The Directors present their annual report on the affairs of the Group, together with the accounts and auditors' report, for the year ended 31 December 2006. Details in relation to health, safety and the environment, business ethics, employment practice and employee consultation and charitable donations are included in the Corporate Responsibility Statement on pages 24 to 27.

Principal activity

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

Enhanced business review

The Company is required to set out in this report a fair review of the business of the Group during the financial year ended 31 December 2006 and of the position of the Group at the end of that financial year together with a description of the principal risks and uncertainties facing the Group. The information that satisfies these requirements can be found in the following sections of the Operating and Financial Review: Ultra's 2006 results on pages 14 to 15; Divisional review on pages 15 to 16; Ultra's future outlook on pages 17 to 19; Management of risks and uncertainties on pages 19 to 20 and Corporate responsibility on pages 24 to 27.

Results and dividends

The Operating and Financial Review is contained on pages 13 to 23. Group results and dividends are as follows:

		2006 £'000
Balance on retained earnings, beginning of year		**53,647**
Total recognised income and expense		**45,710**
Dividends:	2005 final paid of 10.7p per share	**(7,150)**
	2006 interim paid of 5.9p per share	**(3,952)**
Equity settled employee share schemes		**107**
Balance on retained earnings, end of year		**88,362**

The final 2006 dividend is proposed to be paid on 4 May 2007 to shareholders on the register at 13 April 2007. The interim dividend was paid on 29 September 2006, making a total of 16.6p (2005: 14.4p) per share paid for the year.

Future developments

A review of the activities and future developments of the Group is contained in the Operating and Financial Review on pages 13 to 23.

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 £92.3 million (2005: £77.9 million) was spent on engineering development of which £69.4 million (2005: £60.6 million) was funded by customers and £22.9 million (2005: £17.3 million) by the Group.

Directors and their interests

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

Substantial shareholdings

At 23 February 2007, the Company had been notified in accordance with Sections 198-208 of the Companies Act 1985 that the following were registered as having an interest in 3% or more of the Company's ordinary share capital:

	Percentage of ordinary share capital	Number of 5p ordinary shares
Barclays Plc	11.9	8,058,239
Shroders Plc	6.7	4,501,053
Aegon UK Plc Group of Companies	4.1	2,739,212
Legal & General Group Plc	3.7	2,512,870

Following implementation of the EU Transparency Directive effected by the new Disclosure and Transparency Rules (DTR) made by the Financial Services Authority, there has been a change in the basis on which we disclose certain major interests in the capital of the Company. As at 23 February 2007, under DTR 5, we have received notification that F&C Asset Management plc hold less than 5% of the voting rights of the issued share capital of the Company.

Charitable and political contributions

The Group contributed £44,000 (2005: £23,000) to charities and made no contributions for political purposes in either year.

Supplier payment policy

Operating divisions are responsible for agreeing the terms and conditions under which they conduct business transactions with their suppliers. It is Group policy that payments to suppliers are made in accordance with those terms, provided that the supplier is also complying with all relevant terms and conditions. Trade payable days of the Group for the year ended 31 December 2006 were 54 days (2005: 51 days), based on the ratio of Group trade payables at the end of the year to the amounts invoiced during the year by suppliers. The Company had no trade payables at either year end.

Annual General Meeting

Explanation of special business resolutions is given below:

Resolution 8

This resolution authorises the Directors to allot shares in the Company up to a maximum nominal amount of £1,125,957 (one third of the allotted and fully paid up share capital of the Company).

Resolution 9 and 10

These resolutions authorise the Directors to implement a new Company Share Option Plan and a new Executive Share Option Scheme, the previous arrangements having recently expired. The Company wishes to continue to focus its long-term incentive strategy for executives below Board level on share option participation and is therefore seeking authority to re-establish similar arrangements. The intention is to operate the Option plans for the benefit of senior executives and certain key employees below Board level. The Plans grant options to individual employees to purchase shares at a fixed price after three years have elapsed from the date the option is granted.

The previous schemes have been successful in providing incentives closely linked to the performance of the Company and have proved a valuable tool in the recruitment and retention of key staff.

The Directors believe that these schemes help to align the interests of senior executives with the overall performance of the Company. This is in the best interests of the Company and shareholders as a whole. The Directors recommend voting in favour of these resolutions.

Resolution 11

This resolution authorises the Directors to introduce a new long-term incentive plan. The existing long-term incentive arrangement expires in 2007. The intention is to continue to focus the long-term share incentive strategy for the Executive Directors and selected senior executives on participating in a challenging "performance shares" arrangement. The scheme will be supervised by the Remuneration Committee. The Committee will grant awards which give entitlement to Ultra Electronics shares, the final numbers of which are dependent on the growth of the Company's adjusted earnings per share over a three year period when compared to a "basket" of other comparable companies. The vesting of awards will continue to be subject to stringent performance conditions.

The existing Ultra Electronics Long-Term Incentive Plan ('LTIP') has been successful in aligning the Directors' interests with those of the shareholders. The Board is therefore seeking the approval of shareholders to extend the operation of this successful LTIP by adopting the Ultra Electronics Long-Term Incentive Plan 2007.

The Directors believe that the adoption of the new LTIP will be in the best interests of the Company and the shareholders as a whole. They recommend a vote in favour of this resolution.

Resolution 12

This resolution authorises the Directors to introduce a new savings related share option scheme, the authority to make further grants under the previous scheme having recently expired. The intention is to continue to focus the Company's all-employee share ownership policy on savings-related share scheme participation. The Board is therefore seeking authority to establish the Ultra Electronics Savings Related Share Option Scheme 2007.

This scheme is primarily structured to include Ultra's UK employees, but the rules have been framed in such a way as to permit the establishment of a replacement International Savings Related Option Scheme, which will be required in future to continue to offer Share Options to the Group's employees in Canada.

The Directors believe that this scheme will align the interests of UK and Canadian employees with the overall performance of the Company and that it is in the best interests of the Company and the shareholders as a whole. The Directors recommend a vote in favour of this resolution.

Annual General Meeting (continued)

Resolution 13

This resolution authorises the Directors to introduce a new stock purchase plan for US employees to replace the previous scheme for which authority has recently expired. The intention is to continue to focus the Company's all employee share ownership policy in the US on tax-favoured savings related share option scheme participation. The Company is therefore seeking authority to establish the Ultra Electronics US Stock Purchase Plan 2007.

The Directors believe that this scheme will align the interests of US employees with the overall performance of the Company and that this is in the best interests of the Company and the shareholders as a whole. The Directors recommend a vote in favour of this resolution.

Resolution 14

This resolution authorises the Directors to allot shares for cash, without first having offered to allot such shares to existing shareholders in proportion to their existing holdings, in respect of 5% of the total issued share capital of the Company. Resolutions 8 and 14 comply with the Association of British Insurers' guidelines and renew similar authorities given previously. The authorities expire on the earlier of the conclusion of the next Annual General Meeting of the Company or 15 months after the date of passing these resolutions. The Directors have no current intention to exercise the authorities sought by these resolutions except for employee share option schemes.

Resolution 15

This resolution authorises the Directors to purchase up to a total of 3,377,872 of the Company's shares (representing 5% of the issued share capital of the Company). This authority expires on the earlier of 12 months from the date of passing this resolution or the conclusion of the next Annual General Meeting of the Company.

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

Resolution 16

This resolution authorises the Directors to amend the Company's Articles of Association to permit electronic communication with shareholders in future. The resolution further seeks approval from shareholders for a proposal to adopt electronic communication with shareholders as a default, as opposed to the existing approach involving written communication.

The Companies Act 2006 gives the Company the option to use electronic communications with shareholders as a default, subject to prior approval by the shareholders. The Company proposes to contact all shareholders by letter during 2007 to ascertain whether each shareholder wishes to continue to receive hard copies of all communication from the Company, or whether the shareholder wishes to receive such communications electronically. As a default, those shareholders who do not respond to the letter will receive all future communications electronically.

The Directors believe that this change is in line with emerging best practice and will offer a more cost-effective, efficient, and environmentally friendly means of communicating with shareholders. The Directors recommend a vote in favour of this resolution.

Auditors

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

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

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

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

By order of the Board,
D. Jeffcoat
Company Secretary
23 February 2007
Registered Office: 417 Bridport Road, Greenford, Middlesex UB6 8UA
Registered Number: 2830397

Combined code compliance

This section describes how the Group has applied the principles of the Combined Code on Corporate Governance, published in June 2006 ("the Code"). A summary of the Group's compliance position follows with details of any exceptions.

Main Board

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

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

The Board is chaired by Dr Julian Blogh, who was appointed Chairman in 2005. On 1 October 2006 Dr Blogh became non-executive Chairman of Gooch and Housego plc.

At the end of 2006 the main Board comprised the Chairman, three independent non-executive Directors and four executive Directors. As senior independent non-executive Director, Andrew Walker has particular responsibility, on behalf of the Board, for safeguarding the provisions of the Code on corporate governance, and is available to shareholders if they have concerns that contact through the normal channels of Chairman, Chief Executive or Finance Director has failed to resolve, or for which such contact is inappropriate.

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

Mr Jeffcoat, who was appointed to the Board in 2000, is both Finance Director and Company Secretary, reporting to the Chief Executive. Although this does not follow best governance practice, which calls for the roles to be separated and for the Company Secretary to report directly to the Chairman, Ultra's lean management structure does not encourage extra costs to be incurred by appointing an independent Company Secretary. The Board believes that Mr Jeffcoat is able effectively to maintain sufficient separation of his two roles to avoid any significant conflicts of interest.

The Board met thirteen times during the year. Details of the numbers of meetings of the main Board and its sub-committees that were attended by the individual Directors are set out in the table on page 35.

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

Audit Committee

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

During 2006 the Audit Committee comprised Andrew Walker, Committee Chairman and senior independent non-executive Director, Ian Griffiths and Christopher Bailey.

