press information

Embargoed until 07.00 | 26 February 2007

Ultra Electronics Holdings plc

("Ultra" or "the Group")

Preliminary Audited Results for the Year Ended 31 December 2006

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2006	Year ended 31 December 2005	Change
Revenue	**£377.0m**	£342.4m	10%
Operating profit[1]	**£57.5m**	£51.1m	13%
Headline profit before tax[2]	**£54.9m**	£47.4m	16%
Earnings per share[2]	**58.4p**	50.7p	15%
Dividend per share - final	**12.6p**	10.7p	18%
- total	**18.5p**	15.9p	16%

- Strong revenue and profit growth
  - buoyant conditions in civil aerospace and development work on Joint Strike Fighter drove revenue growth in Aircraft & Vehicle Systems
  - strong growth of airport and battlespace IT systems boosted revenue and margins in Information & Power Systems
  - Tactical & Sonar Systems benefited from increasing sales of underwater battlespace systems and equipment in addition to battlespace IT systems
- Operating margin[1] increased to 15.3%, despite currency impact
- Operating cash conversion[3] of 98% achieved, giving five-year average of 110%
- Investment continues in new aerospace programmes to underpin medium-term growth
- Important contracts secured during 2006, supporting the further growth of the Group
- Order book grew by 17% to £584m, maintaining high visibility of future earnings

Douglas Caster, Chief Executive, commented:
"Ultra has again demonstrated solid growth in revenue and profits. The broad spread of Ultra's specialist activities in different market sectors, its strong order book and its position on so many new international programmes give an excellent basis for continued progress. With a strong balance sheet, high quality of earnings and a clear strategy, Ultra has excellent opportunities to grow both by acquisition, at appropriate prices, and organically so as to strengthen its market niches. Combined with healthy market conditions, these factors give the Board confidence of further progress in 2007."

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[1] before amortisation of intangibles arising on acquisition. IFRS profit from operations £53.9m (2005: £47.8m).
[2] before amortisation of intangibles arising on acquisition and fair value movement on derivatives. IFRS profit before tax £55.0m (2005: £40.7m). Basic EPS 58.8p (2005: 43.9p).
[3] cash generated by operations, less net capital expenditure, R&D and LTIP share purchases as % of profit from operations before amortisation of intangibles arising on acquisition.

Ultra Electronics Holdings plc

("Ultra" or "the Group")

Preliminary Audited Results for the Year Ended 31 December 2006

Financial Review

	Year ended 31 December 2006 £m		Year ended 31 December 2005 £m		Growth
Order book					
- Aircraft & Vehicle Systems	**176.9**		133.8		32.2%
- Information & Power Systems	**110.2**		127.9		(13.8%)
- Tactical & Sonar Systems	**296.5**		239.0		24.1%
Total order book		**583.6**		500.7	16.6%
Revenue					
- Aircraft & Vehicle Systems	**93.9**		84.4		11.3%
- Information & Power Systems	**120.5**		117.3		2.7%
- Tactical & Sonar Systems	**162.6**		140.7		15.6%
Total revenue		**377.0**		342.4	10.1%
Organic growth					9.9%
Operating profit[1]					
- Aircraft & Vehicle Systems	**13.2**		15.9		(17.0%)
- Information & Power Systems	**19.3**		18.1		6.6%
- Tactical & Sonar Systems	**25.0**		17.1		46.2%
Total operating profit[1]		**57.5**		51.1	12.5%
Net interest payable		**(2.6)**		(3.7)	(29.7%)
Headline profit before tax[2]		**54.9**		47.4	15.8%
Operating margin[1]					
- Aircraft & Vehicle Systems	**14.1%**		18.8%		
- Information & Power Systems	**16.0%**		15.4%		
- Tactical & Sonar Systems	**15.4%**		12.2%		
Total operating margin[1]		**15.3%**		14.9%	
Operating cash flow[3]		**56.5**		53.8	
Cash conversion[4]		**98%**		105%	
Net debt[5] at year-end		**7.2**		34.3	
Bank interest cover		**21.6x**		18.6x	
Earnings per share[2]		**58.4p**		50.7p	15.2%

The robust growth that Ultra has demonstrated in recent years continued, leading to a strong revenue and profits performance in 2006. As in previous reporting periods, demand for battlespace IT products and airport IT systems were noteworthy drivers of growth. In addition, increased sales of underwater battlespace systems and equipment contributed to the strong performance. Investment in a range of new programmes continued, helping to underpin medium-term growth, and two further acquisitions were made in the period which enhance the Group's wide range of offerings in growing niche sectors.

