Ultra Electronics Holdings plc Annual Report and Accounts **2006**

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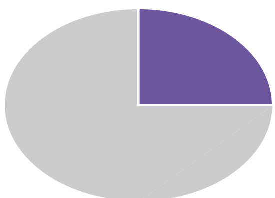
ELECTRONICS

# Ultra at a Glance

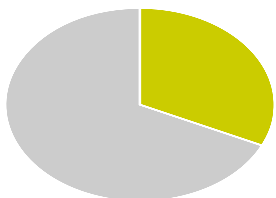
Ultra Electronics is a defence and aerospace company specialising in the design, manufacture and support of electronic and electro-mechanical systems, sub-systems, products and services for aircraft, ships, submarines, armoured vehicles, surveillance and communication systems, airports and transport systems.

It is organised into three divisions:

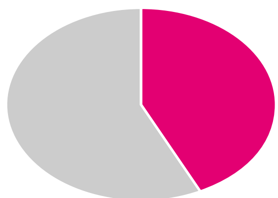
| | Aircraft & Vehicle Systems | Information & Power Systems | Tactical & Sonar Systems |
|---|---|---|---|
| Major activities | Airframe ice protection systems; Active noise and vibration control; Airframe system electronics; High-integrity data bus network nodes; Armoured vehicle electronic systems; Collaborative working environment solutions; High integrity software and systems; HiPPAG airborne compressors; Specialist pneumatic sub-systems; Human/ machine interface equipment; Manned and unmanned vehicle control equipment; Remote weapon station control equipment; Combat mission control equipment; Rugged aircraft harness systems | Airport information management systems; Airport-wide systems integration; Combat systems; Land mine countermeasure systems; Command, control and information systems; Nuclear reactor control and instrumentation; Nucleonic sensors; Data fusion systems; Local situational awareness systems; ID card printers; Radar and electro-optic systems; Surveillance and tracking systems; Naval power conversion; Gas turbine electric start and regeneration systems; Signature measurement and control systems for naval vessels; Transit system power conversion and controls | Anti-submarine warfare systems and equipment; Communications network interfacing equipment; Cryptographic equipment; Data link communication systems; Airborne targeting pods; Loitering munition systems; Radio communication systems; Submarine tactical communication systems; Voice and data communication systems; Airborne anti-submarine warfare systems; Autonomous underwater surveillance systems; Sea mine disposal systems; Sonar systems; Torpedo defence systems; Underwater acoustic countermeasures |
| Businesses | **Controls**■<br>**Datel**■<br>**Electrics**■<br>**Measurement Systems Inc.**▲<br>**Precision Air Systems**■ | **Advanced Tactical Systems**▲<br>**Airport Systems**■<br>**Command & Control Systems**■<br>**EMS**▲<br>**Manufacturing & Card Systems**■<br>**PMES**■<br>**SML Technologies**■ | **Audiopack**▲<br>**DNE Technologies**▲<br>**Flightline Systems**▲<br>**Maritime Systems**▲<br>**Ocean Systems**▲<br>**Sonar & Communication Systems**■<br>**Tactical Communication Systems**▲<br>**Undersea Sensor Systems Inc**▲ |
| Number of employees | **670** | **1,110** | **1,200** |
| Major customers | BAE Systems<br>Boeing<br>Bombardier<br>Cobham<br>EADS<br>Finmeccanica<br>General Dynamics<br>UK MoD<br>United Technologies<br>US DoD | BAA<br>BAE Systems<br>British Energy<br>BP<br>EADS<br>General Dynamics<br>Lockheed Martin<br>Rolls-Royce<br>UK MoD<br>US DoD | Australian DoD<br>Avon<br>BAE Systems<br>Boeing<br>Canadian DND<br>Cubic<br>Korean DoD<br>Scott<br>UK MoD<br>US DoD |
| Revenue | **£93.9m 25%** | **£120.5m 32%** | **£162.6m 43%** |



(2005: £84.4m 25%)



(2005: £117.3m 34%)



(2005: £140.7m 41%)

▲Businesses in North America
■Businesses in the United Kingdom

Contents

# Financial Highlights

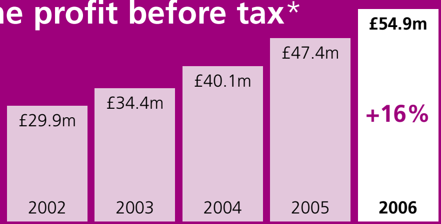
## Revenue


**£377.0m**
(2005: £342.4m)

## Operating profit*

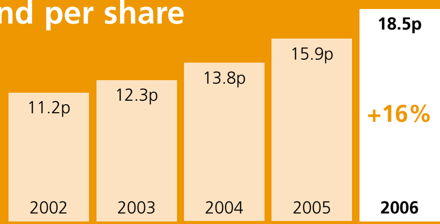

**£57.5m**
(2005: £51.1m)

## Headline profit before tax*



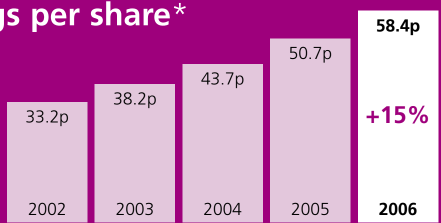

**£54.9m**
(2005: £47.4m)

## Dividend per share



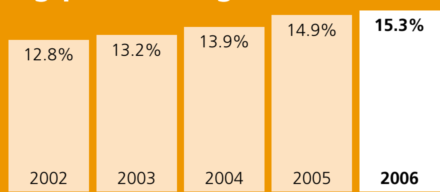

**18.5p**
(2005: 15.9p)

## Earnings per share*




**58.4p**
(2005: 50.7p)

## Operating profit margin*




**15.3%**
(2005: 14.9%)

*footnote

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

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

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

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

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

# Chairman's Overview

Dr Julian Blogh, Chairman

Ultra made excellent progress in 2006, achieving strong growth in revenue and profits. The Group's performance reflected increased contributions from its specialist activities in battlespace IT, airport IT systems and underwater battlespace systems and equipment. Contributions were made by the acquisitions completed in 2005 and the two further small acquisitions made during 2006. Several important contracts were secured during 2006, including positions on new programmes that will support further growth of the Group.

**Order book**

17% growth

**£584m**

(2005: £501m)

These record results reflect the continuing success of Ultra's strategy of gaining strong market positions through being a niche supplier of electronic systems, products and services in growing sectors within the defence and aerospace markets. The resilience of Ultra's financial performance is derived from the Group's broad mix of activities within its twenty businesses. Ultra's ability to combine its niche capabilities enables it to win contracts for complex integrated systems, often involving a number of different Group businesses. Increasingly, Ultra teams with international, world-class partners to access "best of breed" technology. The Group undertakes specialist system and sub-system design and integration, again often using the combined expertise of the Group businesses. The Group has a reputation for successful programme execution, culminating in innovative solutions utilising differentiated technologies delivered on-time to its customers. Ultra's spread of businesses across North America and the UK also enables it to address specific national requirements where a sovereign operational capability must be maintained.

The Group's structure of three divisions with individual businesses addressing specific niche areas under the control of empowered management teams enables it to operate in a flexible and agile way. Ultra's businesses constantly pursue product and process innovation and this places Ultra in a strong position to provide and deliver differentiated products, services and solutions to meet customer requirements. Consequently, the Group sustains leadership positions in niche markets where its technological innovation creates a clear competitive advantage.

Revenue at £377m grew by 10% with the Tactical & Sonar Systems division showing the strongest growth. Operating profit* increased by 13% over the previous year's achievement to £57.5m. This was despite the £4.8m negative impact of weaker exchange rates. At constant currencies year-on-year operating profit* growth would have been 22%. Earnings per share* at 58.4p increased by 15% reflecting lower net bank interest charges and a slightly higher effective tax rate for 2006 than in the prior year. The high quality of these earnings was underscored by good cash generation, reflecting management's continuing focus on this important performance indicator. The conversion of operating profit* to operating cash flow* in the year was 98%. Over the last five years the Group's

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*see footnote on page 01

**Earnings per share***

**15% growth**

**58.4p** (2005: 50.7p)

**Total dividend per share**

**16% growth**

**18.5p** (2005: 15.9p)

average cash conversion* has been 110%. Consequently, net debt* at the year-end was just £7.2m. The Board will be recommending a final dividend of 12.6p per share, making a total for the year of 18.5p, a 16% increase over 2005.

The acquisitions of Polyflex Aerospace Ltd. and Winfrith Safety Systems were completed in the year. Polyflex, now fully integrated into Ultra's Precision Air Systems business, supplies a broad range of innovative components and sub-systems for high integrity defence and aerospace applications. Winfrith supplies specialist sensors and associated cables for use within nuclear reactors. The products have both civil and military applications and complement Ultra's existing reactor control and instrumentation development activity. Winfrith is now part of the Group's Command & Control Systems business.