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

(a) agreeing the strategy and scope of planned internal and external audit activities;

(b) reviewing the outcome of internal and external audits carried out and agreeing upon the necessary actions;

(c) reviewing the financial results of the Group and the formal external announcements relating to them;

(d) monitoring the independence and effectiveness of the internal and external audit functions, both of which are carried out by professional accounting firms on behalf of the Group;

(e) assessing the risk that the Group's financial statements are materially mis-stated as a result of fraud;

(f) endorsing the Group's public interest disclosure policy and, in the form of the Committee Chairman, providing an independent point of contact for all employees, and

(g) re-appointing Deloitte & Touche LLP as external auditors.

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

Nominations Committee

The Nominations Committee comprises the non-executive Directors and the Chief Executive. The Committee is chaired by Julian Blogh but was not required to meet during 2006. The key responsibility of the Committee is to review all main Board and sub-committee appointments.

Remuneration Committee

The Board Remuneration Committee consists of Andrew Walker, Chairman, Christopher Bailey and Ian Griffiths. It met three times during the year. The Committee is responsible for evaluating the performance of the executive Directors, including the Chief Executive, and for setting their levels of remuneration. It also meets without the Group Chairman being present to agree his remuneration. A Directors' remuneration report is included on page 38, together with details of the Directors' pension entitlements, long term incentive share awards and shareholdings.

Evaluation of Board and Committee effectiveness

Following the recommendations of the Code, the Board has introduced an evaluation process in which the effectiveness of the Board, its subcommittees and each individual Director are assessed over a rolling two year period. In 2006 the effectiveness of the main Board and its subcommittees was reviewed with the assistance of an external consultant. This review was based upon a questionnaire that was completed independently by all members of the Board. The scope of the review covered the Board structure, processes and administration, together with the distribution of information. Its results were communicated to the Directors in a written report that was discussed during a Board meeting. Following a constructive discussion certain minor changes to Board arrangements were agreed. The intention is to review the contribution of the individual Directors during 2007 and to repeat this two year cycle in the future.

Directors' re-election

Ian Griffiths, non-executive Director and David Jeffcoat, Group Finance Director, are retiring by rotation in accordance with the Articles of Association and standing for re-election. Andrew Walker, senior non-executive Director, has served as a Director for more than nine years and is therefore required to stand for re-election annually. The complexity of the Group's activities, his previous experience as an executive Director of several major groups and his extensive knowledge of Ultra mean that he is well qualified for his current position on Ultra's Board. The Directors are convinced that Mr Walker remains highly effective in his role as senior non-executive and that it is in the best interests of the shareholders for him to continue.

Meeting attendance

	Main Board	Audit Committee	Nominations Committee	Remuneration Committee
Number of meetings	13	4	-	3
C. Bailey	9	2	-	3
J. Blogh	13	-	-	-
D. Caster	13	-	-	-
I. Griffiths	9	3	-	1
A. Hamment	13	-	-	-
F. Hope	12	-	-	-
D. Jeffcoat[1]	12	4	-	3
A. Walker	12	4	-	3

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

Internal controls

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

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

Control environment

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

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

Risk management

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

Operational risks are monitored as part of the Group's monthly business performance review process. Business units are required to report on all key areas of risk, indicating situations that are not compliant with normal controls.

Remedial actions must be proposed and such situations are then monitored until a satisfactory conclusion is reached. All significant deviations are reported to the Board by the responsible Director twice annually.

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

In addition the executive Directors take an active role in identifying and assessing potential risks in all areas of the business. This is achieved both through the normal monthly business review programme and also through day-to-day management contact. The managing directors and finance heads of all business units are required annually to make formal written representation to the Board, confirming that they accept responsibility for maintaining effective internal controls and that they have disclosed full details of any fraud or suspected fraud within their businesses.

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

Financial reporting systems

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

Shareholder communication

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

Going concern

After making enquiries the Directors have established that the Group's forward order book provides satisfactory cover for trading in the year to come and have a reasonable expectation that the Company and Group have adequate financial resources to continue in operational existence for the foreseeable future. The Group's banking facilities were renewed in 2005 for a five-year period, evidencing the Group's strong credit standing. For these reasons, the Board continues to adopt a going concern basis in preparing the accounts.

Statement of responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

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

UNAUDITED INFORMATION

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

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

Andrew Walker is the Chairman of the Committee and the other members are Christopher Bailey and Ian Griffiths. All three members are non-executive Directors. Julian Blogh and Douglas Caster also normally attend Remuneration Committee meetings, although they are not formally members of the Committee.

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

The Committee consulted Douglas Caster, Chief Executive, with regard to the remuneration and benefits packages offered to executive Directors and senior executives during the year, except in relation to his own remuneration and benefits package which is determined by the Committee in his absence.

In addition, wholly independent advice on executive remuneration and share schemes was received from New Bridge Street Consultants who were appointed by the Company and who provided no other services to the Company during the year, save for ongoing advice in connection with the operation of the Company's share schemes.

Remuneration policy

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

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

Salaries

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

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

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

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

Annual bonus scheme

Bonus payments are based upon the achievement of operating profit and cash flow targets. The maximum bonus for 2006 was 50% of base salary, of which 10% related to the achievement of a £54.1 million profit before tax and profit or loss on fair value movements on derivatives and amortisation of intangibles arising on acquisition and 40% to achieving an operating cash flow of £52.3 million after capitalised development costs, capital expenditure and purchase of long-term incentive plan shares. The actual results for the year led to a bonus pay-out of 31%. The pay-out was below the maximum, despite the full-year results being above target, because of higher working capital levels during the year.

Annual bonus scheme (continued)

The Committee carried out a detailed review of the Executive Directors' levels of compensation during the year. This revealed that the existing maximum annual bonus potential of 50% of salary is well behind the market for companies of a similar size to Ultra. The 50% maximum was set when Ultra was a smaller company and has not been increased for a number of years. As a result of the Company's sustained strong performance, Ultra is now ranked close to the middle of the FTSE 250 index.

Accordingly, recognising the need to pay the Executive Directors competitively relative to other companies of a similar size and complexity, and to ensure that a significant portion of executive pay is directly linked to performance, from 2007 the maximum bonus potential for Executive Directors will be increased to 75% of salary. The Committee notes that this level remains relatively modest compared to the maximum bonus potential for Executive Directors within other FTSE 250 companies of a similar size. The Committee will continue to ensure that the targets set under the annual bonus plan remain sufficiently stretching to justify the payment of bonuses and will take account of the higher annual bonus opportunity when setting these targets. The parameters used to assess payment will continue to be based on a combination of a profit target, which will account for up to 15% and a cash flow objective for the remaining 60%.

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

Due to the expiry of a number of the Company's existing share incentive plans, namely the 2002 to 2007 Long-Term Incentive Plan, the Company Share Option Plan and the Executive Share Option Scheme, Ultra will seek shareholder approval for the establishment of the following new discretionary share plans at the forthcoming Annual General Meeting:

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

In addition, shareholder approval will be sought for the establishment/renewal of certain all-employee share plans, so that every employee at Ultra will continue to be given the opportunity to participate in the Company's success.

The sole form of equity-based long-term incentive for Executive Directors has been the 2002-2007 LTIP. It is proposed that this continues to be the case, namely that Executive Directors will only participate in the 2007 LTIP and will not receive awards under the new 2007 CSOP or ESOS. These plans will still be used for more junior employees.

Key features of the new 2007 LTIP

It is proposed that most of the key features of this existing plan should be reflected in the new 2007 LTIP. In its review, the Committee found that the existing LTIP scheme has helped to motivate senior executives to drive sustained above-market long-term growth in Ultra's profits and, therefore, to generate excellent returns for shareholders. However, in designing the new 2007 LTIP, account has been taken of changes in best market practice since the current plan was approved by shareholders.

Accordingly, the main features of the new 2007 LTIP will be as follows:

- Conditional awards of shares will be made annually to Executive Directors and selected other senior executives which will normally vest three years after grant, subject to continued employment and the extent to which a performance condition has been met.
- As with the 2002 LTIP, the performance condition will measure Ultra's growth in adjusted Earnings per Share ("EPS") relative to a group of comparator companies over the three financial years starting, in each case, with the most recently published EPS figure. At the end of the performance period (which cannot be extended and "re-tested"), each company's growth in EPS will be calculated over that period, with the companies ranked in descending order according to the growth in their EPS. The percentage of the award that vests will be calculated as follows:

Rank	Percentage of award that vests
Below median	0%
Median	20%
Upper quartile	100%
Between median and upper quartile	Pro-rata between 20% and 100%

- For future awards, different performance conditions may be set, although the Committee would intend to consult shareholders before any materially different performance conditions are applied.
- It will continue to be the Committee's policy to grant awards to Executive Directors in the form of shares worth 100% of salary annually, as with the existing 2002 LTIP. However, in exceptional circumstances such as recruitment, the Committee may make awards of up to 150% of salary.
- Awards will normally lapse upon a participant leaving the employment of Ultra. However, in the case of death, and in such other circumstances at the discretion of the Committee, awards may vest subject to performance and will ordinarily be reduced on a pro rata basis.

Key features of the new 2007 LTIP (contined)

- In the event of a change of control of Ultra, awards will vest subject to performance measured up to the date of the change of control and will normally be reduced on a pro rata basis, again subject to the discretion of the Committee.
- On vesting, participants will have the right to receive a payment equal to the value of dividends accruing on awards during the vesting period. However, no dividends will be paid on shares which do not vest.
- No benefits under the plan will be pensionable.

Calculation of Relative Earnings per Share Performance

The Committee believes strongly that the use of a relative EPS growth measure continues to be the most appropriate performance condition for awards under the 2007 LTIP. This condition ensures that participants are rewarded for the delivery of EPS growth above that of a group of broadly comparable other companies. However, the Committee is conscious that the use of a relative EPS measure may require certain adjustments to be made in order to ensure that EPS growth is measured consistently from company to company. In particular, it notes that many companies disclose a 'normalised' (or equivalent) EPS figure, the definition of which may vary between comparator companies.