Footnote

*[1] **operating profit** and **operating margin** are before amortisation of intangibles arising on acquisition.*

*[2] **headline profit before tax** and **earnings per share** are before amortisation of intangibles arising on acquisition and fair value movement on derivatives.*

*[3] **operating cash flow** is cash generated by operations, less net capital expenditure, R&D and LTIP share purchases.*

*[4] **cash conversion** is cash generated by operations, less net capital expenditure, R&D and LTIP share purchases as % of profit from operations before amortisation of intangibles arising on acquisition.*

*[5] **net debt** comprises bank overdrafts and loans less cash and cash equivalents.*

Ultra's continuing success in winning new business on a broad range of international programmes resulted in a record order book of £584m at the year-end.

Revenue was 10% higher at £377.0m, compared to £342.4m for 2005
- of this growth, 9% was organic at constant currencies
- acquisitions contributed 2% growth
- currency translation reduced growth by 1%

Operating profit* increased 13% to £57.5m (2005: £51.1m)
- operating margin* increased to 15.3% (2005: 14.9%)
- at constant currencies operating profit* growth was 22%

The conversion of operating profit* to operating cash flow* in the year was 98%. Over the last five years, the Group's average cash conversion* has been 110%, reflecting the high quality of Ultra's earnings.

Net debt* at the year-end was £7.2m (2005: £34.3m), after funding an investment of £35.4m in the year. Of this, a total of £7.8m after expenses was spent on acquisitions, with £27.6m (2005: £24.6m) spent on research and development, capital expenditure and new business development. This £35.4m investment of Ultra's funds was supplemented by customer-funded product development activity. In 2006, this amounted to £69.4m (2005: £60.6m) and so, in total, over 18% of Ultra's activity is new product and business development.

Net interest payable was 30% lower at £2.6m (2005: £3.7m) due mainly to lower borrowings through the year. Fair value movement on derivatives and amortisation of intangibles arising on acquisition were a net gain of £0.1m (2005: net loss of £6.7m) resulting in a 35% increase in profit before tax to £55.0m (2005: £40.7m). With an effective tax rate in 2006 of 28.0% (2005: 27.7%), profit after tax rose by 35% to £39.6m (2005: £29.4m). Earnings per share* rose 15% to 58.4p (2005: 50.7p)

Dividend

The proposed final dividend is 12.6p, bringing the total dividend for the year to 18.5p (2005: 15.9p). This represents an annual increase of 16%, with the dividend being covered 3.2 times by earnings per share*. If approved, the dividend will be paid on 4 May 2007 to shareholders on the register on 13 April 2007.

2006 Acquisitions

In 2006, the Group made two acquisitions, Polyflex Aerospace Ltd ("Polyflex") in January and Winfrith Safety Systems ("Winfrith") in July. The total cash consideration for acquisitions was £7.8m including expenses, financed using Ultra's banking facilities.

Polyflex designs, manufactures and provides in-service support for high pressure pneumatic products for a wide variety of aerospace and defence applications. The business has been subsumed into Precision Air Systems within the Aircraft & Vehicle Systems division and has broadened the Group's range of innovative components and sub-systems for high integrity defence and aerospace programmes.

Winfrith supplies specialist sensors and associated cables for use within nuclear reactors. The products have both civil and military applications and complement Ultra's existing reactor control and instrumentation system design activity. Winfrith is now part of the Group's Command & Control Systems business in the Information & Power Systems division.

** see footnote on page 2*

Review of Operations

Aircraft & Vehicle Systems

Revenue increased by 11% to £93.9m (2005: £84.4m) while operating profit* was 17% lower at £13.2m (2005: £15.9m), giving an operating margin* of 14.1% (2005: 18.8%). The value of the order book at the period-end was £176.9m (2005: £133.8m), the increase mainly reflecting the contract for HiPPAG airborne compressors for the second production tranche of Typhoon aircraft.