In Ultra's main defence markets worldwide, expenditure is increasing on the repair, upgrade and replacement of equipment used in current military operations. This is continuing to exert pressure on defence budgets: however, the absolute level of defence expenditure is still rising. Electronic solutions to provide 'smarter' equipment continue to attract a significant and rising proportion of these budgets. Expenditure is increasing on battlespace IT systems and equipment to provide better situational awareness, target acquisition, command and control and the delivery of the required military effects with a high degree of accuracy. Funds are being spent on equipping and protecting modern armed forces to allow the rapid deployment of light, mobile troops anywhere in the world. Ultra's strategy has successfully positioned the Group to benefit from these trends.

In the civil markets, aerospace remains buoyant and healthy demand continues both for sales of original equipment and for aftermarket spares and repairs. Development programmes for new aircraft types provide Ultra with opportunities to win positions for its innovative solutions. The Group's decision to invest in the 787 programme is validated by Boeing's achievement of 435 firm orders for the aircraft by the end of 2006. The growth in passenger air travel is strong, especially in those areas of the world where rapid population growth is combined with rising disposable incomes. This drives increasing demand for new infrastructure including airport IT systems.

Ultra's performance in 2006 extends its long track record of continuous progress and the Group enters 2007 with a record order book and a strong balance sheet. Ultra has the funds to make further acquisitions that will enhance and complement the Group's range of niche activities in growing market sectors. The Group pursues good quality businesses that can be acquired at sensible prices and to which Ultra's ownership will add value. The record order book of over £580m represents a good increase in the year and provides Ultra with its customary level of earnings visibility. It reflects the Group's strong positions on existing platforms as well as its success in winning positions on new programmes. Despite the growth of Ultra, it remained the case that no single programme contributed more than 5% of sales in the year. This underpinned the resilience of the Group's performance.

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

Finally I would like to thank all Ultra employees for their hard work and continuing commitment, which have made such important contributions to the success of the Group.

**Dr Julian Blogh, Chairman**

*see footnote on page 01

# Chief Executive's Overview

Douglas Caster, Chief Executive

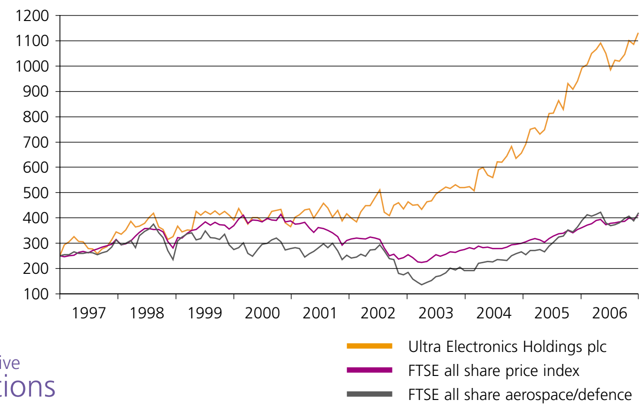
**Total shareholder return**
compound average growth rate over 10 years

**18%**
calculated since flotation in 1996

In October 2006 Ultra celebrated the tenth anniversary of its flotation on the London Stock Exchange. The long-term strategies that Ultra has pursued have enabled the Group to achieve an annual 18% compound total shareholder return over the ten-year period since flotation. The chart below shows how Ultra's share price has outperformed the overall market and the Group's aerospace and defence peers over the last ten years. This achievement is consistent with Ultra's objective of outperforming the market in terms of annual increases in shareholder value by delivering above average annual increases in earnings.

Last year's annual report and accounts briefly summarised Ultra's strategies to achieve this objective. These are expanded more fully opposite:

Ultra share price – ten year performance




**1 To concentrate on aerospace and defence**
The Group's core competencies, domain knowledge, and market positions give it particular credibility in the aerospace and defence sector worldwide. Core competencies include market positioning to capture large contracts, the management of complex development programmes where risks need careful identification and control, manufacturing and aftermarket support over long timescales and the discipline to meet our commitments. The strategy is to increase the capability of the Group to allow adjacent market sectors that exhibit growth to be served.

**2 To be a niche player where the Group has competitive advantage through technology or market position**
Within the Group's twenty businesses, over eighty niches can be identified where the aim is to sustain competitive advantage and achieve a world-leading position. The Group values its portfolio of niches, since each offering can be defended against competition through barriers to entry resulting in the potential for superior financial performance. Furthermore these niches provide a high level of resilience for the Group in the face of technological changes or funding cut backs. This wide spread gives the Group low dependency on any single programme or platform.

**3 To offer a through-life product and service portfolio that includes systems, sub-systems, products and components**
The Group values any position within the supply chain that is held by any particular niche. Frequently, more attractive margins can be generated by providing components than by supplying entire systems. Broadening the scope of the offering from components and products to sub-systems, systems and through-life management is appropriate as this allows Ultra to retain its rank in the supply chain despite our prime contractor customers' desire to reduce the number of direct suppliers. Ultra prefers to retain a leading niche position rather than move into the supply of systems with the hope of higher added value. The scope of Ultra's offering is determined after a rigorous strategic review.

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*see footnote on page 01

**Operating margin***

# 15.3%

(2005: 14.9%)

**Operating cash conversion***

# 98%

(2005: 105%)

**4 To grow organically and by acquisition**

Each Ultra business has a contribution to make to the organic growth of the Group, as well as identifying well matched acquisition targets. To ensure that organic growth is achieved, businesses produce annual five-year strategic plans that target specific opportunities. The focus on cash generation is a key driver to the affordability of suitable acquisitions to augment the Group's growth rate.

**5 To have an efficient organisation with committed and competent people**

Ultra seeks to maximise efficiency throughout its organisation. The levels of commitment and competency of business management teams is continuously assessed through strategic, budget, organisation and succession, and regular business performance reviews. The Group places a high degree of trust in, and has high expectations of, its senior staff and supports their development and improvement activities. Ultra empowers management teams to run their respective businesses to deliver agreed strategies, meet budgets and continuously to develop their people. Ultra rewards good performance through career development, bonuses and share options. The Group's culture defines work as 'serious but fun'.

**6 To be an excellent and strategic supplier to our customers**

Having established an initial relationship with customers by offering innovative solutions, businesses are expected to maximise these positions for the long term. This is achieved by nurturing relationships through sustained on-time delivery of high quality products and services. Businesses often create strategic relationships rather than arms-length customer-supplier relationships by offering long-term support or through-life solutions. Many of the Group's niche offerings involve the design and supply of complex products and services which are typically safety or performance-critical in their application. This creates a dependency from the customer's perspective and encourages a long-term strategic relationship.

**7 To gain competitive advantage by internal and external teaming**

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

**8 To meet our commitments**

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

Ultra's success has been achieved by positioning its products and services on a broad range of international platforms and programmes. This positioning is created by applying the above strategies to ensure that Ultra's offerings are differentiated from those of the competition in a way that the customer values. Focus is sustained on creating and maintaining this differentiation in the future and on continuing to provide innovative solutions to satisfy evolving customer requirements.

*see footnote on page 01

# Aircraft & Vehicle Systems

**19%**

**Buoyant civil aerospace**
Ultra's sales of equipment for civil aircraft rose by 19% in 2006, the Group's fastest growing product category

# innovative solutions

Ultra, in partnership with GKN Aerospace, is developing the innovative electro-thermal ice protection system solution for the wings of Boeing's new 787 "Dreamliner" aircraft. This team is also developing a similarly innovative solution for the intake ice protection of the Pratt & Whitney engine that powers the new US Joint Strike Fighter aircraft

**= new** customer… **+ new** technology… **+ new** platform

Ultra has repeatedly demonstrated its ability to design innovative solutions to meet urgent military operational requirements. It delivered systems to enhance the all-round vision of armoured vehicle crews when operating 'under armour'. Ultra also supplies innovative electrical power management systems that improve the operational effectiveness of armoured vehicles.