Therefore, in order to ensure that EPS growth is measured consistently, the Remuneration Committee has determined that the EPS figure to be used for the comparator group will be "basic" EPS as disclosed, adjusted for (i.e. excluding) charges relating to IAS 39 (Financial Instruments: Recognition and Measurement), IAS 19 (Employee Benefits) and amortisation of acquired intangible assets. No adjustments will be made for goodwill impairment charges or for exceptional gains or losses. The proposed comparator group for measuring EPS growth is:

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

For Ultra, the figure used in calculating EPS growth will be based upon the Company's adjusted EPS (as above), with a further adjustment made to remove 50% of post-tax movements in Ultra's product-related provisions and contract reserves taking place during the three year period. However, the Remuneration Committee will retain discretion to make further adjustments to this figure should it believe it appropriate to do so.

The extent to which awards vest will be independently verified by a third party, typically JPMorgan Cazenove (the Company's stockbrokers).

The executive Directors are also eligible to participate in the Company's Inland Revenue approved All-Employee Share Ownership Plan ('AESOP') and the Savings Related Share Option Scheme. Under the AESOP, employees in the UK are offered the opportunity to buy shares up to the value of £1,500 per annum from pre-tax salary. Shares are then held in trust on behalf of employees until the maturity date or until they leave the Company. The Savings Related Share Option Scheme is no longer offered but it is planned to re-introduce it for all UK employees.

Senior Executive Share Ownership Guidelines

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

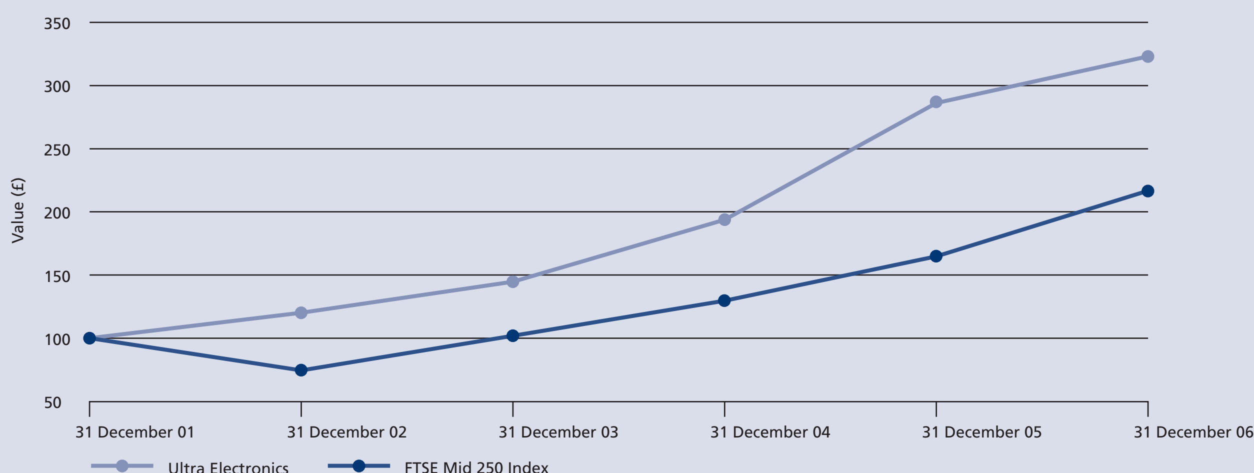
Total Shareholder Return performance graph

The graph below shows the Total Shareholder Return ('TSR') performance of the Company in comparison with the FTSE Mid 250 over the past five years. The graph shows the value at the end of 2006 of £100 invested at the end of 2001, in the Company and in the Index.

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

Total Shareholder Return

Source: Thomson Datastream



Directors' service contracts

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

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

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

Name	Date of contract	Notice period
C. Bailey	28 January 2006	Nil
J. Blogh	22 April 2006	Nil
D. Caster	25 September 1996	12 months
I. Griffiths	1 April 2006	Nil
A. Hamment	1 July 2000	12 months
F. Hope	1 January 1999	12 months
D. Jeffcoat	10 July 2000	12 months
A. Walker	1 January 2006	Nil

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

Directors' pension entitlements

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

AUDITED INFORMATION

Directors' pension benefits earned

The table below sets out the pension benefits earned by executive Directors for the year ended 31 December 2006:

	Age at year-end	Accrued benefit at beginning of period	Increase in period (net of indexation)	Transfer value of increase in period	Accrued benefit at end of period	Transfer value at beginning of period	Transfer value at end of period	Movement in transfer value during period*
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
D. Caster	53	101	**41**	**439**	**145**	1,071	**1,650**	**556**
A. Hamment	52	52	**7**	**60**	**60**	514	**642**	**117**
F. Hope	52	35	**3**	**23**	**39**	339	**408**	**61**
D. Jeffcoat	56	19	**3**	**38**	**23**	238	**307**	**61**

*Less Directors' contributions.

Directors' remuneration

Directors' emoluments are detailed below:

	Basic salary	Other cash emoluments	Fees	Annual performance bonus	Benefits	2006 Total	2005 Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
C. Bailey	-	-	**33**	-	-	**33**	27
J. Blogh	-	-	**137**	-	-	**137**	195
D. Caster	**325**	-	-	**101**	**26**	**452**	369
I. Griffiths	-	-	**33**	-	-	**33**	29
A. Hamment	**143**	**11**	-	**44**	**2**	**200**	202
F. Hope	**200**	-	-	**62**	**19**	**281**	272
P. Macfarlane	-	-	-	-	-	-	19
D. Jeffcoat	**200**	**3**	-	**62**	**7**	**272**	266
A. Walker	-	-	**38**	-	-	**38**	34
	868	**14**	**241**	**269**	**54**	**1,446**	1,413

Pension contributions to Directors of £130,530 (2005: £102,905) were paid by the Company, including £39,406 (2005: £38,133) in respect of the highest paid Director. Other benefits of executive Directors comprise a car (or allowance), provision of fuel and insurances for life, personal accident and family medical cover. Non-executive Directors are not eligible for pension scheme membership and do not participate in any of the Group's bonus or other incentive plans.

Directors' interests under Long-Term Incentive Plans

Details of the Directors' interests in these arrangements are given below and on the following page:

Interests under the Ultra Electronics Long-Term Incentive Plan 2002-2007

	No. of shares						
Award periods	J. Blogh	D. Caster	A. Hamment	F. Hope	D. Jeffcoat	Market price of shares granted	Crystallising dates of outstanding awards
2003	50,864	30,386	24,221	29,065	31,047	£4.54	April 2006
2004	49,443	29,084	23,267	27,727	29,278	£5.16	April 2007
2005	26,280	26,954	16,576	22,237	21,832	£7.42	April 2008
Interests at 1 January 2006	126,587	86,424	64,064	79,029	82,157		
2006	-	24,727	12,858	17,309	17,309	£10.11	April 2009
2003 award crystallised during the year	(25,432)	(15,193)	(12,110)	(14,532)	(15,523)		
2003 award lapsed during year	(25,432)	(15,193)	(12,111)	(14,533)	(15,524)		
Interests at 31 December 2006	**75,723**	**80,765**	**52,701**	**67,273**	**68,419**		

The 2003 award crystallised during the year as detailed above. The actual date of the award was February 2003. The market price of the shares when granted was £4.54: the market price of the shares on vesting was £10.90. The aggregate gain made by the Directors under the LTIP during the year was £902,204 (2005: £1,056,503).

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

These awards are subject to comparative EPS-based performance conditions materially identical to those described earlier. During the year, the Group purchased 47,751 shares (nominal value of £2,388) for £513,000 relating to the 2006 awards (2005: 79,155 shares – £596,000). This includes £356,660 worth of Ultra shares for the Directors (2005: £481,000). The Group purchased 34,573 shares for the 2006 award at the then mid-market price from Directors who sold shares on crystallisation of the 2003 awards as noted above. The mid-market price was £10.70 on the date of purchase. Shares were sold by J. Blogh (10,620), D. Caster (6,345), A. Hamment (5,057), F. Hope (6,069) and D. Jeffcoat (6,482).

On J. Blogh's retirement as Chief Executive in 2005, the Remuneration Committee having taken approriate external advice, made a discretionary decision to allow him to retain his existing LTIP entitlement at that time.

Directors' interests under the All-Employee Share Ownership Plan

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

Name of Director	Interests as at 1 January 2006	**Partnership shares acquired during year**	**Interests as at 31 December 2006**	**Partnership shares acquired from 1 January 2007 to 23 February 2007**	**Interests as at 23 February 2007**
D. Caster	1,390	**166**	**1,556**	**22**	**1,578**
A. Hamment	1,390	**166**	**1,556**	**22**	**1,578**
F. Hope	1,390	**166**	**1,556**	**22**	**1,578**
D. Jeffcoat	1,296	**165**	**1,461**	**22**	**1,483**
Total	5,466	**663**	**6,129**	**88**	**6,217**

During the year, the Share Ownership Plan Trust, established and operated in connection with the AESOP, purchased 44,254 (2005: 53,426) Ultra Electronics Holdings plc shares (nominal value £2,213) for £461,762 (2005: £431,750). One executive Director, David Jeffcoat, is a trustee of the Plan Trust as well as participating in the AESOP.

Directors' interests

Details of Directors' shareholdings are given below:

	At start of year		**At end of year**		**At 23 February 2007**
	Direct ownership	Indirect beneficial ownership	**Direct ownership**	**Indirect beneficial ownership**	**Direct ownership**
C. Bailey	-	2,500	**-**	**2,500**	**-**
J. Blogh	258,159	884,921	**272,971**	**884,921**	**272,971**
D. Caster	536,494	500,576	**545,508**	**500,576**	**545,530**
I. Griffiths	-	-	**-**	**-**	**-**
A. Hamment	55,363	43,535	**62,582**	**43,535**	**62,604**
F. Hope	75,990	-	**84,619**	**-**	**84,641**
D. Jeffcoat	40,531	-	**36,237**	**13,500**	**36,259**
A. Walker	1,096	469	**-**	**12,565**	**-**

There were no changes in indirect beneficial ownership between 1 January 2007 and 23 February 2007.