Revenue growth was driven by the continuing buoyant conditions in the civil aerospace market. Orders for Boeing's new 787 ("B787") aircraft have been strong and Ultra's investment in this aircraft, developing the Wing Ice Protection system ("WIPS") and proximity sensor electronics, continued as planned. Ultra also saw initial development sales on the US Joint Strike Fighter programme where the Group is developing an ice protection system for the main engine of the aircraft. Following the acquisition of Polyflex, the division won a number of contracts from new customers for its range of specialist high pressure pneumatic products.

Operating profits* reflected adverse currency effects and, as expected, the continuing B787 investment. At this early stage in the programme, development sales for the Joint Strike Fighter were taken at no margin.

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

- continuing progress on the European A400M military transport aircraft programme for which Ultra is developing five high value systems

- a contract to undertake design activity relating to the ice protection equipment applicable to the lift fan on the short take-off and landing variant of the US Joint Strike Fighter aircraft

- Ultra supported the initiative to improve the protection provided to UK troops in Iraq and started, late in the year, the supply of indirect vision systems for use on the recently procured Mastiff vehicles. These vision systems were adaptations of those originally developed for the British Army's Trojan and Titan vehicles

Information & Power Systems

Revenue in the period grew 3% to £120.5m compared to £117.3m in the prior year, while operating profit* improved 7% to £19.3m (2005: £18.1m), giving a divisional operating margin* of 16.0% (2005:15.4%). The order book at the end of the period was £110.2m (2005: £127.9m), the reduction reflecting the timing of contract awards.

The predicted reduction in demand for Ultra's transit system electrical power equipment partially offset the revenue growth elsewhere in the division. The Group did win, however, the first contracts for trackside power units awarded by Network Rail since the end of its major southern region power upgrade programme. The high growth in airport and battlespace IT systems were the principal drivers of revenue growth. Airport Systems benefited from higher activity levels at Heathrow's Terminal 5 as well as a full year's sales contribution from the New Zealand baggage reconciliation system. Revenue was also higher on the Group's IT integration contract at Shanghai airport. Ultra continued to experience strong demand for its ADSI® local situational awareness systems. In particular, sales were made in the US for an air defence airspace management programme through which local commanders in current operations are being provided with an enhanced picture of activity in their local airspace. Following the acquisition of Winfrith, the division won small but important initial contracts from British Energy in the period.

** see footnote on page 2*

The improvement in the operating margin* was aided by good progress on the reactor control and instrumentation contract for Rolls-Royce as well as the return to profitability of the division's transit power activities following the restructuring in 2005.

New contract wins in the year that will underpin the division's performance in 2007 and beyond included:

- selection at Dublin and Luton airports for common-use check-in systems and at Minneapolis St Paul to provide an integrated suite of airport IT applications
- the award of a land mine countermeasures contract for the British Army
- a contract to supply shore-based electrical power conversion equipment for the submarine base at Faslane, Scotland

Tactical & Sonar Systems

Revenue in the division increased by 16% to £162.6m from £140.7m and operating profit* increased 46% to £25.0m (2005: £17.1m). Operating margin* improved to 15.4% (2005: 12.2%). The closing order book value was £296.5m (2005: £239.0m). This reflected the strong demand for the division's battlespace IT products.

The strong revenue growth in the division reflected continuing demand for battlespace IT equipment, especially the repair, upgrade and replacement of products used in current operations in Iraq and Afghanistan. This resulted in strong sales of tactical radio and network communication systems. There was also an initial contribution from the sale of airborne targeting pods for use on RAF Typhoon and Tornado aircraft. In addition, 2006 saw significant sales of underwater battlespace systems and equipment including increased deliveries of sonobuoys in the US and torpedo defence systems, ship sonars and sea mine disposal systems for the Royal Navy. The division also benefited from a full year's contribution from Audiopack, acquired in 2005.

Operating profit* was increased by the successful completion of the production phase of the UK torpedo defence programme. The profitability of the division was further boosted by higher sales of sonobuoy telemetry receivers and benefited from the completion of older, multi-year contracts for these products. The operating profit* of this division was also enhanced by a significant contribution from Horizon Aerospace, acquired in 2005.

