 2000, he was promoted to the position of Managing Director of Ultra's Information & Power Systems division. In April 2004, he was appointed Chief Operating Officer and became Chief Executive in April 2005. He was appointed deputy Chairman in April 2010 and became Chairman of Ultra in April 2011.

Rakesh Sharma BSc MBA MInstP CPhys

Chief Executive
Time with Ultra:
20 years 2 months
Time in position:
2 years 8 months

Rakesh Sharma has managed businesses and divisions across the full range of Ultra's wide portfolio, with consistent success in driving growth in the Group. Combining business and technical insight, he ensures Ultra businesses maintain a competitive advantage in the Group's specialist market sectors, while delivering superior financial performance.

Rakesh Sharma started his career as an electronic design engineer at Marconi in 1983, before moving to Dowty as Chief Engineer of Sonar & Communication Systems in 1989. He was appointed Marketing Director of that business in 1993, when Ultra Electronics was formed. From 1997 to 1999, he worked in the US as Ultra's Operations Director, North America. After returning to the UK, he was Managing Director of PMES and then of Sonar & Communication Systems, before taking his first divisional role in 2005 as Managing Director, Tactical & Sonar Systems. In 2008, he moved to run the Group's Information & Power Systems division, before being appointed Chief Operating Officer in January 2010. He was appointed to the Board in April 2010 and became Chief Executive in April 2011.

Chris Bailey* FCA MCT

Non-Executive Director

Time in position:
8 years 11 months

Chris Bailey is a highly-experienced, former large plc Finance Director, who brings valuable specialist and general management expertise to Ultra's Board. He has knowledge and expertise in the organisation of operations in all of Ultra's main geographic markets.

Chris Bailey was appointed to the Board in January 2005. He was Group Finance Director of Aggregate Industries plc until 2004. Before this, he was the Finance Director of the precursor companies of Aggregate Industries from 1984 until its formation in 1997. He is a Fellow of the Institute of Chartered Accountants of England & Wales and is also a Member of the Association of Corporate Treasurers.

Martin Broadhurst* OBE MA C.Dir FIoD FRAeS

Non-Executive Director

Time in position:
1 year 5 months

Martin Broadhurst has a wealth of valuable experience in the defence and aerospace markets, having run a large engineering organisation within the sector for fifteen years. He has demonstrable expertise and skill in growing international business and in expanding capabilities.

Martin Broadhurst was appointed to the Ultra Board in July 2012. He joined Marshall Aerospace as a management trainee in 1975 and, following a number of roles with the company, including Production Director and Director of Programmes, was appointed as Chief Executive in February 1996. During his time as Chief Executive, he served on the Group Holdings Board and was Chairman of a number of subsidiary companies.

*Audit, Remuneration and Nominations Committee member
NOTE: All details correct as at 31 December 2013

■ Executive Director
■ Non-Executive Director
■ Company Secretary & General Counsel

Mary Waldner MA ACMA

Finance Director
Time with Ultra:
6 months
Time in position:
6 months

Mary has a broad range of experience in a variety of sectors and an excellent track record of delivery throughout a number of senior financial roles with major public limited companies.

After graduating from Oxford University with an MA in Physics, Mary started her career at Coopers & Lybrand Management Consultancy Services, before working for Vauxhall Motors Ltd. From 1998 to 2008, she held a number of senior roles at British Airways plc, including Financial Controller (Commercial) and Manager, Corporate Planning and Reporting. Following this, she then moved to 3i Group plc, where she was Group Financial Controller. In 2011, Mary joined QinetiQ Group plc as Director, Group Finance. She joined Ultra Electronics as Group Finance Director and was appointed to the Board in July 2013.

Mark Anderson CB BSc

Group Marketing Director
Time with Ultra:
2 years 7 months
Time in position:
1 year 8 months

Mark Anderson brings a broad customer perspective, operational experience from recent conflicts and collaboration with close allies.

His oversight of Ultra's strategic process will benefit from this broad understanding of the customer need.

Mark Anderson joined the Royal Navy in 1974 as a weapon system engineer, before switching career path to achieve both nuclear submarine and ship command. His MoD staff appointments include policy roles in two Strategic Defence Reviews and equipment customer responsibility for all underwater programmes. He has worked closely with the US throughout his career, including sensitive roles within the US Joint Staff. Promoted to Rear Admiral, he commanded all Fleet Operations and headed the UK submarine service up to the end of his 36 years' service in June 2011. He then joined Ultra in a divisional strategy role, before being selected to join the Board in April 2012.

Sir Robert Walmsley* KCB, FREng

Non-Executive Director

Time in position:
4 years 11 months

Sir Robert Walmsley brings to Ultra's Board, solid experience in the defence, security, energy and transport sectors. He has a deep knowledge of all of Ultra's main geographic markets and a substantial experience of government procurement.

Sir Robert Walmsley was most recently Chief of Defence Procurement at the UK Ministry of Defence (MoD), a post which he held from 1996 until his retirement from public service in 2003. Prior to his MoD appointment, Sir Robert had a distinguished career in the Royal Navy, where he rose to the rank of Vice Admiral in 1994 and served for two years as Controller of the Navy. Sir Robert Walmsley is a Non-Executive Director of Cohort plc and of the General Dynamics Corporation. He was appointed to the Board in January 2009.

Sharon Harris LLB

Company Secretary & General Counsel
Time with Ultra:
2 years 1 month
Time in position:
1 year 8 months

Sharon Harris brings corporate legal expertise to the Board role, together with plc experience in corporate governance, with a strong knowledge of the management and protection of intellectual property.

Sharon Harris graduated from Kings College, London with a Law degree. She started her career at Norton Rose and has international plc experience gained in the FMCG, pharmaceutical, media and electronics sectors. She joined Ultra in November 2011 and was appointed Company Secretary in April 2012.

*Audit, Remuneration and Nominations Committee member
NOTE: All details correct as at 31 December 2013

- Executive Director
- Non-Executive Director
- Company Secretary & General Counsel

Governance
Corporate Governance Report

Compliance statement

Throughout the financial year ended 31 December 2013, the Board considers that it and the Group have complied with the provisions set out in the September 2012 edition of the UK Corporate Governance Code (the Code). The Code is issued by the Financial Reporting Council and is publicly available on their website (www.frc.org.uk). This corporate governance section of the Annual Report & Accounts describes how the Board has applied the main principles of the Code.

Role of the Board

The role of the Board is to provide effective leadership and direction in delivering the key corporate objective of adding long-term shareholder value, as measured by market capitalisation and the Group's ranking in the FTSE index, more rapidly than other companies to outperform the market. The Executive Directors set the Group strategy which is subject to challenge before final agreement by the full Board. The Board also ensures that adequate controls are in place, including calibrating risk appetite and maintaining oversight of Ultra's risk management processes. The Board receives regular compliance reports from the Group's divisions and businesses. The Board requires the Group's businesses to behave ethically and properly at all times and engenders a culture of fairness to customers, suppliers and employees. It is the function of the Group's management, through the Chief Executive Rakesh Sharma and his Executive Team, to run the operations of the Group. The members of the Executive Team are listed on **page 77**.

The Board is responsible for major investment decisions such as acquisitions of companies, the allocation of the Group's R&D expenditure, major new projects and approval of large customer contracts. To this end, in addition to the ten scheduled Board meetings, the Board held five unscheduled Board meetings in the year. The Board conducts regular reviews of the major projects being undertaken by the operating businesses.

A summary of some of the Board's key responsibilities and activities is set out opposite and the full range of Board responsibilities are detailed in the document entitled 'Matters reserved for the Board' which is available from the Investors section of the Group website.

Board matters

At every Board meeting, standing agenda items include:

- The Chief Executive's Report which covers the Group's operational performance, particular performance issues in each division, the overall outlook for the Group and health and safety performance
- The Group Finance Director's Report which covers financial forecasts for the half and full year, review of cash performance to date and future forecasts, review of banking covenants, review of analysts' views of the Group, major shareholdings and major share buyers and sellers
- Major project reports
- Group Marketing Director's report
- Human Resources report
- Review of current acquisition activity and approval of any offers for proposed acquisitions
- Business presentation by a Managing Director/President

Other important topics which are covered on a routine basis during the year are:

- Approval of annual and interim financial statements and accompanying regulatory announcements
- Review and approval of the annual budget
- Approval of the Group's dividend policy, the payment of the interim dividend and the recommendation of the final dividend
- Receiving reports from the Board's Committees, including recommendations from the Audit Committee in respect of: the effectiveness of the Company's risk management and internal control statement; the adoption of the going concern statement; impairment and reappointment of the Auditors and the subsequent agreement to such recommendations
- Review and approval of major capital investment projects and bids
- A full day Board meeting devoted wholly to the review of the five-year strategic plan, with presentations given by the Executive Team and discussions held on significant matters identified in the proposed plan
- Six-monthly review of compliance reports prepared by Divisional Managing Directors/Presidents
- Annual reviews of health & safety and environmental reports summarising the position across all Ultra businesses
- Approval of any changes to the rules of operation of the Group's employee share plans
- Review of the risk register
- Post acquisition reviews
- Tax planning
- Board evaluation
- Consideration of Non-Executive Directors' fees
- Review of the terms of reference of the main Board and the Board Committees
- Corporate governance updates

Other significant matters addressed by the Board in 2013 included:

- Consideration and agreement of the Pension Scheme Revaluation and the Deficit Reduction Plan for the Ultra Electronics Defined Benefit Pension Scheme
- Structure, policies and procedures to address cyber-security risk and cyber-security offerings
- Review of progress made across the Group on mandatory carbon reporting
- Consideration and update of the Group's share dealing code
- Setting out clearly defined and written roles for the Chairman, Chief Executive and Senior Independent Director

Ultra's strategic framework

Board meetings
Comprehensive briefing papers are circulated to the Directors in advance of each Board meeting to enable an informed debate to take place. Acquisition opportunities are presented to the Board by the appropriate Divisional Managing Director/President. This enables a full discussion of the merits and risks of any acquisition proposal to take place at an early stage. Other significant matters that require formal Board approval which are routinely presented by the appropriate business include major bids, updates on key strategic initiatives and major capital and private venture development expenditure proposals.

The scheduled Board meetings are rotated around the sites of the operating businesses. During 2013, the Board visited six operating businesses in the UK. In addition, the Board held one meeting at a North American business, following a tour by the Non-Executive Directors of some of the North American operations.

During Board meetings at Ultra's operating units, presentations detailing recent performance, key opportunities and future forecasts are given by the senior managers of the host business. Product demonstrations and site tours also take place. This gives the Non-Executive Directors a good practical insight into the operating businesses. The Non-Executive Directors also conduct individual visits to businesses. The Directors meet frequently with the Executive Team members who make presentations to the Board on any significant investment proposals, including proposed acquisitions, and to give progress reports on any particular strategic initiatives which the Board may have requested. The Executive Team as a whole meets the Board annually to present the proposed Strategic Plan for the next five years. This is then debated with the Directors, changes agreed and a final plan is approved. In addition, in line with the areas of focus from the 2012 Board evaluation (see **page 55**), the Non-Executive Directors met with the Divisional Managing Directors/Presidents on an additional two occasions in the year.

Product demonstrations and site tours take place. This gives the Non-Executive Directors a good practical insight into operating businesses. The Non-Executive Directors also conduct individual visits to businesses

Meeting attendance 2013
The table below shows attendance by Directors at the Board and Committee meetings. To the extent Directors were unable to attend meetings, because unscheduled meetings were called at short notice or because of prior or unexpected commitments, they received and read papers for consideration at the meeting, relayed their comments in advance and, where necessary, followed up with the Chairman on the decisions made.

	Main Board		Audit Committee		Remuneration Committee		Nominations Committee	
	Actual (inclusive of unscheduled Board meetings)	Maximum possible	Actual	Maximum possible	Actual	Maximum possible	Actual	Maximum possible
Chairman								
Douglas Caster	15	15	4*	4*	5*	7*	1*	1*
Chief Executive								
Rakesh Sharma	15	15	4*	4*	6*	7*	1*	1*
Executive Directors								
Mark Anderson[1]	12	15	4*	4*	-	-	-	-
Paul Dean[2]	4	4	2*	2*	-	-	-	-
Mary Waldner[3]	7	7	2*	2*	-	-	-	-
Non-Executive Directors								
Chris Bailey[4]	13	15	4	4	7	7	1	1
Martin Broadhurst	15	15	4	4	7	7	1	1
Sir Robert Walmsley	15	15	4	4	7	7	1	1

[1] Mark Anderson was unable to attend the Board meetings in October and November and an unscheduled Board meeting in November 2013
[2] Paul Dean resigned on 31 March 2013
[3] Mary Waldner was appointed on 1 July 2013
[4] Chris Bailey was unable to attend unscheduled Board meetings in June and November 2013

*By invitation

Governance
Corporate Governance Report (continued)

Board composition

Current Board of Directors

Chairman	1
Executive Directors	3
Non-Executive Directors	3

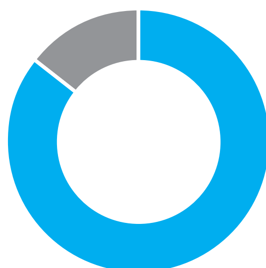
In 2013, Paul Dean, the Group Finance Director resigned and was replaced by Mary Waldner.

Throughout 2013, the Board structure was in line with the Code.

Diversity

Ultra continues to follow its overriding policy of appointing the best person for a particular role, regardless of sex, race, nationality, disability, sexual orientation, age, marital status, religion or beliefs. The Board contends that a board composed of the right balance of skills, experience and diversity of views is best placed to support a company in its strategic objectives. The Board has considered in detail the requirements of the Code regarding gender diversity. In selecting the best person for a role, the Board gives active consideration to the benefits of diversity, including gender diversity. However, setting diversity target aspirations, especially by specific dates, can distort the selection process and conflict with its preferred, diversity-aware 'best person for the role' approach.

Board gender Split



Male	6
Female	1

Engineering is a sector of relatively low female participation, especially in senior management positions. This poses a challenge for the Group in terms of achieving gender diversity with the appropriate knowledge and understanding of the risks associated with the Group's technologies and offerings. Nevertheless, Ultra will continue in its diversity aware 'best person for the role' approach to recruiting. A summary of the gender split across the Board, Executive Team and the Group as a whole is set out on page 44.

Board-tenure and independence

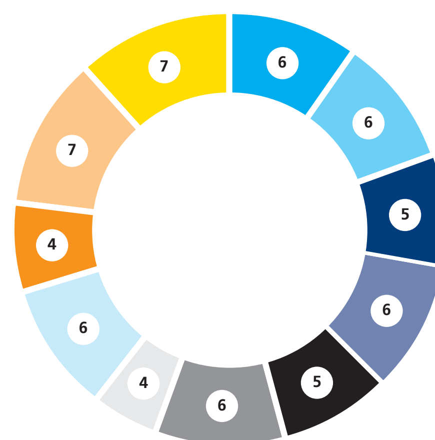
	Tenure years	Independence	Experience on other plc boards
Chairman			
Douglas Caster	3	No	No
Non-Executive Directors			
Chris Bailey	9	Yes	Yes
Martin Broadhurst	1.5	Yes	No
Sir Robert Walmsley	5	Yes	Yes
Executive Directors			
Rakesh Sharma	3	No	No
Mary Waldner	0.5	No	No
Mark Anderson	2	No	No

Board skills and experience

The Board has a balance of skills, understanding, perspectives and experience relevant to the Group's activities. The Board collectively possesses a deep understanding of the Group's core defence, security, transport and energy markets. This is complemented by its members' experience and expertise in other industries and other disciplines including procurement, accountancy, financial management and growing international businesses. There is knowledge of best practice in other companies and other industries, and the Board seeks to adopt new methodologies when these are seen to be in the best interests of the Group. This range of skills and experience informs the Board's decision-making and enables it to provide effective leadership.

The particular skills and experience that each Director brings to the Board are described in their biographical details on pages 50 and 51 and are summarised opposite.

The Group has a policy whereby Executive Directors, but not the Chief Executive, may accept one appointment as a non-executive director in another listed company. Executive Directors are permitted to retain any fees from such external appointments.



○ Number of Directors with skills and experience described

- Defence and Security
- Transport
- Energy
- Engineering
- Production
- Project management
- Finance
- Procurement
- Marketing
- Management
- Cross border trade

Board roles

There is a clear division of responsibilities between the Chairman, the Chief Executive and the Senior Independent Director, such that no one individual has unfettered powers of decision making. This division of responsibilities, which is in writing, has been agreed by the Board and is summarized in the table below.

Role of the Chairman	Role of the Chief Executive	Role of the Senior Independent Director
Douglas Caster is responsible for:	**Rakesh Sharma is responsible for:**	**Chris Bailey is responsible for:**
Effective running of the Board	Running the Group's business and operations with the aid of the Executive Team	Being available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive or other Executive Directors has failed to resolve or for which such contact is inappropriate
Ensuring that the Board as a whole plays a full and constructive part in the development and determination of the Group's strategy and overall commercial objectives	Proposing and developing the Group's strategy and overall commercial objectives	Attending meetings with major shareholders and financial analysts to obtain a balanced understanding of their issues and concerns
The Board's decision making process	Ensuring, with the Executive Team, the implementation of the decisions of the Board and its Committees	Meeting with the Non-Executive Directors at least once a year to appraise the Chairman's performance and on such other occasions as are deemed appropriate
Setting the agenda for the Board, taking into account the important issues facing the Group. All Directors are able to add items to Board agendas	Providing input to the Board's agenda from himself and other members of the Executive Team	Chairing the Nominations Committee and, in that role, initiating change and succession planning in Board appointments to retain and build an effective and complementary Board, and to facilitate the appointment of effective and suitable members and Chairmen of Board Committees. The Board as a whole determines the chairmanship and membership of Board Committees
Ensuring the Board receives accurate, timely and clear information	Ensuring the Executive Team give appropriate priority to providing reports to the Board which contain accurate, timely and clear information	
Ensuring effective communication between the Company and its shareholders	Leading the communication programme with shareholders	
Ensuring the performance of the Board, its Committees and individual Directors is formally and rigorously evaluated	Ensuring that performance reviews are carried out at least once a year for each of the Executive Directors, providing input to the wider Board evaluation process	

Non-Executive Directors

Chris Bailey, Sir Robert Walmsley and Martin Broadhurst are the Group's independent Non-Executive Directors. The Board considers them to be independent. In assessing independence, the Board considers that they are independent of management and free from business and other relationships which could interfere with the exercise of independent judgment now and in the future. The Board believes that any shareholdings of the Chairman and Non-Executive Directors serve to align their interests with those of all shareholders. The Non-Executive Directors have wide experience of working in a variety of different government and industry roles with exposure to international business.

The key role of the Non-Executive Directors, along with the Chairman, is to provide an appropriate level of challenge and constructive criticism to the plans of the Executive Directors. The Non-Executive Directors met without the Chairman or Executive Directors being present on several occasions during the year to discuss aspects relating to the Board and the Group and appropriate feedback was given.

On behalf of the Group, the Non-Executive Directors are active in developing relationships at a senior level with Ultra's key suppliers, customers and business partners.

Insurance

The Group maintains an appropriate level of Directors and Officers Liability insurance cover in respect of legal action against its Directors.

Board appointments – the process

In making appointments to the Board, the Board, through the Nominations Committee, is careful to identify the skills, knowledge and experience needed for each role and to complement the existing skills mix provided by other Board members. To ensure selection from the widest possible talent pool, it is Ultra's normal practice to engage the services of independent, external search consultants in recruiting new Directors.

The recruitment process for the appointment of Mary Waldner as Group Finance Director was set out in the 2012 Annual Report.

Directors' induction and training

All new appointments to the Board receive a comprehensive induction to the Group. This covers its corporate structure, the products and services of the Group's businesses, the key markets in which the businesses operate and the key risks which the Group faces, together with the actions and plans which are in place to mitigate against these. On appointment, each Director receives a full induction pack explaining Ultra's governance framework, policies and procedures and a briefing from the Company Secretary & General Counsel on the legal, governance and control framework.

Programmes of visits to Group businesses are arranged. It is important for these to encompass as many businesses as possible, since no two Ultra businesses are alike. New Directors are encouraged to meet business and divisional management teams to gain a feel for the Group's style and culture. Mary Waldner joined Ultra as Group Finance Director on 1 July 2013. In addition to receiving a full induction pack, she undertook an induction program consisting of visits to various businesses across the Group and meeting with the management teams of these businesses.

The Company Secretary & General Counsel annually presents to the Board on corporate governance. The Board is briefed on significant changes in the law or governance codes affecting their duties as Directors. Experts present to the Board on specialist areas, such as pensions and tax. Specific training is arranged for Directors as and when appropriate. The Directors are able to call on independent professional advice at anytime should this be necessary in order for them to carry out their duties.

Board evaluation

The Chairman commissions externally-facilitated annual Board evaluations. Board evaluations run on a two year cycle. One year, the effectiveness of the Board and its Committees is evaluated. The next year, individual Director's performance is evaluated.

Following an evaluation of the effectiveness of the Board and its Committees in 2012, the 2012 Annual Report and Accounts set out the areas of focus going forward. An update on progress made on these actions is set out in the table on the **next page**.

Governance
Corporate Governance Report (continued)

Update on actions from the 2012 Board evaluation

Focus	Actions	Progress
Given the Group's operations in the US, it was concluded that a North American representative on the Board would contribute to the Board's insight and experience of the US market	The Board agreed that when appointing a new non-executive director this requirement would be taken into account	This observation would be taken into account as part of the Board's succession planning
The level of Board interaction with the Divisional Managing Directors/Presidents would be increased	In addition to presenting the Strategic Plan annually, the Divisional Managing Directors/ Presidents would meet with the Board part way through the year to give an update on actions arising from the Strategic Plan. The Non-Executive Directors would aim to meet with the Divisional Managing Directors/ Presidents three times a year	In addition to the Group strategy day and project presentations to the Board, the Non-Executive Directors met with the Divisional Managing Directors/Presidents twice in the year
Risk management reporting would continue to be developed	It was agreed that: • The strategic risks as set out in the 2012 Annual Report would be reviewed by the Board twice annually • An enhanced unified reporting format for major project risks would be implemented • An issue tracking tool would be used to record control issues identified by internal audit along with agreed actions and timeframes for their remediation	• The strategic risks as set out on pages 34 to 37 are reviewed by the Board twice annually • A review of the reporting format for major project risks was conducted and an improved format adopted • An issue tracking tool has been adopted to record control issues identified by internal audit along with agreed actions and timeframes for their remediation

Board evaluation (continued)
In 2013, Mr Jack Telfer facilitated a review of individual Director's performance. All Directors completed a detailed questionnaire requiring them to give feedback on their fellow Board members' contribution. The objective of this process was to encourage the improved performance and effectiveness of the Board. A report of the results was given to the Chairman of the Board, detailing any significant points pertaining to individual Directors and broader issues regarding the combined strengths and weaknesses of the Board. Mr Telfer reviewed the report with the Chairman to discuss possible actions arising and the feedback to be provided to individual Directors. The review concluded that each Director contributes effectively and demonstrates commitment to the role. There is an appropriate balance of skills, experience, independence, diversity and knowledge of the Company to enable the Directors to discharge their respective duties and responsibilities effectively. Commitment of time by all Directors for Board and Committee meetings and other duties was also considered sufficient for the effective discharge of their responsibilities.

Mr. Telfer has considerable experience of working at board level. He was the Human Resources Director of the Group up until June 2004 (when he left Ultra to set up his own consultancy) and so was able to facilitate the evaluation from a position of having a good understanding of the Group and its culture. He provides a valuable insight into the Group's challenges and needs and is able to assess the Board and its Committees in the context of the Group's development.

Annual re-election of Directors
All the Directors will stand for re-election at the Annual General Meeting on 30 April 2014. Under normal circumstances, the Board would have sought to replace Chris Bailey as he has served for a period of nine years. However in view of the significant changes in the year to the Group's financial function referred to on page 49, the Board will seek to extend Chris Bailey's appointment for a further year. The Board expects to appoint a new finance specialist non-executive director to seek election at the Annual General Meeting in the spring of 2015. The Board considers that Chris Bailey will continue to exercise his independence.

Conflicts of interest
The Group has in place procedures for managing conflicts of interest. Ultra's Articles of Association also contain provisions to allow the Directors to authorise potential conflicts of interest so that a Director is not in breach of his or her duty under company law. If Directors become aware that they have an interest, directly or indirectly, in an existing or proposed transaction with Ultra, they should notify the Board in line with the Articles of Association. Directors have a continuing duty to update any changes to their conflicts of interest.

Internal controls
The Directors carry out an annual review of the effectiveness of the Group's internal control systems. This covers the ways in which identified strategic, operational and financial risks are managed. Particular attention in the year was paid to the security of the Group's IT systems and cyber security, and generally on improving information security management. Cyber security has been identified as the Company's number 1 risk (see page 35). During the year under review, an Information Security Policy was put in place for the Group and all businesses were required to sign up to this policy. This policy highlights the guiding principles necessary to safeguard the security of the Group's information systems. It provides guidance on the management of information, documented or otherwise, and the processes to be followed should there be an incident which occurs, such as breakdown of communication or network failure.

Ultra's internal controls are designed, and have evolved over time, to meet the Group's particular needs and the risks to which it is exposed. However, no controls can provide absolute assurance against material errors, losses or fraud. The key features of the internal control system that operated during the year are described in the Audit Committee Report on page 61.