**= new** platform

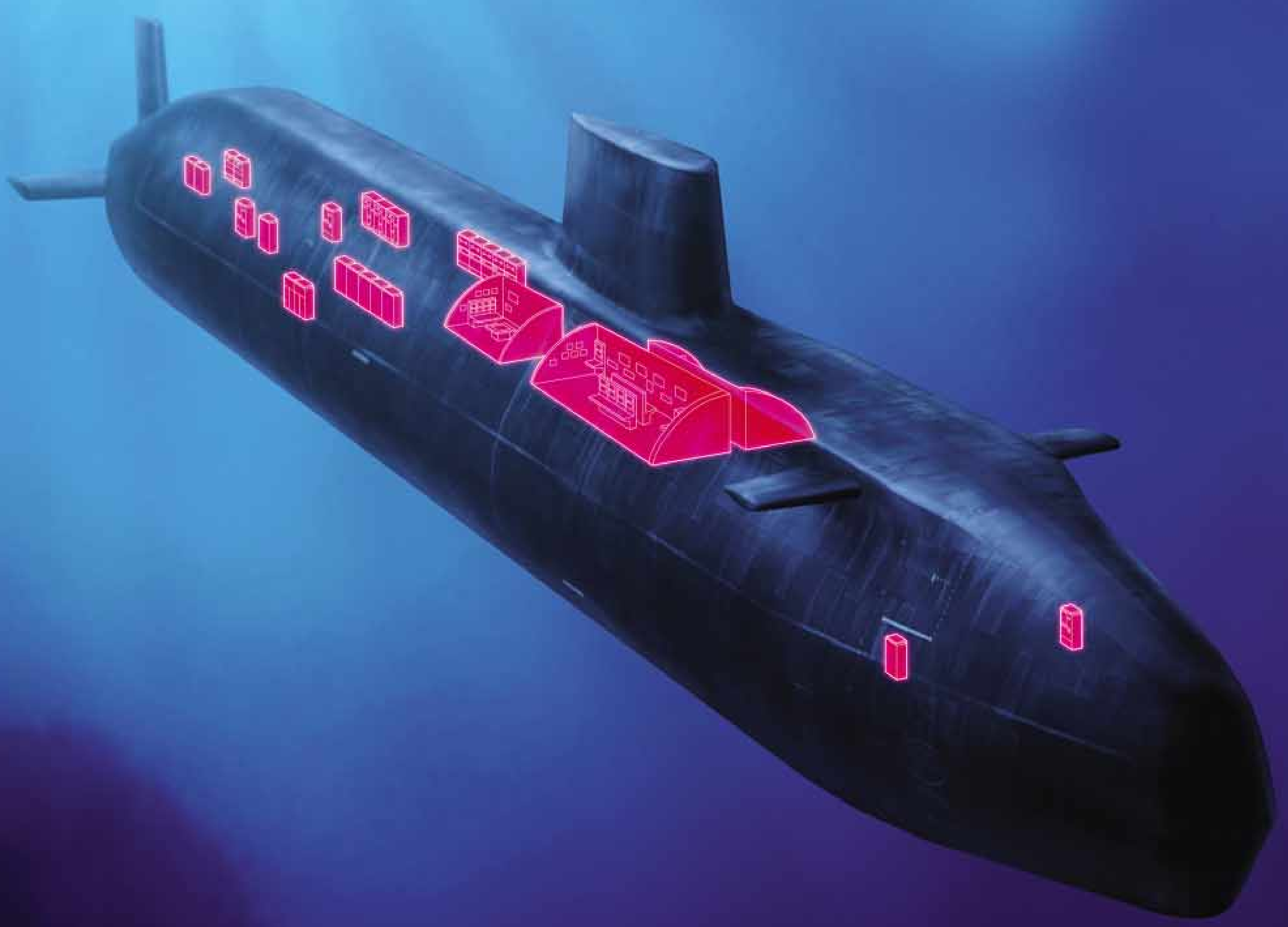
Each Airbus A400M military transport aircraft will contain innovative system solutions from Ultra. Active noise and vibration cancellation systems will reduce the aircraft's internal noise considerably. In the hold, Ultra's innovative electronic network nodes will reduce the weight and improve the reliability of the cargo handling system.

**= new** technology…
**+ new** platform

# Information & Power Systems

**£20m**

**Astute submarine equipment**
The value of Ultra equipment on each additional Astute submarine will exceed £20m



# consistent delivery

Ultra's broad range of equipment on each Astute submarine will deliver consistent electrical power for the boat's main systems such as emergency propulsion and signature management, consistent readiness of the weapon suite incorporating the latest version of the Tomahawk cruise missile, and consistent control and instrumentation of the boat's operation, including the nuclear reactor

**= new** technology… **+ new** platform

In 2006, Ultra's passenger baggage tracking system at London Heathrow coped with the increased volume of checked bags that resulted from the enhanced terrorist threat. A record of consistently delivering above-target levels of customer satisfaction helped Ultra's selection to provide fully-managed airport IT services at Dublin and Minneapolis St Paul airports.

**= new** customers

Ultra has a world-leading ability to fuse data from different tactical sources to provide a coherent local airspace picture showing friendly and hostile elements. Ultra has supplied systems that consistently deliver local situational awareness to ground commanders in Afghanistan and Iraq.

**= new** capability
**+ new** programme

# Tactical & Sonar Systems

## £60m

**Airborne battlespace IT**
Ultra received contracts worth over £60m in 2006 to supply the RAF's supersonic jets with the Litening targeting pod

# winning performance

Winning in modern warfare requires an ability to acquire, track and designate small, mobile ground targets. Ultra, teamed with Rafael, is providing the RAF's supersonic jets with such a ground-attack capability. Ultra successfully upgraded and integrated the latest generation of targeting and surveillance pod on Eurofighter Typhoon and on Tornado aircraft

**= new** capability

Small, highly mobile targets will be identified by unmanned aerial vehicles and other surveillance assets. Ultra will undertake a concept demonstration of an air vehicle that can loiter above enemy-held territory and have the ability to attack such time-critical targets – a potentially winning capability in modern warfare.

**= new** capability
**+ new** technology
**+ new** platform

The excellent in-service performance of Ultra's line-of-sight tactical radios has helped it win further large contracts for their supply. The capacity of the radios has been enhanced so that they can keep up with the insatiable demand for the transmission of ever increasing volumes of information.

**= new** capability
**+ new** technology

# Key Performance Indicators

| | Performance indicator | Definition | 2006 result |
|---|---|---|---|
| **1** | Revenue growth | Growth in total Group revenue compared to the prior year. | 10% |
| **2** | Profit growth | Growth in Group profit before tax, amortisation of intangibles arising on acquisition and fair value movement on derivatives compared to the prior year. | 16% |
| **3** | Order book visibility | Order cover for next financial year as percentage of market consensus sales forecast for the year. | 61% cover for 2007 on consensus sales of £406m |
| **4** | Growth in earnings per share over a three year period. | Growth in earnings per share, before amortisation of intangibles arising on acquisition and fair value movement on derivatives, calculated over a rolling three year period. | 52% |
| **5** | Cash conversion | Net cash from operating activities, less net purchases of property, plant and equipment, less expenditure on product development and LTIP purchases, expressed as a percentage of profit from operations before amortisation of intangibles arising on acquisition. | 98% |
| **6** | Interest cover | The ratio of profit from operations before amortisation of intangibles arising on acquisition to finance costs associated with bank borrowings. | 22 times |
| **7** | Relative total shareholder return | Annual total shareholder return (capital growth plus dividends paid, assuming dividends reinvested) over a rolling three year period compared to the FTSE 250 index. | +2% per annum |

The indicators shown above have been identified by the Directors as giving the best overall indication of the Group's long-term success. **Revenue growth** gives a quantified indication of the rate at which the Group's business activity is expanding. **Order book visibility**, based upon expected sales during the year to come, gives the Board confidence as to the achievement of future growth forecasts. A satisfactory **profit growth** trend confirms that additional revenue is being gained without profit margins being compromised. It also indicates that the additional contribution to profits from new acquisitions is greater than the extra financing costs associated with those acquisitions. A key objective of the Board is to increase **earnings per share** at a faster rate than other similar quoted companies in the UK. If successful this should ensure that investors will continue to hold Ultra's shares, rather than those of its peers. The Directors aim to manage the Group so that it continues to generate high levels of cash, which can be then be reinvested in the business in the form of acquisitions. The Board uses **operating cash conversion** as a simple yet reliable measure of cash generation, which represents the major element of the Group's short-term incentive bonus scheme. Whilst free cash will continue to fund Ultra's expansion by acquisition, it is important to ensure that the balance sheet remains sufficiently strong and that the cost of carrying additional debt does not become too high. **Interest cover** is a reliable indicator of balance sheet strength. Finally, it remains the overriding objective of the Board to provide shareholders with a long-term return on their investment in Ultra that exceeds that of other potential equity investments with a similar risk profile. **Total shareholder return** is a suitable measure, as compared to the overall population of FTSE 250 companies.

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*see footnote on page 01

# Operating & Financial Review

**110%**

**Operating cash* performance**
Over the last five years, the Group's average cash conversion* has been 110%, reflecting the high quality of Ultra's earnings

**£35.4m**

**Investment in 2006**
Ultra invested a total of £35.4m in acquisitions, R&D, capital expenditure and new business development

## Ultra and its market environment

Ultra Electronics is a group of specialist businesses offering a through-life product and service portfolio that includes systems, sub-systems, products and components for defence, security, aerospace and transport applications. Ultra's products and services are used on aircraft, ships, submarines, armoured vehicles, surveillance and communication systems, airports and transport systems around the world.