Highlights of the division's performance in the year that will underpin continuing growth in 2007 and beyond included:

- successful, rapid functional upgrade and initial deliveries of Litening airborne targeting pods for Typhoon and Tornado aircraft
- selection in the UK to lead the capability demonstration phase of a new loitering munition programme
- successful trials of Ultra's PacketAssure product providing guaranteed quality of service with high-grade cryptographic security on military Internet-based communication networks. This is an innovative world first
- successful trials with the US Navy of Ultra's surface ship torpedo defence capability, sharing technology with the UK programme and demonstrating effective protection against multiple incoming threats of different types

** see footnote on page 2*

Outlook

The Group's broad mix of activities enables it to exploit its niche market positions and contribute its differentiated technologies to a wide range of programmes. Ultra's spread of businesses across North America and the UK enables it to address specific national requirements where a sovereign operational capability must be maintained. Further, the Group's structure enables it to operate in a flexible and agile way. Ultra's businesses are encouraged constantly to pursue product and process innovation and this places Ultra in a strong position to provide differentiated products, services and solutions to meet customer requirements.

Expenditure is increasing on the repair, upgrade or replacement of equipment used in current military operations. This is continuing to exert pressure on defence budgets: however, the absolute level of defence expenditure is still rising. Electronic solutions to provide 'smarter' equipment continue to attract a significant and rising proportion of these budgets.

Ultra is well placed against this market background and has ample headroom to grow as the focus for expenditure continues to be on battlespace IT and equipment to support mobility and expeditionary operations.

Strong growth in demand for civil aircraft is being driven by the increasing affordability of air travel, especially in those areas of the world where rapid population growth is combined with rising disposable incomes. Competitive pressures will focus demand on fuel-efficient aircraft that are more cost-effective and less damaging to the environment. This increasing demand for air travel also encourages continuing investment in enhanced airport infrastructure.

The Group entered 2007 with a record order book of £584.0m, an increase of 17% over the position at the same time last year. This maintains historic levels of firm order cover for the coming year and reflects Ultra's success in winning new business on a broad range of international programmes.

With its robust balance sheet, Ultra continues to invest both through internal developments and through acquisition. The Group pursues good quality businesses that can be acquired at sensible multiples and to which Ultra's ownership adds value. Investments such as the WIPS for the B787 continue to be attractive as they allow Ultra to work closely with its customers to develop tailored solutions. The Group's decision to invest in the B787 programme is validated by Boeing having received 435 firm orders for the aircraft by the end of 2006.

Ultra has a broad range of products and services and has a successful track record of winning positions on a wide range of international programmes. Combined with healthy market conditions, this gives the Board confidence of further progress in 2007.

- Ends -

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Notes to editors:
Ultra Electronics is a group of specialist businesses designing, manufacturing and supporting electronic and electromechanical systems, sub-systems and products for defence, security and aerospace applications worldwide.

Ultra, which employs 3,000 people in the UK and North America, focuses on high integrity sensing, control, communication and display systems with an emphasis on integrated information technology solutions. The Group concentrates on obtaining a technological edge in niche markets, with many of its products and technologies being market leaders in their field.

Ultra's products and services are used on aircraft, ships, submarines, armoured vehicles, surveillance systems, airports and transport systems around the world. Ultra also plays an important role in supporting prime contractors by undertaking specialist system and sub-system integration using the combined expertise of the Group businesses.

Ultra is organised into three divisions as follows:

Aircraft & Vehicle Systems including miniature airborne compressors; high integrity software and systems; aircraft system electronics; aircraft cockpit indicators; aircraft noise and vibration control systems; airframe protection systems, armoured vehicle electronic information and control systems; human/computer interface equipment and shared working environment solutions.

Information & Power Systems including command and control systems equipment; weapons interfacing electronics; radar tracking; electro optical tracking; surveillance systems; naval data processing and distribution; airport and airline information management systems; ID card systems; naval power conversion; signature management of naval vessels; transit system power conversion and control.

Tactical & Sonar Systems including secure tactical line-of-sight radio systems, multiplexers and switches; voice communication systems; tactical data links; cryptographic equipment; active, passive and multi-static sonobuoys; sonobuoy receivers and processors; distributed surveillance sensor arrays; ship's sonar systems; acoustic countermeasure systems and ship's torpedo defence systems.