Andrew Walker
Chairman of the Remuneration Committee
23 February 2007

To the members of Ultra Electronics Holdings plc

We have audited the Group financial statements (the "Group financial statements") of Ultra Electronics Holdings plc for the year ended 31 December 2006 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense, the related notes numbered 1 to 27 and the statement of Group accounting policies. These Group financial statements have been prepared under the accounting policies set out therein.

The Corporate governance statement and the Directors' Remuneration report are included in the individual Company Annual Report of Ultra Electronics Holdings plc for the year ended 31 December 2006. We have reported separately on the individual Company financial statements of Ultra Electronics Holdings plc for the year ended 31 December 2006 and on the information in the Directors' Remuneration report included in the Annual Report that is described as having been audited.

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

Respective responsibilities of Directors and Auditors

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

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

We report to you our opinion as to whether the Group financial statements give a true and fair view and whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether, in our opinion, the information given in the Directors' report is consistent with the Group financial statements. The information given in the Directors Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Directors report. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' transactions with the Group is not disclosed.

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

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

Basis of audit opinion

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

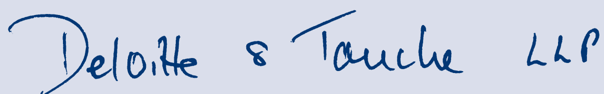
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements are free from material misstatement, whether caused by fraud or other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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the Group financial statements.

The Group in addition to complying with its legal obligation to comply with IFRSs adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board. In our opinion the Group financial statements give a true and fair view, in accordance with IFRSs, of the state of the Group's affairs as at 31 December 2006 and its profit for the year then ended.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, England
23 February 2007

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

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

Consolidated income statement

For the year ended 31 December 2006

	Note	**2006 £'000**	2005 £'000
Continuing operations			
Revenue	*3*	**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	*4*	**53,947**	47,837
Investment revenue	*6*	**4,939**	553
Finance costs	*7*	**(3,874)**	(7,688)
Profit before tax		**55,012**	40,702
Tax	*8*	**(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	*10*	**58.8**	43.9
Diluted	*10*	**58.3**	43.5

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

Consolidated balance sheet

31 December 2006

	Note	2006 £'000	2005 £'000
Non-current assets			
Intangible assets	*11*	**149,758**	150,494
Property, plant and equipment	*12*	**20,814**	22,844
Deferred tax assets	*20*	**11,223**	17,301
		181,795	190,639
Current assets			
Inventories	*13*	**29,198**	25,937
Trade and other receivables	*15*	**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	*16*	**(110,235)**	(104,009)
Tax liabilities		**(7,387)**	(8,089)
Obligations under finance leases	*17*	**(22)**	(36)
Short-term provisions	*21*	**(10,459)**	(7,028)
		(128,103)	(119,162)
Non-current liabilities			
Retirement benefit obligations	*26*	**(35,143)**	(46,576)
Other payables	*16*	**(1,158)**	(930)
Deferred tax liabilities	*20*	**(2,830)**	(1,149)
Obligations under finance leases	*17*	**(48)**	(67)
Bank overdrafts and loans	*18*	**(32,722)**	(74,367)
Long-term provisions	*21*	**(2,825)**	(3,874)
		(74,726)	(126,963)
Total liabilities		**(202,829)**	(246,125)
Net assets		**117,391**	85,056
Equity			
Share capital	*22*	**3,378**	3,361
Share premium account	*23*	**33,180**	31,679
Own shares	*23*	**(2,692)**	(2,641)
Hedging and translation reserves	*23*	**(4,837)**	(990)
Retained earnings	*23*	**88,362**	53,647
Total equity attributable to equity holders of the parent		**117,391**	85,056

The finanical statements were approved by the Board of Directors and authorised for issue on 23 February 2007.

On behalf of the Board

D. Caster, *Chief Executive*

D. Jeffcoat, *Finance Director*

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

Consolidated cash flow statement

For the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Net cash from operating activities	24	**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
Repayment 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

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

Consolidated statement of recognised income and expense

For the year ended 31 December 2006

	Note	2006 £'000	2005 £'000
Exchange differences on translation of foreign operations		**(3,847)**	108
Actuarial gains/(losses) on defined benefit pension schemes (net of deferred tax and exchange rate movements)	26	**7,827**	(3,580)
Fair value of derivatives at 1 January 2005		**-**	2,268
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)
Transfers			
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 attributable to equity holders of the parent	23	**41,863**	27,540

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

1 Segment information

	2006			2005		
	External revenue £'000	**Internal revenue £'000**	**Total £'000**	External revenue £'000	Internal revenue £'000	Total £'000
Revenue						
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

All inter-group trading is at arms length.

	2006 £'000	2005 £'000
Profit from operations		
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*	**(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

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

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

Capital expenditure, additions to intangibles, depreciation and amortisation

	Capital expenditure and additions to intangibles (excluding goodwill)		**Depreciation and amortisation**	
	2006 £'000	2005 £'000	**2006 £'000**	2005 £'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: £5,450,00) and £5,530,000 of property, plant and equipment depreciation charges (2005: £6,132,000).

1 Segment information (continued)

Total assets by segment

	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.

Total liabilities by segment

	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.

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 World	**30,167**	25,531
	377,040	342,410

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 £'000	2005 £'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 *(see note 24)*	**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)] in the table 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 *(see note 10)* 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 *(see note 10)* 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 Revenue

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

	2006 £'000	2005 £'000
Sales of goods	**206,210**	192,255
Revenue from long term contracts	**170,830**	150,155
	377,040	342,410

4 Profit from operations

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

	2006 £'000	2005 £'000
Raw materials and other bought in inventories expensed in the year	**144,808**	130,736
Inventories written down and recognised as an expense in the year	**387**	876
Staff costs *(see note 5)*	**117,162**	110,419
Depreciation and amounts written off property, plant and equipment	**5,530**	6,132
Amortisation of internally generated intangible assets	**2,234**	1,495
Amortisation of acquired intangible assets	**4,024**	3,955
Net foreign exchange (gains)/losses	**575**	(2,577)
(Profit)/loss on disposal of property, plant and equipment	**21**	(4)
Operating lease rentals		
– plant and machinery	**1,034**	1,073
– other	**4,323**	4,064
Research and development costs	**19,080**	15,124
Auditors' remuneration for statutory audit work (including expenses)	**394**	306

The Company only audit fee included in the Group audit fee shown above was £10,000 (2005: £12,000).

Analysis of auditors remuneration

	2006 £'000	2005 £'000
Fees payable for the audit of the annual accounts	**149**	90
Fees payable for the audit of subsidiaries	**245**	216
Total for statutory Group audit work	**394**	306
Analysis of non-statutory audit work		
IFRS audit work	**-**	107
Non audit fees – other services	**-**	2
Total for non statutory Group audit work	**-**	109

5 Staff costs

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

	2006 £'000	2005 £'000
Wages and salaries	**99,450**	94,478
Social security costs	**10,306**	9,588
Other pension costs	**7,406**	6,353
	117,162	110,419

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

	2006 Number	2005 Number
Production	**1,157**	1,157
Engineering	**1,198**	1,143
Selling	**195**	190
Support services	**439**	390
	2,989	2,880

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

6 Investment revenue

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

7 Finance costs

	2006 £'000	2005 £'000
Amortisation of finance costs of debt	**65**	137
Interest payable on bank loans and overdrafts	**3,835**	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

8 Tax

	2006 £'000	2005 £'000
UK taxes		
Corporation tax	**8,272**	7,415
Adjustment in respect of prior years	**(460)**	(161)
	7,812	7,254
Overseas taxes		
Current taxation	**6,044**	5,400
Adjustment in respect of prior years	**(854)**	405
	5,190	5,805
Total current tax	**13,002**	13,059
Deferred tax		
Origination and reversal of timing differences		
UK deferred tax	**1,118**	(2,105)
Overseas deferred tax	**1,284**	338
Total deferred tax	**2,402**	(1,767)
Total tax charge	**15,404**	11,292

Corporation tax in the UK is calculated at 30% (2005: 30%) of the estimated assessable profit for the year. Taxation for the other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The amount of deferred tax charged to equity is shown in note 20.

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:

	2006 £'000	2005 £'000
Group profit before tax	**55,012**	40,702
Tax on Group profit at standard UK corporation tax rate of 30% (2005: 30%)	**16,504**	12,211
Tax effects of:		
Income/expenses that are not taxable/allowable in determining taxable profits	**(861)**	(1,105)
Losses not previously recognised	**-**	(516)
Different tax rates of subsidiaries operating in other jurisdictions	**1,075**	458
Adjustments in respect of prior periods	**(1,314)**	244
Tax expense for the year	**15,404**	11,292

9 Dividends

Amounts recognised as distributions to equity holders in the year:

	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	**8,450**	7,150

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

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

10 Earnings per share

	2006 pence	2005 pence
Basic adjusted *(see below)*	**58.4**	50.7
Diluted adjusted *(see below)*	**57.9**	50.3
Basic	**58.8**	43.9
Diluted	**58.3**	43.5

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

	2006 £'000	2005 £'000
Earnings		
Earnings for the purposes of earnings per share being profit for the period from continuing operations	**39,608**	29,410
Adjusted earnings		
Profit for the period from continuing operations	**39,608**	29,410
(Profit)/loss on fair value movements on derivatives (net of tax)	**(2,616)**	2,433
Amortisation of intangibles arising on acquisition (net of tax)	**2,349**	2,143
Earnings for the purposes of adjusted earnings per share	**39,341**	33,986

	Number of shares	Number of shares
The weighted average number of shares is given below:		
Number of shares used for basic EPS	**67,421,160**	67,074,121
Number of shares deemed to be issued at nil consideration following exercise of share options	**529,555**	524,441
Number of shares used for fully diluted EPS	**67,950,715**	67,598,562