Risk management
Risk assessment and management is not treated as a separate function within Ultra. It is assessed and managed as an integral part of all of the Group's management and control processes. The key features of the risk management system are described in the Audit Committee Report on page 61.

Financial reporting systems
The Group has a well-established process for collecting financial information from operating businesses and for consolidating this at divisional and Group level.

Financial results for operating businesses, each division and the whole Group are provided to the Board monthly and presented at every scheduled Board meeting. Ten scheduled Board meetings are held each year. When a scheduled

Board Meeting is not held in the month, the Directors receive the following information: a summary financial report for the Group comprising consolidated financial information and business financial information; summary financial reports from each of the businesses; and a shareholder analysis summary report on Ultra. The Chief Executive and Group Finance Director explain the significance of any major impacts on the financial performance and draw the Board's attention to any significant trends or deviations from budget revealed by forecasts of future performance.

Shareholder communication

The Group is committed to ensuring effective communication with its shareholders and encourages an open dialogue with shareholders to promote a mutual understanding of objectives and expectations. Throughout the year, Ultra initiates tailored events and responds to meeting requests with current and prospective investors and financial analysts. In line with Ultra's commitment to clear and open communication with shareholders, in September 2013, the Chairman on behalf of the Board wrote to Ultra's major shareholders advising them of the Board's intention to extend Chris Bailey's appointment by a further one year (see explanation on **page 49**). No major issues were raised by those shareholders.

Meetings are held with institutional investors and financial analysts after the release of the interim and full year financial results, at which detailed briefings are given. These briefings can also be found on the Investors section of the Group's website, together with copies of all regulatory announcements, press releases and copies of the published full year and interim accounts and reports.

The Chief Executive, Chairman, Group Finance Director and Marketing Director regularly meet institutional shareholders or potential shareholders either individually or as part of group meetings.

The Board is regularly updated by Ultra's stock broker on analysts' and major shareholders' views on the Group. The Chairman and Non-Executive Directors are always available to meet with shareholders should they have any concerns or questions that they wish to raise.

Each year, Ultra organises focused events and/or site visits to provide greater insight into the strengths and potential of its extensive portfolio of specialist capabilities. These range from introductory briefings on the Group as a whole to presentations on specific areas of capability. Visits and presentations in the year included a visit to Ultra's Wimborne site which comprised a review of Ultra's nuclear sensors and instrumentation capability, and discussion on how this applies to the current and future nuclear energy market. The briefing also covered overviews of Ultra's technology relating to cryptography, aerospace controls, radios, vehicle electronic architectures and rail power management. Ultra invites investors and members of the financial community to exhibitions, such as the Farnborough Airshow and the Defence & Security Equipment International exhibition. Members of the Executive Team also take part in investor briefings organised by third parties.

All shareholders are invited to attend the Annual General Meeting where they have the opportunity to meet with Directors and to ask questions. Voting at the Annual General Meeting is conducted by way of a show of hands. Proxy votes lodged for each Annual General Meeting are announced at the meeting and published on Ultra's website. Electronic communication with shareholders is preferred wherever possible since this is both more efficient and environmentally friendly. However, shareholders may opt to receive hard copy communication if they wish.

Shareholder analysis

The majority of Ultra's shares are held by institutional shareholders. The Chairman, Chief Executive and other members of Ultra's Executive Team have holdings in Ultra, many of whom have retained shares awarded via share option or long term incentive schemes.

Shareholder analysis by category of shareholder as at 31 December 2013

Fund	Holding	%
Unit trusts	39,216,481	56.18
Pension funds	10,187,917	14.59
Other managed funds	3,934,498	5.64
Sovereign wealth	3,529,974	5.06
Insurance companies	3,386,993	4.85
Private investor	2,825,641	4.05
Mutual fund	823,987	1.18
Investment trust	709,706	1.02
Custodians	652,641	0.93
Hedge fund	595,404	0.85
Exchange-traded fund	500,081	0.72
Employee share scheme trustees	235,247	0.34
Charity	152,057	0.22
Local authority	123,086	0.18
Other	2,931,171	4.19
Total issued share capital	**69,804,884**	**100.0**

Shareholder analysis by size of holding as at 31 December 2013

Size of shareholding	Total number of holdings	% of holders	Total number of shares	% issued capital
1-50	128	7.81	2,811	0.00
51-100	84	5.13	6,918	0.01
101-250	356	21.72	65,305	0.09
251-500	246	15.01	91,606	0.13
501-1,000	243	14.83	172,005	0.25
1,001-5,000	281	17.14	589,443	0.85
5,001-10,000	52	3.17	367,650	0.53
10,001-25,000	72	4.39	1,101,845	1.58
25,001-50,000	47	2.87	1,649,559	2.36
Over 50,000	130	7.93	65,757,742	94.20
Total	**1,639**	**100.00**	**69,804,884**	**100.00**

Financial calendar

26 March 2014	Annual Report and Accounts published
9 April 2014	Ex-dividend date
11 April 2014	Record date
30 April 2014	Annual General Meeting
2 May 2014	Final dividend payment date
4 August 2014	Interim results announced
26 September 2014	Interim dividend payment date

Governance
Corporate Governance Report (continued)

Board Committees
Ultra has established three Committees of the Board being: the Audit; Remuneration; and Nominations Committees, to which certain key responsibilities have been delegated. The detailed terms of reference of each Committee are available from the Investors section of the Group website. The responsibilities of each Committee are in line with the recommendations of the Code. The membership of the Audit and Remuneration Committees comprises the three independent Non-Executive Directors – Chris Bailey, Sir Robert Walmsley and Martin Broadhurst, with Chris Bailey, Senior Independent Director, as Chairman of both Committees. The membership of the Nominations Committee comprises the three independent Non-Executive Directors and Douglas Caster, with Chris Bailey as Chairman of the Committee. Summaries of the key activities of each Committee are given below.

Audit Committee
The Committee met four times during the year. It is responsible for overseeing the Group's internal financial controls and risk management; recommending the half and full year financial results to the Board; and monitoring the integrity of all formal reports and announcements relating to the Group's financial performance. Full details of the activities of the Audit Committee during 2013 are given on **page 60**.

Remuneration Committee
Role
The Committee met seven times during the year. It is responsible for formulating and recommending to the Board the remuneration policy for Executive Directors and Chairman of the Board. Full details of the activities of the Remuneration Committee during 2013 are given in the Directors' Remuneration Report on **page 63**, comprising the Directors' Remuneration Policy Report and the Annual Report on Remuneration. Both sections of the report will be presented for approval by the shareholders at the Annual General Meeting.

Nominations Committee
Role
The function of the Nominations Committee is to keep under review the structure, size and composition of the Board, and to make proposals to the Board regarding the appointment of new directors and Board Committee chairmen. The terms of reference are available on Ultra's website (**www.ultra-electronics.com**).

During 2013 the Committee met once. The purpose of this meeting was threefold:

- To review and endorse the Group's diversity policy (see **page 54**)
- To recommend to the Board that Douglas Caster be appointed as a member of the Committee
- To consider the tenure of Chris Bailey, the Senior Independent Director. Chris Bailey left the meeting when this item was under consideration

Ultra operates a well-established succession planning process. This is described in detail on **page 41**.

Statement of going concern*
Ultra's banking facilities amount to £190m in total, plus a £15m overdraft. They were established in two tranches.

The first tranche comprises £90m of revolving credit, denominated in Sterling, US dollars, Canadian dollars, Australian dollars or Euros. This facility was signed in January 2011 and expires in January 2016. The facility is provided by a group of six banks.

The second tranche provides a further £100m of revolving credit in the same currencies. This was signed in December 2012 with five banks and expires in December 2017. Both facilities have the same covenants.

The Group has a 'shelf' facility with Prudential Investment Management Inc. This agreement gives the Group access to the US private placement market on a bilateral basis. The facility is non-committed but is for up to $195m. At the year-end, $70m of loan notes had been issued, which will mature in 2018 and 2019.

As well as being used to fund acquisitions, the financing facilities are also used for other balance sheet and operational needs, including the funding of day-to-day working capital requirements. The US dollar borrowings also represent natural hedges against assets denominated in that currency. The Group's banking covenants have all been met during the past year with a comfortable margin. The approved Group budget for 2014 and strategic plan for later years give confidence that the Group will continue to meet these covenants. Details of how Ultra manages its liquidity risk can be found in note 23 – Financial Instruments and Financial Risk Management.

Though global macro-economic conditions remain uncertain, the long-term nature of Ultra's business and its positioning in attractive sectors of its markets, taken together with the Group's forward order book, provide a satisfactory level of confidence in respect of trading in the year to come.

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

Directors' responsibilities statement*
The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the International Accounting Standards Regulation ("IAS") and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the Directors are required to:

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

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

- Properly select and apply accounting policies
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- Make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

*All references in these sections to 'Company' mean Ultra Electronics Holdings plc

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

The Directors confirm that to the best of their knowledge, taken as a whole:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of Ultra and the undertakings included in the consolidation;
- the Annual Report and Accounts is fair, balanced and understandable and provides the information necessary for shareholders to assess the Ultra's performance, business model and strategy; and
- the management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of Ultra and the undertakings included in the consolidation, together with a description of the principal risks and uncertainties that they face.

In accordance with Section 418 of the Companies Act 2006, each Director in office at the date the Directors' Report is approved, confirms that:

- so far as the Director is aware, there is no relevant audit information of which Ultra's auditors are unaware; and
- he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that Ultra's auditors are aware of that information.

The Annual Report on **pages 1** to **77** was approved by the Board of Directors and authorised for issue on 28 February 2014 and signed on behalf of the Board by:

Rakesh Sharma, Chief Executive
Mary Waldner, Group Finance Director

Governance
Audit Committee Report

...as Chairman of the Audit Committee, I am pleased to present our report detailing the role and responsibilities of the Committee and its activities during the year.

Ultra is committed to ensuring that it has robust and effective risk management and financial control processes. As Chairman of the Audit Committee, I am pleased to present our report detailing the role and responsibilities of the Committee in this regard. The Board's report on the systems of internal control and their effectiveness, together with the going concern statement, can be found in the Corporate Governance Report on pages 52 to 59.

During the year, the Committee continued to review the appropriateness of the Group's system of risk management and internal controls, the robustness and integrity of the Group's financial reporting, along with both the internal and external audit processes.

The Group outsources its internal audit function and at the beginning of the year, the Group changed its internal auditors to PricewaterhouseCoopers ("PwC"). In producing the 2013 internal audit plan, PwC adopted a risk based approach, ensuring the plan is clearly linked to the Group's strategy and flexible enough to highlight and address emerging risks.

Composition

The composition of the Committee is set out on page 58. The members of the Committee have the relevant financial and accounting experience required by the Code. The Chairman of the Committee is supported in his role by the other members of the Committee who have a wide range of business experience and expertise, as evidenced in their biographies on pages 50 to 51.

Meetings and attendance

The Committee met four times during the year under review. In addition to the Committee members, regular attendees are: the Chairman of the Board, the Chief Executive, the Group Finance Director and the Marketing Director. The Company Secretary & General Counsel acts as Secretary to the Committee. Deloitte LLP are the Group's external auditor. To ensure full and open communication, the Deloitte Audit Partner attended all Committee meetings, and the lead partner from PwC attended those meetings at which summary Internal Audit Reports were reviewed by the Committee.

During 2013, the Committee Chairman met with Deloitte and PwC in the absence of Executive and Non-Executive Directors. In addition, the Committee met with Deloitte without Executive Directors present, at which Deloitte satisfactorily reported on the findings of their audit work and any matters that they thought should be brought to the Committee.

Role

The Committee's main responsibilities include the following:

- Scrutinising the Group's annual and interim financial statements and accounts and reporting to the Board on the significant financial reporting issues and judgements made
- Reviewing the content of the Annual Report and Accounts and advising the Board whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy
- Reviewing the scope and effectiveness of the external audit process, including the external auditors' appointment, fees and independence
- Reviewing the effectiveness of the internal audit function and the Group's system of internal control, including financial reporting and the processes for monitoring and evaluating the risks facing the Group.

The Committee has written terms of reference which includes all matters indicated by the Code. These terms of reference are reviewed and approved by the Board annually. The terms of reference are available on Ultra's website (**www.ultra-electronics.com**).

The Board is kept fully informed of the Committee's work and the minutes of each Committee meeting are circulated to Board members.

Activities of the Committee during the year

Topic	What was considered
Financial reporting	Annual and interim financial statements and related results announcements Reports from the external auditor on the outcome of their audit process Key accounting policies and practices adopted by the Group, key accounting judgments (see **page 61**) and matters that required the exercise of significant management judgment (see **page 61**) The going concern statement (see **page 58**)
Internal controls	Reports on the internal control environment and risk management and their effectiveness
Key risk mitigation	Progress reports on work undertaken to strengthen controls around the Group's main risks (see **pages 61**)
Audit plans	Internal and external audit plans for the year
Whistleblowing	Reports of calls to the Group's external Employee Hotline and how they have been investigated and dealt with
External auditor	The external auditors' engagement policy, independence, effectiveness and audit and non-audit fees
Governance	Changes to IFRS, financial reporting and UK Corporate Governance Code The Committee's terms of reference 2013 Corporate Governance Report.

After discussions with both management and the external auditor, the Committee determined that the key risk of misstatement to the Group's financial statements relate to:

Significant financial issues and financial reporting for 2013	How the Committee addressed these issues
Revenue and profit recognition on the largest long-term contracts in the Group	The Committee assessed the risk control processes and approval practices adopted when determining profit recognition
Defined benefit pension scheme asset valuation	The costs, assets and liabilities of the Group's defined benefit pension scheme were reviewed. Advice was taken from independent actuaries on the appropriateness of the assumptions used and discussions were held with the external auditors
Valuation of goodwill and intangibles	The Committee reviewed the methodology and assumptions used to determine the balance sheet values. The Committee also considered reports from, and held discussions with, the external auditors

Internal controls and risk management
The Committee reviews: the Group's systems of internal controls and risk management; their effectiveness; improvements to these systems; and resolution of any control issues identified. Clear terms of reference set out the duties of the Board and the Board Committees, with delegation of operating responsibility to management clearly described in the Group Operating Manual. Financial reporting systems are comprehensive and include monthly reporting cycles. Monthly finance reports are prepared by all businesses containing actual financial performance measures for the most recent month and year to date. These are compared with budget, forecasts and the prior year. These monthly reports are reviewed by the relevant Divisional Finance Director, Group Finance Director and the Board. Financial information is uploaded monthly by all businesses to BPC, the Group's consolidation and reporting system, which is collated by the Head Office finance team and reconciled to the businesses' monthly report. When preparing and reviewing financial information, the businesses do not work to a materiality threshold. All variances judged to be significant in relation to a specific balance are investigated and explained.

Every 6 months, each Divisional Finance Director meets with the Group Finance Director and discusses the internal controls processes and issues for each business in their division. This includes:

- Results from the Senior Accounting Officer review and any tax audits
- Self-assessment against the Group Operating Manual
- Outstanding internal and external audits
- Segregation of duties and IT access audits
- Compliance with the Group's Information Security Policy

Summary results from these reviews are included in the Internal Controls Improvement Status Report, which is presented to the Committee twice a year.

The Board maintains an internal audit process, carried out by PwC, to review financial and information systems control procedures throughout the Group. All significant business units are audited by the outsourced internal audit function at least once every 2 years, while other businesses are audited on a 3 year cycle. In addition, all newly acquired free-standing businesses are audited within a year of their acquisition date. The lead partner of PwC reports directly to the Chairman of the Committee and presents the findings of his team twice annually to the Committee. Progress reports on follow-up remedial actions are reported regularly to the Committee. PwC confirms whether appropriate action has been taken to address the risks when they next visit the business concerned.

The Managing Directors/Presidents, Finance Directors and Vice Presidents of Finance of each business are required to give a formal written representation to the Board each year confirming that they accept responsibility for maintaining effective internal controls and that they have disclosed full details of any fraud or suspected fraud within their business.

The Board accepts overall responsibility for reviewing the operation and effectiveness of the Group's internal controls at least annually and has performed a specific assessment for the purposes of this Annual Report. With the assistance of the Committee, all significant aspects of internal control for 2013 have been reviewed and internal procedures amended where necessary.

External auditors
The performance, effectiveness and independence of Ultra's auditors, Deloitte, is reviewed annually by the Committee. The Committee considered the questions contained in a questionnaire issued by the Institute of Chartered Accountants of Scotland in October 2007 to assess performance, effectiveness and independence and concluded that Deloitte had been sufficiently transparent and incisive and the audits had been effective. The Committee concluded that Deloitte was both independent and objective and that the reappointment of Deloitte as external auditor should be recommended to the shareholders. Accordingly, a resolution to reappoint Deloitte will be put to shareholders at the Annual General Meeting.

The senior audit partner employed by Deloitte on the Ultra audit is subject to a strict policy of regular rotation such that there is a change in this role at least once every five years. This is in accordance with professional practice guidelines. The current senior audit partner's tenure commenced in 2011. Deloitte were appointed in 2002. The Committee considered the audit tendering provisions in the Code which provide that FTSE 350 companies should put the external audit contract out to tender at least every ten years. The Committee considers that for an organisation of the size and complexity of Ultra, the tendering of external audit must be well planned to ensure that the Group complies with best practice corporate governance as well as ensuring the Group receives a high quality, efficient and effective external audit service. On this basis, the Committee considers it would be appropriate to retender the external auditors at the end of the current senior audit partner's tenure. There are no contractual obligations that restrict the Committee's choice of external auditors.

The auditor's engagement letter and the scope of the year's annual audit cycle is discussed in advance by the Committee, ensuring that any changes in circumstances arising since the previous year are taken into account. With respect to non-audit assignments undertaken by Deloitte, Ultra has a policy to ensure that the provision of such services do not impair Deloitte's independence or objectivity. The policy is that:

- Non-audit services are restricted to regulatory reporting, consultancy services associated with financial restructuring, responding to new reporting requirements, due diligence assessments of potential acquisitions and minor consultancy work. In connection with acquisition due diligence work and certain consultancy work, it is the Board's view that the auditor's familiarity with the Group's accounting practices and the techniques that are involved in Ultra's long-term contracting activities serves them well in carrying out such work
- When considering the use of the external auditors to undertake non-audit work, consideration must be given to the provisions of the Financial Reporting Council Guidance on Audit Committees with regard to the preservation of independence and objectivity
- The external auditors must certify to Ultra that they are acting independently

1. Introduction
2. Strategic report
3. Governance
4. Group financials
5. Company financials
6. Five-year review

Governance
Audit Committee Report (continued)

External auditors (continued)

- In providing a non-audit service, the external auditors should not:
  - audit their own work
  - make management decisions for the Group
  - create a mutuality of interest
  - find themselves in the role of advocate for the Group
- The Group Finance Director has authority to commission the external auditors to undertake non-audit work where there is a specific project with a cost that is not expected to exceed £50,000. Any individual assignments with an estimated fee in excess of £50,000 must be referred in advance to the Chairman of the Committee for his approval. The non-audit work has to be reported to the Committee at its next meeting.
- Before commissioning non-audit services, the Group Finance Director or the Chairman of the Committee, as appropriate, must ensure that the external auditors are satisfied that there is no issue as regards independence and objectivity and other potential providers are adequately considered.

The fees paid to Deloitte in respect of audit and approved non-audit services are shown in note 6 to the Financial Statements.

The Group has a policy on employment of former employees of external auditors. This requires that any such employment is considered on a case by case basis and takes into account the Auditing Practices Board's Ethical Standards on such appointments. Such appointment requires approval by a combination of the Group Finance Director, Audit Committee and the Board, depending on the seniority of the appointment.

Fraud

The internal audit process carried out by PwC, described on page 61, and the Group's internal control framework help to protect the Group against fraud. Regular business reviews take place at all businesses, in which detailed balance sheet and cash flow reviews are carried out by the relevant Divisional Managing and Financial Directors. In addition, the Chief Executive and Group Finance Director review the performance of the businesses with the Divisional team monthly and directly with the businesses at least twice a year. Significant differences between forecast and reported financial results are highlighted and require explanation by the business unit concerned. The internal control framework that is in place is supplemented by the external audit process which represents a second independent review of controls and procedures, with selective transaction testing of high risk areas. There is a fraud reporting process in place. Any reports of fraud would immediately be investigated and the situation reported at the next Board meeting.

Whistleblowing

An independently hosted Employee Hotline is used to provide a process for reporting ethical concerns. Employees are informed of this process through posters (which are translated into local languages) and through the Group intranet (which is accessible by all employees). Employees can report ethical dilemmas or other similar concerns they may have via this external Employee Hotline and can remain anonymous if they wish. Employee concerns are forwarded directly to the Chairman of the Audit Committee or, in the case of issues covered by US security legislation, to the Chairman of the Security Committee of either Ultra's Special Security Agreement company or Ultra's Proxy Board company, as appropriate. During 2013, no reports were submitted (two in 2012).

Anti-bribery

Ultra has robust anti-bribery policies and procedures in place. All Directors and employees are required to sign Ultra's code of conduct on anti-bribery and commit to act in accordance with the code. Within 1 week of joining Ultra, Directors and employees undertake anti-bribery training. Further anti-bribery training is given to targeted groups throughout the year. The Group intranet contains a statement from the Chief Executive regarding compliance with Ultra's anti-bribery policies. Compliance with the code of conduct on anti-bribery is closely monitored by a requirement for Ultra businesses to submit monthly business performance reports confirming compliance with the code and reporting any breaches.

Chris Bailey, Chairman of the Audit Committee
28 February 2014

The members of the Committee have the relevant financial and accounting experience required by the Code. The Chairman of the Committee is supported in his role by the other members of the Committee who have a wide range of business experience and expertise...

Governance
Remuneration Report

Chris Bailey Chairman of the Remuneration Committee

ANNUAL STATEMENT

Dear shareholder

This report, prepared by the Remuneration Committee (the "Committee") and approved by the Board for the financial year ended 31 December 2013, sets out the remuneration policy for the Executive and Non-Executive Directors of Ultra Electronics Holdings plc. It has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Group (Accounts and Reports) Regulations 2008 as amended in August 2013.

In response to the UK Government's new legislation regarding the reporting of directors' pay, this report has been divided into the following two sections:

- A **Directors' Remuneration Policy Report**, which sets out Ultra's policy on the remuneration of Executive and Non-Executive Directors; and
- An **Annual Report on Remuneration**, which discloses how the remuneration policy will be implemented in the year ending 31 December 2014 and how it was implemented in the year ended 31 December 2013.

A binding vote on the Directors' Remuneration Policy Report and an advisory vote on the Annual Report on Remuneration will be tabled at the forthcoming 2014 AGM. The Committee intends to put the Directors' Remuneration Policy Report to a binding vote every three years, while shareholders will be asked to vote on the Annual Report on Remuneration in an advisory capacity annually.

Remuneration policy for 2014

The Committee considers the Group's policy on the remuneration of Executive and Non-Executive Directors to: be closely aligned with the Group's strategy; support and drive the achievement of Ultra's business objectives and therefore is aligned with shareholders' interests; and be appropriately stretching. The EPS underpin on long-term incentive awards remains amongst the toughest in the FTSE 250.

Performance and reward during 2013

2013 was a challenging year: revenue and underlying profit were £745.2m (2012: £760.8m) and £121.7m (2012, as restated: £121.8m) respectively; underlying earnings per share were 127.1p (2012, as restated: 125.5p); operating cash flow was £79.0m (2012, as restated: £89.6m); and total shareholder return was 14% (2012: 6%). Reflecting on this, no annual bonus was payable for 2013 (no bonus was paid for 2012) and the 2011 LTIP awards which were due to crystallise in 2014 based on three year TSR and EPS performance to 31 December 2013 will not vest as a result of performance targets not being met.

In respect of the 2013 grant of LTIP awards, Paul Dean (who left the Company in March 2013) was not included in the awards. Mary Waldner (who joined the Company on 1 July 2013) received a pro-rated LTIP award representing 2.5 years of the 3 year LTIP award. In line with the LTIP rules (see table on **page 73**) the Committee decided to treat Paul Dean's LTIP awards from 2011 and 2012 as lapsed.

The Committee considered the shareholding requirements of the Chief Executive and agreed it should be increased from 100% to 125% of salary in line with the increase in percentage grant of annual LTIP awards that was approved by shareholders at the last AGM held on 26 April 2013.

Shareholder engagement

The Committee continues to take an active interest in shareholder views on our Executive remuneration policy and is mindful of the concerns of shareholders and other stakeholders. Our voting result at the 2013 AGM was 99.7% in favour of the Directors' Remuneration Report.

In conclusion, the Board firmly considers that the remuneration policy continues to be aligned with the strategic goal of the Group in adding to shareholder value and supporting the long term success of the Company.

Chris Bailey, Chairman, Remuneration Committee
28 February 2014

99.7%

Our voting result at the 2013 AGM was 99.7% in favour of the Directors' Remuneration Report

Remuneration Report
Directors' Remuneration Policy

The policy described in this section is intended to apply for the three years beginning on the date of the 2014 AGM, subject to shareholder approval. The Group's forward-looking policy is the same policy that was applied for the 2013 financial year.

Policy overview
The Group's remuneration policy is to reward senior management competitively, enabling Ultra to recruit, motivate and retain executives of high calibre, whilst avoiding making excessive remuneration payments. The remuneration of Executive Directors and senior managers is aligned with corporate objectives and the interests of shareholders. The linkages between each element of the Executive Directors' remuneration packages with the Group's objectives and the interests of shareholders are set out in the following information.