Ultra Electronics Holdings plc
Preliminary Audited Results for the Year Ended 31 December 2006
Consolidated Income Statement

	Note	**2006 £000**	2005 £000
Continuing operations			
Revenue	1	**377,040**	342,410
Cost of sales		**(274,466)**	(250,160)
Gross Profit		**102,574**	92,250
Other operating income		**1,505**	4,805
Distribution costs		**(810)**	(825)
Administrative expenses		**(48,569)**	(48,393)
Other operating expenses		**(753)**	-
Profit from operations		**53,947**	47,837
Investment revenue	3	**4,939**	553
Finance costs	4	**(3,874)**	(7,688)
Profit before tax	1	**55,012**	40,702
Tax	5	**(15,404)**	(11,292)
Profit for the year from continuing operations attributable to equity holders of the parent		**39,608**	29,410
Earnings per ordinary share (pence)			
From continuing operations			
- Basic		**58.8**	43.9
- Diluted		**58.3**	43.5

Ultra Electronics Holdings plc
Preliminary Audited Results for the Year Ended 31 December 2006
Consolidated Balance Sheet

	Note	**2006 £000**	2005 £000
Non-current assets			
Intangible assets		**149,758**	150,494
Property, plant and equipment		**20,814**	22,844
Deferred tax assets		**11,223**	17,301
		181,795	190,639
Current assets			
Inventories	7	**29,198**	25,937
Trade and other receivables	8	**83,599**	74,412
Cash and cash equivalents		**25,628**	40,193
		138,425	140,542
Total assets		**320,220**	331,181
Current liabilities			
Trade and other payables	9	**(110,235)**	(104,009)
Tax liabilities		**(7,387)**	(8,089)
Obligations under finance leases		**(22)**	(36)
Short–term provisions	10	**(10,459)**	(7,028)
		(128,103)	(119,162)
Non-current liabilities			
Retirement benefit obligations		**(35,143)**	(46,576)
Other payables	9	**(1,158)**	(930)
Deferred tax liabilities		**(2,830)**	(1,149)
Obligations under finance leases		**(48)**	(67)
Bank overdrafts and loans		**(32,722)**	(74,367)
Long-term provisions	10	**(2,825)**	(3,874)
		(74,726)	(126,963)
Total liabilities		**(202,829)**	(246,125)
Net assets		**117,391**	85,056
Equity			
Share capital		**3,378**	3,361
Share premium account		**33,180**	31,679
Own shares		**(2,692)**	(2,641)
Hedging and translation reserves		**(4,837)**	(990)
Retained earnings		**88,362**	53,647
Total equity		**117,391**	85,056

Ultra Electronics Holdings plc
Preliminary Audited Results for the Year Ended 31 December 2006
Consolidated Cash Flow Statement

	Note	2006 £000	2005 £000
Net cash from operating activities	12	**49,550**	48,217
Investing activities			
Interest received		**1,216**	549
Purchase of property, plant and equipment		**(4,759)**	(7,311)
Proceeds from disposal of property, plant and equipment		**34**	100
Expenditure on product development and other intangibles		**(4,676)**	(2,909)
Acquisition of subsidiary undertakings (net of cash acquired)		**(7,799)**	(36,610)
Net cash used in investing activities		**(15,984)**	(46,181)
Financing activities			
Issue of share capital		**1,518**	1,389
Purchase of Long-Term Incentive Plan shares		**(513)**	(596)
Dividends paid		**(11,102)**	(9,567)
(Repayment) / increase of borrowings		**(36,315)**	21,747
Repayments of obligations under finance leases		**(33)**	(20)
New finance leases		**-**	92
Net cash (used in) / from financing activities		**(46,445)**	13,045
Net (decrease) / increase in cash and cash equivalents		**(12,879)**	15,081
Cash and cash equivalents at beginning of year		**40,193**	24,060
Effect of foreign exchange rate changes		**(1,686)**	1,052
Cash and cash equivalents at end of year		**25,628**	40,193

Ultra Electronics Holdings plc
Preliminary Audited Results for the Year Ended 31 December 2006
Consolidated Statement of Total Recognised Income and Expense

	2006 £000	2005 £000
Exchange differences on translation of foreign operations	**(3,847)**	108
Fair value of derivatives at 1 January 2005	**-**	2,268
Actuarial gains / (losses) on defined benefit pension schemes net of deferred tax and exchange rate movements	**7,827**	(3,580)
Profit / (loss) on cash flow hedge	**226**	(144)
Tax on items taken directly to equity	**(1,923)**	(522)
Net income / (expense) recognised directly in equity	**2,283**	(1,870)
Transfer to profit and loss on cash flow hedges	**(28)**	-
Profit for the year	**39,608**	29,410
Total recognised income and expense for the year	**41,863**	27,540

Notes:

1. Segmental analysis

(a) Revenue by division

	2006			2005		
	External revenue	**Internal re**	**Total**	External revenue	Internal re	Total
	£000	**£000**	**£000**	£000	£000	£000
Aircraft & Vehicle Systems	**93,907**	**3,423**	**97,330**	84,370	982	85,352
Information & Power Systems	**120,517**	**8,964**	**129,481**	117,268	7,632	124,900
Tactical & Sonar Systems	**162,616**	**11,813**	**174,429**	140,772	8,035	148,807
Eliminations	**-**	**(24,200)**	**(24,200)**	-	(16,649)	(16,649)
Consolidated revenue	**377,040**	**-**	**377,040**	342,410	-	342,410

(b) Profit by division

	2006	2005
	£000	£000
Aircraft & Vehicle Systems	**13,190**	15,923
Information & Power Systems	**19,333**	18,094
Tactical & Sonar Systems	**24,986**	17,117
	57,509	51,134
Amortisation of intangibles arising on acquisition (see 1.(c))	**(3,562)**	(3,297)
Profit from operations	**53,947**	47,837
Investment revenue	**4,939**	553
Finance costs	**(3,874)**	(7,688)
Profit before tax	**55,012**	40,702

(c) Amortisation of intangibles arising on acquisition

	2006	2005
	£000	£000
Aircraft & Vehicle Systems	**(505)**	-
Information & Power Systems	**(174)**	-
Tactical & Sonar Systems	**(2,883)**	(3,297)
	(3,562)	(3,297)

(d) Capital expenditure, additions to intangibles, depreciation and amortisation

	Capital expenditure and additions to intangibles (excluding goodwill)		**Depreciation and amortisation**	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Aircraft & Vehicle Systems	**4,301**	2,177	**3,419**	1,208
Information & Power Systems	**2,142**	4,420	**2,930**	3,233
Tactical & Sonar Systems	**2,992**	3,623	**5,439**	7,141
Total	**9,435**	10,220	**11,788**	11,582

The 2006 depreciation and amortisation expense includes £6,258,000 of amortisation charges (2005: £5,450,000) and £5,530,000 of property, plant and equipment depreciation charges (2005: £6,132,000).

(e) Total assets by division

	2006 £000	2005 £000
Aircraft & Vehicle Systems	**80,857**	67,144
Information & Power Systems	**68,656**	64,439
Tactical & Sonar Systems	**129,684**	141,441
	279,197	273,024
Unallocated	**41,023**	58,157
Total assets	**320,220**	331,181

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

(f) Total liabilities by division

	2006 £000	2005 £000
Aircraft & Vehicle Systems	**(36,032)**	(25,454)
Information & Power Systems	**(40,296)**	(38,528)
Tactical & Sonar Systems	**(46,792)**	(49,987)
	(123,120)	(113,969)
Unallocated	**(79,709)**	(132,156)
Total liabilities	**(202,829)**	(246,125)

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

(g) Revenue by destination

	2006 £000	2005 £000
United Kingdom	**150,645**	132,603
Continental Europe	**35,700**	38,938
North America	**160,528**	145,338
Rest of the World	**30,167**	25,531
	377,040	342,410

(h) Other information (by geographic location)

	Total assets		**Additions to property, plant & equipment and intangible assets (excluding acquisitions)**	
	2006 £000	2005 £000	**2006 £000**	2005 £000
United Kingdom	**146,564**	131,336	**5,811**	6,430
North America	**132,633**	141,688	**3,624**	3,790
	279,197	273,024	**9,435**	10,220

2. Additional performance measures

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

	2006	2005
	£000	£000
Profit from operations	**53,947**	47,837
Add: Amortisation of intangibles arising on acquisition	**3,562**	3,297
Operating profit (adjusted) [(a)]	**57,509**	51,134
Profit before tax	**55,012**	40,702
(Profit)/ loss on fair value movements on derivatives	**(3,659)**	3,436
Amortisation of intangibles arising on acquisition	**3,562**	3,297
Headline profit before tax [(b)]	**54,915**	47,435
Cash generated by operations	**66,414**	64,499
Purchase of property, plant and equipment	**(4,759)**	(7,311)
Proceeds on disposal of property, plant and equipment	**34**	100
Expenditure on product development and other intangibles	**(4,676)**	(2,909)
Purchase of Long-Term Incentive Plan shares	**(513)**	(596)
Operating cash flow (adjusted) [(c)]	**56,500**	53,783

Operating profit at [(a)] above has been shown before the amortisation of intangible assets arising on acquisitions, which relates to acquired intellectual property, customer relationships and profit in acquired order book. Under UK GAAP this charge would have formed part of the amortisation of goodwill, which was also excluded from headline operating profit. Since the remainder of goodwill is no longer amortised, this charge has been excluded for consistency. Headline profit before tax as shown at [(b)] in the above table and adjusted earnings per share are also presented before the amortisation of intangible assets arising on acquisition.