11 Intangible assets

	Goodwill £'000	Intellectual property £'000	Customer relationships £'000	Development costs £'000	Other £'000	Total £'000
Cost						
At 1 January 2005	107,419	3,547	-	4,369	718	116,053
Foreign exchange differences	1,807	558	354	186	41	2,946
Acquisition of subsidiary undertakings	5,341	7,319	19,093	-	1,836	33,589
Additions	810	-	-	2,166	743	3,719
Disposals	-	-	-	(352)	-	(352)
Transfers	-	-	-	(167)	3,031	2,864
At 1 January 2006	**115,377**	**11,424**	**19,447**	**6,202**	**6,369**	**158,819**
Foreign exchange differences	(2,564)	(1,398)	(2,344)	(369)	(403)	(7,078)
Acquisition of subsidiary undertakings	3,312	110	3,141	-	519	7,082
Additions	118	-	-	3,762	914	4,794
Disposals	-	-	-	-	(19)	(19)
Transfers	33	-	-	-	17	50
At 31 December 2006	**116,276**	**10,136**	**20,244**	**9,595**	**7,397**	**163,648**
Accumulated amortisation						
At 1 January 2005	-	-	-	(1,007)	(203)	(1,210)
Foreign exchange differences	-	(13)	(34)	(106)	(47)	(200)
Charge	-	(726)	(864)	(1,495)	(2,365)	(5,450)
Disposals	-	-	-	352	-	352
Transfers	-	-	-	-	(1,817)	(1,817)
At 1 January 2006	**-**	**(739)**	**(898)**	**(2,256)**	**(4,432)**	**(8,325)**
Foreign exchange differences	-	89	108	160	309	666
Charge	-	(1,001)	(1,987)	(2,234)	(1,036)	(6,258)
Disposals	-	-	-	-	19	19
Transfers	-	-	-	-	8	8
At 31 December 2006	**-**	**(1,651)**	**(2,777)**	**(4,330)**	**(5,132)**	**(13,890)**
Carrying amount						
At 31 December 2006	**116,276**	**8,485**	**17,467**	**5,265**	**2,265**	**149,758**
At 31 December 2005	115,377	10,685	18,549	3,946	1,937	150,494

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

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

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

11 Intangible assets (continued)

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill was allocated as follows:

	2006 £'000	2005 £'000
DF Group	**35,375**	35,375
Radamec	**5,267**	5,267
SML	**5,495**	5,473
UnderSea Sensor Systems Inc.	**14,172**	14,172
Tactical Communication Systems	**19,305**	19,305
DNE Technologies	**14,106**	16,012
Ocean Systems	**5,321**	5,321
Other (comprising several CGUs)	**17,235**	14,452
	116,276	115,377

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

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

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

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

An impairment review of goodwill at 31 December 2006 has been performed and the Directors consider that no adjustment is required.

a) Acquisitions during the year

In aggregate, consideration of £8,008,000 was paid in respect of acquisitions, all of which was discharged by means of cash and cash equivalents. Aggregate assets and liabilities acquired comprised intangible assets of £3,770,000, property, plant and equipment of £106,000, cash of £209,000, inventories of £299,000, receivables of £875,000 and current liabilities of £871,000.

Polyflex Aerospace Limited

On 11 January 2006 the Group purchased all of the share capital of Polyflex Aerospace Limited, a business based in Cheltenham, England, for a cash consideration before expenses of £4.3 million. This represents the fair value of the consideration payable. The aggregate net assets acquired and their provisional fair values, based on the Directors' initial assessment of net realisable value, were as follows:

	Book value £'000	Revaluations £'000	Fair value £'000
Intangible assets	**-**	**2,752**	**2,752**
Property, plant and equipment	**123**	**(56)**	**67**
Current assets:			
Cash at bank	**209**	**-**	**209**
Inventories	**229**	**-**	**229**
Receivables	**467**	**-**	**467**
Current liabilities	**(508)**	**-**	**(508)**
Net assets acquired	**520**	**2,696**	**3,216**
Goodwill arising on acquisition			**1,200**
Purchase consideration, including acquisition costs			**4,416**

Polyflex contributed a loss after tax of £95,000 in the period from the date of acquisition to 31 December 2006 after incurring a charge of £505,000 arising on the amortisation of intangibles attributable to the acquisition. The goodwill arising on the acquisition is attributable to the anticipated future operating synergies deriving from the combination of businesses.

11 Intangible assets (continued)

Winfrith Safety Systems

On 28 July 2006, the Group, through a subsidiary, purchased the trade and assets of Winfrith Safety Systems for a cash consideration of £2.3 million, with a possible further £0.8 million of deferred consideration dependent upon the receipt of certain specified orders and future operational performance. This represents the fair value of the consideration payable. The aggregate net assets acquired and their provisional fair values, based on the Directors' initial assessment of net realisable value, were as follows:

	Book value	Revaluations	Fair value
	£'000	£'000	£'000
Intangible assets	-	1,018	1,018
Property, plant and equipment	39	-	39
Current assets:			
Inventories	70	-	70
Receivables	408	-	408
Current liabilities	(163)	(200)	(363)
Net assets acquired	354	818	1,172
Goodwill arising on acquisition			2,112
Purchase consideration, including acquisition costs			3,284

Winfrith contributed a profit after tax of £3,000 in the period from date of acquisition to 31 December 2006 after incurring a charge of £174,000 arising on the amortisation of intangibles attributable to the acquisition. The goodwill arising on the acquisition is attributable to the anticipated future operating synergies deriving from the combination of businesses.

If the above acquisitions had been completed on the first day of the financial year, Group revenues for the year would have been £378.5 million and Group profit attributable to equity holders of the parent would have been £39.9 million.

b) Revisions to provisional fair values – Audiopack Technologies Inc.

Fair values on acquisition have been adjusted for Audiopack Technologies Inc. which was purchased in July 2005. The revisions in value relate primarily to the write down of fixed assets that have no future value. These additional fair value adjustments have resulted in an increase to goodwill at acquisition.

	Book value	Adjustments as at 31 December 2005	Further adjustments	Fair value
	£'000	£'000	£'000	£'000
Intangible assets	105	27,667	-	27,772
Property, plant and equipment	1,461	(85)	(104)	1,272
Current assets:				
Cash at bank	222	-	-	222
Inventories	1,760	(836)	-	924
Receivables	941	-	-	941
Current liabilities	(1,243)	(9)	-	(1,252)
Provisions:				
Warranty	(10)	(114)	-	(124)
Net assets acquired	3,236	26,623	(104)	29,755
Goodwill capitalised at acquisition				4,169
Purchase consideration, including acquisition costs				33,924

12 Property, plant and equipment

	Land and Buildings Freehold £'000	Land and Buildings Short leasehold £'000	Plant and machinery £'000	Total £'000
Cost				
At 1 January 2005	6,238	4,201	46,308	56,747
Foreign exchange differences	358	98	2,293	2,749
Acquisition of subsidiary undertakings	872	-	829	1,701
Additions	76	436	6,799	7,311
Disposals	-	-	(1,741)	(1,741)
Transfers	-	-	(2,864)	(2,864)
At 1 January 2006	**7,544**	**4,735**	**51,624**	**63,903**
Foreign exchange differences	**(471)**	**(130)**	**(2,534)**	**(3,135)**
Acquisition of subsidiary undertakings	**-**	**-**	**(28)**	**(28)**
Additions	**25**	**609**	**4,125**	**4,759**
Disposals	**-**	**(12)**	**(2,057)**	**(2,069)**
Transfers	**-**	**-**	**(758)**	**(758)**
At 31 December 2006	**7,098**	**5,202**	**50,372**	**62,672**
Accumulated Depreciation				
At 1 January 2005	(1,335)	(2,640)	(32,559)	(36,534)
Foreign exchange differences	(127)	(28)	(1,700)	(1,855)
Charge	(207)	(357)	(5,568)	(6,132)
Disposals	-	-	1,645	1,645
Transfers	-	-	1,817	1,817
At 1 January 2006	**(1,669)**	**(3,025)**	**(36,365)**	**(41,059)**
Foreign exchange differences	**149**	**45**	**1,823**	**2,017**
Charge	**(185)**	**(347)**	**(4,998)**	**(5,530)**
Disposals	**-**	**11**	**2,003**	**2,014**
Transfers	**-**	**-**	**700**	**700**
At 31 December 2006	**(1,705)**	**(3,316)**	**(36,837)**	**(41,858)**
Carrying amount				
At 31 December 2006	**5,393**	**1,886**	**13,535**	**20,814**
At 31 December 2005	5,875	1,710	15,259	22,844

Freehold land amounting to £1,540,000 (2005: £1,635,000) has not been depreciated. The net book value of plant and machinery held under finance leases was £56,000 (2005: £92,000).

13 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

14 Long-term contract balances

	2006 £'000	2005 £'000
Contracts in progress at the balance sheet date:		
Amounts due from contract customers included in trade and other receivables	**23,072**	23,026
Amounts due to contract customers included in trade and other payables	**(29,176)**	(32,745)
	(6,104)	(9,719)
Contract costs incurred plus recognised profits less recognised losses to date	**606,720**	567,774

At 31 December 2006, retentions held by customers for contract work amounted to £nil (2005: £2,206,000). Advances received from customers for contract work amounted to £28,628,000 (2005: £27,976,000).

15 Trade and other receivables

	2006 £'000	2005 £'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

Credit risk

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

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

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

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

16 Trade and other payables

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

17 Finance leases

Minimum lease payments

	2006 £'000	2005 £'000
Amounts payable under finance leases:		
Within one year	**24**	36
Between one and five years	**51**	75
	75	111
Less: future finance charges	**(5)**	(8)
	70	103

18 Bank overdrafts and loans

	2006 £'000	2005 £'000
Bank loans and overdrafts are payable as follows:		
Between two and five years	**32,998**	74,708
	32,998	74,708
Less: unamortised finance costs of debt	**(276)**	(341)
	32,722	74,367

Liquidity risk

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

During 2005, the Group renewed its banking facilities that are provided by a small syndicate of banks, led by The Royal Bank of Scotland. This facility, which provides up to £120 million of revolving credit over a five year period, is denominated in Sterling, US dollars and Canadian dollars and is used for balance sheet and operational needs. A further £10 million overdraft is available for short-term working capital funding.

All bank loans are unsecured. Interest is charged at 0.375% (2005: 0.375%) over base rate.

At 31 December 2006, the Group had available £87,002,000 (2005: £45,292,000) of undrawn committed borrowing facilities. These undrawn facilities all expire within four years (2005: within five years).