Future policy
The following information summarises the Directors remuneration policy:

Future policy table

How the element supports our strategy	Operation of the element	Maximum potential	Performance targets
SALARY			
Reflects the value of the individual and their role and responsibilities Reflects underlying performance of the individual Provides an appropriate level of basic fixed income avoiding excessive risk arising from over reliance on variable income	Normally reviewed annually, effective 1 January Paid in cash on a monthly basis; pensionable Is compared with companies with similar characteristics and sector comparators Targeted at or below median Reviewed in the context of the salary increase budget across the Group	While there is no defined maximum salary, it is the Committee's policy to set pay for Executive Directors at industry competitive levels taking market capitalisation and annual sales into account. Annual salary increases take into account: (i) underlying performance of the individual; (ii) underlying performance of the business; (iii) underlying annual salary increases within the overall Group; (iv) any changes to the scope of the role in terms of size or complexity; and (v) underlying salary increases for similar industry roles It is recognised that annual salary increases may also include a 'catch up' element over and above the factors listed above to increase the salary towards or to a competitive industry level where the Executive Director was appointed with a salary significantly below the competitive level Annual salary increases for Executive Directors will not normally exceed the average increase awarded to other Group UK based employees although increases may be above this if there is an increase in: (i) the scale, scope or responsibility of the role; and/or (ii) the experience of the incumbent where this has a positive impact on Group performance	None
ANNUAL BONUS			
Provides focus on delivering/ exceeding annual budget Rewards and helps retain key executives and is aligned to the Group's risk profile Maximum bonus only payable for achieving demanding targets	Payable in cash Non-pensionable Claw back provisions apply (see **page 68**)	100% of salary p.a.	Sliding scale targets based on financial measures The metrics operated are: • Headline profit before tax; and • Operating cash flow

Future policy table (continued)

How the element supports our strategy	Operation of the element	Maximum potential	Performance targets
LONG TERM INCENTIVE PLAN			
Aligned to main strategic objective of delivering long-term value creation Aligns Executive Directors' interests with those of shareholders Rewards and helps retain key executives and is aligned to the Group's risk profile	Share plan approved (as amended) by shareholders in April 2013 Discretionary annual grant of nil cost options or conditional share awards	Normal Limit: • 125% of salary p.a. for the Chief Executive • 100% of salary p.a. for other Executive Directors Exceptional Limit: • 150% of salary p.a. e.g. recruitment or retention of an employee	Performance measured over three years Relative Total Shareholder Return (TSR) targets with an absolute EPS underpin 20% of award vests at threshold performance
PENSION			
Provide competitive, yet cost-effective retirement benefits	Defined benefit provision, defined contribution and/or salary supplement paid on a cash neutral basis	The Defined Benefit Scheme (which is closed to new employees) provides a benefit of two thirds of a members Final Pensionable Earnings if they have completed over twenty years' Pensionable Service at Normal Retirement Date. If Pensionable Service at Normal Retirement Date is less than this it will be calculated as 1/30th of Final Pensionable Earnings for each year of service Defined contribution rates up to a maximum of 20% of base salary	None
OTHER BENEFITS			
To provide benefits consistent with role	Benefits may include: private medical cover; health screening; life insurance; critical care insurance; permanent health insurance; car and fuel allowance; relocation and expatriation expense; and other benefits payable where applicable	n/a	n/a
SHARE OWNERSHIP GUIDELINES			
To provide alignment of interests between Executive Directors and shareholders	Executive Directors are required to build and maintain a shareholding equivalent to one year's base salary (125% of base salary for the Chief Executive) through the retention of at least 50% of the post-tax shares received on the vesting of LTIP awards	n/a	Aim to hold a shareholding equal to 100% of base salary (125% for the Chief Executive)

Remuneration Report
Directors' Remuneration Policy (continued)

Future policy table (continued)

How the element supports our strategy	Operation of the element	Maximum potential	Performance targets
ALL EMPLOYEE SHARE PLANS			
The Executive Directors are eligible to participate in the Company's HMRC approved All-Employee Share Ownership Plan ("AESOP") and the Savings Related Share Option Scheme on the same terms as other employees To encourage employee share ownership and increase alignment with shareholders	Under the AESOP, UK employees are offered the opportunity to buy shares up to the prevailing HMRC limits per annum from pre-tax salary. Shares are then held in trust until the maturity date or until they leave Ultra Under the Savings Related Share Option Scheme, employees are entitled to save up to the prevailing HMRC limits or the lower limit set by Ultra per annum from net pay towards the purchase of options to buy Ultra shares	n/a	n/a
NON-EXECUTIVE DIRECTOR FEES			
Reflects time commitments and responsibilities of each role Reflects fees paid by similarly sized companies Chairman's remuneration is set by the Committee which meets without him. The remaining Non-Executive Directors' fees are proposed by a sub-committee of the Executive Directors and approved by the Board	Cash fee paid monthly Fees are reviewed on an annual basis Fixed 12 month contracts with no notice periods An additional fee is paid to the Chairman of the Audit, Remuneration and Nominations Committees No additional fees are payable for any other duties to Non-Executive Directors	n/a	n/a

Notes to future policy table:

(1) A description of how the Company intends to implement the policy in 2014 is set out in the Annual Report on Remuneration on **page 69**.

(2) The remuneration policy described above provides an overview of the structure that operates for the most senior executives in the Group. Lower levels of incentive operates for employees below executive level, with remuneration driven by market comparators and the impact of the role. Long-term incentives are reserved for those anticipated as having the greatest potential to influence the Group's earnings growth and share price performance, although as the Committee is aware of the benefits which wider employee share ownership can generate, all employees are encouraged to participate in the AESOP and Savings Related Share Option Scheme in the countries in which they are offered.

(3) The choice of the performance metrics applicable to the annual bonus scheme reflect the Committee's view that any incentive compensation should be appropriately challenging and tied to financial performance. The TSR and EPS performance conditions applicable to the LTIP (further details of which are provided on **page 69**) were selected by the Committee on the basis that:
- TSR aligns the performance objectives of the Executive Directors (TSR is one of the Group's Key Performance Indicators) more closely with the interests of the shareholders;
- TSR is an entirely objective measure of relative performance;
- The use of TSR and EPS reflects the metrics most commonly used by other quoted companies;
- TSR reduces the complexity and cost of calculating the vesting result; and
- The EPS underpin ensures an appropriate level of profit growth is maintained by the Group.

(4) All employee share plans do not operate performance conditions.

(5) As highlighted above, Ultra has a share ownership policy which requires the Executive Directors to build up and maintain a target holding equal to 100% of base salary (125% for the Chief Executive). Details of the extent to which the Executive Directors had complied with this policy as at 31 December 2013 are set out on **page 72**.

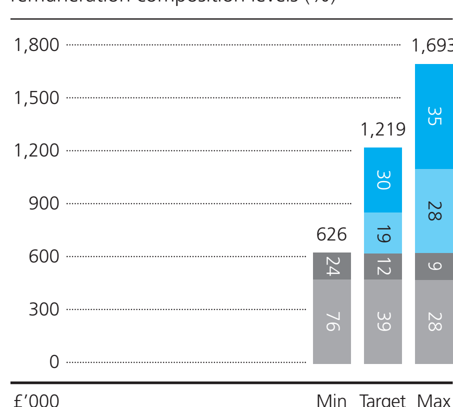
(6) For the avoidance of doubt, in approving this Directors' Remuneration Policy, authority is given to Ultra to honour any commitments entered into with current or former Directors (such as, but not limited to, the payment of a pension or the vesting/exercise of past share awards) that have been disclosed to and approved by shareholders in previous remuneration reports. Details of any payments to former Directors will be set out in the Annual Report on Remuneration as they arise.

Remuneration scenarios for Executive Directors for 2014

The charts opposite show how the composition of the Executive Directors' remuneration packages varies at three performance levels, namely, at minimum (i.e. fixed pay including pensions and taxable benefits), target and maximum levels, under the policy set out in the table overleaf. The charts show the proportion of the total package comprised of each element.

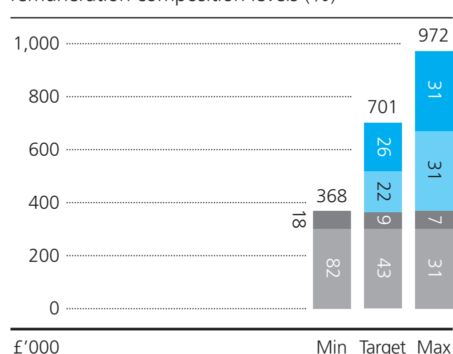
Chief Executive

remuneration composition levels (%)



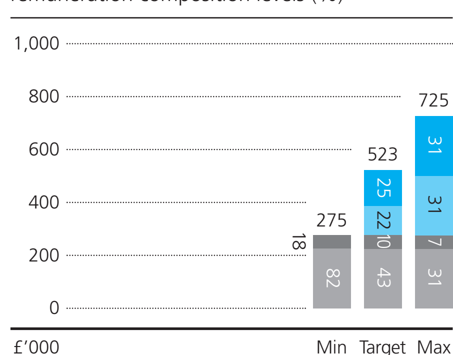
Group Finance Director

remuneration composition levels (%)



Group Marketing Director

remuneration composition levels (%)



- Long-term share awards
- Annual bonus
- Pensions/benefits
- Salary

Notes to remuneration scenarios

(1) Base salary levels are based on those applying from 1 January 2014.

(2) Benefit and pension value for 2014 has been estimated.

(3) Annual Bonus outturn is assumed to be 50% of salary at target level. For maximum, outturn assumes a maximum bonus award level of 100% of salary.

(4) Long-Term Incentive Share Awards assume a grant policy of 125% of salary for the CEO and 100% of salary for the other Executive Directors which vests in full at maximum performance, while 20% is assumed to vest at target level of performance. No share price appreciation has been included.

Director recruitment policy

The Nominations Committee normally considers both internal and external candidates before any new appointment is made. New executive directors are provided with remuneration consisting of base salary, short-term incentive, long-term incentive and other benefits.

Salary

Ultra's policy is to set pay for executive directors at industry competitive levels taking market capitalisation and annual sales into account. It is recognised that a new appointee may not have as much experience as someone at a competitive level and may therefore be offered a salary below competitive levels but at a level that is sufficient to attract the person. (See base salary policy on **page 64**). In exceptional circumstances, the Committee may exercise its discretion to offer an above industry competitive level salary in order to attract the best person.

Short-term incentive

Short-term incentives are offered in line with those paid to other Executive Directors described on **page 64**. Maximum opportunities will be in line with current plan maximums for existing Directors (i.e. 100% of salary p.a.).

Long-term incentive

Long-term incentives are offered in line with those paid to other Executive Directors described on **page 65**. Maximum opportunities will be in line with current plan maximum for existing Directors (i.e. up to 125% of salary p.a. or 150% of salary p.a. in exceptional circumstances).

Other benefits

Other benefits are offered in line with those paid to other Executive Directors which are described on **page 65**.

Buy outs

To facilitate recruitment, the Committee may make an award to buy-out incentive arrangements forfeited on leaving a previous employer. In doing so, the Committee will take account of all relevant factors including any performance conditions attached to these awards and the time over which they would have vested or been paid. Ultra may make use of the flexibility provided in the Listing Rules (LR 9.4.2) to make awards if appropriate. Where possible, incentives will be bought out on a like-for-like basis with respect to vesting/payment dates, currency (i.e. cash versus shares) and the use of performance targets.

Non-Executive Directors

The approach to the recruitment of non-executive directors is to pay an annual fixed fee.

Remuneration Report
Directors' Remuneration Policy (continued)

Executive Director service contracts

The Group's policy is to ensure that the Executive Directors' service contracts have a notice period of one year, which the Committee considers appropriately reflects both current market practice and the balance between the interests of the Group and each Executive Director. The following table provides more information on each Director's service contract:

Name	Date of contract	Notice period
M. Anderson	1 Apr 2012	12 months
R. Sharma	21 Apr 2011	12 months
M. Waldner	1 Jul 2013	12 months

No Executive Directors have provisions in their contracts for compensation on early termination other than for the notice period.

External appointments of Executive Directors

The Chief Executive is not permitted to accept any external appointment as a non-executive director. Other Executive Directors may accept not more than one external appointment as a non-executive director. Up to 50% of any time spent undertaking such external duties can be taken as additional unpaid leave with the remainder being treated as annual holiday.

Executive Director exit policy

Ultra may terminate an Executive Director's contract early with contractual notice or by way of a payment in lieu of notice, at its discretion. Neither notice nor a payment in lieu of notice will be given in the event of gross misconduct. Payments in lieu of notice will equate to the basic salary and benefits payable during the notice period or, if notice has already been given, the remainder of the notice period. Payment in lieu of notice will be made by way of a lump sum or by phased instalments over the notice period. Where payments are phased, if an employee gains employment during the notice period, payments would be reduced. There is no contractual entitlement to annual incentive payments in respect of the notice period. An annual bonus may be payable with respect to the period of the financial year served although it will be pro-rated for time and paid at the normal payment date as defined by the bonus scheme rules.

Any share-based entitlements granted to an Executive Director under the Group's share plans will be determined based on the relevant plan rules. The default treatment under the 2007 LTIP is that any outstanding awards lapse on cessation of employment. However, if a participant ceases to hold office or employment because of death or for any other circumstance, at the discretion of the Committee, 'good leaver' status may be applied. For good leavers, the Committee can decide that awards will vest on the date they would normally have vested had the participant not ceased to hold office or employment. Alternatively, the Committee can decide that awards will vest on cessation. In both cases, the award will vest subject to the satisfaction of the relevant performance conditions at that time and a pro rata reduction to reflect the period of time from the date of grant of the award to the date of cessation relative to the normal three year vesting period. However, the Committee can decide not to apply a pro rata reduction if it regards it as inappropriate to do so in any particular case.

Non-Executive Director service contracts

The Non-Executive Directors have fixed twelve-month contracts with no notice period. Details of their service contracts are in the table below:

Name	Date of contract	Notice period
C. Bailey	31 Jan 2014	Nil
M. Broadhurst	2 Jul 2013	Nil
D. Caster	21 Apr 2013	Nil
Sir Robert Walmsley	31 Jan 2014	Nil

There are no provisions in their contracts for compensation on early termination.

How employment conditions elsewhere in the Group are considered

Base salary increases take into account a number of factors including the underlying base salary increases within the overall Group. Pay is only set centrally for Executive Directors, Executive Team members, Divisional staff, Business Managing Directors/Presidents, UK Directors and Head Office staff. All other salaries are set within the individual operating businesses. In all cases there are two levels of approval. The Remuneration Committee does not consult with employees when setting the remuneration of Executive Directors. It uses independent comparison metrics to benchmark remuneration with other companies.

How shareholders' views are taken into account

The Committee considers shareholder feedback received in relation to the AGM each year. This, and any other feedback received during the year, is then considered as part of the Group's annual review of remuneration policy. At the 2013 AGM, 99.76% of our shareholders who voted, voted in favour of the Directors' Remuneration Report.

Claw back policy

A bonus claw back policy has been adopted. If a bonus had been paid and the Group subsequently has to restate its audited accounts, the bonus may be clawed back from future bonus, LTIP and Executive Share Option Scheme awards.

Remuneration Report
Annual Report on Remuneration

Summary of how the remuneration policy will be implemented in 2014

A summary of how the Directors' Remuneration Policy will be applied for the year ending 31 December 2014 is set out below.

Salaries
The Executive Directors' salaries have been reviewed by the Committee which has determined that the following levels should be implemented with effect from 1st January 2014:

	2014 Salary £'000	2013 Salary £'000	% Increase[2] %
Chief Executive	474	460	3.0
Group Finance Director[2]	302	275[1]	9.8
Group Marketing Director[2]	225	205	10.0

[1] This amount relates to the annual salary of the incumbent Group Finance Director, Mary Waldner, who joined Ultra on 1 July 2013. Her predecessor, Paul Dean, was the Group Finance Director up until his resignation on 31 March 2013. Paul Dean's annual salary until his resignation was £305,000.
[2] The Group Finance Director's salary was brought in line with median salary levels for that role. The Group Marketing Director's salary was increased to bring it towards median levels, although the Committee recognises that the Group Marketing Director's salary is still below median levels and will address this going forward in line with the Directors' Remuneration Policy.

Directors' pension entitlements
The Group will continue to operate a defined benefit pension scheme for Rakesh Sharma. As Mary Waldner and Mark Anderson joined Ultra after the defined benefit scheme was closed to new entrants, they will participate in a defined contribution scheme and receive annual company contributions of 18% of their salary.

Annual bonus for 2014
The maximum bonus for Executive Directors in 2014 will continue to be 100% of base salary with a maximum of 25% of salary payable for the achievement of an agreed profit target and a maximum of 75% payable for achievement of an agreed operating cash flow target. While the Committee believes that commercial sensitivities restrict the disclosure of forward looking annual bonus targets, full retrospective disclosure of the financial targets will be made in the 2014 Annual Report on Remuneration.

Long term awards to be granted in 2014
Consistent with the Directors' Remuneration Policy, the Committee intends to grant annual LTIP awards to Executive Directors in the form of shares worth 125% of salary for the Chief Executive and 100% of salary for other Executive Directors during 2014. For this grant, 20% of awards will vest at median TSR ranking, increasing to 100% vesting for an upper quartile TSR ranking, measured against the constituents of the FTSE 250 (excluding investment trusts). In addition to the TSR target, there is an underpin requiring an average annual growth of EPS (after adjustments to exclude gains or losses on financial instruments and the amortisation of intangibles arising on acquisition) of 5% p.a. over the three year performance period.

Single total figure of remuneration – Audited
Directors' emoluments are detailed below:

	Basic salary /fees	Benefits[1]	Pension[2]	Subtotal	Annual performance bonus[3]	LTIP[4]	Subtotal	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2013								
Executive Directors								
M. Anderson	205	12	18	235	-	-	-	235
P. Dean[5]	77	5	12	94	-	-	-	94
R. Sharma	460	22	130	612	-	-	-	612
M. Waldner[6]	138	82	21	241	-	-	-	241
Non-Executive Directors								
C. Bailey	58	-	-	58	-	-	-	58
M. Broadhurst	46	-	-	46	-	-	-	46
D. Caster	188	-	-	188	-	-	-	188
Sir Robert Walmsley	46	-	-	46	-	-	-	46
Former Directors	-	-	-	-	-	-	-	-
	1,218	121	181	1,520	-	-	-	1,520

[1] Benefits comprise: taxable car benefit (in respect of Rakesh Sharma and Paul Dean only), car allowance (in respect of Mary Waldner and Mark Anderson), taxable fuel benefit/fuel allowance (excluding Mary Waldner), life assurance, and private medical insurance. Mary Waldner received a one-off relocation allowance of £75,000.
[2] Pensions: Rakesh Sharma's pension is calculated in accordance with the rules of the defined benefit scheme as set out in the policy table on page 65; Mary Waldner and Mark Anderson, who are members of the defined contribution scheme, received pension contributions equivalent to 18% and 10% (respectively) of their basic salary. Included within pensions are cash supplements given in lieu of pension contributions where the latter have exceeded the annual allowance or lifetime allowance for the individual director under the relevant pension scheme.
[3] Annual performance bonus was £nil.
[4] The 2011 LTIP award which was due to crystallise in 2014 will not vest and the aggregate gain made by the Directors under the LTIP during the year was £nil.
[5] Paul Dean stepped down from the Board with effect from 31 March 2013.
[6] From 1 July 2013.

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Remuneration Report
Annual Report on Remuneration (continued)

Single total figure of remuneration – Audited (continued)

Directors' emoluments are detailed below:

	Fixed				Variable			
	Basic salary /fees	Benefits	Pension	Subtotal	Annual performance bonus	LTIP	Subtotal	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2012								
Executive Directors								
M. Anderson	135	10	14	159	-	-	-	159
P. Dean	305	22	57	384	-	-	-	384
R. Sharma	420	21	156	597	-	-	-	597
Non-Executive Directors								
C. Bailey	56	-	-	56	-	-	-	56
M. Broadhurst[1]	23	-	-	23	-	-	-	23
D. Caster	182	11	-	193	-	-	-	193
Sir Robert Walmsley	45	-	-	45	-	-	-	45
Former Directors	87	4	12	103	-	-	-	103
	1,253	68	239	1,560	-	-	-	1,560

[1] Joined in July 2012.

Annual bonus for year under review

Annual bonuses in relation to 2013 were based upon the achievement of a sliding scale of underlying profit before tax and operating cash flow targets. These targets were derived from the annual budgets approved by the Board. They were adjusted where appropriate to provide an appropriate degree of "stretch" challenge and incentive to outperform. Profit and cash are two of the Key Performance Indicators by which the Group is measured. Please refer to **pages 16** and **17** for details. The bonus targets set by the Committee for 2013 were a maximum of 25% of salary (subject to the achievement of £120.8m profit before tax and loss on fair value movements on derivatives and amortisation of intangibles on acquisition), and a maximum of 75% of salary (subject to achieving an operating cash flow of £138.1m after capitalised development costs, capital expenditure, purchase of long-term incentive plan shares and taking account of movements in working capital).

The Committee assessed the achievement of performance against each target as follows:

	Threshold £'000	Maximum £'000	Actual Achieved £'000	Bonus Payable[1] %
Underlying profit before tax	108,720	120,800	116,806	0
Operating cash flow	73,125	138,125	79,040	0

[1] No bonus was payable in 2013 because in accordance with the bonus scheme rules, the operating cash flow was negatively adjusted to reflect working capital performance throughout the year. In order for a bonus to be payable both profit and cash bonus criteria are required to be met.

LTIP vesting for year under review

The LTIP award granted on 14 March 2011 was based on performance to the year ended 31 December 2013. As disclosed in previous annual reports, the performance condition for this award was as follows:

Metric	Performance condition	Threshold target	Stretch target	Actual	% Vesting
Total Shareholder Return	TSR against the constituents of a comparator group*. 20% vesting for median performance increasing pro rata to 100% vesting for upper quartile performance or above. TSR measured over three financial years with a three month average at the start and end of the performance period	Median	Upper quartile	< Median	0%
Earnings Per Share Underpin	In addition to the main TSR condition, an "underpin" requires average annual growth in headline EPS growth of 7% p.a. over the performance period. In the event that this underpin is not met, the level of vesting falls to zero	7% EPS growth in each of the qualifying years	n/a	EPS growth: 2011: 11.6% 2012: 3.6% 2013: 1.3%	n/a
Total					**0%**

*The comparator group comprised the following companies: Arm Holdings; Oxford Instruments; Babcock Intnl; Dialight; Senior; Spectris; Rolls-Royce Holdings; Atkins (WS); QinetiQ Group; Laird; Halma; Rotork; Spirax-Sarco; Meggitt; Renishaw; BAE Systems; Cobham; Domino Printing Sciences; Vitec Group; Smiths Group; TT Electronics; Serco Group; Spirent Communications; and Chemring Group. The following companies were also part of the comparator group but were delisted during the performance period for the 2011 awards: Chloride Group; Umeco; VT Group; Charter International; Psion; Logica; and Hampson Industries.

The award details for the Executive Directors are therefore as follows:

Executive	Number of shares at grant	Number of shares to vest	Number of shares to lapse	Total	Estimated value[2] £'000
R. Sharma	16,513	-	16,513	-	-
D. Caster[1]	15,923	-	15,923	-	-

[1] Granted when Douglas Caster was Chief Executive
[2] The estimated value of the vested shares is based on the average share price during the 3 months to 31 December 2013.

Share awards granted during the year

	Scheme	Date of grant	Basis of award	Face value £	Vesting at threshold	Vesting at maximum	Performance period
R. Sharma[1]	LTIP*	18 March 2013	100% of salary	460,000	20%	100%	3 years to 31 December 2015
	LTIP*	19 August 2013	25% of salary	115,000	20%	100%	3 years to 31 December 2015
M. Waldner[2]	LTIP*	19 August 2013	83% of salary	229,167	20%	100%	3 years to 31 December 2015
M. Anderson	LTIP*	18 March 2013	100% of salary	205,000	20%	100%	3 years to 31 December 2015

*Structured as a conditional award
[1] In addition, Rakesh Sharma purchased 144 partnership shares under the AESOP during 2013.
[2] Joined on 1 July 2013 and LTIP award pro-rated to represent 2.5 years of 3 year award.

For awards presented above, 20% of awards will vest for a median TSR ranking, increasing to 100% vesting for an upper quartile TSR ranking, measured against the constituents of the FTSE 250 (excluding investment trusts). In addition to the TSR target, there is an underpin requiring an average annual growth of EPS (after adjustments to exclude gains or losses on financial instruments and the amortisation of intangibles arising on acquisition) of 5% p.a. over the three year performance period.

Change in Chief Executive's remuneration

The following table illustrates the change (as a percentage) in elements of the Chief Executive's remuneration from 2012 to 2013, and compares that to the average remuneration of employees of the Group in the UK, who were employed in November 2012 and November 2013. Such group best reflects the remuneration environment of the Chief Executive.

	Chief Executive % change	All UK Employees % change
Salary	9.50	3.95
Taxable benefits	0.80	2.90
Bonus[1]	-	(2.63)

[1] Based on the average bonus paid to employees of the Group in the UK for 2012 and 2013.