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

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

3. Investment revenue

	2006	2005
	£000	£000
Bank interest	**1,216**	553
Fair value movement on derivatives	**3,659**	-
Retirement benefit scheme finance income	**64**	-
	4,939	553

4. Finance costs

	2006 £000	2005 £000
Amortisation of finance costs of debt	**55**	137
Interest payable on bank loans and overdrafts	**3,845**	3,164
Interest payable on finance leases	**2**	2
Transfers from equity on cash flow hedges	**(28)**	-
Total borrowing costs	**3,874**	3,303
Fair value movement on derivatives	**-**	3,436
Retirement benefit scheme finance cost	**-**	949
	3,874	7,688

5. Tax

	2006 £000	2005 £000
Current tax		
United Kingdom	**7,812**	7,254
Overseas	**5,190**	5,805
	13,002	13,059
Deferred tax		
United Kingdom	**1,118**	(2,105)
Overseas	**1,284**	338
	2,402	(1,767)
Total	**15,404**	11,292

6. Dividends

	2006 £000	2005 £000
Final dividend for the year ended 31 December 2005 of 10.7p (2004:9.2p) per share	**7,150**	6,078
Interim dividend for the year ended 31 December 2006 of 5.9p (2005:5.2p) per share	**3,952**	3,489
	11,102	9,567
Proposed final dividend for the year ended 31 December 2006 of 12.6p (2005:10.7p) per share	**8,324**	7,150

The 2006 proposed final dividend was approved by the Board after 31 December 2006 and has therefore not been included as a liability as at 31 December 2006.

7. Inventories

	2006 £000	2005 £000
Raw materials and consumables	**18,029**	17,578
Work in progress	**9,323**	6,376
Finished goods and goods for resale	**1,846**	1,983
	29,198	25,937

8. Trade and other receivables

	2006	2005
	£000	£000
Trade receivables	**52,783**	47,813
Provisions against receivables	**(640)**	(761)
Net trade receivables	**52,143**	47,052
Amounts due from contract customers	**23,072**	23,026
Derivatives at fair value	**4,172**	663
Other receivables	**1,876**	1,885
Prepayments and accrued income	**2,336**	1,786
	83,599	74,412

9. Trade and other payables

Amounts included in current liabilities	**2006**	2005
	£000	£000
Trade payables	**37,868**	27,797
Amounts due to contract customers	**29,176**	32,745
Derivatives at fair value	**1,627**	1,975
Other payables	**12,830**	11,712
Accruals and deferred income	**28,734**	29,780
	110,235	104,009

Amounts included in non current liabilities:	**2006**	2005
	£000	£000
Other payables	**541**	223
Accruals and deferred income	**617**	707
	1,158	930

10. Provisions

	Warranties	**Contract related provisions**	**Total**
	£000	**£000**	**£000**
At 1 January 2006	8,420	2,482	10,902
Additional provisions	935	5,265	6,200
Utilisation of provisions	(1,302)	(2,122)	(3,424)
Exchange differences	(154)	(240)	(394)
At 31 December 2006	**7,899**	**5,385**	**13,284**
Included in current liabilities	6,014	4,445	10,459
Included in non current liabilities	1,885	940	2,825
	7,899	**5,385**	**13,284**

11. Retirement benefit schemes

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

	2006	2005
	£000	£000
Fair value of scheme assets	**119.7**	99.8
Present value of scheme liabilities	**(154.8)**	(146.4)
Scheme deficit	**(35.1)**	(46.6)
Related deferred tax asset	**10.5**	14.0
Net pension liability	**(24.6)**	(32.6)