In Ultra's main defence markets, budgets continue to rise. There is a growing emphasis on electronic systems for military platforms to provide smart capability. Increasingly funds are being spent on equipment for surveillance to provide improved military intelligence and on battlespace IT systems to disseminate it in order to achieve information superiority over opponents. Systems that enable precision attack to minimise collateral damage are also being procured and there is an increasing emphasis on the ability to prosecute time-critical targets. The continuing operations in Iraq and Afghanistan are providing opportunities in the UK and North America to provide equipment to satisfy urgent operational requirements and to replace or refurbish worn-out equipment. In the future fewer new platforms will be procured but existing platforms will be upgraded with smarter capabilities through the integration of enhanced electronic solutions. Ultra has pursued a strategy that has positioned the Group to benefit from these trends and constantly seeks opportunities to offer innovative solutions to meet customer needs. With its North American and UK supply bases and its proven ability to achieve technology transfer, Ultra can also benefit from the increasing trend for national governments to maintain sovereign operational independence for their armed forces by offering in-country manufacture and through-life support services.

The threat from international terrorism has increased the need for greater protection of economically important assets. Homeland security spending is increasing on surveillance systems for harbours, borders and coastlines and important civil infrastructure installations. Demand is also increasing for economic exclusion zone enforcement capabilities such as offshore patrol vessels.

In civil markets, aerospace remains healthy with both Airbus and Boeing benefiting from large order backlogs and increasing their build rates, thereby driving demand for sales of original equipment. High aircraft utilisation driven by greater demand for air travel as a result of growing populations with higher disposable incomes is also increasing after-market spares and repair activity. The relatively high price of oil is causing a shift in demand from turbo-jet regional aircraft to more fuel efficient turbo-prop aircraft where Ultra has the opportunity to supply cabin quietening systems. The worldwide increase in air travel encourages continuing investment in enhanced airport infrastructure including IT systems.

## Ultra's strategies for achieving the objective

The Board's prime objective continues to be to outperform the market in terms of annual increases in shareholder value by delivering above average increases in earnings, and by communicating effectively with shareholders and the financial community generally.

Ultra's strategies to achieve this objective are outlined in the Chief Executive's overview on pages 4 and 5 of this report. Ultra believes that sustainable success is derived from a focus on positioning its products and services on a broad range of major international platforms and programmes. Such successful positioning is achieved by ensuring that Ultra's offerings are differentiated from those of the competition in a manner that the customer values. Focus will be sustained on creating and maintaining this differentiation in the future and on continuing to provide innovative solutions to satisfy customer requirements.

Ultra's success is underpinned by its investment strategy. Ultra has a demonstrated expertise in identifying investment opportunities that deliver growth, either within existing businesses or by acquiring businesses which complement and broaden the Group's portfolio of products and services. During 2006 Ultra invested a total of £35.4m (2005: £61.2m) in acquisitions, research & development, capital expenditure and new business development. This investment both contributed directly to the new contracts won in the year and also supports the Group's long-term positioning for future business.

To ensure that this investment strategy remains affordable, Ultra focuses on delivering a high quality of earnings from its operations. Evidence of this quality is the consistently strong cash generation that the Group has achieved. Over the last five years, the average

*see footnote on page 01

Ultra has introduced a range of high-integrity hand-held electronic control units that are similar to games controllers used by young people worldwide. Ultra's innovative solutions are used, however, to control 'the real thing' – remotely controlled cannons mounted on vehicles, used to defend against insurgents

**= new** technology

Ultra has broadened the range of innovative pneumatic components and sub-systems it provides for high-integrity defence and aerospace applications. Ultra demonstrated successfully a novel design of gas cartridge that provides low-cost stored energy for ejecting munitions from aircraft bomb racks

**= new** customers
**+ new** technology
**+ new** platforms
**+ new** markets

conversion of operating profit* to operating cash flow* has been 110%. The cash generated from operations is then available to fund acquisitions – Ultra seeks to maintain a broad balance between organic and acquisition growth. To date, all of Ultra's acquisitions have been funded by free cash flow and so the level of net debt has remained relatively low. In 2006 only two small acquisitions were made due either to the poor quality of the available acquisition targets or the high EBIT multiples that were being demanded for the better quality businesses on offer. Ultra will not overpay for acquisitions and will only proceed to completion where there is a strong business case.

The Group's acquisition strategy is summarised as being the pursuit of bolt-on acquisitions that:

- are defence or aerospace based;
- are in a growth market sector;
- augment a current niche, or
- add a new, related niche, or
- widen Ultra's geographic reach.

The ideal size of acquisitions is currently about £30m to £60m and so "organisation transforming" acquisitions are unlikely. The Group will seek to maintain a robust portfolio of niche activities. In short, the acquisition strategy that has served Ultra well to date will be continued.

## Ultra's 2006 results

Ultra once again made excellent progress in 2006, achieving strong growth in revenue and operating profit. The Group's performance was helped by buoyant conditions in civil aerospace, development work on aircraft ice protection systems, together with strong growth in airport and battlespace IT and underwater systems. Contributions were made by the acquisitions completed in 2005 and the further two acquisitions made in 2006 which strengthened Ultra's positions in high-integrity pneumatic components and nuclear reactor controls. Investment in a range of new programmes continued and important contracts were secured during 2006 that will support further growth of the Group. Ultra's continuing success in winning new business on a broad range of international programmes resulted in a record order book of £584m at the year-end.

## Group results

Revenue increased to £377.0m, a rise of 10% over the prior year of which 8% was organic. At constant currencies the organic growth would have been 9%. Operating margins* increased to 15.3% compared to 14.9% in the previous year driven mainly by increased volumes, effective execution of development programmes and a continuing focus on operational efficiencies. As a result operating profit* grew by 13% to £57.5m (2005: £51.1m). Net interest payable was 30% lower at £2.6m (2005: £3.7m) due mainly to lower borrowings through the year, so that headline profit before tax* increased by 16% to £54.9m (2005: £47.4m). This was despite a £4.8m negative impact of weaker hedged exchange rates. At constant currencies operating profit* growth was 22%.

The effective tax rate for the Group increased slightly to 28.0% (2005: 27.7%) reflecting the fact that a larger proportion of Ultra's profits were generated in the US and Canada, where marginal tax rates are higher. This resulted in earnings per share* growth of 15% to 58.4p (2005: 50.7p).

Operating cash flow* was again excellent at £56.5m (2005: £53.8m). The conversion of operating profit* to operating cash flow* in the year was 98%. Over the last five years, the Group's average cash conversion* has been 110%, reflecting the high quality of Ultra's earnings. Net debt* at the year-end was £7.2m (2005: £34.3m), after funding an investment of £35.4m in the year. Of this, a total of £7.8m after expenses was spent on acquisitions, with £27.6m (2005: £24.6m) spent on research and development, capital expenditure and new business development. This £35.4m investment of Ultra's funds was supplemented by customer-funded product development activity. In 2006, this amounted to £69.4m (2005: £60.6m) and so, in total, over 18% of Ultra's activity was new product and business development.

At the end of 2006 the Group's order book was valued at the record level of £583.6m, an increase of 16.6% over the position at the same time last year. This impressive order book achievement maintains historic levels of firm order cover for the coming year and reflects Ultra's success in winning substantial positions on new programmes.

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*see footnote on page 01


Ultra has a deep understanding of the specialist requirements for designing, supplying and supporting equipment to control the safe operation of nuclear reactors. With the acquisition of Winfrith Safety Systems in the year, Ultra can also now provide specialist sensors to determine levels of nuclear activity

**= new** customer
**+ new** technology
**+ new** market

Ultra provides systems that consistently ensure low magnetic signatures for naval ships and submarines to minimise the risk of triggering a sea mine. This threat is heightened as modern naval operations are likely to be conducted in shallow coastal waters. Ultra is designing the signature management system for the US Navy's new Littoral Combat Ship

**= new** capability
**+ new** platform

## 2006 acquisitions

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

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

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

## Divisional Review

### Aircraft & Vehicle Systems

Aircraft & Vehicle Systems, with the integration of Polyflex into Precision Air Systems, comprises five businesses in the UK and US that supply advanced technology products and software for military aircraft, land vehicles and for civil aerospace markets.

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

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

The reduced operating margin* reflected adverse currency effects, reorganisation costs to absorb the Polyflex acquisition into the Group's Precision Air Systems business, and, as expected, the continuing B787 investment. At this early stage in the programme, development sales for the Joint Strike Fighter were taken at no margin.

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

- continuing progress on the European A400M military transport aircraft programme for which Ultra is developing the landing gear proximity sensing system, the cargo cabin quietening system, the load master's noise control system, the cargo handling floor latch controllers and the landing gear harnesses;
- a contract to include design activity relating to the ice protection equipment applicable to the lift fan on the short take-off and landing variant of the US Joint Strike Fighter aircraft;
- Ultra supported the initiative to improve the protection provided to UK troops in Iraq and started, late in the year, the supply of indirect vision systems for use on the recently procured Mastiff vehicles. These vision systems were adaptations of those originally developed for the British Army's Trojan and Titan vehicles.