19 Derivative financial instruments

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

Currency risk

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

At 31 December 2006, the fair value of the Group's currency derivatives is estimated to be an asset of approximately £2,491,000 (2005: liability of £1,168,000), comprising £4,105,000 assets (2005: £663,000) included in trade and other receivables and £1,614,000 liabilities (2005: £1,831,000) included in trade and other payables. The gain on derivative financial instruments included in the Group's consolidated income statement for the period was £3,659,000 (2005: loss of £3,436,000).

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

	2006			2005		
	Not exceeding 1 year	**Between 1 year and 5 years**	**Total**	Not exceeding 1 year	Between 1 year and 5 years	Total
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
US dollars/Sterling	**(31,678)**	**(18,394)**	**(50,072)**	(27,377)	(17,474)	(44,851)
US dollars/Canadian dollars	**(21,715)**	**(20,437)**	**(42,152)**	(23,066)	-	(23,066)
Canadian dollars/Sterling	**2,525**	**1,695**	**4,220**	-	-	-
Other currencies	**(550)**	**(5,298)**	**(5,848)**	(5,442)	(11,423)	(16,865)
	(51,418)	**(42,434)**	**(93,852)**	(55,885)	(28,897)	(84,782)

Net investment hedges

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

19 Derivative financial instruments (continued)

Interest rate risk

During the year the Group used interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. The interest rate swaps, denominated in US dollars and Canadian dollars, have been entered into to achieve an appropriate mix of fixed and floating rate exposure reflecting the Group's policy. The swaps will mature over the next two years and have fixed swap rates ranging from 4.175 per cent to 4.815 per cent. The floating rates are US dollar LIBOR and Canadian dollar LIBOR. The nominal amounts of the interest rate swaps are US$30 million (2005: US$40 million) and CAD$30 million (2005: CAD$30 million).

The interest rate swaps are designated effective cash flow hedges and the change in fair value has been charged to equity. At 31 December 2006, the net fair value of interest rate swaps was assets of £54,000 (2005: liability of £144,000), comprising £67,000 of assets (2005: £nil) included in trade and other receivables and £13,000 of liabilities (2005: £144,000) included in trade and other payables. The amount re-cycled into the income statement during the year was £28,000 (2005: nil). The fair value will be realised in the income statement on a quarterly basis over the next two years (2005: three years).

The effective interest rates and re-pricing 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
2006					
Cash and cash equivalents	**3.81%**	**25,628**	**25,628**	**-**	**-**
Unsecured bank loans:					
GBP loan	**5.16%**	**2,724**	**-**	**-**	**2,724**
US dollar loan	**5.40%**	**15,330**	**-**	**-**	**15,330**
Canadian dollar loan	**4.42%**	**14,668**	**-**	**-**	**14,668**
Finance lease liabilities	**4.25%**	**70**	**22**	**48**	**-**
2005					
Cash and cash equivalents	2.95%	40,193	40,193	-	-
Unsecured bank loans:					
GBP loan	5.50%	19,159	-	-	19,159
US dollar loan	4.01%	33,990	-	-	33,990
Canadian dollar loan	3.14%	21,218	-	-	21,218
Finance lease liabilities	4.25%	103	36	67	-

Fair values

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

	Carrying amount	Fair value	Carrying amount	Fair value
	2006 £'000	2006 £'000	2005 £'000	2005 £'000
Cash and cash equivalents	**25,628**	**25,628**	40,193	40,193
Interest rate swaps	**54**	**54**	(144)	(144)
Foreign exchange contracts	**2,491**	**2,491**	(1,168)	(1,168)
Unsecured bank loans	**(32,722)**	**(32,722)**	(74,367)	(74,367)
Finance lease liabilities	**(70)**	**(70)**	(103)	(103)

Estimation of fair values

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

20 Deferred tax

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

	Accelerated tax depreciation £'000	Employee share options costs £'000	Derivatives £'000	Retirement benefit obligations £'000	Goodwill £'000	Other £'000	Tax losses £'000	Total £'000
At 1 January 2005	(519)	1,085	-	12,111	(2,152)	1,653	416	12,594
Credit/(charge) to income	(178)	378	1,003	269	37	22	236	1,767
Credit/(charge) to equity	-	693	(660)	1,620	138	-	-	1,791
At 1 January 2006	(697)	2,156	343	14,000	(1,977)	1,675	652	16,152
Credit/(charge) to income	655	156	(1,043)	(102)	-	(1,917)	(151)	(2,402)
Credit/(charge) to equity	-	(79)	-	(3,355)	(1,923)	-	-	(5,357)
At 31 December 2006	**(42)**	**2,233**	**(700)**	**10,543**	**(3,900)**	**(242)**	**501**	**8,393**

The Group has not recognised deferred tax assets of £0.71 million (2005: £0.61 million) relating to tax losses, due to uncertainty as to their recoverability.

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

21 Provisions

	Warranties £'000	**Contract related provisions £'000**	**Total £'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**

Warranty and contract related provisions will be utilised over the period as stated in the contract to which each specific provision relates.

22 Share capital

	2006		2005	
	No.	**£'000**	No.	£'000
Authorised:				
5p ordinary shares	**90,000,000**	**4,500**	90,000,000	4,500
Allotted, called-up and fully paid:				
5p ordinary shares	**67,557,441**	**3,378**	67,221,085	3,361

336,356 ordinary shares having a nominal value of £16,818 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received was £1,517,648.

Share Options

During the year to 31 December 2006, the Group operated the following equity settled share options:

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 daily average market price on the day before the grant less 10%. The vesting period is two years. If the options remain unexercised after a period of three months from the date of maturity, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

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

At 31 December 2006, share options outstanding under Ultra's Savings Related Share Option Schemes were as follows:

Options granted	Number of shares 2006	2005	Option price (£)	Exercise dates
2005	**41,119**	46,554	7.50	September 2007 - December 2007
2006	**42,018**	-	9.21	September 2009 - March 2010

2. Company Share Option Plan

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

At 31 December 2006, share options outstanding under Ultra's Company Share Option Plan were as follows:

Options granted	Number of shares 2006	2005	Option price (£)	Exercise dates
1998	**6,829**	12,805	4.05	March 2001 - March 2008
1999	**14,843**	27,805	4.15	March 2002 - March 2009
2000	**17,582**	24,976	3.855	May 2003 - May 2010
2001	**15,547**	24,751	4.385	March 2004 - March 2011
2002	**22,764**	41,983	4.485	March 2005 - March 2012
2003	**17,776**	53,078	4.525	March 2006 - March 2013
2004	**56,729**	62,717	5.97	March 2007 - March 2014
2005	**43,803**	53,953	7.28	March 2008 - March 2015
2006	**30,733**	-	10.32	February 2009 - February 2016

22 Share capital (continued)

3. Executive Share Option Scheme

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

At 31 December 2006, share options outstanding under Ultra's Executive Share Option Scheme were as follows:

Options granted	Number of shares 2006	Number of shares 2005	Option price (£)	Exercise dates
2000	**26,205**	46,047	3.855	May 2003 - May 2007
2001	**45,742**	77,753	4.385	March 2004 - March 2008
2002	**93,387**	131,106	4.485	March 2005 - March 2009
2003	**138,458**	249,664	4.525	March 2006 - March 2010
2004	**194,770**	214,210	5.97	March 2007 - March 2011
2005	**192,074**	199,465	7.28	March 2008 - March 2012
2006	**159,365**	-	10.32	February 2009 - February 2013

4. Long-Term Incentive Plan

Details in relation to the LTIP are included in the Directors' Remuneration report on pages 39 and 40.

The number and weighted average exercise price of share options for all share based payment arangements (including LTIP).

	Weighted average exercise price (£) 2006	**Number of options 2006**	Weighted average exercise price (£) 2005	Number of options 2005
Beginning of year	**3.83**	**1,879,847**	3.27	1,966,473
Granted during the year	**7.09**	**346,477**	5.01	451,036
Forfeited during the year	**2.81**	**(191,947)**	2.66	(61,809)
Exercised during the year	**3.44**	**(429,140)**	2.78	(475,853)
Outstanding at the end of the year	**4.76**	**1,605,237**	3.83	1,879,847
Exercisable at the end of the year	**4.40**	**401,945**	4.34	456,786

The Group recognised total expenses of £648,000 (2005: £1,212,000) 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 £10.32. The fair value of options granted during the year was £1,266,482 (2005: £1,254,072).

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. Fair value is measured by use of the Black Scholes option pricing model using the following assumptions.

	Share save*	CSOP*	ESOS*	LTIP*
Weighted average share price (£)	9.62	6.66	6.66	6.26
Weighted average exercise price (£)	8.31	6.66	6.66	n/a
Expected volatility %	18.6	20.6	19.9	19.1
Expected option life (years)	2.66	6.0	5.0	3.0
Risk free interest rate %	4.5	4.4	4.4	4.2
Expected dividends %	1.6	2.1	2.1	2.0

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

23 Equity

	Share capital £'000	Share premium account £'000	Reserve for own shares £'000	Hedging and translation reserve £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2005	3,345	30,306	(2,807)	(1,098)	34,640	64,386
Total recognised income and expense	-	-	-	108	27,432	27,540
Own shares acquired	-	-	(596)	-	-	(596)
Disposal of own shares	-	-	762	-	(762)	-
Equity settled employee share scheme	16	1,373	-	-	1,904	3,293
Dividends to shareholders	-	-	-	-	(9,567)	(9,567)
Balance at 31 December 2005	3,361	31,679	(2,641)	(990)	53,647	85,056
Total recognised income and expense	**-**	**-**	**-**	**(3,847)**	**45,710**	**41,863**
Own shares acquired	**-**	**-**	**(513)**	**-**	**-**	**(513)**
Disposal of own shares	**-**	**-**	**462**	**-**	**(462)**	**-**
Equity settled employee share scheme	**17**	**1,501**	**-**	**-**	**569**	**2,087**
Dividends to shareholders	**-**	**-**	**-**	**-**	**(11,102)**	**(11,102)**
Balance at 31 December 2006	**3,378**	**33,180**	**(2,692)**	**(4,837)**	**88,362**	**117,391**

Cumulative goodwill written off directly to reserves is £33,294,000 (2005: £33,294,000). The share premium account represents the premium arising on the issue of equity shares.