Relative importance of spend on pay

The following table shows the Group's actual spend on pay (for all employees) relative to other financial indicators:

	2013 £m	2012 £m	Change %
Staff costs[1]	**229.0**	227.0	0.9
Dividends[2]	**29.3**	27.7	5.8
Revenue	**745.2**	760.8	(2.1)
Statutory profit before tax	**49.3**	79.8	(38.2)

[1] £1.4m of the staff costs figures relate to pay for the Executive Directors.
[2] The dividends figures relate to amounts payable in respect of the relevant financial year.

Total defined benefit pension entitlements – Audited

Under the defined benefit scheme, 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 Group's consent, Executive Directors may retire from age 55. After age 58, Group consent to early retirement is not required. The pension is reduced in the event of early retirement. In the event of death-in-service, 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 Executive Director, a spouse's pension of

Remuneration Report
Annual Report on Remuneration (continued)

Total defined benefit pension entitlements – Audited (continued)

50% of the Executive Director's pension is payable. Once the pension is in payment, the part of the Executive 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% for service prior to 1 April 2008 and at 5% thereafter, above which increases are at the Trustees' and the Group's discretion. The table below sets out the pension benefits earned by Executive Directors for the year ended 31 December 2013:

	Age at year-end	Employee contributions during 2013	Accrued benefit at beginning of year	Increase in 2013 net of indexation	Increase in value in period (net of contributions)	Accrued benefit at end of period[1]
		£	£	£	£	£
R. Sharma	52	39,100	66,327	3,125	23,400	70,911

[1] The accrued benefit at the end of the period has been restricted so that Rakesh Sharma does not exceed his annual allowance.

Payments to past directors – Audited

There were no payments made to past Directors during 2013.

Loss of office payments – Audited

There were no loss of office payments made to Directors during 2013. Paul Dean stepped down as Finance Director on 31 March 2013. No loss of office payments were made to him and his unvested LTIP awards lapsed upon his resignation from office.

Statement of Directors' shareholdings

	Legally owned		LTIP awards[1]	AESOP		SAYE			% Share ownership guidelines
	2013	2012	Unvested	Restricted[2]	Unrestricted[3]	Under option	Exercised	Total	
Executive Directors									
M. Anderson	-	-	19,181	-	-	270	-	-	0%
P. Dean[4]	768	754	-	-	452	-	-	768	-
R. Sharma	41,193	41,072	57,265	2,605	-	433	-	41,193	173%
M. Waldner[5]	-	-	11,775	-	-	-	-	-	0%
Non-Executive Directors									
C. Bailey	2,500	2,500	-	-	-	-	-	2,500	-
M. Broadhurst	1,000	-	-	-	-	-	-	1,000	-
D. Caster	751,188	751,188	-	-	-	-	-	751,188	-
Sir Robert Walmsley	1,600	1,600	-	-	-	-	-	1,600	-

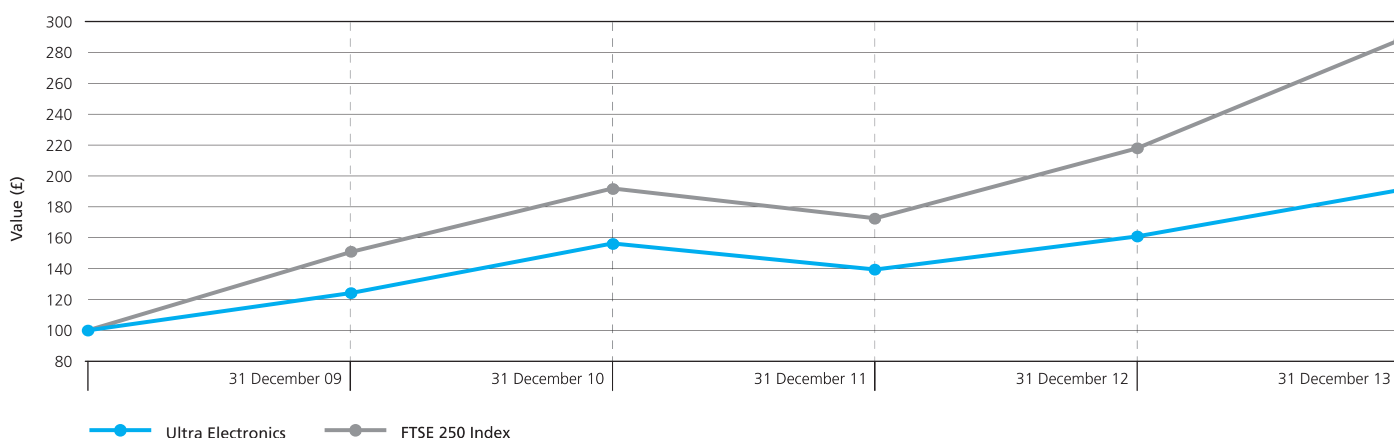
[1] There were no vested LTIP share awards within the period.
[2] The restricted shares under the AESOP are held in the Ultra Electronics Holdings plc Employee Benefit Trust.
[3] The unrestricted shares under the AESOP have been released from the Ultra Electronics Holdings plc Employee Benefit Trust.
[4] Paul Dean stepped down from the Board with effect from 31 March 2013.
[5] From 1 July 2013.

Total shareholder return performance graph and single figure remuneration table

The graph below shows the TSR performance of Ultra in comparison with the FTSE 250 Index over the past five years. The graph shows the value at the end of 2013 of £100 invested at the start of the evaluation period, in Ultra and in the Index. The Committee considers the FTSE 250 a relevant index for the TSR comparison as Ultra is a member of the index and because together the index members represent a broad range of UK quoted Companies.

Total shareholder return – compared to FTSE 250 Index

Source: Thomson Reuters Datastream



Total shareholder return performance graph and single figure remuneration table (continued)

The table below presents single figure remuneration for the Chief Executive over the past five years, together with past annual bonus payouts and relevant LTIP vestings.

	Year ended	Total remuneration	Annual bonus	LTIP
		£'000	% max. payout	% max. payout
R. Sharma	31 December 2013	612	-	-
R. Sharma	31 December 2012	597	-	-
R. Sharma[1]	31 December 2011	722	76	-
D. Caster[2]	31 December 2011	141	-	-
D. Caster	31 December 2010	1,068	46	81
D. Caster	31 December 2009	1,512	67	100

[1] Chief Executive from 21 April 2011
[2] Chief Executive to 21 April 2011

Shareholder voting at the last AGM

At the 2013 AGM the Directors' Remuneration Report received the following votes from shareholders:

	Total number of votes	% of votes cast
Votes for	58,823,364	99.76
Votes against	141,886	0.24
Total votes cast (for and against)	58,965,250	100
Votes withheld	352,932	
Total votes cast (including withheld votes)	59,318,182	

Directors' interests under Long-Term Incentive Plans

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

Interests under the Ultra Electronics Long-Term Incentive Plan 2007

	M. Anderson	D. Caster	P. Dean[1]	R. Sharma	M. Waldner	Market price of shares granted	Crystallising dates of outstanding awards
2010 award	-	22,816	18,322	14,658	-	£14.46	March 2013
2011 award	-	15,923	16,395	16,513	-	£16.96	March 2014
2012 award	7,273	-	17,889	24,634	-	£17.05	March 2015
Interests at 1 January 2013	7,273	38,739	52,606	55,805	-		
2010 award lapsed during the year	-	(22,816)	(18,322)	(14,658)	-		
2011 award lapsed during the year	-	-	(16,395)	-	-		
2012 award lapsed during the year	-	-	(17,889)	-	-		
2013 award (18 March)	11,908	-	-	26,722	-	£17.21	March 2016
2013 award (19 August)	-	-	-	5,909	11,775	£19.46	August 2016
Interests at 31 December 2013	**19,181**	**15,923[2]**	**-**	**73,778[3]**	**11,775**		

[1] Paul Dean resigned as a Director on 31 March 2013 and his unvested LTIP awards for 2011 and 2012 lapsed.
[2] This interest in LTIP awards represents the 2011 award which as a result of not meeting performance conditions will lapse in 2014. This will leave Douglas Caster with no outstanding LTIP awards.
[3] This interest in LTIP awards includes the 2011 award of 16,513 which as a result of not meeting performance conditions will lapse in 2014. This will leave Rakesh Sharma with outstanding LTIP awards of 57,265.

The 2010 award lapsed during the year as detailed above as a result of the performance targets not being met. The actual date of the award was 14 March 2010. The market price of the shares when granted was £14.46. The aggregate gain made by the Directors under the LTIP during the year was £nil (2012: £nil). Ultra's share price on 31 December 2013 was £19.28. The range during 2013 was £15.71 to £19.81.

Directors' interests under the All-Employee arrangements

Name of Director	Interests as at 1 January 2013	Shares acquired during year	Interests as at 31 December 2013	Partnership shares acquired from 1 January 2014 to 28 February 2014	Interests as at 28 February 2014
P. Dean[1]	415	37	452	-	452
R. Sharma	2,461	144	2,605	13	2,618

[1] The interests as at 31 December 2013 and interests as at 28 February 2014 reflect the period from 1 January 2013 to 31 March 2013 (date of resignation).

Mark Anderson and Mary Waldner were not participants in the AESOP during 2013.

During the year, the Share Ownership Plan Trust, established and operated in connection with the AESOP, purchased 30,206 (2012: 31,215) Ultra Electronics Holdings plc. shares, with a nominal value of £1,510 (2012: £1,560) for £497,205 (2012: £507,304).

Remuneration Report
Annual Report on Remuneration (continued)

The role and composition of the Remuneration Committee

Role

The role of the Committee is to: determine and agree with the Board the framework and broad policy for the remuneration of the Executive Directors, Chairman of the Board, and senior management reporting to the Executive Directors (the "Executive Team"); ensure that the Executive Directors are fairly rewarded for their individual contributions to the Group's overall performance with due regard to the interests of shareholders and to the financial and commercial health of the Group; and ensure that contractual arrangements, including the termination of Executive Directors, are fair both to the individuals concerned and to the Group. The Committee's terms of reference include all matters indicated by the Code and are approved and reviewed by the Board annually. The terms of reference are available on Ultra's website (**www.ultra-electronics.com**).

Composition

Chris Bailey continued as Chairman of the Remuneration Committee, and Sir Robert Walmsley and Martin Broadhurst, both independent Non-Executive Directors, continued as the other Committee members during 2013. Sharon Harris continued to act as Secretary to the Committee. The Chairman, Chief Executive and Group HR Director also normally attend Committee meetings by invitation, except where matters directly relating to their own remuneration are discussed, although they are not Committee members.

Advice

Wholly independent advice on executive remuneration and share schemes is received from New Bridge Street, an Aon plc company. New Bridge Street was appointed by the Committee after a tender process and, during the year, provided to the Group with advice on the operation of Ultra's LTIP and other share schemes, remuneration benchmarking services and an annual update on market and best practice. During 2013, insurance broking services were also provided to the Group by other subsidiaries of Aon plc which the Committee considers in no way prejudices New Bridge Street's position as the Committee's independent advisers. Pension advisory services were provided to the Committee and the Group by Towers Watson. Fees charged by New Bridge Street for advice provided to the Committee for 2013 amounted to £81,926 (excluding VAT). Fees charged by Towers Watson for advice provided to the Committee for 2013 amounted to £100,565 (excluding VAT). In addition, the Committee consults the Chief Executive with regard to the remuneration and benefits packages offered to Executive Directors (other than in relation to his own remuneration and benefits package) and members of the Executive Team.

We strongly encourage shareholders to vote in favour of our policies which underpin our alignment between business strategy and remuneration and are designed to be fair and balanced as between employees and shareholders.

This Report was approved by the Board of Directors on 28 February 2014 and signed on its behalf by:

Chris Bailey, Chairman of the Remuneration Committee

Directors' Report
For the year ended 31 December 2013

Ultra Electronics Holdings plc is the Group holding company and it is incorporated in the United Kingdom under the Companies Act 2006.

The Directors present their annual report on the affairs of the Group, together with the accounts and independent auditor's report, for the year ended 31 December 2013. Details in relation to health and safety, the environment and greenhouse gas emissions, business ethics and employment practices are included in the Sustainability section on **pages 44** to **47** of the Strategic Report. The Corporate Governance statement on **pages 49** to **62** forms part of this report, and the financial risk management objectives and policies can be found in note 23.

Strategic Report
In accordance with the Companies Act 2006 Ultra is required to set out information which helps the shareholders assess how the Directors have performed their duty to promote the success of the Group, together with a description of the principal risks and uncertainties facing the Group. The information that satisfies these requirements can be found in the Strategic Report on **pages 4** to **47**.

Results and dividends
Group results and dividends are as follows:

	2013 £'000
Balance on retained earnings, beginning of year	252,745
Total comprehensive income for the year	31,907
Dividends: 2012 final paid of 27.8p per share	(19,259)
2013 interim paid of 12.7p per share	(8,812)
Equity-settled employee share schemes	2,028
Balance on retained earnings, end of year	**258,609**

The final 2013 dividend of 29.5p per share is proposed to be paid on 2 May 2014 to shareholders on the register on 11 April 2014. The interim dividend was paid on 27 September 2013, making a total of 42.2p (2012: 40.0p) per share paid in the year.

Future developments
A review of the activities and future developments of the Group is contained in the Chief Executive's review on **pages 4** and **5**.

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 £130.4 million (2012: £147.1 million) was spent on engineering and business development of which £87.1 million (2012: £97.9 million) was funded by customers and £43.3 million (2012: £49.2 million) by the Group.

Purchase of own shares
During the year Ultra purchased no (2012: nil) ordinary shares and no (2012: nil) ordinary shares were distributed following vesting of awards under the Ultra Electronics Long-Term Incentive Plan. At 31 December 2013, the Group held 235,245 ordinary shares under the Ultra Electronics Long-Term Incentive Plan (representing 0.3% of the ordinary shares in issue as at 31 December 2013).

Supplier payment policy
Individual operating businesses are responsible for agreeing the terms and conditions under which they conduct business transactions with their suppliers. It is Group policy that payments to suppliers are made in accordance with those terms, provided that the supplier is also complying with all relevant terms and conditions. Trade payable days of the Group for the year ended 31 December 2013 were 59 days (2012: 50 days) based on the ratio of Group trade payables at the end of the year to the amounts invoiced during the year by suppliers.

Employment policy
It is the policy of Ultra to create a working environment in which there is no discrimination and all employment decisions are based entirely on merit and the ability of people to perform their intended roles. Ultra aims to continue to build a workforce which is recruited from the widest possible talent pool.

Directors and their interests
The Directors who served throughout the year and to the date of signing these financial statements, and their interests in the shares and share options of Ultra at 28 February 2014 are listed on **page 72**.

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

Substantial shareholdings
As at 28 February 2014, Ultra had been notified, in accordance with Chapter 5 of the Disclosure and Transparency rules, of the following voting rights as shareholders of Ultra:

	Nature of holding	Percentage of ordinary share capital	Number of 5p ordinary shares	Date of announcement
Schroders plc	Indirect	6.5	4,501,053	22 January 2007
Artemis Investment Management LLP	Direct & indirect	5.07	3,535,035	23 October 2013
Ameriprise Financial Inc	Direct & indirect	5.0	3,494,321	17 October 2013
BlackRock Inc	Indirect	4.2	2,910,296	15 April 2010
Norges Bank	Direct	3.95	2,757,470	19 November 2013

Capital structure
Details of the authorised and issued share capital, together with details of the movements in Ultra's issued share capital during the year are shown in note 27. Ultra has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of Ultra.

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

Details of employee share schemes are set out in note 27. No person has any special rights of control over the Ultra's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, Ultra is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the 'Matters to be reserved to the Board' which is available from the Investors section of the Group website.

Annual General Meeting
The next Annual General Meeting of Ultra will be held on 30 April 2014 at 417 Bridport Road, Greenford, Middlesex UB6 8UA at 10 am. A separate circular providing details of the Annual General Meeting has been sent to shareholders with the Annual Report and Accounts.

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

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

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of The Companies Act 2006.

By order of the Board,
Sharon Harris, Company Secretary & General Counsel
28 February 2014
Registered Office: 417 Bridport Road, Greenford, Middlesex UB6 8UA Registered Number: 02830397

Executives and advisors

Executive Team members

Rakesh Sharma
Chief Executive

Mary Waldner
Group Finance Director

Mark Anderson
Group Marketing Director

Mike Clayton
Managing Director
Tactical Systems

Chris Gane
Managing Director
Aircraft & Vehicle Systems

Sharon Harris
Company Secretary & General Counsel

John Robusto
President
Secure Intelligence Systems

Carlos Santiago
President
Naval Systems

Graeme Stacey
Managing Director
Infrastructure & Power

Keith Thomson
Group Human Resources Director

Business MDs and Presidents

Olugbenga Erinle
President
3eTI

John McAlonan
President
Advanced Tactical Systems

Sonia Freed
Acting Managing Director
AEP Networks

Paul Owen
Managing Director
Airport Systems

Mark Doyle
Chief Executive Officer
Al Shaheen (49%)

Bill King
President
AMI

Doug Burd
Managing Director
Avalon Systems
& Ultra Electronics, Australia

Andy Wycherley
Director & General Manager
CEMS

Mike Williams
Acting Managing Director
Command & Control Systems

Mike Baptist
Managing Director
Communication & Integrated Systems

Rob McDonald
Managing Director
Controls

Pete Crawford
President
EMS

Paul Fardellone
President
Flightline Systems

Tom Cross
Managing Director
GigaSat

Andy Matko
Director & General Manager
ID

Omar Al Ismaili
Managing Director
Ithra (70%)

Ken Walker
President
Maritime Systems

Ken Tasch
President
Measurement Systems Inc.

Nick Gaines
Managing Director
Nuclear Control Systems

Dan Upp
President
Nuclear Sensors & Process Instrumentation

Bill Terry
President
Ocean Systems

Jon Everett
Managing Director
PMES

Andy Yates
Managing Director
Precision Air & Land Systems

Michael Spencer
General Manager
ProLogic

Ross Parsell
Managing Director
Sonar Systems

Michael Phipps
President
SOTECH

Mark Darvill
Managing Director
Surveillance & Security Systems

Iwan Jemczyk
President
TCS

Joe Peters
President
USSI

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Principal bankers

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Solicitors

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Osborne Clarke
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Financial advisors

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JPMorgan Cazenove Limited
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London E14 5JP

Stockbrokers

JPMorgan Cazenove Limited
25 Bank Street, Canary Wharf
London E14 5JP

Registrars

Equiniti
Aspect House
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West Sussex BN99 6DA

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2. Strategic report
3. Governance
4. Group financials
5. Company financials
6. Five-year review

Independent auditor's report

To the members of Ultra Electronics Holdings plc

Opinion on financial statements of Ultra Electronics Holdings plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 December 2013 and the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Changes in Equity and the related notes 1 to 49. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Going concern

As required by the Listing Rules we have reviewed the Directors' statement contained within the Directors' Report on page 58 that the Group is a going concern. We confirm that:

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Revenue recognition Revenue recognition has been deemed a risk area, specifically in relation to: • Significant long-term contracts, due to the financial effects of judgements, including future milestone success, associated with determining the percentage of contract completion at the balance sheet date and risks associated with completing the contract; and • Delivery of goods, due to the complex contractual terms with regards to the transfer of risk and reward that arise within the Aerospace and Defence industry and therefore the appropriate point at which revenue should be recognised.	Our audit work assessed the adequacy of the design and implementation of controls over long-term contract accounting. We reviewed the contract risk registers and evidence for the progress made against the contract such as milestone completion, to confirm that revenue and profit recognised to date are based on the current best estimate of the degree of contract completion. We understood and challenged management's assumptions by referring to evidence including signed contract terms and latest project status reports, and discussed contract progress and future risks with contract engineers. We also assessed the reliability of management estimates through consideration of the historical accuracy of prior period management estimates. For each contract selected for testing, we made enquiries as to any unusual contract terms or side agreements separate to the original contract. In response to the risk of inappropriate revenue recognition arising from complex contractual terms, we reviewed contractual evidence to understand how the specific terms in respect of the transfer or risk and reward had been met. We then performed a sample test of sales recognised either side of the year end to assess whether the appropriate terms of the relevant contracts had been satisfied and that the risks and rewards associated with the contract had passed to the customer. We used external evidence, such as shipping documentation or evidence of client acceptance, to confirm that revenue had been recognised in the appropriate period.

Our assessment of risks of material misstatement (continued)

Risk	How the scope of our audit responded to the risk
Goodwill and other intangible assets There is a risk regarding potential impairment over the valuation of goodwill and intangible assets arising on historical acquisitions. In management's impairment assessment there are a number of key judgements in determining the recoverable amount, including identification of cash generating units, growth rates in future cashflow forecasts and discount rates applied to these forecasts.	We challenged the assumptions used by management within their annual impairment assessment through benchmarking the short and long term growth rates to independently available data, peer group analysis, our understanding of the secured orders underpinning the Group's cashflow forecasts, and historical performance of the business. In addition, valuation specialists within the audit team provided additional challenge over the discount rate applied to these cashflows through the use of external confirmation and benchmarking. We independently identified the cash generating units within the Group based on a review of the cashflows internally reported by management, and our understanding of the Group structure. Having audited the assumptions within management's annual impairment assessment, we checked the arithmetical accuracy of the impairment model using these assumptions.
Provisions There is judgement required in respect of potential provisions required on long-term support arrangements and warranties, and complex mission critical product manufacturing. Consequently we have deemed the appropriateness and completeness of provisions made by management in respect of product warranties and other provisions to be a risk.	We recalculated and assessed management's estimates for the provisions in conjunction with our understanding of the potential liability as set out in contract terms. In respect of warranties, we assessed the level of provisioning by verifying the actual failure costs incurred to date and the products in circulation subject to a warranty. We used external evidence to evaluate this further, including sales data and contract terms together with any correspondence with third parties in respect of product failures and claims. In response to other provisions, we circularised the Group's external legal advisors and reviewed legal costs incurred in the year to confirm the completeness of legal cases to which the Group is party. Through external evidence including submitted legal advice and discussion with management, we sought to corroborate the basis for the Group's expections over likely outcomes and their subsequent quantification of the related provisions.

Our assessment of risks of material misstatement (continued)

Risk	How the scope of our audit responded to the risk
Pensions The Group operates four defined benefit pension schemes, for which there is judgement in determining the IAS 19 valuation as recorded at the balance sheet date. The valuation is based on a number of assumptions on both a micro and a macro-economic level as disclosed in the notes to the accounts.	We included pension specialists within our audit team to assess the appropriateness of the assumptions and methodology used to value the defined benefit pension schemes at the balance sheet date. In addition, we circularised the independent actuary and investment managers responsible for managing the pension fund to confirm the source inputs into the pension valuation. This confirmed the completeness of the pension assets and the valuation for which we further agreed a sample to publically available asset valuations.

The Audit Committee's consideration of these risks is set out on **pages 60** to **62**.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We determined materiality for the Group to be £8 million, which represents 7% of underlying pre-tax profit, and 2% of equity.

Underlying pre-tax profit was identified as being the main indicator of trading business performance, and represents statutory pre-tax profit adding back impairment of goodwill, amortisation of acquired intangible assets, adjustments to deferred consideration net of acquisition costs, defined benefit pension interest charges, unwinding of discounts on provisions and the revaluation of financial instruments based on their fair values.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £160,000 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the audit at fifteen of the Group's twenty principal business units, all of which were subject to full audit. In addition the remaining five business units were subject to an audit of specific account transactions and account balances where the extent of our testing was focused on our Group audit risks and our assessment of the risk of material misstatement.

The twenty locations represent the principal business units within the Group's reportable segments and account for 87% of the Group's net assets, 91% of the Group's revenue and 93% of the Group's underlying operating profit. They also provided an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the twenty units was executed at levels of materiality applicable to each individual entity, all of which were lower than Group materiality.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The Group audit team follows a programme of planned visits that has been designed so that the Senior Statutory Auditor or another senior member of the Group audit team visits each of the significant overseas components locations at least once every three years. Every year, regardless of whether we have visited or not, we include the component audit partner and other senior members of the component audit team in our team briefing, direct the scope of their work for the purposes of our Group audit, discuss their risk assessment and review documentation of the findings from their work.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration
Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement
Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report
Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Kerr Mitchell FCA, Senior Statutory Auditor
for and on behalf of **Deloitte LLP**
Chartered Accountants and Statutory Auditor
Reading, United Kingdom
28 February 2014

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

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

Group highlights
For the year ended 31 December 2013

	2013 £'000	2012 £'000 As restated†	Change %
Revenue	**745,154**	760,826	(2.1)
Underlying operating profit*	**121,717**	121,844	(0.1)
Operating profit	**57,398**	88,271	(35.0)
Underlying profit before tax*	**116,806**	116,502	0.3
Profit before tax	**49,281**	79,818	(38.2)

	2013 pence	2012 pence	Change %
Underlying earnings per share*	**127.1**	125.5	1.3
Basic earnings per share	**54.8**	88.1	(37.8)
Dividend per share	**42.2**	40.0	5.5

* Ultra uses underlying figures as key performance indicators. Underlying figures are stated before amortisation charges relating to acquired intangibles, impairment of goodwill, adjustments to deferred consideration net of acquisition costs, defined benefit pension interest charges, unwinding of discounts on provisions and the revaluation of financial instruments based on their fair values. A reconciliation between operating profit and underlying operating profit, and between profit before tax and underlying profit before tax is shown in note 2 to the accounts. A reconciliation between basic earnings per share and underlying earnings per share is shown in note 12.