### Information & Power Systems

Information & Power Systems, with the integration of Winfrith into Command & Control Systems, consists of seven businesses in the UK and US that supply information management and power products for defence, commercial and airport applications worldwide.

Revenue in the period grew 3% to £120.5m (2005: £117.3m), while operating profit* improved 7% to £19.3m (2005: £18.1m), giving a divisional operating margin* of 16.0% (2005:15.4%).

*see footnote on page 01

Modern military communication networks increasingly use the protocols developed for the Internet. Ultra has demonstrated in the US a world-leading ability to add high-grade military encryption and to guarantee the required levels of performance of such networks as well as compressing data for transmission via satellites

**+ new** technology

Every naval commander dreads the threat of an attack on his surface ship by a salvo of different torpedoes launched at the same time. In trials with the US Navy, Ultra demonstrated a winning performance in identifying and tracking all threats simultaneously – the first time this had ever been achieved

**= new** technology
**+ new** capability

The order book at the end of the period was £110.2m (2005: £127.9m), the reduction reflecting the timing of contract awards.

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

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

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

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

## Tactical & Sonar Systems

Tactical & Sonar Systems comprises eight businesses in the UK and North America that supply communications and underwater equipment to homeland security and military users worldwide.

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

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

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

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

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

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*see footnote on page 01

**43%**

**North America**
North America is the most important region for Ultra, representing 43% of total Group revenue

**13%**

**Battlespace IT**
Revenue from Ultra's battlespace IT systems and equipment increased by 13% in 2006

## Sectoral analysis of Ultra's results

### Market sector analysis

Defence sales grew by 8% in the year and contributed 76% of Group revenue (2005: 78%). Revenue from battlespace IT systems continued to increase more quickly than average, with an absolute increase of £12.8m or 13%. This product category accounted for 29% of total revenue compared to 28% in the previous year. Much of this revenue came from the US with the increase achieved in sterling terms in spite of the weaker US dollar. Strong growth in sales of military radios and an increase in development sales for upgrades to Ultra's ADSI® product were the key factors. Revenue from sonar equipment rose by just 2% in the year, despite higher sonobuoy sales in the US. Lower export sales of sonobuoys were the explanation for this trend, which meant that the contribution from Ultra's sonar products fell to 24% of revenue (2005: 26%). Sales of equipment for military aircraft remained unchanged as a percentage of Group revenue, as did sales for other defence platforms such as surface ships, submarines and military vehicles. These two product categories accounted for 10% and 13% of sales respectively, with both growing at or close to the overall Group average rate of 10%. Civil markets became more important for Ultra during the year and contributed 24% of the Group's revenue, up from 22% in 2005. The main reason for this was increased demand for original equipment for civil aircraft and the strength of the associated after-market. Civil aircraft equipment revenue increased by 19% overall and this was the fastest growing product category. Finally sales of other civil equipment rose by 15% driven by higher activity levels in Ultra's airport IT business. This category represented 15% of Group revenue (2005: 14%).

### Geographic analysis

North America remained the most important region for Ultra, representing 43% of total Group revenue, the same proportion as in 2005 despite the negative translation effect of the weaker US dollar. Revenue from this region increased 10% when expressed in sterling. The main reasons were higher sales of sonobuoys to the US Navy and additional US customer funding for new software applications for the ADSI® and also for the development of ice protection systems for the Boeing 787 and the Joint Strike Fighter. In addition the US acquisitions made in 2005, Horizon Aerospace and Audiopack, contributed for a full year in 2006. Ultra's domestic market in the UK reversed the trend of recent years and, with an absolute increase in revenue of 14%, saw its share of Ultra's sales rise to 40% (2005: 39%). This was due to higher systems development activity at Heathrow Airport's new Terminal 5, increased workload on the new nuclear reactor control system for Rolls-Royce, the supply of the final surface ship torpedo defence systems to the Royal Navy and encouraging progress on a number of new defence systems for the UK MoD. The most significant improvement was in revenue from the Rest of the World, which grew by 18% to account for 8% of Group turnover. The key factors here were an increase in the supply of military radio kits to Korea, the commissioning of a new UltraTrak baggage reconciliation system in New Zealand late in 2005 and higher activity on the new airport system being developed for Shanghai's Pudong airport. Finally revenue from continental Europe fell by 8%, resulting in a 9% contribution to Group turnover. The main reasons for the decline were lower sales of sonobuoys to France, reduced shipments of equipment for the first tranche of the Eurofighter Typhoon aircraft programme and the completion in 2005 of a number of European naval system contracts.

### Market trends

Whilst budgets have risen over recent years in Ultra's main defence markets, in both the US and UK the continuing costs of peacekeeping operations is putting strain on these defence budgets. Nevertheless defence budgets continue to increase in real terms throughout the world. In the US, Ultra's biggest defence market, the defence budget for 2006/7 is a record $439 billion to fund the necessary strategic investments to modernise and recapitalise key capabilities in the armed forces. That figure does not include the tens-of-billions of dollars in expected costs for US operations in Iraq and Afghanistan. The administration funds the Iraq and Afghanistan deployments through separate legislation. The President's defence budget request for FY08 totals $481 billion to finance improved readiness through additional training and maintenance and by resetting or re-equipping forces following overseas deployments.

*see footnote on page 01

Ultra is developing the ice protection system for the engine intake of the F-35 Joint Strike Fighter aircraft and is specifying the ice protection equipment needed for the lift fan of the short take off and landing version

**= new** technology
**+ new** platform

In 2006, Ultra delivered to the Royal Navy the first SeaFox mine disposal system which was developed through a teaming arrangement with Atlas Electronik in Germany. The system is an adaptation of an existing design that Ultra will supply to the Royal Navy and then support from within the UK

**= new** capability

"Ultra's success is derived from a focus on positioning its products and services on a broad range of international platforms and programmes. This positioning is achieved by pursuing strategies to ensure that Ultra's offerings are differentiated from those of the competition in a way that the customer values. Focus is sustained on creating and maintaining this differentiation in the future and on continuing to provide innovative solutions to satisfy customer requirements."

Within the US and UK defence budgets, expenditure continues to be focused on improving the use of intelligence, on enhancing the ability rapidly to deploy forces and in providing increased protection for personnel. Ultra has pursued a strategy that has positioned the Group to benefit from these trends and constantly seeks opportunities to offer new products and services to meet such customer requirements.

There is some evidence that the decline in one of Ultra's traditional market sectors, that of Anti-Submarine Warfare (ASW), has bottomed out. The US has committed to buying over 100 P-8A ASW fixed wing aircraft and is also procuring over 240 ASW helicopters. The Canadian government is procuring 28 ASW helicopters. In Europe, the NH-90 ASW helicopter will shortly enter service as will the long-delayed Nimrod MRA4 aircraft. In the short term, Ultra is supplying equipment to each of these programmes. In the longer term, the entry into service of these platforms might be expected to increase the annual consumption and therefore demand for sonobuoys, the acoustic sensors that are used to detect submarines and for which Ultra is the world-leading supplier. There is also renewed interest in upgrading sonobuoy sensor systems to exploit advanced digital technologies on both sides of the Atlantic.

The perceived terrorist threat to individuals and to economically important assets, together with the need to protect borders and coastlines from illegal immigrants and smugglers, are driving an increase in global demand for surveillance and enforcement systems, a market sector in which Ultra has innovative and cost-effective solutions.

Worldwide, there is a move to increase the unmanned element of fighting forces. By so doing, the cost per platform is reduced as is the risk to personnel from enemy action. For Ultra, this will reduce demand for specialist Human-Machine Interface (HMI) equipment used in cockpits, for example. Anticipating this, Ultra has positioned its HMI equipment for use on the base stations that are used to control the unmanned vehicles.

In civil markets, aerospace remains healthy with both Airbus and Boeing, benefiting from large aircraft order backlogs, increasing their build rates and driving demand for sales of original equipment. High aircraft utilisation, driven by greater demand for

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*see footnote on page 01

Ultra's new wing ice protection technology is a key element of the highly successful Boeing 787 aircraft programme

In the US, Ultra delivered over 55,000 sonobuoys to the US Navy and demonstrated an excellent quality record, acknowledged by the customer

air travel as a result of growing populations with higher disposable incomes, is also increasing after market spares and repair activity. The current historically high price of oil is causing a shift in demand from turbo-jet regional aircraft to more fuel efficient turbo-prop aircraft where Ultra has the opportunity to supply cabin quietening systems. The worldwide increase in air travel is also driving investment in infrastructure including airport IT systems. Ultra has several competitive, niche technology offerings that position it well in the civil aerospace market. The more mature of these are aircraft landing gear controls and proximity sensing systems and cabin quietening for turbo-prop aircraft. These have well established positions on long-term aircraft build programmes that should provide a flywheel effect for Ultra's civil aerospace sales. Ultra's newer technology of wing ice protection has achieved a position on the Boeing 787 aircraft which is set to become one of the world's most successful aircraft programmes. This should drive further growth in the medium term.