12. Cash flow information

	2006 £000	2005 £000
Profit from operations	**53,947**	47,837
Adjustments for:		
Depreciation of property, plant and equipment	**5,530**	6,132
Amortisation of intangible assets	**6,258**	5,450
Cost of equity settled employee share schemes	**648**	1,212
(Decrease) / increase in post employment benefit obligation	**(259)**	120
Loss / (profit) on disposal of property, plant and equipment	**21**	(4)
Increase / (decrease) in provisions	**2,553**	(366)
Operating cash flows before movements in working capital	**68,698**	60,381
Increase in inventories	**(3,419)**	(1,643)
Increase in receivables	**(6,929)**	(1,313)
Increase in payables	**8,064**	7,074
Cash generated by operations	**66,414**	64,499
Income taxes paid	**(13,032)**	(13,001)
Interest paid	**(3,832)**	(3,281)
Net cash from operating activities	**49,550**	48,217

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

	2006 £000	2005 £000
Net (decrease)/increase in cash and cash equivalents	**(12,879)**	15,081
Cash outflow/(inflow) from decrease/(increase) in debt and finance leasing	**36,348**	(21,727)
Change in net debt arising from cash flows	**23,469**	(6,646)
Amortisation of finance costs of debt	**(55)**	(137)
Finance leases	**-**	(92)
Translation differences	**3,699**	(3,327)
Movement in net debt in the year	**27,113**	(10,202)
Net debt at start of year	**(34,277)**	(24,075)
Net debt at end of year	**(7,164)**	(34,277)

Net debt comprised the following:

	2006 £000	2005 £000
Cash and cash equivalents	**25,628**	40,193
Bank overdrafts and loans	**(32,722)**	(74,367)
Obligations under finance leases included in current liabilities	**(22)**	(36)
Obligations under finance leases included in non – current liabilities	**(48)**	(67)
	(7,164)	(34,277)

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

13. Five year review

	UK GAAP Restated 2002 £m	UK GAAP Restated 2003 £m	IFRS 2004 £m	IFRS 2005 £m	IFRS **2006 £m**
Revenue					
Aircraft & Vehicle Systems	76.4	79.9	76.6	84.4	**93.9**
Information & Power Systems	82.9	95.5	113.7	117.3	**120.5**
Tactical & Sonar Systems	101.1	109.0	120.4	140.7	**162.6**
Total revenue	260.4	284.4	310.7	342.4	**377.0**
Profit from operations (1)					
Aircraft & Vehicle Systems	12.5	13.9	14.9	15.9	**13.2**
Information & Power Systems	11.0	11.0	15.0	18.1	**19.3**
Tactical & Sonar Systems	10.0	12.6	13.4	17.1	**25.0**
Total profit from operations	33.5	37.5	43.3	51.1	**57.5**
Margin (1)	12.8%	13.2%	13.9%	14.9%	**15.3%**
Profit before tax	29.9	34.4	40.1	40.7	**55.0**
Profit after tax	17.9	20.4	29.2	29.4	**39.6**
Operating cash flow (2)	38.7	48.3	46.9	53.8	**56.5**
Free cash before dividends, acquisitions and financing (3)	28.0	35.7	36.0	38.1	**40.9**
Net debt at year-end (4)	(39.3)	(30.3)	(24.1)	(34.3)	**(7.2)**
Headline earnings per share (p) (5)	33.2	38.2	43.7	50.7	**58.4**
Dividends per share (p)	11.2	12.3	12.8	14.4	**16.6**
Average employee numbers	2,395	2,505	2,678	2,880	**2,989**

Notes:

1. Before amortisation of goodwill and amortisation of intangibles arising on acquisition.
2. Cash generated by operations, less net capital expenditure, R&D and LTIP share purchases.
3. Free cash flow before dividends, acquisitions and financing has been adjusted to include the purchase of long-term incentive plan shares, which are included in financing activities.
4. Bank overdrafts and loans less cash and cash equivalents.
5. Before goodwill amortisation and amortisation of intangibles arising on acquisition and fair value movement on derivatives.

14. The financial information set out above, prepared in accordance with IFRS, does not constitute the Company's statutory accounts for the years ended 31 December 2006 or 2005, but is derived from those accounts. Statutory accounts for 2005 have been delivered to the Registrar of Companies and those for 2006 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain statements under s237 (2) or (3) Companies Act 1985.

15. Copies of the annual report will be sent to shareholders in due course and will also be available from the Company's registered office at 417 Bridport Road, Greenford, Middlesex, UB6 8UA.