† 2012 comparatives have been restated following the introduction of IAS19 (revised 2011). A reconciliation of the impact is set out in note 36.

Consolidated income statement

For the year ended 31 December 2013

	Note	2013 £'000	2012 £'000 As restated*
Revenue	3	**745,154**	760,826
Cost of sales		**(523,687)**	(534,622)
Gross profit		**221,467**	226,204
Other operating income	4	**497**	2,008
Distribution costs		**(1,883)**	(1,264)
Administrative expenses		**(126,371)**	(140,509)
Share of profit from associate	16	**1,424**	3,487
Other operating expenses	5	**(2,860)**	(1,655)
Contingent consideration release	1	**9,363**	-
Impairment of goodwill	13	**(44,239)**	-
Operating profit	6	**57,398**	88,271
Investment revenue	8	**1,606**	1,583
Finance costs	9	**(9,723)**	(10,036)
Profit before tax		**49,281**	79,818
Tax	10	**(11,124)**	(18,552)
Profit for the year		**38,157**	61,266
Attributable to:			
Owners of the Company		**38,157**	60,957
Non-controlling interests		**-**	309
Earnings per ordinary share (pence)			
Basic	12	**54.8**	88.1
Diluted	12	**54.7**	87.9

The accompanying notes are an integral part of this consolidated income statement. All results are derived from continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 December 2013

	Note	2013 £'000	2012 £'000 As restated*
Profit for the year		**38,157**	61,266
Items that will not be reclassified to profit or loss:			
Actuarial loss on defined benefit pension schemes		**(5,677)**	(3,110)
Tax relating to items that will not be reclassified		**(1,321)**	(797)
Total items that will not be reclassified to profit or loss		**(6,998)**	(3,907)
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**(4,896)**	(12,803)
Gain on net investment hedges		**810**	4,044
Tax relating to items that may be reclassified	10	**748**	77
Total items that may be reclassified to profit or loss		**(3,338)**	(8,682)
Other comprehensive income for the year		**(10,336)**	(12,589)
Total comprehensive income for the year	28	**27,821**	48,677
Attributable to:			
Owners of the Company		**27,821**	48,368
Non-controlling interests		**-**	309

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

**See note 36*

Consolidated balance sheet
31 December 2013

	Note	2013 £'000	2012 £'000
Non-current assets			
Goodwill	13	**252,115**	291,824
Other intangible assets	14	**125,445**	139,160
Property, plant and equipment	15	**59,146**	57,756
Interest in associate	16	**7,317**	8,989
Deferred tax assets	25	**5,147**	1,138
Derivative financial instruments	23	**4,226**	3,152
Trade and other receivables	19	**9,622**	4,133
		463,018	506,152
Current assets			
Inventories	17	**57,774**	52,185
Trade and other receivables	19	**239,916**	201,039
Tax assets		**2,454**	-
Cash and cash equivalents		**30,570**	30,840
Derivative financial instruments	23	**3,307**	2,454
		334,021	286,518
Total assets		**797,039**	792,670
Current liabilities			
Trade and other payables	20	**(269,907)**	(242,858)
Tax liabilities		**(16,927)**	(13,428)
Derivative financial instruments	23	**(777)**	(490)
Obligations under finance leases	21	**(44)**	(37)
Borrowings	22	**-**	(27,544)
Short-term provisions	26	**(18,140)**	(22,474)
		(305,795)	(306,831)
Non-current liabilities			
Retirement benefit obligations	31	**(86,078)**	(83,096)
Other payables	20	**(4,773)**	(20,987)
Deferred tax liabilities	25	**(222)**	(7,079)
Derivative financial instruments	23	**(269)**	(99)
Obligations under finance leases	21	**(19)**	(50)
Borrowings	22	**(72,664)**	(46,209)
Long-term provisions	26	**(6,040)**	(14,094)
		(170,065)	(171,614)
Total liabilities		**(475,860)**	(478,445)
Net assets		**321,179**	314,225
Equity			
Share capital	27	**3,490**	3,470
Share premium account	28	**53,908**	48,752
Own shares	28	**(2,581)**	(2,581)
Hedging reserve	28	**(9,169)**	(9,979)
Translation reserve	28	**16,240**	21,119
Retained earnings	28	**258,609**	252,745
Equity attributable to equity holders of the company		**320,497**	313,526
Non-controlling interest		**682**	699
Total equity		**321,179**	314,225

The financial statements of Ultra Electronics Holdings plc, registered number 02830397, were approved by the Board of Directors and authorised for issue on 28 February 2014.

On behalf of the Board
R. Sharma, Chief Executive
M. Waldner, Finance Director

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

Consolidated cash flow statement
For the year ended 31 December 2013

	Note	2013 £'000	2012 £'000 As restated*
Net cash flow from operating activities	29	**63,932**	82,243
Investing activities			
Interest received		**136**	193
Dividends received from equity accounted investments		**2,825**	765
Purchase of property, plant and equipment		**(13,857)**	(20,470)
Proceeds from disposal of property, plant and equipment		**1,280**	67
Expenditure on product development and other intangibles		**(7,657)**	(4,659)
Acquisition of subsidiary undertakings	32	**(26,374)**	(40,904)
Net cash acquired with subsidiary undertakings	32	**4,623**	5,445
Net cash used in investing activities		**(39,024)**	(59,563)
Financing activities			
Issue of share capital		**5,176**	4,911
Dividends paid		**(28,071)**	(26,877)
Funding from government loans		**1,282**	1,298
Loan syndication costs		**(181)**	(722)
Decrease in borrowings		**(2,317)**	(10,145)
Decrease in loan to associate		**-**	577
Repayment of obligations under finance leases		**(24)**	(52)
Net cash used in financing activities		**(24,135)**	(31,010)
Net increase/(decrease) in cash and cash equivalents	29	**773**	(8,330)
Cash and cash equivalents at beginning of year		**30,840**	41,051
Effect of foreign exchange rate changes		**(1,043)**	(1,881)
Cash and cash equivalents at end of year		**30,570**	30,840

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

* 2012 comparatives have been restated to include acquisition costs of £1,494,000 within net cash flow from operating activities. *See note 29.*

Consolidated statement of changes in equity

For the year ended 31 December 2013

Equity attributable to equity holders of the parent

	Share capital £'000	Share premium account £'000	Reserve for own shares £'000	Hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Non controlling interest £'000	Total equity £'000
Balance at 1 January 2013	**3,470**	**48,752**	**(2,581)**	**(9,979)**	**21,119**	**252,745**	**699**	**314,225**
Profit for the year	-	-	-	-	-	38,157	-	38,157
Other comprehensive income for the year	-	-	-	810	(4,879)	(6,250)	(17)	(10,336)
Total comprehensive income for the year	**-**	**-**	**-**	**810**	**(4,879)**	**31,907**	**(17)**	**27,821**
Equity-settled employee share schemes	20	5,156	-	-	-	1,859	-	7,035
Dividend to shareholders	-	-	-	-	-	(28,071)	-	(28,071)
Tax on share-based payment transactions	-	-	-	-	-	169	-	169
Balance at 31 December 2013	**3,490**	**53,908**	**(2,581)**	**(9,169)**	**16,240**	**258,609**	**682**	**321,179**
Balance at 1 January 2012	**3,449**	**43,862**	**(2,581)**	**(14,023)**	**33,898**	**220,149**	**414**	**285,168**
Profit for the year – restated	-	-	-	-	-	60,957	309	61,266
Other comprehensive income for the year – restated	-	-	-	4,044	(12,779)	(3,830)	(24)	(12,589)
Total comprehensive income for the year	**-**	**-**	**-**	**4,044**	**(12,779)**	**57,127**	**285**	**48,677**
Equity-settled employee share schemes	21	4,890	-	-	-	1,974	-	6,885
Dividend to shareholders	-	-	-	-	-	(26,877)	-	(26,877)
Tax on share-based payment transactions	-	-	-	-	-	372	-	372
Balance at 31 December 2012	**3,470**	**48,752**	**(2,581)**	**(9,979)**	**21,119**	**252,745**	**699**	**314,225**

Notes to accounts – Group
31 December 2013

1 Segment information

For management purposes, the Group is organised into three operating segments – Aircraft & Vehicle Systems, Information & Power Systems and Tactical & Sonar Systems. These segments are consistent with the internal reporting as reviewed by the Chief Executive. Each segment includes businesses with similar operating and market characteristics.

	2013			2012		
	External revenue £'000	**Inter segment £'000**	**Total £'000**	External revenue £'000	Inter segment £'000	Total £'000
Revenue						
Aircraft & Vehicle Systems	**155,481**	**19,409**	**174,890**	147,017	18,440	165,457
Information & Power Systems	**304,976**	**8,928**	**313,904**	315,835	13,815	329,650
Tactical & Sonar Systems	**284,697**	**18,824**	**303,521**	297,974	20,261	318,235
Eliminations	**-**	**(47,161)**	**(47,161)**	-	(52,516)	(52,516)
Consolidated revenue	**745,154**	**-**	**745,154**	760,826	-	760,826

All inter-segment trading is at arm's length.

2013	**Aircraft & Vehicle Systems £'000**	**Information & Power Systems £'000**	**Tactical & Sonar Systems £'000**	**Total £'000**
Underlying operating profit	**32,400**	**41,205**	**48,112**	**121,717**
Amortisation of intangibles arising on acquisition	**(4,586)**	**(9,375)**	**(15,122)**	**(29,083)**
Adjustments to deferred consideration net of acquisition costs†	**364**	**(36)**	**8,675**	**9,003**
Impairment of goodwill *(see note 13)*	**-**	**(44,239)**	**-**	**(44,239)**
Operating profit/(loss)	**28,178**	**(12,445)**	**41,665**	**57,398**
Investment revenue				**1,606**
Finance costs				**(9,723)**
Profit before tax				**49,281**
Tax				**(11,124)**
Profit after tax				**38,157**

† A provision of £9,363,000 was released relating to the GigaSat earn-out agreement for which the 2013 target was not met. GigaSat is in the Tactical & Sonar Systems division.

2012 As restated*	Aircraft & Vehicle Systems £'000	Information & Power Systems £'000	Tactical & Sonar Systems £'000	Total £'000
Underlying operating profit	30,645	44,905	46,294	121,844
Amortisation of intangibles arising on acquisition	(3,571)	(14,005)	(14,503)	(32,079)
Adjustments to deferred consideration net of acquisition costs	(315)	(518)	(661)	(1,494)
Operating profit	26,759	30,382	31,130	88,271
Investment revenue				1,583
Finance costs				(10,036)
Profit before tax				79,818
Tax				(18,552)
Profit after tax				61,266

Capital expenditure, additions to intangibles, depreciation and amortisation

	Capital expenditure and additions to intangibles (excluding goodwill and acquired intangibles)		**Depreciation and amortisation**	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Aircraft & Vehicle Systems	**10,356**	7,511	**7,182**	6,784
Information & Power Systems	**5,434**	7,088	**15,037**	18,770
Tactical & Sonar Systems	**5,724**	10,530	**21,113**	20,570
Total	**21,514**	25,129	**43,332**	46,124

The 2013 depreciation and amortisation expense includes £31,967,000 of amortisation charges (2012: £35,242,000) and £11,365,000 of property, plant and equipment depreciation charges (2012: £10,882,000).

See note 36

1. Introduction 2. Strategic report 3. Governance 4. Group financials 5. Company financials 6. Five-year review

1 Segment information (continued)

Total assets by segment

	2013 £'000	2012 £'000
Aircraft & Vehicle Systems	**180,941**	146,872
Information & Power Systems	**276,097**	296,411
Tactical & Sonar Systems	**294,297**	311,803
	751,335	755,086
Unallocated	**45,704**	37,584
Consolidated total assets	**797,039**	792,670

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

Total liabilities by segment

	2013 £'000	2012 £'000
Aircraft & Vehicle Systems	**39,755**	42,594
Information & Power Systems	**145,802**	121,273
Tactical & Sonar Systems	**117,702**	139,547
	303,259	303,414
Unallocated	**172,601**	175,031
Consolidated total liabilities	**475,860**	478,445

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

Revenue by destination

The following table provides an analysis of the Group's sales by geographical market:

	2013 £'000	2012 £'000
United Kingdom	**243,650**	225,671
Continental Europe	**61,860**	55,769
Canada	**17,130**	19,038
USA	**313,352**	349,145
Rest of World	**109,162**	111,203
	745,154	760,826

During the year there was one direct customer (2012: one), that individually accounted for greater than 10% of the Group's total turnover. Sales to this customer in 2013 were £164.8m (2012: £189.3m) across all segments.

Other information (by geographic location)

	Non current assets		Total assets		Additions to Property, Plant & Equipment and intangible assets (excluding acquisitions)	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000	2013 £'000	2012 £'000
United Kingdom	**221,362**	200,453	**375,315**	339,855	**14,607**	16,404
USA	**159,927**	216,746	**229,563**	292,022	**3,852**	4,227
Canada	**47,960**	55,831	**62,983**	71,191	**2,719**	2,795
Rest of World	**24,396**	28,831	**83,474**	69,477	**336**	1,703
	453,645	501,861	**751,335**	772,545	**21,514**	25,129
Unallocated	**9,373**	4,291	**45,704**	20,125	**-**	-
	463,018	506,152	**797,039**	792,670	**21,514**	25,129

2 Additional non-statutory performance measures

To present the underlying trading of the Group on a consistent basis year-on-year, additional non-statutory performance indicators have been used. These are calculated as follows:

	2013 £'000	2012 £'000 As restated*
Operating profit	**57,398**	88,271
Amortisation of intangibles arising on acquisition	**29,083**	32,079
Impairment of goodwill *(see note 13)*	**44,239**	-
Adjustments to contingent consideration net of acquisition costs	**(9,003)**	1,494
Underlying operating profit	**121,717**	121,844
Profit before tax	**49,281**	79,818
Amortisation of intangibles arising on acquisition	**29,083**	32,079
Impairment of goodwill *(see note 13)*	**44,239**	-
Adjustments to contingent consideration net of acquisition costs	**(9,003)**	1,494
Unwinding of discount on provisions *(see note 26)*	**1,268**	577
Profit on fair value movements of derivatives	**(1,470)**	(1,390)
Net interest charge on defined benefit pensions	**3,408**	3,924
Underlying profit before tax	**116,806**	116,502
Cash generated by operations *(see note 29)*	**93,476**	112,387
Purchase of property, plant and equipment	**(13,857)**	(20,470)
Proceeds on disposal of property, plant and equipment	**1,280**	67
Expenditure on product development and other intangibles	**(7,657)**	(4,659)
Dividend from equity accounted investment	**2,825**	765
Acquisition related payments	**2,973**	1,494
Underlying operating cash flow	**79,040**	89,584

Underlying operating profit has been shown before adjustments to contingent consideration net of acquisition related costs, the amortisation of intangible assets arising on acquisitions and impairment of goodwill. To maintain a consistent presentation of financial performance over the longer term, these charges have been excluded from underlying operating profit. Underlying profit before tax and underlying earnings per share *(see note 12)* are also presented before these adjustments.

IAS 37 requires the Group to discount provisions using a pre-tax discount rate that reflects the current assessment of the time value of money and the risks specific to the liability. In the case of the provision relating to the acquisition contingent consideration, to maintain a consistent presentation of financial performance over the longer term, underlying profit before tax and underlying earnings per share *(see note 12)* are stated before the unwinding of discount on the provision.

IAS 39 requires the Group to 'fair value' the derivative instruments used to manage Ultra's foreign exchange exposures. This creates volatility in the valuation of the outstanding instruments as exchange rates move over time. This will have minimal impact on profit over the full term of the instruments, but can cause significant volatility on particular balance sheet dates. Underlying profit before tax and underlying earnings per share *(see note 12)* are stated before changes in the valuation of foreign currency derivative instruments.

Following the adoption of IAS 19 (revised 2011), the Group has decided to present underlying profit before tax and underlying earnings per share *(see note 12)* before the net interest charge on defined benefit pensions in order that the underlying operating performance of the Group can be seen more clearly. The comparatives for the year ended 31 December 2012 have been restated as set out in note 36.

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

3 Revenue

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

	2013 £'000	2012 £'000
Sales of goods	**331,598**	343,981
Revenue from long term contracts	**413,556**	416,845
	745,154	760,826

4 Other operating income

Amounts included in other operating income were as follows:

	2013 £'000	2012 £'000
Foreign exchange gains	**497**	2,008
	497	2,008

*See note 36

1. Introduction
2. Strategic report
3. Governance
4. Group financials
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6. Five-year review

5 Other operating expenses

Amounts included in other operating expenses were as follows:

	2013 £'000	2012 £'000
Amortisation of development costs	608	830
Foreign exchange losses	2,252	825
	2,860	1,655

6 Operating profit

Operating profit is stated after charging/(crediting):

	2013 £'000	2012 £'000
Raw materials and other bought in inventories expensed in the year	226,096	233,279
Staff costs *(see note 7)*	228,994	226,995
Depreciation and amounts written off property, plant and equipment	11,365	10,882
Amortisation of internally generated intangible assets	608	830
Amortisation of acquired intangible assets (and other intangibles)	31,359	34,412
Impairment of goodwill *(see note 13)*	44,239	-
Government grant income *(see note 24)*	(1,819)	(2,628)
Net foreign exchange loss	2,771	1,905
Loss on disposal of property, plant and equipment	130	137
Operating lease rentals		
– plant and machinery	1,590	1,398
– other	10,043	9,481
Research and development costs	36,952	48,597
Auditor's remuneration for statutory audit work (including expenses)	705	685

The Company only audit fee included in the Group audit fee shown above was £20,000 (2012: £20,000).

Analysis of auditor's remuneration

	2013 £'000	2012 £'000
Fees payable for the audit of the annual accounts	179	166
Fees payable for the audit of subsidiaries	526	519
Total for statutory Group audit services	705	685
Analysis of non-audit services:		
Audit related services	27	-
Tax compliance	7	5
Other tax advisory services	3	14
Corporate finance services – due diligence	341	50
Other services	13	125
Total for non-audit services	391	194

7 Staff costs

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

	2013 £'000	2012 £'000
Wages and salaries	198,369	197,098
Social security costs	19,595	18,573
Pension costs	11,030	11,324
	228,994	226,995

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

	2013 Number	2012 Number
Production	1,698	1,616
Engineering	1,725	1,781
Selling	262	308
Support services	589	725
	4,274	4,430

Information on Directors' remuneration is given in the section of the Remuneration Report described as having been audited and those elements required by the Companies Act 2006 and the Financial Conduct Authority form part of these accounts.

8 Investment revenue

	2013 £'000	2012 £'000
Bank interest	136	193
Fair value movement on derivatives	1,470	1,390
	1,606	1,583

9 Finance costs

	2013 £'000	2012 £'000 As restated*
Amortisation of finance costs of debt	616	591
Interest payable on bank loans, overdrafts and other loans	4,430	4,943
Interest payable on finance leases	1	1
Total borrowing costs	5,047	5,535
Retirement benefit scheme finance cost	3,408	3,924
Unwinding of discount on provisions	1,268	577
	9,723	10,036

10 Tax

	2013 £'000	2012 £'000 As restated*
UK taxes		
Corporation tax	15,453	12,854
Adjustment in respect of prior years	1,853	169
	17,306	13,023
Overseas taxes		
Current taxation	7,238	10,043
Adjustment in respect of prior years	414	(138)
	7,652	9,905
Total current tax	24,958	22,928
Deferred tax		
Origination and reversal of temporary differences:		
UK deferred tax	(3,711)	(8)
Overseas deferred tax	(10,123)	(4,368)
Total deferred tax credit	(13,834)	(4,376)
Total tax charge	11,124	18,552

Corporation tax in the UK is calculated at 23.25% (2012: 24.5%) of the estimated assessable profit for the year.

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

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2013 £'000	2012 £'000 As restated*
Current tax		
Net investment hedges	748	77
Deferred tax		
Arising on income and expenses recognised in other comprehensive income:		
Actuarial loss on defined benefit pension schemes	(1,321)	(797)
Total income tax charge recognised directly in other comprehensive income	(573)	(720)

In addition to the amount charged to the income statement and other comprehensive income, the following amounts relating to tax have been recognised directly in equity:

	2013 £'000	2012 £'000
Current tax		
Excess tax deductions related to share based payments on exercised options	117	263
Deferred tax		
Change in estimated excess tax deductions related to share-based payments	52	109
Total income tax recognised directly in equity	169	372

**See note 36*

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10 Tax (continued)

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

	2013 £'000	2012 £'000 As restated*
Group profit before tax	49,281	79,818
Tax on Group profit at standard UK corporation tax rate of 23.25% (2012: 24.5%)	11,458	19,555
Tax effects of:		
Income/expenses that are not taxable/allowable in determining taxable profits	1,264	(897)
Effect of change in UK tax rate	(2,049)	(510)
Tax effect of utilisation of tax losses not previously recognised	-	(248)
Different tax rates of subsidiaries operating in other jurisdictions	(324)	877
Adjustments in respect of prior years	775	(225)
Tax expense for the year	11,124	18,552

11 Dividends

Amounts recognised as distributions to equity holders in the year:

	2013 £'000	2012 £'000
Final dividend for the year ended 31 December 2012 of 27.8p (2011: 26.8p) per share	19,259	18,466
Interim dividend for the year ended 31 December 2013 of 12.7p (2012: 12.2p) per share	8,812	8,411
	28,071	26,877
Proposed final dividend for the year ended 31 December 2013 of 29.5p (2012: 27.8p) per share	20,523	19,230

The 2013 proposed final dividend of 29.5p per share is planned to be paid on 2 May 2014 to shareholders on the register at 11 April 2014. It was approved by the Board after 31 December 2013 and has not been included as a liability as at 31 December 2013.

12 Earnings per share

	2013 pence	2012 pence As restated*
Basic underlying *(see below)*	127.1	125.5
Diluted underlying *(see below)*	126.7	125.1
Basic	54.8	88.1
Diluted	54.7	87.9

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

	2013 £'000	2012 £'000 As restated*
Earnings		
Earnings for the purposes of basic earnings per share being profit for the year	38,157	60,957
Underlying earnings		
Profit for the year	38,157	60,957
Profit on fair value movements on derivatives (net of tax)	(1,322)	(1,155)
Amortisation of intangibles arising on acquisition (net of tax)	20,727	22,271
Unwinding of discount on provisions (net of tax)	973	436
Acquisition-related costs net of contingent consideration (net of tax)	(9,061)	1,273
Net interest charge on defined benefit pensions (net of tax)	2,609	3,021
Impairment of goodwill (net of tax)	36,394	-
Earnings for the purposes of underlying earnings per share	88,477	86,803

The adjustments to profit are explained in note 2.

**See note 36*

12 Earnings per share (continued)

	2013 Number of shares	2012 Number of shares
The weighted average number of shares is given below:		
Number of shares used for basic earnings per share	69,588,526	69,165,099
Effect of dilutive potential ordinary shares – share options	218,397	215,138
Number of shares used for fully diluted earnings per share	**69,806,923**	69,380,237

	2013 £'000	2012 £'000 As restated*
Underlying profit before tax	116,806	116,502
Tax rate applied for the purposes of underlying earnings per share	24.25%	25.28%

13 Goodwill

	2013 £'000	2012 £'000
Cost		
At 1 January	291,824	278,125
Exchange differences	(3,670)	(6,416)
Recognised on acquisition of subsidiaries	9,790	19,478
Reclassifications	-	372
Other changes	(3,956)	265
At 31 December	**293,988**	291,824
Accumulated impairment losses		
At 1 January	-	-
Exchange differences	2,366	-
Impairment of goodwill	(44,239)	-
Carrying amount at 31 December	**252,115**	291,824

Other changes in 2013 relate to the release of an earn-out provision of £4,276,000 relating to a 2008 acquisition which was credited to goodwill, and other adjustments relating to the re-assessment of initial fair values. Other changes and reclassifications in 2012 relate to the re-assessment of initial fair values.

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

	2013 Discount rate %	2012 Discount rate %	2013 £'000	2012 £'000
Blue Sky Group	12.3	13.3	7,333	7,496
Precision Air & Land Systems	12.3	12.3	10,317	10,317
Adaptive Materials Inc	13.3	13.3	6,235	6,375
Controls	12.3	-	7,876	-
Other	12.3 to 13.3	12.3 to 13.3	13,074	13,074
Aircraft & Vehicle Systems			44,835	37,262
Airport Systems	13.3	13.3	28,064	27,996
Command & Control Systems	12.3	12.3	15,587	14,015
NSPI	13.3	13.3	10,518	10,752
ProLogic	13.8	12.3	-	47,176
SOTECH	12.3	12.3	8,652	8,844
Other	12.3 to 13.3	12.3 to 13.3	13,813	13,813
Information & Power Systems			76,634	122,596
3eTI	12.3	12.3	18,817	19,236
AEP	13.3	13.3	24,908	24,640
Flightline	12.3	12.3	9,519	2,165
GigaSat	13.3	16.0	9,544	9,544
Maritime Systems	12.3	12.3	1,615	9,331
Tactical Communication Systems	12.3	12.3	36,054	36,435
UnderSea Sensor Systems Inc	12.3	12.3	18,252	18,342
Other	12.3	12.3	11,937	12,273
Tactical & Sonar Systems			130,646	131,966
Total – Ultra Electronics			**252,115**	291,824

*See note 36

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13 Goodwill (continued)

The recoverable amounts of CGUs are determined from value-in-use calculations. In determining the value-in-use for each CGU, the Group prepares cash flows derived from the most recent financial budgets and strategic plans, representing the best estimate of future performance. These plans, which have been approved by the Board, include detailed financial forecasts and market analysis covering the expected development of each CGU over the next five years. The cash flows for the following ten years are also included and assume a growth rate of 2.5% per annum. Cash flows beyond that period are not included in the value-in-use calculation.