Ultra's customers aspire to stable or reducing prices for the goods and services that they procure. This inevitably leads to cost pressures to which the Group must respond. Ultra has a long track record of product innovation to reduce costs whilst delivering improved performance and achieving operational efficiencies by working more intelligently. More recently, Ultra has made significant progress in sourcing production in low cost economies where this is appropriate, given the nature of the products that the Group provides. The anticipated cost reductions have been achieved, thereby helping protect and improve the Group's operating margins.

## Management of risks and uncertainties

Ultra's confidence in its ability to continue to deliver growth is underpinned by a number of key factors. The Group has a track record of year-on-year success despite significant volatility in foreign exchange rates and whilst experiencing full market cycles in both the civil aerospace and defence sectors. These risks will continue to be mitigated through robust business strategies. Further, Ultra has access to adequate financial and human resources to implement its strategy for the foreseeable future.

About three quarters of Ultra's revenue is from the defence sector. A risk would therefore be a significant worldwide reduction in defence expenditure. The overall size of the defence budgets relative to Ultra's annual revenue provides sufficient headroom for the Group's growth to continue. Ultra's constant focus has consistently been on ensuring that the Group's businesses operate in a large number of growing niche markets where the Group can create and maintain sustainable competitive advantage and so can win business worldwide. This specialism and diversity give some protection from budget variations and so provide robustness to Ultra's performance.

Ultra's financial performance has not been significantly driven by the current allied operations in Afghanistan and Iraq. It is possible that these operations might be scaled back in the next few years. Since Ultra did not benefit materially from the start of these operations, it is anticipated that such a withdrawal would not harm the Group's trading position. Indeed, it might well be an overall benefit to the Group as it may alleviate some of the current pressures on defence budgets.

The international spread of Ultra's activities provides resilience to its performance. The Group now sells its products and services in over 30 countries worldwide and this has broadened the customer base. Ultra also has a transatlantic capability, with ten of its twenty businesses being in North America and so is exploiting its innovative solutions and operating as a domestic agent on both sides of the Atlantic.

Ultra is represented on a significant range of major international programmes and platforms. As a result, no single programme represents more than 5% of Ultra's revenue in any single year. The cancellation or curtailment of any single programme is unlikely therefore to have a material adverse impact on the Group.

Ultra supplies to all elements of the armed forces, i.e. the army, navy, air force and marines together with first responders such as medical staff and fire fighters. This customer spread provides an element of risk mitigation. In addition, Ultra operates in a number of different distinct market sectors, including battlespace IT; sonar; military aircraft equipment, and military vehicle equipment. Again, this reduces the risk of decline in any one market sector materially affecting Ultra's overall performance.

*see footnote on page 01

In late 2006, Ultra delivered indirect vision systems for use on the UK MoD's recently procured Mastiff vehicles. These vision systems were adaptations of those originally developed for the British Army's Trojan and Titan vehicles

**= new** platform
**+ new** capability

In 2006, Ultra benefited from higher activity levels at Heathrow's Terminal 5 where the Group is responsible for the integration of all the airport IT systems

Ultra has significant business in the civil sector and this provides useful diversification, often providing an adjacent market in which to exploit complementary skills and technologies. Within the civil market, Ultra operates in aerospace, transport and commercial security sectors. This spread gives further resilience to Ultra's performance.

The Group's largest exposure to the adverse effects of exchange rate volatility is the UK£:US$ impact. Whilst Ultra has a natural hedge from its geographic split of businesses, the Group has also responded by sourcing a higher proportion of the cost of dollar-denominated products in dollar zones. This is in addition to the Group's usual currency hedging arrangements detailed below.

The industries in which the Group operates continue to experience restructuring, which sometimes results in Ultra's customers themselves becoming more vertically integrated. This may increase the incidence of the Group's customers having capabilities that overlap with Ultra's. The threat that this otherwise might pose is offset by Ultra's strategy of operating in specific market niches where it has some sustainable differentiation.

## Outlook for Ultra

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

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

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

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

The Group entered 2007 with a record order book of £584m, an increase of 17% over the position at the same time last year. This maintains historic levels of firm order cover for the coming year and reflects Ultra's success in winning new business on a broad range of international programmes.

With its robust balance sheet, Ultra continues to invest both through internal developments and through acquisition. The Group pursues good quality businesses that can be acquired at sensible multiples and to which Ultra's ownership adds value. Investments such as the wing ice protection system for the Boeing 787 aircraft continue to be attractive as they allow Ultra to work closely with its customers to develop tailored solutions. The Group's decision to invest in the B787 programme is validated by Boeing having received 435 firm orders for the aircraft by the end of 2006.

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

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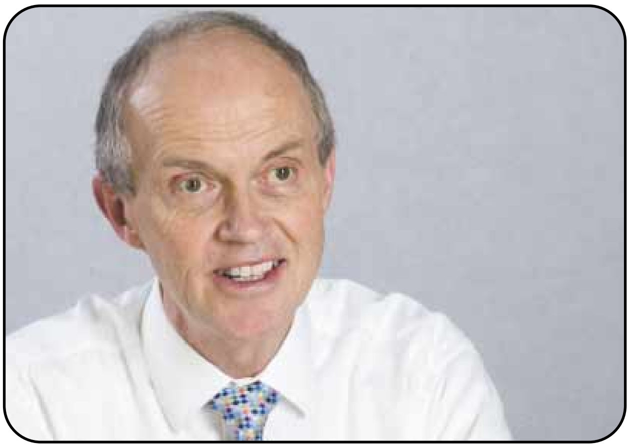
*see footnote on page 01

# Operating and Financial Review
# Financial position



David Jeffcoat, Finance Director

**Cash generation***

**98% conversion**

**£56.5m**

(2005: £53.8m)

## Operating cash flow

Ultra achieved excellent cash generation once again during 2006, with an operating cash inflow, after capital expenditure and LTIP share purchases, of £56.5m (2005: £53.8m). This meant that the ratio of cash to operating profit* was 98%, bringing the rolling five year average to 110%. The main driver of this performance was the effective management of working capital. Inventories rose by £3.4m and receivables by £6.9m, reflecting the growth of the business. However there was a very significant improvement in the receivables position during the second half of the year and the balance outstanding at year-end was equivalent to 40 days of sales, down from 42 days at the end of 2005. Trade payables increased £10.1m, due partly to higher activity levels. In addition the number of days of creditor payments outstanding rose to 54, compared to 51 days the previous year-end. The net balance due to customers on long-term contracts fell by £3.6m because several larger contracts moved closer to completion. However the net amount owed remained positive at £6.1m (2005: £9.7m), reflecting Ultra's ability to manage contract cash flow successfully at neutral or better. With relatively low capital expenditure of just £4.8m (2005: £7.3m), there was a net capital release of £0.8m from the Group's tangible fixed asset base, compared to an absorption of £1.1m in 2005. The biggest capital investment projects in the year involved spending £0.6m to upgrade equipment and software tools in the development laboratory of the military radio business Tactical Communication Systems in Montreal, Canada, the purchase of additional capacity for Ultra's contract electronic manufacturing business in Weymouth, UK for a cost of £0.5m and similar expenditure to consolidate two Ultra businesses onto a single site in Wallingford, Connecticut. Additional shares were purchased for the executive directors' Long-Term Incentive Plan at a cost of £0.5m, slightly less than in 2005 when £0.6m was spent.

## Acquisitions and intangible assets

The Group made two acquisitions in the year. Polyflex Aerospace Ltd was bought in January for a total cost before expenses of £4.3m. Of this cost, £0.5m was represented by fixed assets and working capital, £2.8m by intangible assets such as patents and intellectual property and the balance of £1.2m was classified as goodwill. Then in July Ultra acquired Winfrith Safety Systems for a cash payment of £2.3m, with a possible further £0.8m of deferred consideration depending upon future order intake and operational performance. The initial payment was classified as £0.2m worth of fixed assets and working capital and £1.0m in respect of intangible assets. The remaining £2.1m was treated as goodwill. These intangible assets arising on acquisition will be amortised over a period of ten years. The goodwill will not be amortised but will be subject to regular annual impairment reviews. Finally a small adjustment of £0.1m was made to the fair value of the property, plant and equipment acquired with Audiopack in 2005.

Expenditure of £3.8m on product development was capitalised in the year since it is regarded as creating intellectual property with a significant long-term commercial value. Most of this cost was incurred in connection with the development work that Ultra is doing for Airbus on its A400M transport aircraft, which will not go into production until 2010. This increase in intangible assets was offset in part by an amortisation charge of £2.2m, taken because the associated intangible assets were deemed to be of less value than at the start of the year. The typical amortisation period for capitalised development costs is in the range of five to ten years, depending upon the expected commercial life of the products involved.