24 Notes to the cash flow statement

	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

	2006 £'000	2005 £'000
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	**(65)**	(137)
Finance leases	**-**	(92)
Translation differences	**3,709**	(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)

24 Notes to the cash flow statement (continued)

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.

25 Guarantees and other financial commitments

a) Capital commitments

At the end of the year capital commitments were:

	2006 £'000	2005 £'000
Contracted but not provided	**573**	728

b) Lease commitments

At 31 December 2006, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2006 £'000	2005 £'000
Within one year	**4,385**	4,355
Between two and five years	**13,887**	12,642
After five years	**9,076**	8,934
	27,348	25,931

26 Retirement benefit schemes

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

Defined contribution schemes

The total cost charged to income in respect of the defined contribution schemes was £2,125,000 (2005: £1,910,000).

Defined benefit schemes

The UK defined benefit scheme was actuarially assessed at 31 December 2006 using the projected unit method. The Canadian defined benefit schemes were actuarially assessed at 31 December 2006 using the projected unit method.

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

	UK 2006	Canada 2006	UK 2005	Canada 2005
Discount rate	**5.2%**	**5.1%**	4.8%	5.1%
Inflation rate	**2.9%**	**3.0%**	2.5%	2.5%
Expected rate of salary increases	**4.15%**	**4.25%**	3.75%	3.75%
Future pension increases	**2.65%**	**2.75%**	2.25%	2.25%

26 Retirement benefit schemes (continued)

Amounts recognised in the income statement in respect of these defined benefit schemes are as follows:

	UK 2006 £m	Canada 2006 £m	Total 2006 £m	UK 2005 £m	Canada 2005 £m	Total 2005 £m
Current service cost	**(5.9)**	**(0.2)**	**(6.1)**	(3.9)	(0.2)	(4.1)
Interest on pension scheme liabilities	**(6.7)**	**(0.3)**	**(7.0)**	(6.1)	(0.3)	(6.4)
Expected return on pension scheme assets	**6.8**	**0.3**	**7.1**	5.2	0.2	5.4
	(5.8)	**(0.2)**	**(6.0)**	(4.8)	(0.3)	(5.1)

Of the change for the year, £3.6 million (2005: £2.3 million) has been included in cost of sales, £2.5 million in administrative expenses (2005: £1.8 million) and £0.1 million in investment revenue (2005: £0.9 million in finance costs).

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

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

	UK 2006 £m	Canada 2006 £m	Total 2006 £m	UK 2005 £m	Canada 2005 £m	Total 2005 £m
Fair value of scheme assets	**113.6**	**6.1**	**119.7**	95.2	4.6	99.8
Present value of scheme liabilities	**(148.7)**	**(6.1)**	**(154.8)**	(139.9)	(6.5)	(146.4)
Scheme deficit	**(35.1)**	**-**	**(35.1)**	(44.7)	(1.9)	(46.6)
Related deferred tax asset	**10.5**	**-**	**10.5**	13.4	0.6	14.0
Net pension liability	**(24.6)**	**-**	**(24.6)**	(31.3)	(1.3)	(32.6)

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

	UK 2006 £m	Canada 2006 £m	Total 2006 £m	UK 2005 £m	Canada 2005 £m	Total 2005 £m
Present value of obligation at 1 January	**(139.9)**	**(6.5)**	**(146.4)**	(111.5)	(4.8)	(116.3)
Service cost	**(5.9)**	**(0.2)**	**(6.1)**	(3.9)	(0.2)	(4.1)
Interest cost	**(6.7)**	**(0.3)**	**(7.0)**	(6.1)	(0.3)	(6.4)
Contributions from scheme members	**(0.4)**	**-**	**(0.4)**	(1.7)	-	(1.7)
Actuarial gains and losses	**1.9**	**0.1**	**2.0**	(19.2)	(0.4)	(19.6)
Exchange difference	**-**	**0.8**	**0.8**	-	(0.8)	(0.8)
Benefits paid	**2.3**	**-**	**2.3**	2.5	-	2.5
Present value of obligation at 31 December	**(148.7)**	**(6.1)**	**(154.8)**	(139.9)	(6.5)	(146.4)

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

	UK 2006 £m	Canada 2006 £m	Total 2006 £m	UK 2005 £m	Canada 2005 £m	Total 2005 £m
Fair value at 1 January	**95.2**	**4.6**	**99.8**	72.8	3.3	76.1
Expected return on scheme assets	**6.8**	**0.3**	**7.1**	5.2	0.2	5.4
Actuarial gains and losses	**8.5**	**0.6**	**9.1**	14.1	-	14.1
Exchange differences	**-**	**(0.8)**	**(0.8)**	-	0.6	0.6
Employer contributions	**5.0**	**1.4**	**6.4**	3.9	0.5	4.4
Employee contributions	**0.4**	**-**	**0.4**	1.7	-	1.7
Benefits paid	**(2.3)**	**-**	**(2.3)**	(2.5)	-	(2.5)
Fair value at 31 December	**113.6**	**6.1**	**119.7**	95.2	4.6	99.8

26 Retirement benefit schemes (continued)

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

	2006	2005
Expected return:		
Equities	**7.5%**	7.5%
Bonds	**4.6%**	4.1%
Other assets	**5.0%**	4.5%
Other policies	**7.5%**	7.5%

Scheme assets were as follows:

	UK 2006 £m	**Canada 2006 £m**	**Total 2006 £m**	UK 2005 £m	Canada 2005 £m	Total 2005 £m
Fair value:						
Equities	**99.3**	**3.7**	**103.0**	82.9	2.8	85.7
Bonds	**14.1**	**2.4**	**16.5**	12.1	1.8	13.9
Other assets	**0.2**	**-**	**0.2**	0.2	-	0.2
	113.6	**6.1**	**119.7**	95.2	4.6	99.8

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

	UK 2006 £m	**Canada 2006 £m**	**Total 2006 £m**	UK 2005 £m	Canada 2005 £m	Total 2005 £m
Actual return less expected return on pension scheme assets	**8.5**	**0.6**	**9.1**	14.1	-	14.1
Experience (losses)/gains arising on scheme liabilities	**(0.7)**	**0.5**	**(0.2)**	2.2	0.2	2.4
Changes in assumptions underlying the present value of the scheme liabilities	**2.6**	**(0.4)**	**2.2**	(21.3)	(0.7)	(22.0)
	10.4	**0.7**	**11.1**	(5.0)	(0.5)	(5.5)

Cumulative actuarial losses, net of deferred tax, recognised in the consolidated statement of recognised income and expense at 31 December 2006 were £3.2 million (2005: £11.1 million).

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

	2006 £m	2005 £m	2004 £m	2003 £m	2002 £m
Present value of defined benefit obligations	**(154.8)**	(146.4)	(116.3)	(96.1)	(81.2)
Fair value of scheme assets	**119.7**	99.8	76.1	66.8	52.0
Scheme deficit	**(35.1)**	(46.6)	(40.2)	(29.3)	(29.2)
Experience adjustments on scheme liabilities	**(0.2)**	2.5	(1.6)	1.4	1.3
Percentage of scheme liabilities	**0.1%**	1.7%	1.4%	1.5%	1.5
%Experience adjustment on scheme assets	**9.1**	13.9	2.1	5.4	(17.5)
Percentage of scheme assets	**8.0%**	14.0%	2.5%	8.1%	32.3%

The amount of contributions expected to be paid to defined benefit schemes during the 2007 financial year is £5,300,000.

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

Current pensioners	92 Series tables projected to 2004
Future pensioners	92 Series tables projected to 2020

26 Retirement benefit schemes (continued)

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

	2006	2005	2004
Current pensioners (at 65) – males	**18.4 years**	18.4 years	18.4 years
Current pensioners (at 65) – females	**21.4 years**	21.4 years	21.4 years
Future pensioners (at 65) – males	**19.9 years**	19.9 years	19.9 years
Future pensioners (at 65) – females	**22.8 years**	22.8 years	22.8 years

27 Related party transactions

During the year, the Group raised sales invoices to a value of £167,000 (2005: £509,000) to Interpacific Technologies Limited that were made under normal commercial terms. Amounts owed by Interpacific Technologies Limited to the Ultra Group at 31 December 2006 were £209,000 (2005: £111,000). Ultra owns 40% of Interpacific Technologies Limited.

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

a) Basis of accounting

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

At the date of authorisation of these financial statements, the following Standards and Interpretations, which have not been applied in these statements, were in issue but not yet effective:

IFRS 7 Financial Instruments: disclosures

IFRS 8 Operating segments[1)]

IFRIC 7 Applying the restatement approach under IAS 29

IFRIC 8 Scope of IFRS 2

IFRIC 9 Reassessment of embedded derivatives

IFRIC 10 Interim financial reporting and impairment

IFRIC 11 IFRS 2: group and treasury share transactions

IFRIC 12 Service concession arrangements[2)]

[1)]May not be adopted prior to endorsement, expected in June 2007

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

The Directors do not anticipate that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Group.

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

b) Basis of consolidation

The consolidated financial information includes the results, cash flows and assets and liabilities of Ultra Electronics Holdings plc ("the Company") and its subsidiaries (together, "the Group").

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

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

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

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

c) Goodwill

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

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

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

d) Revenue recognition

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

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

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

e) Long-term contracts

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

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

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

f) Foreign currency

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

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

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

g) Government grants

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

h) Retirement benefit costs

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

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

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

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

i) 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.

j) Other intangible assets

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

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

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

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

k) 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.

l) Property, plant and equipment

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

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

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

Freehold land is not depreciated.

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

m) Leases

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

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

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

n) 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.

o) 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.

p) Bank loans and overdrafts

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

q) Share-based payments

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

r) Provisions

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.

s) Taxation

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

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

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

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

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

t) Derivative financial instruments

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.

As permitted by IFRS 1 (paragraph 36a), Ultra has elected to apply IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" prospectively from 1 January 2005.