The key assumptions used in the value-in-use calculations are those regarding the discount rate, future revenues, growth rates and forecast gross margins. Management estimates the discount rate using pre-tax rates that reflect current market assessments of the time value of money and risks specific to the Group, being the Weighted Average Cost of Capital (WACC). The WACC is then risk-adjusted to reflect risks specific to each business. The pre-tax discount rate used during 2013 varied between 12.3% and 13.8% (2012: 12.3% to 16.0%). Future revenues are based on orders already received, opportunities that are known and expected at the time of setting the budget and strategic plans and future growth rates. Budget and strategic plan growth rates are based on a combination of historical experience, available government spending data and management and industry expectations of the growth rates that are expected to apply in the major markets in which each CGU operates. Longer-term growth rates, applied for the ten year period after the end of the strategic planning period, are set at 2.5%. Ultra considers the long-term growth rate to be appropriate for the sectors in which it operates. Forecast gross margins reflect past experience, factor in expected efficiencies to counter inflationary pressures, and also reflect likely margins achievable in the shorter-term period of greater defence spending uncertainty.

Within each of the strategic plans a number of assumptions are made about business growth opportunities, contract wins, product development and available markets. A key assumption is that there will be continued demand for Ultra's products and expertise from a number of US government agencies and prime contractors during the strategic plan period.

Sensitivity analysis has been performed on the value-in-use calculations to:
(i) reduce the post-2018 growth assumption from 2.5% to nil.
(ii) apply a 10% reduction to forecast operating profits in each year of the modelled cash inflows.
(iii) consider specific market factors as noted above.

Certain of these sensitivity scenarios give rise to potential impairments at GigaSat, Adaptive Materials Inc and Tactical Communications Systems. Headroom for these businesses, which represents the value derived from the key growth assumptions in the value-in-use calculations, is as follows: GigaSat £1.6m, Adaptive Materials Inc £5.1m and Tactical Communication Systems £23.2m. Sensitivity assumptions (i) and (ii) would result in a headroom shortfall at GigaSat of £0.3m and £1.3m respectively. Sensitivity (iii) is particularly relevant for Adaptive Materials Inc and accordingly if assumption (ii) was extended further, a 28% reduction to forecast operating profits, representing a key programme, would indicate impairment. Similarly, the Tactical Communication Systems CGU is also sensitive to specific market factors: a material delay in bringing a key programme to market, combined with failure to secure sufficient business with new and existing customers would result in impairment.

The reduction in placement of US service contracts has particularly impacted the ProLogic business during 2013. The value-in-use of the ProLogic CGU was lower than the carrying value of the CGU's net operating assets and consequently an impairment charge of £44.2m has been recorded in the year. The pre-tax discount rate used during this assessment was 13.8%. Following the impairment charge, the carrying value of goodwill for the ProLogic CGU as at 31 December 2013 is £nil. As set out in note 2, the £44.2m impairment charge has been included as part of the non-underlying operating results of the Group. ProLogic is within the Information & Power Systems operating segment.

For all other CGUs, the value-in-use calculations comfortably exceed the CGU carrying values in the sensitivity scenarios.

14 Other intangible assets

	Acquired intangibles						
	Customer relationships £'000	Intellectual property £'000	Profit in order book £'000	Other acquired £'000	Internally generated capitalised development costs £'000	Other intangibles £'000	Total £'000
Cost							
At 1 January 2012	139,358	65,983	22,511	1,146	16,826	16,567	262,391
Foreign exchange differences	(4,956)	(1,824)	(835)	(145)	(284)	(405)	(8,449)
Acquired on acquistion of subsidiary undertakings	22,884	9,061	860	694	-	148	33,647
Additions	-	-	-	-	597	4,062	4,659
Reclassifications	-	-	-	-	-	(372)	(372)
Disposals	-	-	-	-	-	(525)	(525)
At 1 January 2013	**157,286**	**73,220**	**22,536**	**1,695**	**17,139**	**19,475**	**291,351**
Foreign exchange differences	(3,234)	(1,085)	(557)	(24)	(331)	(351)	(5,582)
Acquired on acquistion of subsidiary undertakings	9,114	-	1,987	715	-	-	11,816
Additions	-	-	-	-	6,312	1,345	7,657
Disposals	-	-	-	-	-	(232)	(232)
At 31 December 2013	**163,166**	**72,135**	**23,966**	**2,386**	**23,120**	**20,237**	**305,010**
Accumulated amortisation							
At 1 January 2012	(57,050)	(20,454)	(20,765)	(471)	(13,055)	(10,263)	(122,058)
Disposals	-	-	-	-	-	513	513
Foreign exchange differences	2,344	848	795	118	250	241	4,596
Charge	(20,690)	(8,664)	(2,432)	(293)	(830)	(2,333)	(35,242)
At 1 January 2013	**(75,396)**	**(28,270)**	**(22,402)**	**(646)**	**(13,635)**	**(11,842)**	**(152,191)**
Foreign exchange differences	2,660	862	557	21	139	122	4,361
Disposals	-	-	-	-	-	232	232
Charge	(18,921)	(8,580)	(1,169)	(413)	(608)	(2,276)	(31,967)
At 31 December 2013	**(91,657)**	**(35,988)**	**(23,014)**	**(1,038)**	**(14,104)**	**(13,764)**	**(179,565)**
Carrying amount							
At 31 December 2013	**71,509**	**36,147**	**952**	**1,348**	**9,016**	**6,473**	**125,445**
At 31 December 2012	81,890	44,950	134	1,049	3,504	7,633	139,160

'Other intangibles' represents software, patents and trademarks. Of the £6,473,000 (2012: £7,633,000) net book value, £482,000 (2012: £540,000) related to patents and trademarks. The amortisation of intangible assets charge is included within administrative expenses.

Intangible assets, other than goodwill, are amortised over their estimated useful lives, typically as follows:

Customer relationships	5 to 16 years
Intellectual property	5 to 10 years
Profit in acquired order book	1 to 3 years
Other acquired	1 to 5 years
Development costs	2 to 10 years
Other intangibles:	3 to 5 years
Software	3 to 5 years
Patents and trademarks	10 to 20 years

15 Property, plant and equipment

	Land and Buildings			
	Freehold £'000	Short leasehold £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2012	20,386	14,699	91,149	126,234
Foreign exchange differences	(361)	(352)	(1,867)	(2,580)
Acquisitions	-	180	1,060	1,240
Additions	7,920	6,395	6,155	20,470
Disposals	-	(1,128)	(7,335)	(8,463)
At 1 January 2013	**27,945**	**19,794**	**89,162**	**136,901**
Foreign exchange differences	(568)	(199)	(1,367)	(2,134)
Acquisitions	-	3	858	861
Additions	4,014	2,447	7,396	13,857
Disposals	(1,080)	(1,268)	(3,571)	(5,919)
At 31 December 2013	**30,311**	**20,777**	**92,478**	**143,566**
Accumulated Depreciation				
At 1 January 2012	(3,833)	(7,235)	(66,579)	(77,647)
Foreign exchange differences	77	147	1,012	1,236
Charge	(874)	(2,145)	(7,863)	(10,882)
Disposals	-	1,115	7,033	8,148
At 1 January 2013	**(4,630)**	**(8,118)**	**(66,397)**	**(79,145)**
Foreign exchange differences	302	118	1,161	1,581
Charge	(1,407)	(1,742)	(8,216)	(11,365)
Disposals	201	1,070	3,238	4,509
At 31 December 2013	**(5,534)**	**(8,672)**	**(70,214)**	**(84,420)**
Carrying amount				
At 31 December 2013	**24,777**	**12,105**	**22,264**	**59,146**
At 31 December 2012	23,315	11,676	22,765	57,756

Freehold land amounting to £3,502,000 (2012: £3,502,000) has not been depreciated. The net book value of plant and machinery held under finance leases was £48,000 (2012: £107,000). Depreciation charged in the year on assets held under finance leases was £65,000 (2012: £52,000). Included within Land and Buildings is £nil (2012: £5,137,000) of assets in the course of construction.

16 Interest in associate

	2013 £'000	2012 £'000
The value of the Group's investment is made up as follows:		
Total assets	**13,894**	14,069
Total liabilities	**(6,577)**	(5,080)
Interest in associate	**7,317**	8,989

	2013 £'000	2012 £'000
Total revenue of associate	**29,370**	38,859
Group's share of profit recognised	**1,424**	3,487

The Group's interest in associate is represented by its 49% shareholding in Al Shaheen Adventure LLC, a Company incorporated in the UAE. The associate's year end is 31 December 2013.

17 Inventories

	2013 £'000	2012 £'000
Raw materials and consumables	**36,888**	32,850
Work in progress	**13,774**	11,621
Finished goods and goods for resale	**7,112**	7,714
	57,774	52,185

The amount of any write down of inventory recognised as an expense in the year was £2,727,000 (2012: £3,516,000).

18 Long-term contract balances

	2013 £'000	2012 £'000
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables	**133,368**	87,727
Amounts due to contract customers included in trade and other payables	**(124,122)**	(107,953)
	9,246	(20,226)
Contract costs incurred plus recognised profits less recognised losses to date	**1,375,409**	1,270,263

Advances received from customers for contract work amounted to £81,585,000 (2012: £76,519,000).

19 Trade and other receivables

Non-current	2013 £'000	2012 £'000
Trade receivables	**5,296**	4,133
Amounts due from contract customers *(note 18)*	**4,326**	-
	9,622	4,133

Current	2013 £'000	2012 £'000
Trade receivables	**87,174**	96,355
Provisions against receivables	**(1,605)**	(1,445)
Net trade receivables	**85,569**	94,910
Amounts due from contract customers *(note 18)*	**129,042**	87,727
Other receivables	**17,150**	11,402
Prepayments and accrued income	**8,155**	7,000
	239,916	201,039

Trade receivables do not carry interest. The average credit period on sale of goods is 34 days (2012: 34 days).

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

The ageing profile of unprovided overdue trade receivables was as follows:

	2013 £'000	Related provision £'000	Total £'000	2012 £'000	Related provision £'000	Total £'000
1 to 3 months	**12,698**	**(364)**	**12,334**	18,510	(451)	18,059
4 to 6 months	**2,123**	**(358)**	**1,765**	2,886	(306)	2,580
7 to 9 months	**791**	**(143)**	**648**	670	(405)	265
Over 9 months	**740**	**(740)**	**-**	907	(283)	624
Total overdue	**16,352**	**(1,605)**	**14,747**	22,973	(1,445)	21,528

The Group provides against its trade receivables where there are serious doubts as to future recoverability based on prior experience, on assessment of the current economic climate and on the length of time that the receivable has been overdue. All trade receivables that have been overdue for more than a year are provided for in full.

Movement in the provision for trade receivables was as follows:

	2013 £'000	2012 £'000
Balance at beginning of year	**1,445**	1,743
Foreign exchange differences	**(8)**	(12)
Increase in provision for trade receivables regarded as potentially uncollectable	**731**	412
Decrease in provision for trade receivables recovered during the year	**(563)**	(698)
Balance at end of year	**1,605**	1,445

Credit risk

Credit risk is defined as the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group mitigates this risk of financial loss by only dealing with creditworthy counterparties.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Whilst the Group has elements of concentration of credit risk, with exposure to a number of large counter parties and customers, the customers are mainly government agencies or multi-national organisations with whom the Group has long term business relationships. The Group has a small number of customers with individually significant amounts outstanding. These customers are considered to have low credit risk. Ongoing credit evaluation is performed on the financial condition of accounts receivable and when appropriate action is taken to minimise the Group's credit risk.

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

20 Trade and other payables

	2013 £'000	2012 £'000
Amounts included in current liabilities:		
Trade payables	**85,709**	75,773
Amounts due to contract customers *(note 18)*	**122,856**	96,620
Other payables	**19,505**	22,943
Accruals and deferred income	**41,837**	47,522
	269,907	242,858
Amounts included in non current liabilities:		
Amounts due to contract customers *(note 18)*	**1,266**	11,333
Other payables	**1,174**	5,578
Accruals and deferred income	**2,333**	4,076
	4,773	20,987

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

21 Finance leases

Minimum lease payments

	2013 £'000	2012 £'000
Amounts payable under finance leases:		
Within one year	**48**	41
Between one and five years	**24**	57
	72	98
Less: future finance charges	**(9)**	(11)
Present value of finance lease liabilities	**63**	87
Present value of finance lease liabilities – payments due:		
Within one year	**44**	37
Between one and five years	**19**	50
	63	87

22 Borrowings

	2013 £'000	2012 £'000
Amounts due after less than one year:		
Bank loans	**-**	27,544
	-	27,544
Amounts due after more than one year:		
Bank loans	**25,975**	-
Unsecured loan notes	**42,352**	43,295
Loans from government	**4,337**	2,914
	72,664	46,209
Total borrowings:		
Amount due for settlement within 12 months	**-**	27,544
Amount due for settlement after 12 months	**72,664**	46,209
	72,664	73,753

23 Financial instruments and financial risk management

Derivative financial instruments

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

Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted (unadjusted) active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that includes inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All of Ultra's financial instruments have been assessed as Level 2.

23 Financial instruments and financial risk management (continued)

Fair value measurements recognised in the balance sheet

	Level 2 £'000	2013 Total £'000
Financial assets at fair value		
Foreign exchange derivative financial instruments (through profit and loss)	**7,533**	**7,533**
Financial liabilities at fair value		
Foreign exchange derivative financial instruments (through profit and loss)	**1,046**	**1,046**

	Level 2 £'000	2012 Total £'000
Financial assets at fair value		
Foreign exchange derivative financial instruments (through profit and loss)	5,606	5,606
Financial liabilities at fair value		
Foreign exchange derivative financial instruments (through profit and loss)	589	589

	Current assets/(liability)		Non-current assets/(liability)	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Financial assets/(liabilities) carried at fair value through profit or loss				
Foreign exchange currency liabilities	**(777)**	(490)	**(269)**	(99)
Foreign exchange currency assets	**3,307**	2,454	**4,226**	3,152

Financial assets

The financial assets of the Group were as follows:

	2013 £'000	2012 £'000
Cash and cash equivalents	**30,570**	30,840
Currency derivatives used for hedging	**7,533**	5,606
Amounts due from contract customers	**133,368**	87,727
Other receivables	**17,150**	11,402
Trade receivables	**90,865**	99,043

The Directors consider that the carrying amount for all financial assets approximates to their fair value.

Financial liabilities

The financial liabilities of the Group were as follows:

	2013 £'000	2012 £'000
Currency derivatives used for hedging	**1,046**	589
Other financial liabilities:		
Bank loans and overdrafts	**25,975**	27,544
Loan notes	**42,352**	43,295
Finance leases	**63**	87
Government loans	**4,337**	2,914
Trade payables	**85,709**	75,773
Amounts due to contract customers	**124,122**	107,953
Deferred consideration	**11,593**	24,911
Accruals	**28,729**	31,380

The Directors consider that the carrying amount for all financial liabilities approximates to their fair value.

Liquidity risk

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

The Group's banking facilities are provided by a small group of banks, led by The Royal Bank of Scotland. During the year there were two facilities in place; one provides £90 million of revolving credit and expires in January 2016 and a second, which was put in place in January 2013 to replace the previous £120 million facility, provides £100 million of revolving credit which expires in December 2017. Both facilities are denominated in Sterling, US dollars, Canadian dollars, Australian dollars and Euros and are used for balance sheet and operational needs. A further £15 million overdraft is available for short-term working capital funding.

All bank loans are unsecured. Interest was predominantly charged at 1.45% (2012: 1.50%) over base or contracted rate.

At 31 December 2013, the Group had available £163,000,000 (2012: £180,815,000) of undrawn, committed borrowing facilities.

The Group is strongly cash-generative and the funds generated by operating companies are managed regionally to fund short-term local working capital requirements. Where additional funding is required, this is provided centrally through the Group's committed banking facilities.

The Group, through its Canadian subsidiary Ultra Electronics Tactical Communication Systems (UETCS), participates in two Canadian programmes that provide government support in relation to the development of certain of its products. Further disclosure is provided in note 24.

23 Financial instruments and financial risk management (continued)

Liquidity risk (continued)

In July 2011 the Group negotiated a private shelf agreement with Prudential Investment Management, Inc. which allowed the Group to issue loan notes up to a value of USD150 million and with a maturity date of up to 10 years. USD10 million of loan notes were issued in 2011 with a maturity date of July 2018 and a further USD60 million of loan notes were issued in January 2012 with a maturity date of January 2019. Consequently as at 31 December 2013 USD80 million remained available under the shelf agreement. On 2 January 2014 the Group agreed an amendment to extend the private shelf agreement for a three year period. Consequently loan notes can now be issued up until 2 January 2017. The amendment also increased the size of the shelf agreement so USD125 million of notes remain available for issue.

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

	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	**Total £'000**
2013					
Bank loans and overdrafts	**496**	**496**	**27,736**	**-**	**28,728**
Loan notes	**1,525**	**1,525**	**10,510**	**36,386**	**49,946**
Government loans	**-**	**-**	**-**	**4,337**	**4,337**
Finance leases	**48**	**23**	**1**	**-**	**72**
Trade payables	**85,709**	**-**	**-**	**-**	**85,709**
Currency derivatives used for hedging	**777**	**169**	**56**	**44**	**1,046**
Deferred consideration	**11,593**	**-**	**-**	**-**	**11,593**
Accruals	**26,396**	**1,262**	**775**	**296**	**28,729**
2012					
Bank loans and overdrafts	29,752	-	-	-	29,752
Loan notes	1,559	1,559	4,678	44,822	52,618
Government loans	-	-	-	2,914	2,914
Finance leases	41	34	23	-	98
Trade payables	75,773	-	-	-	75,773
Currency derivatives used for hedging	490	96	3	-	589
Deferred consideration	13,721	11,190	-	-	24,911
Accruals	27,304	2,197	1,508	371	31,380

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 22 to the Accounts, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the Group Statement of Changes in Equity.

The Group is not subject to externally imposed capital requirements.

Currency risk

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

At 31 December 2013, the net fair value of the Group's currency derivatives is estimated to be an asset of approximately £6,487,000 (2012: £5,017,000), comprising £7,533,000 assets (2012: £5,606,000) and £1,046,000 liabilities (2012: £589,000). The gain on derivative financial instruments included in the Group's consolidated income statement for the period was £1,470,000 (2012: £1,390,000).

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

	Not exceeding 1 year £'000	Between 1 year and 5 years £'000	Over 5 years £'000	**Total £'000**
2013				
US dollars/Sterling	**50,873**	**55,614**	**-**	**106,487**
US dollars/Canadian dollars	**6,333**	**-**	**-**	**6,333**
Canadian dollars/Sterling	**3,173**	**-**	**-**	**3,173**
Euro/other currencies	**1,724**	**6,349**	**3,464**	**11,537**
Total	**62,103**	**61,963**	**3,464**	**127,530**
2012				
US dollars/Sterling	49,749	52,995	-	102,744
US dollars/Canadian dollars	20,620	-	-	20,620
Canadian dollars/Sterling	5,693	1,582	-	7,275
Euro/other currencies	3,834	3,684	5,175	12,693
Total	79,896	58,261	5,175	143,332

23 Financial instruments and financial risk management (continued)

Net investment hedges

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

Interest rate risk

The Group has USD70 million of long term fixed rate debt with an interest rate of 3.60%. This was entered into to achieve an appropriate mix of fixed and floating rate exposure reflecting the Group's policy.

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

	Effective interest rate	Total £'000	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	5+ years £'000
2013						
Cash and cash equivalents	**0.39%**	**30,570**	**30,570**	**-**	**-**	**-**
Loan notes	**3.60%**	**42,352**	**-**	**-**	**6,050**	**36,302**
Unsecured bank loans	**1.84%**	**25,975**	**-**	**-**	**25,975**	**-**
Government loans	**4.43%**	**4,337**	**-**	**-**	**-**	**4,337**
Finance lease liabilities	**4.89%**	**63**	**44**	**19**	**-**	**-**
2012						
Cash and cash equivalents	0.36%	30,840	30,840	-	-	-
Loan notes	3.60%	43,295	-	-	-	43,295
Unsecured bank loans	1.94%	27,544	27,544	-	-	-
Government loans	4.43%	2,914	-	-	-	2,914
Finance lease liabilities	4.89%	87	37	30	20	-

Market risk sensitivity analysis

Interest rate risk

During 2013 the Group's net borrowings were predominantly at fixed interest rates, consequently the income statement is not particularly sensitive to a small change in interest rates. The Group has estimated the impact on the income statement of a 1% increase in market interest rates, from the average rates applicable during 2013. There is no significant difference between the amount recharged to the income statement and equity in the year.

	1% change
	Profit before tax £'000
2013	
Interest rate sensitivity	**(229)**
2012	
Interest rate sensitivity	(389)

Currency risks

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

	10% strengthening		10% weakening		25% strengthening		25% weakening	
	Profit before tax £'000	Equity £'000	Profit before tax £'000	Equity £'000	Profit before tax £'000	Equity £'000	Profit before tax £'000	Equity £'000
2013								
Transaction	**7,089**	**7,089**	**(7,089)**	**(7,089)**	**17,723**	**17,723**	**(17,723)**	**(17,723)**
P&L translation	**1,680**	**2,831**	**(1,680)**	**(2,831)**	**4,199**	**7,078**	**(4,199)**	**(7,078)**
Foreign exchange derivatives	**(11,577)**	**(11,577)**	**9,581**	**9,581**	**(34,294)**	**(34,294)**	**21,208**	**21,208**
Total foreign exchange	**(2,808)**	**(1,657)**	**812**	**(339)**	**(12,372)**	**(9,493)**	**(714)**	**(3,593)**
2012								
Transaction	6,343	6,343	(6,343)	(6,343)	15,858	15,858	(15,858)	(15,858)
P&L translation	1,866	1,857	(1,866)	(1,857)	4,665	4,643	(4,665)	(4,643)
Foreign exchange derivatives	(8,125)	(8,125)	8,953	8,953	(22,261)	(22,261)	17,723	17,723
Total foreign exchange	84	75	744	753	(1,738)	(1,760)	(2,800)	(2,778)

24 Government grants and loans

The Group through its Canadian subsidiaries Ultra Electronics Tactical Communication Systems (UETCS) and Ultra Electronics Maritime Systems (UEMS) participates in three Canadian programmes that provide government support in relation to the development of certain of its products.

Under the Strategic Aerospace and Defence Initiative (SADI), the Canadian Federal Government provides a long-term funding arrangement in respect of certain eligible research and development project costs. Under this arrangement, up to $32m will be provided to UETCS and reimbursed at favourable rates of interest over the period 2016 to 2030. Up to $8m will be provided to UEMS and reimbursed at favourable rates of interest over the period 2020 to 2033. The benefit of the below market rate of interest has been calculated as the difference between the proceeds received and the fair value of the loans and has been credited to profit in the year. The fair value of the loans have been calculated using a market interest rate for a similar instrument applicable at the time the agreements were signed.

UETCS also participates in the Investissement Quebec (IQ) research and development programme, whereby IQ shares in the cost of research and development of certain specified new products. Under this arrangement IQ will finance up to $14m of eligible costs associated with these specified projects. This funding is repayable under a royalty arrangement over the period 2014 to 2021 if these products are successfully brought to market. Royalties only become payable when sales of these products are made. As there is no minimum repayment, funding received in respect of the IQ programme has been included in the income statement.

Amounts recognised in the financial statements in respect of these programmes were as follows:

	2013 £'000	2012 £'000
Fair value of SADI loan brought forward	**2,914**	1,680
Contributions	**1,282**	970
Interest charged to finance costs	**539**	327
Foreign exchange differences	**(398)**	(63)
Fair value of SADI loan carried forward	**4,337**	2,914

Government grants credited to profit in the year

	2013 £'000	2012 £'000
SADI	**1,128**	1,841
IQ	**426**	787
Other†	**265**	-
	1,819	2,628

†Ultra Electronics Limited received a £265,000 grant from the Technology Strategy Board in the year.