## Interest and profit before taxation

Finance costs, excluding fair value movement on derivatives, fell by £0.4m to £3.9m for the year. The main reason was that a notional charge of £0.9m associated with pension accounting was included in the 2005 financing costs. In 2006 the corresponding amount was a notional credit of £0.1m, which is included in investment income. This reduction in finance costs was partly offset by an increase in interest costs on bank debt, including amortised fees, to £3.9m (2005: £3.3m) due to higher bank borrowings on average during the year. This was caused by the acquisition of Audiopack mid-way during 2005 and the two smaller acquisitions in 2006. Net bank interest costs were covered 22 times by operating profit*.

Headline profit before tax*, amortisation of intangible assets arising on acquisition and the fair value movement on derivatives improved by 15.8% to £54.9m (2005: £47.4m). The amortisation charge for intangibles arising on acquisition was £3.6m in the year, compared

*see footnote on page 01

**Bank interest cover**

**22 times**
(2005: 19 times)

**Net debt* at year-end**

**£7.2m**
(2005: £34.3m)

to £3.3m in 2005. These intangibles increased following the acquisition of Polyflex Aerospace and Winfrith Safety Systems during the year. A gain of £3.7m was reported on fair value movement on derivatives (2005: loss of £3.4m). This was driven mainly by a 14% weakening in the US dollar against sterling during the year. The Group's UK and Canadian businesses hedge forward their US dollar-denominated sales revenues, typically over an 18 to 24 month period, and the weaker US dollar had the effect of increasing the nominal value of these financial instruments at the year-end closing exchange rates. It should be emphasised that this notional reported "gain" will never be realised; it is simply a timing effect. The real worth of the hedging contracts to the Group is to fix the value in local currency of foreign currency sales receipts in the future, thus reducing the uncertainty that would otherwise exist as to their realisable value. Statutory profit before tax was £55.0m (2005: £40.7m), an increase of 35%.

### Tax, earnings per share and dividends

The effective Group tax rate rose slightly to 28.0% (2005: 27.7%) reflecting the fact that a larger proportion of Ultra's profits were generated in the US and Canada, where marginal tax rates are higher. Earnings per share, based on profit before amortisation of intangible assets arising on acquisition and the fair value movement on derivatives, rose by 15.2% to 58.4p (2005: 50.7p). The Board is proposing a final dividend of 12.6p, bringing the total dividend to 18.5p (2005: 15.9p), an increase of 16.4%. This proposal reflects the directors' policy of paying a dividend that is covered at least three times by earnings per share*.

### Financing

Ultra generated £40.9m of free cash flow before dividends and acquisitions during 2006 (2005: £38.1m). After dividend payments of £11.1m this left £29.8m for acquisitions. With relatively low acquisition expenditure of £7.8m in the year, the remaining surplus cash, together with funds generated by the exercising of share options, has been applied to reduce external bank borrowings. This resulted in a significant reduction in net debt*, from £34.3m to £7.2m. The balance sheet therefore continues to be very strong and Ultra has substantial headroom on its banking facilities to make further acquisitions.

The Group's banking facilities were set up in 2005 and are provided by a small syndicate of banks, led by The Royal Bank of Scotland. They involve up to £120m of revolving credit over a five-year period, denominated in sterling, US dollars and Canadian dollars and are used for balance sheet and operational needs. Both the sterling and US dollar elements fund day-to-day working capital requirements and the US and Canadian dollar borrowings also represent natural hedges against assets denominated in those currencies. A further overdraft of £10m is also available for short-term working capital funding.

### Financial risk management – interest rates

A significant portion of the Group's current borrowings has been taken on to fund acquisitions in North America. With the objective of reducing the risk associated with debt at floating interest rates, new three year interest rate hedging contracts were entered into in December 2005. These cover \$30m of US dollar borrowings, reducing to \$20m in December 2007, and \$30m of Canadian dollar debt. These amounts compare to gross debts of US \$30m and Canadian \$33.4m that were in place at the end of the year. Therefore, £28.5m out of a total gross debt of £33.0m was at fixed interest rates. The remaining £4.5m of debt, comprising mainly sterling-denominated borrowings, was at floating rates. The effective interest rate for the total gross debt at year-end was 4.6%, somewhat lower than the prevailing floating rates.

### Financial risk management – foreign currency

Ultra's reported financial results are influenced by movements in exchange rates and the overall impact is a combination of currency translation and currency transaction effects. The biggest sensitivity is to the US and Canadian dollars.

The average dollar exchange rates used in the year to translate the sales and operating profits of Ultra's American and Canadian subsidiaries into sterling weakened by 3% and strengthened by 3% respectively compared to 2005. For the Group as a whole, currency translation effects decreased sales by £4.0m or 1% and operating profit by £0.5m or 1%.

Some businesses in the UK and Canada also trade in foreign currencies, mainly US dollars. When the foreign currency weakens

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*see footnote on page 01

**Total dividend**

**16% growth**

**18.5p**

(2005: 15.9p)

**30 countries**

**resilience through breadth**
Ultra sells its systems, products and services in more than 30 countries worldwide

against local currencies this means that turnover suffers from a negative currency transaction effect. This can be compensated in part by sourcing materials in US dollars, thus reducing the overall net exposure to currency fluctuations. The Group policy is to hedge the net exposure on orders in hand using forward foreign exchange contracts, typically extending 18-24 months. Exposure to other currencies is hedged as it arises on specific contracts. Based upon the combined net exposure of about US $116m last year, Group operating profit* in 2006 would have been approximately £4.3m or 7% higher had the overall hedged rates remained unchanged from the previous year. Ultra's effective US$:UK£ rate for 2007, based upon the forward contracts currently in place, is expected to be approximately $1.82, compared to $1.77 in 2006. For the US dollar:Canadian dollar exposure there is expected to be a weakening of 5% in the hedged rate.

### Pensions

Ultra offers company-funded retirement benefits to all its employees. In the UK a substantial number of staff still participate in the Ultra Electronics Limited defined benefit scheme, which was closed to new entrants in 2003. The scheme was last assessed actuarially in April 2004, when its funding level was 97% of the Minimum Funding Requirement. The net IAS19 scheme deficit was £24.6m at the 2006 year-end, down from £31.3m in 2005. The present value of the liabilities rose for the second year in succession, driven by higher inflation. However the fair value of the scheme assets increased by £18.4m in the year, which more than compensated for the £8.8m growth in the liabilities. The scheme is relatively immature, with just 19% of the members already retired, remains strongly cash positive and has benefited in recent years from an investment strategy that is biased towards equities rather than bonds. The next full actuarial assessment is due in April 2007.

The scheme has a statement of investment principles, which includes a specific declaration on socially responsible investment; this is delegated to the investment managers. Pension management and governance is undertaken by the pension trustees on behalf of the members. The trustees include both company-nominated and employee-elected representatives. Ultra supports the trustees in a number of ways including the provision of training to the "Trustee Certificate of Essential Pensions Knowledge" standard which is independently assessed by the Pensions Management Institute.

Employees at Tactical Communication Systems in Canada also participate in a defined benefit scheme. There was an IAS19 deficit of £1.3m on this scheme at the end of 2005. The company took actuarial advice and made a lump sum payment of £1.2m during the year. As a result the funding position improved to a nil deficit at year-end. Regular payments into the fund will continue going forward with the objective of maintaining a satisfactory funding position.

All staff that have joined Ultra in the UK since the defined benefit scheme was closed in 2003 have been invited to become members of the Ultra Electronics Group Personal Pension plan. Under the terms of this defined contribution scheme, company payments supplement contributions from the employees.

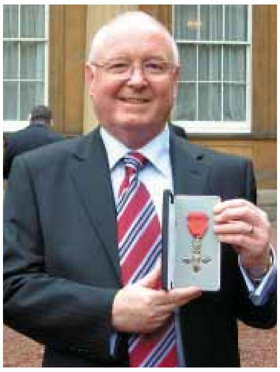
In the US, Ultra offers a defined contribution 401(k) retirement benefit plan to full time employees. Under this plan, Ultra provides participating and contributing employees with matching contributions, subject to plan and US Internal Revenue Service limitations. Audiopack, which became part of Ultra during 2005, consolidated its previous plan into the Ultra scheme during 2006. Wells Fargo provides administrative support and is also a directed trustee of the plan.

"Ultra's performance in 2006 extends its long track record of continuous progress and the Group enters 2007 with a record order book and a strong balance sheet. Ultra has the funds to make further acquisitions that will enhance and complement the Group's range of niche activities in growing market sectors."

*see footnote on page 01

# Corporate Responsibility

Alan Wignall (left) was awarded an OBE and Vic Shannon (right) the MBE, in 2006



Both Alan and Vic received their awards for services to the defence industry

## Ultra is a responsible citizen

Ultra believes that it should at all times be a responsible corporate citizen. As such the Group complies with all applicable legislation in the areas of trading, employment, health and safety and the environment. Ultra further believes that, in order to achieve superior business performance, the Group must, in certain areas, exceed the minimum standards required by law. Ultra's policies relating to its corporate responsibility are generally established by the Board with individual businesses taking a major role in their implementation.