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

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

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

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

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

u) Critical accounting judgements and key sources of estimation uncertainty

CONTRACT REVENUE AND PROFIT RECOGNITION

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

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

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 have transferred to the customer.

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

RETIREMENT BENEFIT PLANS

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

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

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

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

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

INTANGIBLE ASSETS

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

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

To the members of Ultra Electronics Holdings plc

We have audited the individual Company financial statements (the "Company financial statements") of Ultra Electronics Holdings plc for the year ended 31 December 2006 which comprise the Company balance sheet, the related notes 28 to 37 and the statement of accounting policies for the Company. These Company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration report that is described as having been audited.

We have reported separately on the Group financial statements of Ultra Electronics Holdings plc for the year ended 31 December 2006.

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

Respective responsibilities of Directors and Auditors

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

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

We report to you our opinion as to whether the Company financial statements give a true and fair view in accordance with the relevant framework and whether the Company financial statements and the part of the Directors' Remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We report to you whether, in our opinion, the information given in the Directors' report is consistent with the Company financial statements. The information given in the Directors' report includes that specific information presented in the Operating and Financial Review that is cross referred from the Directors' report. We also report to you, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' Remuneration and other transactions is not disclosed.

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

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

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

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

Basis of audit opinion

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

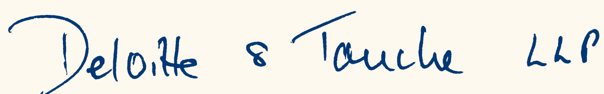
Basis of audit opinion (continued)

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

Opinion

In our opinion:

- the Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006;
- the Company financial statements and the part of the Directors' Remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London, England
23 February 2007

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

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

Company balance sheet

31 December 2006

	Note	**2006 £'000**	2005 £'000
Fixed assets			
Tangible assets	*28*	**208**	43
Investments	*29*	**150,594**	159,785
		150,802	159,828
Current assets			
Debtors: Amounts falling due within one year	*30*	**1,222**	20,035
Debtors: Amounts falling due after more than one year	*30*	**-**	6,978
Cash at bank and in hand		**-**	2
		1,222	27,015
Creditors: Amounts falling due within one year	*32*	**(49,289)**	(45,953)
Net current liabilities		**(48,067)**	(18,938)
Total assets less current liabilities		**102,735**	140,890
Creditors: Amounts falling due after more than one year	*33*	**(46,169)**	(88,819)
Net assets		**56,566**	52,071
Capital and reserves			
Called-up share capital	*34*	**3,378**	3,361
Share premium account	*35*	**33,180**	31,679
Profit and loss account	*35*	**22,700**	19,672
Own shares	*36*	**(2,692)**	(2,641)
Equity shareholders' funds		**56,566**	52,071

On behalf of the Board

D. Caster, *Chief Executive*

D. Jeffcoat, *Finance Director*

23 February 2007

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

28 Tangible fixed assets

	Plant and machinery £'000
Cost	
At 1 January 2005	263
Additions	24
At 1 January 2006	287
Additions	184
At 31 December 2006	**471**
Accumulated depreciation	
At 1 January 2005	230
Charge	14
At 1 January 2006	244
Charge	19
At 31 December 2006	**263**
Net book value	
At 31 December 2006	**208**
At 31 December 2005	43

29 Investments

a) Principal subsidiary undertakings

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

Name	Place of registration or incorporation
Ultra Electronics Limited	England and Wales
Ultra Electronics Holdings (USA) LLC	USA
Ultra Electronics Canada Defence Inc	Canada

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

b) Investment in subsidiary undertakings

	Total 2006 £'000
Cost	
At 1 January 2006	**159,785**
Reclassification	**9,503**
Foreign exchange differences	**(7,520)**
Additions	**4,333**
Redemption of long-term loans	**(9,673)**
Disposals	**(5,834)**
At 31 December 2006	**150,594**
Net book value	
At 31 December 2006	**150,594**
At 31 December 2005	159,785

Disposals relate to a reduction in the share capital of Ultra Electronics Canada Defence Inc.

30 Debtors

	2006 £'000	2005 £'000
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**-**	19,560
Deferred tax assets	**998**	19
Other debtors	**203**	423
Prepayments and accrued income	**21**	33
	1,222	20,035
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	**-**	6,967
Other debtors	**-**	11
	-	6,978

31 Deferred tax

Movements in the deferred tax asset were as follows:

	2006 £'000	2005 £'000
Beginning of year	**19**	24
Credit/(debit) to the profit and loss account	**987**	(5)
Debit to equity	**(8)**	-
	998	19

(Accelerated)/deferred tax balances are analysed as follows:

	2006 £'000	2005 £'000
Deferred capital allowances	**(2)**	6
Other timing differences relating to current assets and liabilities	**1,000**	13
Deferred tax asset	**998**	19

These balances are shown as follows:

	2006 £'000	2005 £'000
Debtors: Amounts falling due within one year	**998**	19

32 Creditors: Amounts falling due within one year

	2006 £'000	2005 £'000
Bank loans and overdraft	**26,525**	40,577
Amounts owed to subsidiary undertakings	**21,557**	3,590
Other creditors:		
– VAT	**-**	95
– social security and PAYE	**157**	176
– other creditors	**353**	150
Accruals and deferred income	**697**	1,365
	49,289	45,953

33 Creditors: Amounts falling due after more than one year

	2006 £'000	2005 £'000
Bank loans	**32,722**	74,367
Amounts owed to subsidiary undertakings	**13,447**	14,452
	46,169	88,819

The bank loans are unsecured and due for repayment in 4 years. Interest is charged at 0.375% over base rate.

Borrowings fall due as analysed below:

	2006 £'000	2005 £'000
Bank loans and overdraft		
In one year or less, or on demand	**26,525**	40,577
In more than one year but less than five years	**32,998**	74,708
	59,523	115,285
Less: unamortised finance costs of debt	**(276)**	(341)
	59,247	114,944
Less: included in Creditors: Amounts falling due within one year	**(26,525)**	(40,577)
Less: included in Creditors: Amounts falling due after more than one year	**(32,722)**	(74,367)
	-	-

34 Called-up share capital

	2006		2005	
	No.	**£'000**	No.	£'000
Authorised:				
5p ordinary shares	**90,000,000**	**4,500**	90,000,000	4,500
Allotted, called-up and fully paid:				
5p ordinary shares	**67,557,441**	**3,378**	67,221,085	3,361

336,356 ordinary shares having a nominal value of £16,818 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received by the Company was £1,517,648.

35 Reserves

	Share premium £'000	Profit and loss account £'000
Beginning of year	31,679	19,672
Disposal of own shares	-	(462)
Share based payments	-	253
Retained profit for the year	-	14,339
Dividends paid	-	(11,102)
Issue of new shares	1,501	-
End of year	**33,180**	**22,700**

Further details in respect of dividends are presented in note 9 to the Group financial statements.

36 Own shares

	Long-Term Incentive Plan shares £'000
Cost	
Beginning of year	(2,641)
Additions	(513)
Disposals	462
End of year	**(2,692)**

The Company holds 491,740 own shares (2005: 545,663).

37 Guarantees and other financial commitments

Lease commitments

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

	Plant and machinery 2006 £'000	Plant and machinery 2005 £'000
Operating lease rentals which expire		
– within one year	**20**	12
– between two to five years	**10**	10
	30	22

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

a) Basis of accounting

The Company accounts have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards. During 2005, the Company adopted FRS 20 and 21 which reflect the accounting treatment contained within IFRS 2 share based payments and IAS 10 post balance sheet events.

No profit and loss account is presented for the Company, as permitted by section 230 of the Companies Act 1985. The Company's retained profit for the year is disclosed in note 35.

b) Fixed assets and depreciation

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

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

Plant and machinery	3 to 20 years
IT hardware and software	3 to 5 years

c) Taxation

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

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

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

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

d) Retirement benefit costs

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

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

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

Certain employees and Directors participated in the UK defined benefit scheme operated by Ultra Electronics Limited. Paragraph 9(b) of FRS 17 allows for a defined benefit scheme to be accounted for as a defined contribution scheme where there are multi-employers and one employer is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis. The Ultra Electronics Limited defined benefit scheme has been accounted for on this basis. The deficit in the scheme at 31 December 2006 was £35.1 million (2005: £44.7 million). Further disclosures in relation to this pension scheme are given in note 26 to the financial statements.

e) Investment

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

f) Foreign currency

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

g) Leases

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

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

h) Share-based payments

The Company has applied the requirements of FRS 20 to all grants of equity instruments after 7 November 2002 that were unvested as of 1 January 2005. 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 22.

Shareholder analysis

31 December 2006

By category of shareholder

	Shares held	
	Number '000	% share capital
Unit trusts	**27,599**	**41**
Pension funds	**15,602**	**23**
Insurance companies	**6,160**	**9**
Private investors	**3,548**	**5**
Investment trusts and other funds	**2,022**	**3**
Charities	**1,447**	**2**
Other	**11,179**	**17**
	67,557	**100**

By size of holding

	Holders		Shares held	
	Number	% of holders	Number '000	% share capital
1-100	**120**	**8**	**7**	**-**
101-500	**508**	**33**	**137**	**-**
501-1,000	**272**	**18**	**203**	**-**
1,001-5,000	**304**	**20**	**615**	**1**
5,001-10,000	**52**	**3**	**383**	**1**
10,001-50,000	**117**	**8**	**2,571**	**4**
50,001-100,000	**47**	**3**	**3,332**	**5**
100,001 and over	**106**	**7**	**60,309**	**89**
	1,526	**100**	**67,557**	**100**

Financial calendar

13 April 2007	Record date for 2006 final dividend
27 April 2007	Annual General Meeting
4 May 2007	2006 final dividend paid
30 July 2007	Interim results announced
September 2007	2007 interim dividend paid

Five year review

	UK GAAP		IFRS		
	Restated 2002 £m	Restated 2003 £m	2004 £m	2005 £m	**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 flow 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**

[1] Before amortisation of goodwill and amortisation of intangibles arising on acquisition.

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

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

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

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