25 Deferred tax

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

	Accelerated† tax depreciation £'000	Employee share options costs £'000	Derivatives £'000	Retirement benefit obligations £'000 As restated*	Goodwill £'000	Other £'000	**Total £'000** As restated*
At 1 January 2012	(17,612)	577	(915)	20,873	(8,569)	5,615	(31)
Credit/(charge) to income	5,405	(41)	(306)	(727)	(398)	(68)	3,865
Reclassification from tax liabilities	-	-	-	-	-	(2,583)	(2,583)
Credit/(charge) to other comprehensive income	-	-	-	701	-	-	701
Charge direct to equity	-	113	-	-	-	-	113
Exchange differences	309	-	-	-	119	(189)	239
Effect of change in tax rate							
– income statement	663	(21)	71	(122)	8	(89)	510
– other comprehensive income	-	-	-	(1,498)	-	-	(1,498)
– equity	-	(4)	-	-	-	-	(4)
Arising on acquisition	(7,417)	-	-	-	-	164	(7,253)
At 1 January 2013	**(18,652)**	**624**	**(1,150)**	**19,227**	**(8,840)**	**2,850**	**(5,941)**

**See note 36*

25 Deferred tax (continued)

	Accelerated† tax depreciation £'000	Employee share options costs £'000	Derivatives £'000	Retirement benefit obligations £'000	Goodwill £'000	Other £'000	**Total £'000**
At 1 January 2013	**(18,652)**	**624**	**(1,150)**	**19,227**	**(8,840)**	**2,850**	**(5,941)**
Credit/(charge) to income	2,088	43	(300)	(550)	7,631	2,874	11,786
Credit/(charge) to other comprehensive income	-	-	-	1,106	-	-	1,106
Charge direct to equity	-	63	-	-	-	-	63
Exchange differences	669	-	-	-	455	(145)	979
Effect of change in tax rate							
– income statement	1,922	(20)	152	(32)	19	8	2,049
– other comprehensive income	-	-	-	(2,427)	-	-	(2,427)
– equity	-	(11)	-	-	-	-	(11)
Arising on acquisition	(2,656)	-	-	-	-	(23)	(2,679)
At 31 December 2013	**(16,629)**	**699**	**(1,298)**	**17,324**	**(735)**	**5,564**	**4,925**

	2013 £'000	2012 £'000
Non current assets	**5,147**	1,138
Non current liabilities	**(222)**	(7,079)
	4,925	(5,941)

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

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so.

The Group has not recognised deferred tax assets of £3.47 million (2012: £3.40 million) relating to tax losses, due to uncertainty as to their recoverability. There are no temporary differences which arise in respect of undistributed earnings.

The main rate of UK corporation tax will reduce from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015. The rate of 20% has been used to calculate the deferred tax balances at 31 December 2013 as this rate reduction was enacted before the balance sheet date.

26 Provisions

	Warranties £'000	**Contract related provisions £'000**	**Total £'000**
At 1 January 2013	8,681	27,887	36,568
Created	608	6,127	6,735
Reversed	(1,852)	(11,870)	(13,722)
Utilised	(1,105)	(5,414)	(6,519)
Unwinding of discount	-	1,268	1,268
Exchange differences	(58)	(92)	(150)
At 31 December 2013	**6,274**	**17,906**	**24,180**
Included in current liabilities	3,773	14,367	18,140
Included in non-current liabilities	2,501	3,539	6,040
	6,274	**17,906**	**24,180**

Warranty provisions are based on an assessment of future claims with reference to past experience. Such costs are generally incurred within two years after delivery. Contract related provisions will be utilised over the period as stated in the contract to which the specific provision relates. Contract related provisions also include contingent consideration and dilapidation costs. Dilapidations will be payable at the end of the contracted life which is up to fifteen years. Contingent consideration is payable when earnings targets are met: £9,363,000 of the provision was released in the year when the 2013 GigaSat earn-out target was not met. As at 31 December 2013 the remaining contingent consideration provision is £7,679,000 (2012: £15,774,000), payment of which is contingent on a GigaSat results target for the period ending 30 June 2014.

*See note 36

1. Introduction
2. Strategic report
3. Governance
4. Group financials
5. Company financials
6. Five-year review

27 Share capital and share options

	2013		2012	
	No.	£'000	No.	£'000
Authorised:				
5p ordinary shares	90,000,000	4,500	90,000,000	4,500
Allotted, called-up and fully paid:				
5p ordinary shares	69,804,884	3,490	69,403,659	3,470

401,225 ordinary shares having a nominal value of £20,061 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received was £5,176,000.

Share options

During the year to 31 December 2013, the Group operated the following equity-settled share option schemes:

1. Savings-Related Share Option Schemes

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

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

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

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

At 31 December 2013, share options outstanding under the Savings Related Share Option Schemes were as follows:

Options granted	Number of shares 2013	2012	Option price (£)	Exercise dates
2013 – US scheme	53,335	-	17.16	September 2015 - December 2015
2012 – US scheme	32,970	36,729	13.79	September 2014 - December 2014
2011 – US scheme	-	89,035	12.72	September 2013 - December 2013
2013 – Canadian scheme	3,373	-	16.80	September 2016 - December 2016
2012 – Canadian scheme	31,108	38,357	13.79	September 2015 - March 2016
2011 – Canadian scheme	-	3,798	12.72	September 2014 - March 2015
2010 – Canadian scheme	-	5,781	14.62	September 2013 - March 2014
2009 – Canadian scheme	-	38,749	11.27	September 2012 - March 2013
2009 – Abu Dhabi scheme	-	909	11.48	December 2012 - June 2013
2007 – UK 5 year scheme	-	16,472	10.39	December 2012 - June 2013
2008 – UK 5 year scheme	1,462	11,774	12.00	December 2013 - June 2014
2009 – UK 3 year scheme	-	1,791	11.48	December 2012 - June 2013
2009 – UK 5 year scheme	8,353	9,191	11.48	December 2014 - June 2015
2010 – UK 3 year scheme	2,743	13,646	15.54	December 2013 - June 2014
2010 – UK 5 year scheme	9,943	11,133	15.54	December 2015 - June 2016
2011 – UK 3 year scheme	18,530	21,263	13.33	December 2014 - June 2015
2011 – UK 5 year scheme	19,058	20,654	13.33	December 2016 - June 2017
2012 – UK 3 year scheme	27,200	29,292	13.85	December 2015 - June 2016
2012 – UK 5 year scheme	33,601	34,053	13.85	December 2017 - June 2018
2013 – UK 3 year scheme	29,450	-	16.80	December 2016 - June 2017
2013 – UK 5 year scheme	19,617	-	16.80	December 2018 - June 2019

27 Share capital and share options (continued)

2. Company Share Option Plan

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

At 31 December 2013, share options outstanding under the Company Share Option Plan were as follows:

Options granted	Number of shares 2013	2012	Option price (£)	Exercise dates
2005	**4,395**	4,395	7.28	March 2008 - March 2015
2006	**2,355**	4,018	10.32	February 2009 - February 2016
2007	**5,172**	13,039	12.07	May 2010 - May 2017
2008	**2,261**	8,449	12.00	March 2011 - March 2018
2009	**6,417**	11,828	11.90	March 2012 - March 2019
2010	**14,680**	22,671	14.83	March 2013 - March 2020
2011	**26,829**	27,903	16.97	March 2014 - March 2021
2012	**29,484**	31,191	17.10	March 2015 - March 2022
2013	**59,369**	-	17.18	March 2016 - March 2023

3. Executive Share Option Scheme

The Executive Share Option Scheme provides share options for nominated employees in the UK, US and Canada. The purchase price is set at a mid-market price on the date of grant. This is an unapproved scheme and vesting is unconditional. Options vest after three years and lapse after seven years from the date of grant.

At 31 December 2013, share options outstanding under the Executive Share Option Scheme were as follows:

Options granted	Number of shares 2013	2012	Option price (£)	Exercise dates
2006	**-**	8,857	10.32	February 2009 - February 2013
2007	**19,740**	47,652	12.07	May 2010 - May 2014
2008	**33,568**	77,030	12.00	March 2011 - March 2015
2009	**69,431**	120,345	11.90	March 2012 - March 2016
2010	**83,331**	161,401	14.83	March 2013 - March 2017
2011	**131,473**	140,013	16.97	March 2014 - March 2018
2011	**8,183**	8,183	15.70	August 2014 - August 2018
2012	**176,781**	187,990	17.10	March 2015 - March 2019
2013	**182,136**	-	17.18	March 2016 - March 2020

4. Long-Term Incentive Plan

Details in relation to the LTIP are included in the Directors' Remuneration report on **pages 63** to **75**.

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

	Weighted average exercise price (£) 2013	Number of options 2013	Weighted average exercise price (£) 2012	Number of options 2012
Beginning of year	**11.40**	**1,575,958**	10.49	1,700,786
Granted during the year	**13.24**	**454,025**	12.31	472,027
Forfeited during the year	**14.59**	**(23,581)**	14.47	(50,366)
Expired during the year	**5.18**	**(194,727)**	3.61	(161,856)
Exercised during the year	**13.08**	**(355,551)**	11.38	(384,633)
Outstanding at the end of the year	**12.34**	**1,456,124**	11.40	1,575,958
Exercisable at the end of the year	**13.04**	**245,555**	11.70	353,534

The Group recognised total expenses of £1,859,000 (2012: £1,974,000) in relation to equity-settled, share-based payment transactions. Expected volatility was determined by calculating the historic volatility of the Group's share price.

Share options were exercised on a regular basis throughout the year. The weighted average share price during the year was £17.65. The fair value of options granted during the year was £1,869,986 (2012: £1,912,376).

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

2013	Share save*	CSOP*	ESOS*	LTIP*
Weighted average share price (£)	15.82	17.14	17.10	n/a
Weighted average exercise price (£)	14.60	17.10	17.07	n/a
Expected volatility %	25.2	25.7	25.8	n/a
Expected option life (years)	3.6	6	5	n/a
Risk-free interest rate %	1.1	1.5	1.1	n/a
Expected dividends %	2.2	1.6	2.2	n/a

*Figures in the above table show an average across the invested schemes at year end.

27 Share capital and share options (continued)

	Share save*	CSOP*	ESOS*	LTIP*
				2012
Weighted average share price (£)	14.31	16.43	16.29	n/a
Weighted average exercise price (£)	12.40	16.39	16.25	n/a
Expected volatility %	24.4	25.3	26.2	n/a
Expected option life (years)	3.9	6.0	5.0	n/a
Risk-free interest rate %	2.1	3.0	2.1	n/a
Expected dividends %	2.1	2.1	2.1	n/a

*Figures in the above table show an average across the invested schemes at year end.

For the 2011, 2012 and 2013 LTIP awards, the stochastic model has been used to calculate the fair value of the awards at grant date as this is the most accurate way of modelling the TSR performance condition. The fair value of these schemes has been calculated using the following assumptions:

	2013	2012
Exercise price (£)	**n/a**	n/a
Share price at grant (£)	**17.22**	16.24
Expected option life (years)	**3.0**	3.0
Expected volatility %	**24.2**	25.9
Expected dividend yield %	**0.0**	0.0
Risk-free interest rate %	**0.7**	1.6

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

The weighted average fair value of options granted during the year was £4.51 (2012: £4.45).

The weighted average remaining contractual life of share options was 3.8 years (2012: 3.4 years).

28 Equity

	Share capital £'000	Share premium account £'000	Reserve for own shares £'000	Hedging reserve £'000	Translation reserve £'000	Retained earnings £'000	Non controlling interests £'000	Total equity £'000
Balance at 1 January 2012	3,449	43,862	(2,581)	(14,023)	33,898	220,149	414	285,168
Total comprehensive income for the year	-	-	-	4,044	(12,779)	57,127	285	48,677
Equity-settled employee share scheme	21	4,890	-	-	-	2,346	-	7,257
Dividends to shareholders	-	-	-	-	-	(26,877)	-	(26,877)
Balance at 1 January 2013	3,470	48,752	(2,581)	(9,979)	21,119	252,745	699	314,225
Total comprehensive income for the year	**-**	**-**	**-**	**810**	**(4,879)**	**31,907**	**(17)**	**27,821**
Equity-settled employee share scheme	**20**	**5,156**	**-**	**-**	**-**	**2,028**	**-**	**7,204**
Dividends to shareholders	**-**	**-**	**-**	**-**	**-**	**(28,071)**	**-**	**(28,071)**
Balance at 31 December 2013	**3,490**	**53,908**	**(2,581)**	**(9,169)**	**16,240**	**258,609**	**682**	**321,179**

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

The 'own shares reserve' represents the cost of shares in Ultra Electronics Holdings plc purchased in the market and held by the Ultra Electronics Employee Trust to satisfy options under the Group's Long-Term Incentive Plan ("LTIP") share schemes. At 31 December 2013, the number of own shares held was 235,245 (2012: 235,245).

29 Notes to the cash flow statement

	2013 £'000	2012 £'000 As restated*
Operating profit	**57,398**	88,271
Adjustments for:		
Depreciation of property, plant and equipment	**11,365**	10,882
Amortisation of intangible assets	**31,967**	35,242
Impairment of goodwill	**44,239**	-
Cost of equity-settled employee share schemes	**1,859**	1,974
Adjustment for pension funding	**(6,103)**	(6,809)
Loss on disposal of property, plant and equipment	**130**	137
Share of profit from associate	**(1,424)**	(3,487)
Decrease in provisions	**(13,508)**	(3,088)
Operating cash flow before movements in working capital	**125,923**	123,122
Increase in inventories	**(4,197)**	(2,719)
Increase in receivables	**(43,144)**	(5,969)
Increase/(decrease) in payables	**14,894**	(2,047)
Cash generated by operations	**93,476**	112,387
Income taxes paid	**(25,591)**	(25,589)
Interest paid	**(3,953)**	(4,555)
Net cash from operating activities	**63,932**	82,243

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

	2013 £'000	2012 £'000
Net increase/(decrease) in cash and cash equivalents	**773**	(8,330)
Cash outflow from decrease in debt and finance leasing	**521**	8,898
Change in net debt arising from cash flows	**1,294**	568
Loan syndication costs	**-**	903
Amortisation of finance costs of debt	**(616)**	(551)
Translation differences	**165**	2,228
Movement in net debt in the year	**843**	3,148
Net debt at start of year	**(43,000)**	(46,148)
Net debt at end of year	**(42,157)**	(43,000)

Net debt comprised the following:

	2013 £'000	2012 £'000
Cash and cash equivalents	**30,570**	30,840
Borrowings	**(72,664)**	(73,753)
Obligations under finance leases included in current liabilities	**(44)**	(37)
Obligations under finance leases included in non-current liabilities	**(19)**	(50)
	(42,157)	(43,000)

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

30 Other financial commitments

a) Capital commitments

At the end of the year capital commitments were:

	2013 £'000	2012 £'000
Contracted but not provided	**2,688**	2,950

b) Lease commitments

At 31 December 2013, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2013 £'000	2012 £'000
Within one year	**9,065**	9,861
Between one and five years	**27,811**	30,340
After five years	**13,009**	18,189
	49,885	58,390

*See note 36

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31 Retirement benefit schemes

Some UK employees of the Group are members of the Ultra Electronics Limited defined benefit scheme which was established on 1 March 1994. The scheme is a final salary scheme with the majority of members accruing 1/60th of their final pensionable earnings for each year of pensionable service. The scheme was closed to new members in 2003. A new defined contribution plan was introduced for other employees and new joiners in the UK. The latest full actuarial valuation of the defined benefit scheme was carried out as at 6 April 2013. The Group also operates two defined contribution schemes for overseas employees. In addition to these schemes, the Group's Tactical Communication Systems business based in Montreal, Canada, has three defined benefit schemes.

Defined contribution schemes

The total cost charged to income in respect of the defined contribution schemes was £4,916,000 (2012: £5,889,000).

Defined benefit schemes

The UK defined benefit scheme was actuarially assessed at 31 December 2013 using the 'projected unit' method. The Canadian defined benefit schemes were actuarially assessed at 31 December 2013 using the 'projected unit' method.

In the UK, Ultra Electronics Limited sponsors the Ultra Electronics Pension Scheme, a funded defined benefit pension scheme. The scheme is administered within a trust which is legally separate from the Company. Trustees are appointed by both the Company and the scheme's membership and act in the interest of the scheme and all relevant stakeholders, including the members and the Company. The Trustees are also responsible for the investment of the scheme's assets.

This scheme provides pensions and lump sums to members on retirement and to their dependants on death. Members who leave service before retirement are entitled to a deferred pension.

Active members of the scheme pay contributions via salary sacrifice and the Company pays the balance of the cost as determined by regular actuarial valuations. The Trustees are required to use prudent assumptions to value the liabilities and costs of the scheme whereas the accounting assumptions must be best estimates.

Responsibility for making good any deficit within the scheme lies with the Company and this introduces a number of risks for the Company. The major risks are: interest rate risk; inflation risk; investment risk; longevity risk. The Company and Trustees are aware of these risks and manage them through appropriate investment and funding strategies. The Trustees manage governance and operational risks through a number of internal controls policies, including a risk register.

The scheme is subject to regular actuarial valuations, which are usually carried out every three years. The actuarial valuation as at 6 April 2013 has been finalised and will result in an increase in the additional deficit payment required from £7.2m in 2013 to £8.0m in 2014, £8.5m in 2015 and £9.0m for the following 8.5 years. The next actuarial valuation is due to be carried out with an effective date of 6 April 2016. These actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004 and so include deliberate margins for prudence. This contrasts with these accounting disclosures, which are determined using best estimate assumptions.

The results of the 6 April 2013 valuation have been projected to 31 December 2013 by a qualified independent actuary. The figures in the following disclosure were measured using the Projected Unit Method.

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

	UK 2013	**Canada 2013**	UK 2012	Canada 2012
Discount rate	**4.45%**	**4.45%**	4.70%	4.70%
Inflation rate – RPI	**3.40%**	**3.40%**	2.85%	2.85%
Inflation rate – CPI	**2.40%**	**n/a**	2.05%	n/a
Expected rate of salary increases	**3.90%**	**3.90%**	3.35%	3.35%
Future pension increases (pre 6/4/08)	**3.10%**	**3.40%**	2.75%	2.85%
Future pension increases (post 6/4/08)	**2.00%**	**n/a**	1.85%	n/a

For each of these assumptions there is a range of possible values. Relatively small changes in some of these variables can have a significant impact on the level of the total obligation. For the UK scheme, a 0.1% reduction in the inflation assumption to 3.3% and a 0.1% increase in the discount rate to 4.55% would decrease the scheme's liabilities by 1.8% and 1.9% respectively. If the members' life expectancy were to increase by 1 year, the scheme liabilities would increase by 2.9%. The average duration of the scheme liabilities is 19 years (2012: 22 years).

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

Current pensioners	95% SAPS S1PMA/105% SAPS S1PFA c2002 MC1% imps from 2002
Future pensioners	95% SAPS S1PMA/105% SAPS S1PFA c2002 MC1% imps from 2002

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

	2013	2012
Current pensioners (at 65) – males	**22 years**	22 years
Current pensioners (at 65) – females	**24 years**	24 years
Future pensioners (at 65) – males	**24 years**	24 years
Future pensioners (at 65) – females	**26 years**	25 years

31 Retirement benefit schemes (continued)

Amounts recognised in the income statement in respect of the Group's defined benefit schemes were as follows:

	UK 2013 £m	Canada 2013 £m	Total 2013 £m	UK 2012 £m As restated*	Canada 2012 £m	Total 2012 £m As restated*
Past service cost	-	-	-	-	-	-
Current service cost	4.7	0.1	4.8	5.2	0.2	5.4
Administration expenses	0.6	0.3	0.9	0.4	-	0.4
Interest on pension scheme liabilities	11.0	0.5	11.5	11.1	0.5	11.6
Expected return on pension scheme assets	(7.7)	(0.4)	(8.1)	(7.2)	(0.5)	(7.7)
Loss on settlements	-	0.3	0.3	-	-	-
	8.6	0.8	9.4	9.5	0.2	9.7

Of the current service cost for the year, £3.7 million (2012: £4.2 million) has been included in cost of sales, and £1.1 million (2012: £1.2 million) has been included in administrative expenses.

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

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

	UK 2013 £m	Canada 2013 £m	Total 2013 £m	UK 2012 £m	Canada 2012 £m	Total 2012 £m
Fair value of scheme assets	185.0	9.3	194.3	153.4	10.0	163.4
Present value of scheme liabilities	(270.2)	(10.2)	(280.4)	(235.4)	(11.1)	(246.5)
Scheme deficit	(85.2)	(0.9)	(86.1)	(82.0)	(1.1)	(83.1)
Related deferred tax asset	17.0	0.3	17.3	18.8	0.4	19.2
Net pension liability	(68.2)	(0.6)	(68.8)	(63.2)	(0.7)	(63.9)

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

	UK 2013 £m	Canada 2013 £m	Total 2013 £m	UK 2012 £m	Canada 2012 £m	Total 2012 £m
Present value of obligation at 1 January	(235.4)	(11.1)	(246.5)	(220.5)	(11.5)	(232.0)
Past service cost	-	-	-	-	-	-
Current service cost	(4.7)	(0.1)	(4.8)	(5.2)	(0.2)	(5.4)
Interest cost	(11.0)	(0.5)	(11.5)	(11.1)	(0.5)	(11.6)
Actuarial gains and losses	(26.0)	(0.9)	(26.9)	(5.6)	(0.3)	(5.9)
Exchange difference	-	0.9	0.9	-	0.2	0.2
Liabilities extinguished on settlements	-	0.9	0.9	-	-	-
Benefits paid	6.9	0.6	7.5	7.0	1.2	8.2
Present value of obligation at 31 December	(270.2)	(10.2)	(280.4)	(235.4)	(11.1)	(246.5)

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

	UK 2013 £m	Canada 2013 £m	Total 2013 £m	UK 2012 £m As restated*	Canada 2012 £m	Total 2012 £m As restated*
Fair value at 1 January	153.4	10.0	163.4	139.5	9.6	149.1
Expected return on scheme assets	7.7	0.4	8.1	7.2	0.5	7.7
Actuarial gains and losses	20.0	1.2	21.2	2.4	0.4	2.8
Exchange differences	-	(0.9)	(0.9)	-	(0.2)	(0.2)
Employer contributions	11.4	0.7	12.1	11.7	0.9	12.6
Administration expenses	(0.6)	(0.3)	(0.9)	(0.4)	-	(0.4)
Assets distributed on settlements	-	(1.2)	(1.2)	-	-	-
Benefits paid	(6.9)	(0.6)	(7.5)	(7.0)	(1.2)	(8.2)
Fair value at 31 December	185.0	9.3	194.3	153.4	10.0	163.4

*See note 36

31 Retirement benefit schemes (continued)

The expected rates of return are determined by reference to relevant published indices. The overall expected rate of return is calculated as a weighted average rate of return on each asset class.

Scheme assets were as follows:

	UK 2013 £m	Canada 2013 £m	Total 2013 £m	UK 2012 £m	Canada 2012 £m	Total 2012 £m
Fair value:						
Equities	**63.0**	**4.9**	**67.9**	75.4	5.9	81.3
Bonds	**60.7**	**4.1**	**64.8**	32.2	3.5	35.7
Property	**8.1**	**-**	**8.1**	7.3	-	7.3
Other assets	**0.2**	**0.3**	**0.5**	0.8	0.6	1.4
Other investment funds	**53.0**	**-**	**53.0**	37.7	-	37.7
	185.0	**9.3**	**194.3**	153.4	10.0	163.4

During 2013 the decision was taken to realign the investment strategy to more closely match the liability duration by reducing exposure to equities and increasing exposure to long dated bonds.

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

	UK 2013 £m	Canada 2013 £m	Total 2013 £m	UK 2012 £m As restated*	Canada 2012 £m	Total 2012 £m As restated*
Actual return less expected return on pension scheme assets	**20.0**	**1.2**	**21.2**	2.4	0.4	2.8
Experience gains arising on scheme liabilities	**2.9**	**(0.6)**	**2.3**	(2.8)	(0.3)	(3.1)
Changes in assumptions underlying the present value of the scheme liabilities	**(28.9)**	**(0.3)**	**(29.2)**	(2.8)	-	(2.8)
	(6.0)	**0.3**	**(5.7)**	(3.2)	0.1	(3.1)

Cumulative actuarial losses, net of deferred tax, recognised in the consolidated statement of comprehensive income at 31 December 2013 were £47.7 million (2012: £40.7 million, restated).

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

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Present value of defined benefit obligations	**(280.4)**	(246.5)	(232.0)	(221.6)	(204.7)
Fair value of scheme assets	**194.3**	163.4	149.1	143.1	127.2
Scheme deficit	**(86.1)**	(83.1)	(82.9)	(78.5)	(77.5)
Experience adjustments on scheme liabilities	**2.3**	(3.1)	0.4	7.5	(0.5)
Percentage of scheme liabilities	**(0.8%)**	1.3%	(0.2%)	(3.4%)	0.2%
Experience adjustment on scheme assets	**21.2**	2.8	(11.6)	6.1	16.0
Percentage of scheme assets	**10.9%**	1.7%	(7.8%)	4.3%	12.6%

The amount of contributions expected to be paid to defined benefit schemes during the 2014 financial year is £14.1m. For the UK scheme this includes an additional deficit payment of £8.0m agreed with the Trustee. This will be followed by £8.5m in 2015 and £9.0m for the following 8.5 years to fund the scheme deficit.

32 Acquisitions

Acquisitions during the year

In aggregate, consideration of £21.8m was paid in respect of acquisitions, all of which was discharged by means of cash and cash equivalents and was made up as follows.

	£'000
Cash outflow on subsidiaries acquired	26,374
Cash acquired with subsidiaries	(4,623)
Net cash outflow	21,751

Aggregate assets and liabilities acquired comprised intangible assets of £11.8m property, plant and equipment of £0.9m, cash of £4.6m, inventories of £2.1m, net receivables of £4.5m and payables of £7.1m.

If all the acquisitions had occurred on 1 January 2013 the revenue for the Group would have been £761.6m and operating profit would have been £63.4m.

With respect to prior year acquisitions, fair value adjustments totalling net £4.0m have been credited to goodwill.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. Following a detailed review, a £44.2m impairment loss was recognised in the year. *See note 13*.

**See note 36*

32 Acquisitions (continued)

Varisys

On 6 June 2013, the Group acquired the entire share capital of Varisys Limited for cash consideration of £20.4m. Additional amounts of up to £2m will be payable to the vendors subject to performance and retention of the business founders over the next two years, and will be expensed to the profit and loss account as incurred.

Varisys designs and manufactures products for high performance embedded computing applications. Its products and services portfolio include bespoke solutions for customers operating in the aerospace, defence, telecommunications, and industrial sectors. The acquisition gives Ultra an organic capability in this specialist, niche area, allowing Group businesses to meet customer requirements more quickly and cost-effectively.

The provisional fair values of the net assets acquired are stated below:

	Book value	Revaluations	Provisional fair value
	£'000	£'000	£'000
Intangible assets	-	9,741	9,741
Property, plant and equipment	48	-	48
Cash and cash equivalents	4,385	-	4,385
Inventories	933	-	933
Receivables	3,023	-	3,023
Payables	(3,388)	(2,244)	(5,632)
Net assets acquired	5,001	7,497	12,498
Goodwill arising on acquisition			7,876
Purchase consideration			20,374

The net revenue and profit contributions from Varisys were approximately £1.9m and £2.9m respectively in the period from the date of acquisition to 31 December 2013.

The goodwill arising on the acquisition is attributable to the strategic premium to gain access to Varisys' market relative to an organic entry and to the acquiree's technology.

Acquisition costs of £0.2m were charged to the income statement during the year.

The total goodwill on this acquisition expected to be deductible for tax is £nil.

Wood & Douglas

On 28 October 2013, the Group acquired the entire share capital of Wood & Douglas Holdings Limited (W&D) for initial cash consideration of £6.0m. A further £0.2m was paid in February 2014 following the net asset valuation exercise. Additional payments of up to £1m will be made subject to earnings growth and retention of certain individuals over the next year, and will be expensed to the profit and loss account as incurred. W&D delivers OEM and bespoke wireless products and services, such as radio networks, video monitoring and wireless data platforms, to industry and governments. W&D customers are predominately active in the defence, homeland security, transportation, energy, emergency services, exploration, healthcare, and utilities sectors.

The provisional fair values of the net assets acquired are stated below:

	Book value	Revaluations	Provisional fair value
	£'000	£'000	£'000
Intangible assets	-	2,075	2,075
Property, plant and equipment	813	-	813
Cash and cash equivalents	238	-	238
Inventories	1,187	-	1,187
Receivables	1,468	-	1,468
Payables	(1,065)	(439)	(1,504)
Net assets acquired	2,641	1,636	4,277
Goodwill arising on acquisition			1,914
Purchase consideration			6,191

The net revenue and profit contributions from W&D were approximately £1.4m and £0.2m respectively in the period from the date of acquisition to 31 December 2013.

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

Acquisition costs of £0.1m were charged to the income statement during the year.

The total goodwill on this acquisition expected to be deductible for tax is £nil.

Both Varisys Limited and Wood & Douglas Holdings Limited are UK companies.

33 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel, which includes the Directors of the Group, is set out below in aggregate for each of the categories specified in IAS 24: Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on **pages 69**, **70** and **72**:

	2013 £'000	2012 £'000
Short-term employee benefits	**2,837**	2,818
Post-employment benefits	**395**	279
Share-based payments	**900**	902
	4,132	3,999

Transactions with associate

At 31 December 2013, a loan of £643,200 (2012: £657,000) was due from Al Shaheen Adventure LLC (ASA), the Group's 49% equity-accounted investment.

A small amount of trading also occurs with ASA, in the normal course of business and on an arm's length basis. Balances are settled on normal trade terms and the amounts outstanding at year end were insignificant.

34 Post balance sheet events

On 2 January 2014 the Group agreed an amendment to extend the existing Prudential Investment Management, Inc (Pricoa) private shelf agreement for a three year period. Consequently loan notes can now be issued up until 2 January 2017. The amendment also increased the size of the shelf agreement so USD125 million of notes remain available for issue.

Acquisition of 3 Phoenix Inc

On 18 February 2014, the Group acquired the entire share capital of 3 Phoenix Inc ("3Pi") headquartered in Chantilly, Virginia, for an initial cash consideration of USD70.0m. Additional payments of up to USD17.0m will be due subject to earnings growth over the next three years.

3Pi is a leading supplier of specialist sonar, radar, intelligence, surveillance and reconnaissance products and solutions. The company has a 10 year track record of delivering critical real-time sensor and processing systems, primarily to the US Navy, but also to commercial customers. 3Pi is a bolt-on acquisition to Ultra's existing Tactical & Sonar Systems division, with which there are a significant number of internal and external synergies.

The fair values of the net assets are currently being calculated and have not been finalised due to the proximity of the acquisition to the publication of the 2013 financial statements. The proximity to the financial statements publication also makes it impractical to disclose any further information with respect to this acquisition. Full disclosure will be made in the next published financial statements.

35 Contingent liabilities

The Group has entered into a number of guarantee and performance bond arrangements in the normal course of business totalling £62.6m (2012: £57.4m). Provision is made for any amounts that the Directors consider may become payable under such arrangements, the provision as at 31 December 2013 and 31 December 2012 was £nil.

The nature of much of the contracting work performed by the Group means that there are occasional contractual issues, variations and renegotiations that arise in the ordinary course of business. The Group is, from time to time, party to legal proceedings and claims which arise in the ordinary course of business. The Directors do not anticipate that the outcome of these proceedings, actions and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position.

36 Prior period restatement

IAS 19 (revised 2011) has impacted the accounting for the Group's defined benefit pension scheme by (i) replacing the interest cost and expected return on plan assets with a net interest charge on the net defined benefit liability, and (ii) reclassifying administration costs of the defined benefit scheme from finance costs to administration expenses. There is no change to the net pension liability or to net assets as a result of the change. The comparative profit and loss account has been restated for the year ended 31 December 2012; the effect of adopting IAS 19 (revised 2011) is to reduce previously reported profit before tax by £3.0m. Subsequent to the adoption of IAS19 (revised 2011), the Group has also elected to disclose the finance expense on the net defined benefit pension liability as a specific adjusting item within the calculation of underlying profit before tax as set out in note 2. Consequently, the comparative figure has been restated for the year ended 31 December 2012 and previously reported underlying profit before tax has increased by £0.9m.

36 Prior period restatement (continued)

The impact on the income statement is set out in the table below:

	Year to 31 December 2012		
	As reported £'000	Adjusting item £'000	As restated £'000
Operating profit	**88,671**	**(400)**	**88,271**
Investment revenue	1,583	-	1,583
Finance costs	(7,448)	(2,588)	(10,036)
Profit before tax	82,806	(2,988)	79,818
Tax	(19,240)	688	(18,552)
Profit after tax	**63,566**	**(2,300)**	**61,266**
Profit attributable to owners of the company	63,257	(2,300)	60,957
EPS – basic	91.5p	(3.4)p	88.1p
EPS – diluted	91.2p	(3.3)p	87.9p

The impact on the statement of comprehensive income is set out in the table below:

	Year to 31 December 2012		
	As reported £'000	Adjusting item £'000	As restated £'000
Profit for the period	**63,566**	**(2,300)**	**61,266**
Other comprehensive income for the period	(14,889)	2,300	(12,589)
Total comprehensive income for the period	**48,677**	**-**	**48,677**
Attributable to owners of the company	48,368	-	48,368

The impact on underlying results (*see note 2 and 12*) is set out in the table below:

	Year to 31 December 2012		
	As reported £'000	Adjusting item £'000	As restated £'000
Underlying operating profit	**122,244**	**(400)**	**121,844**
Underlying profit before tax	**115,566**	**936**	**116,502**
Underlying EPS – basic	124.5p	1.0p	125.5p
Underlying EPS – diluted	124.1p	1.0p	125.1p

37 Subsidiaries

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

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

The principal activity of the subsidiary undertakings is the design, development and manufacture of electronic systems for the international defence and aerospace markets. A full list of subsidiary undertakings will be annexed to the Company's next Annual Return filed with the Registrar of Companies.

Statement of accounting policies

In respect of the Group's consolidated financial statements

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

Basis of accounting

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

Adoption of new and revised Standards

The following IFRIC interpretations, amendments to existing standards and new standards have been adopted in the current year but have not impacted the reported results or the financial position:

- IFRS 13 "Fair Value Measurement"

The following standards were also adopted in the current year and have had the impact as set out below:

- IAS 1 "Presentation of Items of Other Comprehensive Income"
- IAS 19 (revised 2011) "Employee Benefits"

The amendments to IAS 1 require items of other comprehensive income to be grouped by those items that will be reclassified subsequently to profit or loss and those that will never be reclassified, together with their associated income tax. The amendments have been applied retrospectively, and hence the presentation of items of comprehensive income has been restated to reflect the change. The amendment affected presentation only and had no impact on the Group's financial position or performance.

IAS 19 (revised 2011) has impacted the accounting for the Group's defined benefit pension scheme by (i) replacing the interest cost and expected return on plan assets with a net interest charge on the net defined benefit liability, and (ii) reclassifying administration costs of the defined benefit scheme from finance costs to administration expenses. There is no change to the net pension liability or to net assets as a result of the change. The comparative profit and loss accounts have been restated. Further detail is set out in note 36.

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- Amendments to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters
- Amendments to IFRS 7 Financial Instruments: Disclosures: enhancing disclosures about the Transfers of Financial Assets, enhancing disclosures about offsetting of financial assets and financial liabilities and disclosures about the initial application of IFRS 9
- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 27 (Revised) Separate Financial Statements
- IAS 28 (Revised) Investments in Associates and Joint Ventures
- Amendment to IAS 32 Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group, except for:

- IFRS 9 Financial Instruments – This will introduce a number of changes in the presentation of financial instruments.
- IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 (Revised) Separate Financial Statements and IAS 28 (Revised) Investments in Associates and Joint Ventures – This will introduce additional disclosures within the notes to the accounts.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

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

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the statement on Corporate Governance on **page 58**.

Basis of consolidation

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

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

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

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

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

Goodwill

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

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

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

Investments in associates

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

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

Revenue recognition

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

Revenue from contracts to provide services is recognised by reference to the stage of completion of the contracts in the same way as for long-term contracts. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion.

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

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

Long-term contracts

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

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

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

Foreign currency

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

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

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

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred, except where they relate to qualifying assets, in which case they are capitalised.

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

Government assistance provided in the form of below market rate of interest loans are treated as government grants. The benefit of the below market rate of interest is calculated as the difference between the proceeds received and the fair value of the loan and is matched against the related expenditure. The fair value of the loan is calculated using prevailing market interest rates.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Freehold land and assets under construction are not depreciated.

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

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

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

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

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

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

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

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

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

Trade payables
Trade payables are stated at their fair value.

Loans and overdrafts
Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs where there is a facility commitment. In these circumstances issue costs are deducted from the value of the loan and amortised over the life of the commitment. Where there is no facility commitment, issue costs are written-off as incurred. Finance charges including premiums payable on settlement or redemption are accounted for on an accruals basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Share-based payments
The Group issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market related conditions.

Fair value is measured by use of a Black-Scholes model for the share option plans and a stochastic model for awards made under the 2007 Long-Term Incentive Plan.

The credits in respect of equity-settled amounts are included in equity.

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

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

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

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

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

Taxation (continued)

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

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

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

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

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

Derivative financial instruments

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

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

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

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

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

Income statement

Additional line items are disclosed in the consolidated income statement when such presentation is relevant to an understanding of the Group's financial performance.

Operating profit

Operating profit is stated after charging restructuring costs and after the share of results of associates but before investment income and finance costs.

Non-statutory performance measures

In the analysis of the Group's operating results, earnings per share and cash flows, information is presented to provide readers with additional performance indicators that are prepared on a non-statutory basis. This presentation is regularly reviewed by management to identify items that are relevant to an understanding of the Group's performance with reference to their materiality and nature. This additional information is not uniformly defined by all Companies and may not be comparable with similarly titled measures and disclosures by other organisations. The non-statutory disclosures should not be viewed in isolation or as an alternative to the equivalent statutory measure.

Critical accounting judgements and key sources of estimation uncertainty

When applying the Group's accounting policies, management must make a number of key judgements involving estimates and assumptions concerning the future. These estimates and judgements are based on factors considered to be relevant, including historical experience, that may differ significantly from the actual outcome. The key assumptions concerning the future and other key sources of estimation uncertainty at the Balance Sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

CONTRACT REVENUE AND PROFIT RECOGNITION

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

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

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

CONTRACT REVENUE AND PROFIT RECOGNITION (CONTINUED)

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

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

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

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

RETIREMENT BENEFIT PLANS

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

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

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

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

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

Details of the pension scheme assumptions and obligation at 31 December 2013 are provided in note 31.

INTANGIBLE ASSETS

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

GOODWILL

Each year the Group carries out impairment tests of its goodwill balances which requires estimates to be made of the value in use of its cash generating units (CGU's). These value in use calculations are dependent on estimates of future cash flows and long-term growth rates of the CGU's. Further details on these estimates are provided in note 13.

INCOME TAXES

In determining the Group's provisions for income tax and deferred tax it is necessary to consider transactions in a small number of key tax jurisdictions for which the ultimate tax determination is uncertain. To the extent that the final outcome differs from the tax that has been provided, adjustments will be made to income tax and deferred tax provisions held in the period the determination is made.

Company balance sheet
31 December 2013

	Note	2013 £'000	2012 £'000
Fixed assets			
Tangible assets	39	**879**	1,057
Investments	40	**650,885**	555,682
		651,764	556,739
Current assets			
Debtors: Amounts falling due within one year	41	**10,242**	5,776
Cash at bank and in hand		**-**	-
		10,242	5,776
Creditors: Amounts falling due within one year	43	**(124,334)**	(103,944)
Net current liabilities		**(114,092)**	(98,168)
Total assets less current liabilities		**537,672**	458,571
Creditors: Amounts falling due after more than one year	44	**(68,327)**	(49,701)
Net assets		**469,345**	408,870
Capital and reserves			
Called-up share capital	46	**3,490**	3,470
Share premium account	47	**53,908**	48,752
Profit and loss account	47	**414,528**	359,229
Own shares	47	**(2,581)**	(2,581)
Shareholders' funds		**469,345**	408,870

The financial statements of Ultra Electronics Holdings plc, registered number 02830397, were approved by the Board of Directors and authorised for issue on 28 February 2014.

On behalf of the Board
R. Sharma, Chief Executive
M. Waldner, Finance Director

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

Notes to accounts – Company
31 December 2013

38 Staff costs

	2013 £'000	2012 £'000
Employee costs during the year amounted to:		
Wages and salaries	3,615	3,376
Social security costs	353	271
Other pension costs	7,724	7,424
	11,692	11,071

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

	2013 number	2012 number
Support services	21	22

39 Tangible fixed assets

	Plant and machinery £'000
Cost	
At 1 January 2012	1,946
Additions	80
At 1 January 2013	2,026
Additions	-
At 31 December 2013	**2,026**
Accumulated depreciation	
At 1 January 2012	767
Charge	202
At 1 January 2013	969
Charge	178
At 31 December 2013	**1,147**
Net book value	
At 31 December 2013	**879**
At 31 December 2012	1,057

40 Investments

a) Principal subsidiary undertakings

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

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

The principal activity of the subsidiary undertakings is the design, development and manufacture of electronic systems for the international defence and aerospace markets. A full list of subsidiary undertakings will be annexed to the Company's next Annual Return filed with the Registrar of Companies.

b) Investment in subsidiary undertakings

	Total £'000
At 1 January 2013	**555,682**
Foreign exchange differences	**(2,870)**
Additions	**98,073**
At 31 December 2013	**650,885**

The additions in the year related to the acquisitions of the ordinary share capital of Varisys Limited and Wood & Douglas Holdings Limited, as set out in note 32 to the Group financial statements, and to a further investment in an intermediate Group holding company.

41 Debtors

	2013 £'000	2012 £'000
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	**6,979**	4,001
Deferred tax assets	**308**	670
Other debtors	**2,729**	920
Prepayments and accrued income	**193**	179
VAT	**33**	6
	10,242	5,776

42 Deferred tax

Movements in the deferred tax asset were as follows:

	2013 £'000	2012 £'000
Beginning of year	**670**	1,074
Charge to the profit and loss account	**(362)**	(404)
End of year	**308**	670

The deferred tax balances are analysed as follows:

	2013 £'000	2012 £'000
Other temporary differences relating to current assets and liabilities	**308**	670
Deferred tax asset	**308**	670

These balances are shown as follows:

	2013 £'000	2012 £'000
Debtors: Amounts falling due within one year	**308**	670

At the balance sheet date the Company had nil unprovided deferred tax (2012: nil).

43 Creditors: amounts falling due within one year

	2013 £'000	2012 £'000
Bank loans and overdraft	**36,877**	63,474
Amounts owed to subsidiary undertakings	**71,657**	21,262
Other creditors:		
– VAT	**-**	-
– social security and PAYE	**337**	250
– other creditors	**11,310**	16,971
Accruals and deferred income	**4,153**	1,987
	124,334	103,944

The bank loans are unsecured. Interest was predominantly charged at 1.45% (2012: 1.5%) over base or contracted rate.

44 Creditors: amounts falling due after more than one year

	2013 £'000	2012 £'000
Borrowings	**68,327**	43,295
Other creditors	**-**	6,406
	68,327	49,701

The financial risk management objectives and policies of the Company are managed at a Group level; further information is set out in the Group financial statements.

45 Borrowings

Borrowings fall due as analysed below:

	2013 £'000	2012 £'000
Bank loans and overdraft		
In one year or less, or on demand	**36,877**	63,474
	36,877	63,474
Less: included in creditors: amounts falling due within one year	**(36,877)**	(63,474)
Amounts due after more than one year		
Bank loans	**25,975**	-
Unsecured loan notes	**42,352**	43,295
	68,327	43,295

The loan notes are unsecured and due for repayment in 2018 and 2019. Interest was charged at 3.60% (2012: 3.60%).

46 Called-up share capital

	2013		2012	
	No.	£'000	No.	£'000
Authorised:				
5p ordinary shares	**90,000,000**	**4,500**	90,000,000	4,500
Allotted, called-up and fully paid:				
5p ordinary shares	**69,804,884**	**3,490**	69,403,659	3,470

401,225 ordinary shares having a nominal value of £20,061 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received by the Company was £5,176,000.

47 Reserves and reconciliation of movement in shareholders' funds

	Called up share capital £'000	Share premium account £'000	Profit and loss account £'000	Own shares £'000	2013 £'000	2012 £'000
Balance at 1 January	3,470	48,752	359,229	(2,581)	**408,870**	224,346
Share based payments	-	-	1,859	-	**1,859**	1,974
Retained profit for the year	-	-	81,511	-	**81,511**	204,516
Dividends paid	-	-	(28,071)	-	**(28,071)**	(26,877)
Long-Term Incentive Plan – additions	-	-	-	-	**-**	-
Issue of new shares	20	5,156	-	-	**5,176**	4,911
Balance at 31 December	**3,490**	**53,908**	**414,528**	**(2,581)**	**469,345**	**408,870**

The profit and loss account includes £188,222,000 (2012: £190,957,000) which is not distributable. A net foreign exchange loss of £2,059,442 was taken to reserves in the year. Further details in respect of dividends are presented in note 11 to the Group financial statements and share based payments in note 27 to the Group financial statements.

The Company holds 235,245 own shares (2012: 235,245).

48 Guarantees and other financial commitments

Lease commitments

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

	Plant and machinery 2013 £'000	Plant and machinery 2012 £'000
Operating lease rentals which expire		
– within one year	**25**	27
– between two to five years	**41**	38
	66	65

49 Post balance sheet events

On 2 January 2014 the Group agreed an amendment to extend the existing Prudential Investment Management, Inc (Pricoa) private shelf agreement for a three year period. Consequently loan notes can now be issued up until 2 January 2017. The amendment also increased the size of the shelf agreement so USD125 million of notes remain available for issue.

Statement of accounting policies
for the Company accounts

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

Basis of accounting
The Company accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. No profit and loss account is presented for the Company, as permitted by section 408 of the Companies Act 2006. The Company's retained profit for the year is disclosed in note 47.

Fixed assets and depreciation
Tangible fixed assets are shown at original historical cost, net of depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Plant and machinery	3 to 20 years

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date. Temporary differences are differences between the Company's taxable profits and its results as stated in the financial statements. These arise from including gains and losses in tax assessments in different periods from those recognised in the financial statements. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not discounted.

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

The amount charged to the profit and loss account for defined benefit schemes is the estimated regular cost of providing the benefits accrued in the period adjusted to reflect variations from the cost. The regular cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Any difference between the amount charged to the profit and loss account and contributions paid to the pension scheme is shown as a separately identifiable liability or asset in the balance sheet.

Certain employees and Directors participated in the UK defined benefit scheme operated by Ultra Electronics Limited. Paragraph 9(b) of FRS 17 allows for a defined benefit scheme to be accounted for as a defined contribution scheme where there are multi-employers and one employer is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis. The Ultra Electronics Limited defined benefit scheme has been accounted for on this basis. The deficit in the scheme at 31 December 2013 was £85.2 million (2012: £82.0 million). Further disclosures in relation to this pension scheme are given in note 31 to the Group financial statements. Payments to defined contribution pension schemes are charged as an expense as they fall due.

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

Going concern
The Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the statement on Corporate Governance on **page 58**.

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

Share-based payments
The Company issues equity settled share-based payments to certain employees. Equity settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. Fair value is measured by use of an option pricing model, using the assumptions disclosed within the Group accounts in note 27.

Related parties
The Company has taken the FRS 8 (revised) exemption from disclosure of transactions between wholly-owned subsidiaries. Remuneration of the Directors is provided in the audited part of the Directors' Remuneration Report on **pages 69**, **70** and **72**.

Loans and overdrafts
Interest-bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs where there is a facility commitment. In these circumstances issue costs are deducted from the value of the loan and amortised over the life of the commitment. Where there is no facility commitment, issue costs are written-off as incurred. Finance charges including premiums payable on settlement or redemption are accounted for on an accruals basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Five-year review

Financial highlights

As restated*	2009 £m	2010 £m	2011 £m	2012 £m	**2013 £m**
Revenue					
Aircraft & Vehicle Systems	180.0	174.1	166.1	147.0	**155.5**
Information & Power Systems	193.5	224.0	257.0	315.8	**305.0**
Tactical & Sonar Systems	277.5	311.9	308.6	298.0	**284.7**
Total revenue	651.0	710.0	731.7	760.8	**745.2**
Underlying operating profit[1]					
Aircraft & Vehicle Systems	22.4	23.3	30.9	30.6	**32.4**
Information & Power Systems	23.5	27.4	30.4	44.9	**41.2**
Tactical & Sonar Systems	51.0	59.3	60.4	46.3	**48.1**
Total underlying operating profit[1]	96.9	110.0	121.7	121.8	**121.7**
Margin[1]	14.9%	15.5%	16.6%	16.0%	**16.3%**
Profit before tax	107.1	89.8	89.1	79.8	**49.3**
Profit after tax	77.9	65.2	64.6	61.3	**38.2**
Operating cash flow[2]	111.6	106.4	133.7	89.6	**79.0**
Free cash flow before dividends, acquisitions and financing[3]	93.3	83.4	100.1	57.4	**43.8**
Net (debt)/cash at year-end[4]	(28.7)	17.8	(46.1)	(43.0)	**(42.2)**
Underlying earnings per share (p)[5]	96.7	108.5	121.1	125.5	**127.1**
Dividend per share (p)	31.2	34.6	38.5	40.0	**42.2**
Average employee numbers	3,961	4,006	4,206	4,430	**4,274**

[1] Before acquisition-related costs and amortisation of intangibles arising on acquisition, impairment of goodwill and profit on disposal of property, plant and equipment net of property-related provisions.

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

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

[4] Loans and overdrafts less cash and cash equivalents.

[5] Before acquisition-related costs, amortisation of intangibles arising on acquisition, impairment of goodwill, fair value movement on derivative financial instruments, defined benefit pension interest charges, profit on disposal of property, plant and equipment net of property-related provisions, loss on closing out foreign currency hedging contracts and unwinding of discount on provisions.

*Comparatives have been restated following the introduction of IAS 19 (revised 2011).

Business addresses

Aircraft & Vehicle Systems

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Tel: +1 734 302 7632
www.ultra-ami.com

CEMS
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Tel: +44 (0) 1305 767100
www.ultra-cems.com

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www.ultra-controls.com

ID
Waverley House
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www.ultramagicard.com

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USA
Tel: +1 203 949 3500
www.ultra-msi.com

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Tel: +44 (0) 1242 221166
www.ultra-pals.com

Photography
TEAM PHOTOGRAPH ON PAGES 28 & 30, BOARD OF DIRECTORS AND THROUGHOUT: Molyneux Associates

TEAM PHOTOGRAPH ON PAGE 32: Alex MacAulay Photographers

PLATFORMS/END APPLICATIONS COURTESY OF: BAE Systems, Boeing and US DoD

Information & Power Systems

AIRPORT & POWER SYSTEMS

Airport Systems
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www.ultra-as.com

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Nuclear Control Systems
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www.ultra-ncs.com

Nuclear Sensors & Process Instrumentation
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www.ultra-nspi.com

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www.ultra-ats.com

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SOTECH
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Annapolis Junction, Maryland 20701
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Tel: +1 301 470 7015

Tactical & Sonar Systems

SONAR & UNDERSEA SYSTEMS

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www.ultra-electronics.com.au

Flightline Systems
7625 Omnitech Place
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www.ultra-fei.com

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