## Business ethics

### Customers

Ultra requires that the Group's employees comply with the spirit and principles of laws and standards of conduct of the countries in which it does business as well as behaving ethically and with fairness. Directors and employees are required to avoid personal conflicts of interest regarding company business and are bound by strict rules on insider dealing and insider information.

In addition, all businesses are strictly required to comply fully with the relevant national export control regulations. They are also required to conduct their business in strict accordance with competition and anti-trust laws.

Ultra supports and respects the protection of internationally proclaimed human rights in the countries in which it operates. Ultra does not make any political donations.

### Customer relationships

Ultra promotes good working relationships with all our customers with a special emphasis on meeting commitments. The Group receives direct feedback on relationships from many customers such as BAE Systems where Ultra is a member of the Major Equipment Supply Programme (MESP) and from UK MoD Supplier Relations Group.

These relationships are also regularly recognised by other customers across the range of Ultra businesses through feedback and award processes. For example, the team of which Ultra's Controls business is a key member received a Leadership Award from United Technologies for performance on the F-135 engine inlet ice protection system and the Electrics business received a note of congratulations on the same programme. For the second year in a row, Flightline Systems was awarded the STAR award for the ARR-84 Performance Based Logistic contract from Lockheed Martin in recognition of being one of its top fifty suppliers.

Feedback from customers is received in other ways including surveys and formal rating systems. Lockheed Martin Maritime Systems & Sensors gave Advanced Tactical Systems a supplier total performance quality rating of 100%, based on delivery, quality and service ratings, up from 99% in 2005. The Group's Precision Air Systems business was recognised by Boeing as a gold standard quality supplier in connection with deliveries of HiPPAG airborne compressors for the Small Diameter Bomb programme.

## People are at the heart of Ultra

### Employees

The performance of Ultra is fundamentally driven by the individual and team contributions made by employees. The Group's success in innovating to meet customer needs is based on the broad range of skills and capabilities of employees. All managers in Ultra, supported by HR professionals, work towards the aim of delivering an efficient organisation with competent and committed people to meet the Group's business commitments.

Ultra employees have been recognised during 2006 at national level with Alan Wignall being awarded an OBE and Vic Shannon the MBE, both for services to the defence industry.

In order to ensure that Group businesses can recruit, retain, motivate and develop the right people, Ultra pursues a range of initiatives, which are described below.

### Employment practices

Ultra believes that superior business performance can only be achieved through having committed and efficient people. Achieving this high quality requires Ultra to recruit widely and with no bias or discrimination. It is therefore the policy of Ultra to be an equal opportunities employer and to oppose all forms of unlawful or unfair discrimination on the grounds of sex, race, nationality, disability, sexual orientation, age, marital status, religion or beliefs. In addition, the Group is a responsible employer, seeking to

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Ultra works hard at training and developing its people. Off-the-job training was provided at all businesses in 2006


Ultra works hard at communicating effectively with its staff – the 24th edition of Ultra News was published in the autumn of 2006

achieve a culture of fairness to employees and of being a good place both to work and develop a career. Employees and applicants are treated equally and fairly in respect of remuneration, training, promotion and career development.

In complying with the Public Interest Disclosure Act 1998 in the United Kingdom, the Group has established a procedure enabling employees to bring matters to the attention of an appropriate manager outside of their own business in the event that they do not feel able to approach their local line management. A similar system of third party hotlines has also been established at US and Canadian businesses.

## Development and training

The Group actively supports and invests in training and development linked to business needs. Each business is responsible for identifying the training needs of its employees and managing its own training budget. This typically takes place through individual employee performance and development reviews, which are held at least annually. Specific training programmes are provided for individuals as necessary. Additionally, training programmes on management processes and techniques are run at Group level along with workshops on Ultra's successful competitive strategy, strategic selling and programme management processes.

Individual businesses provide a wide variety of training and development opportunities. As well as tuition reimbursement for shorter programmes, support also ranges from apprenticeship programmes to sponsorships at bachelor, master and doctorate level.

There are also very strong links with a large number of Universities. For example, at Ultra EMS a student from the State University of New York helped develop a complex mathematical algorithm that can be applied to ranging and calibration of vessels with advanced degaussing systems. In Canada, Ultra Tactical Communication Systems has worked with Institut National de la Recherche Scientifique to develop a new type of radio antenna with innovative technology.

## Benefits

Ultra offers competitive and comprehensive benefits to all employees, which are regularly reviewed. The Group believes in rewarding its employees well for good performance.

All US and Canadian employees are offered medical plans. Many businesses promote and offer specific wellness programmes such as smoking cessation.

## Retirement benefits

Ultra offers retirement benefits to employees in the UK, US and Canada. Further details are provided on page 23 of the Operating and Financial Review.

## Employee consultation

Gaining the commitment of everyone who works at Ultra involves effective communication and consultation. This takes a number of forms such as the bi-annual Group magazine "Ultra News", company-wide strategy and performance presentations, birthday and communication lunches, cascade "team brief" meetings and "YOURviews" employee surveys. The "YOURviews" employee survey provides local management teams with feedback and an opportunity to benchmark across the Group. The process is typically conducted every one to two years; during 2006 the survey took place in 16 businesses and showed high levels of employee satisfaction and engagement.

## Succession planning

An annual organisation and succession plan is produced by the Managing Director or President of each business and is used to identify the development actions for employees with high potential. It also reviews the performance of the business management teams and any planned organisation changes.

## Health and safety

A healthy, committed workforce working in a safe environment is necessary to achieve better business results. Ultra therefore places great emphasis on maintaining high standards of health and safety. All Ultra businesses are required to have a written local policy, to have the necessary resources to implement the policy, to provide adequate information, instruction and training for employees and to implement monitoring of health and safety standards.

The Chief Executive has been appointed as the main Board member with overall health and safety responsibility. The Managing Directors and Presidents of the operating businesses are responsible for implementation of the policy.

In 2006, Ultra PMES received a RoSPA Gold Occupational Health & Safety Award in recognition of a very high standard of health and safety at work

Ultra is committed to working together with others in the UK aerospace and defence industry in order to develop competitive supply chains

Bi-annual audits by independent, external, qualified assessors covering health and safety matters are conducted, with the next cycle scheduled for 2007. Audits and the resulting follow-up process have proved effective in reaching and maintaining high standards across all sites. Each business is required to submit a separate annual report on health and safety issues. The results of the audits and annual reports from each business are reviewed by the Board annually in January.

Health and safety of employees, visitors and the local community alike is taken very seriously by the Group and the individual businesses. Ultra's commitment to health and safety was exemplified during 2006 when PMES received a RoSPA Gold Occupational Health & Safety Award in recognition of a very high standard of health and safety at work.

## Supplier and other partner relationships

### Suppliers

Contracts with suppliers are placed following a fair, competitive tendering process on an arms length basis or through formal teaming agreements. Conflicts of interest are avoided at all times. Such relationships engender a cooperative culture which helps with problem solving and helps to accommodate changes to requirements where these occur. Gain-share arrangements are also entered into where appropriate and provide benefits for both Ultra and its suppliers and partners.

Ultra is committed to close working relationships with suppliers. This is illustrated by Tactical Communication Systems where a new supplier web portal was developed in 2006 to provide faster and clearer communication with suppliers enabling them to react more quickly to Ultra's needs. The supplier web portal database contains real time information such as the suppliers' scorecards for on-time delivery and quality ratings. It also advises the supplier of any delivery date changes and provides a file exchange drop off site where the supplier can access drawings, parts lists and other information.

### Supply chain and SC21

Ultra is a founding signatory to SC21, the UK SBAC-led action plan for 21st Century supply chains, which was launched at Farnborough International in July 2006. Ultra is therefore committed to working together with others in the UK Aerospace and Defence industry in order to develop supply chains to ensure they remain competitive, so that we are able to deliver increased value to our customers.

Activities are centred upon seven commitments:
- delivering a new business culture
- delivering innovation
- offering through-life solutions
- increasing the pace of change
- demonstrating leadership
- delivering the SC21 action plan
- conducting business ethically and with integrity

Senior Ultra representatives participate in the various SC21 Working Groups and the Key Customers Group to assist the SBAC with the implementation of SC21.

### Supplier payment policy

Operating businesses are responsible for agreeing the terms and conditions under which they conduct business transactions with their suppliers. It is Group policy that payments to suppliers are made in accordance with those terms, provided that the supplier is also complying with all relevant terms and conditions. The Group's actual payment performance at the end of 2006 is described on page 21 of the Operating and Financial Review.

## Community

Ultra recognises the importance of being a responsible partner in the communities in which it operates and in which its employees live. The Group has a positive attitude to environmental issues and is pleased to support selected charities and maintain links with the local communities.

### Environment

Ultra recognises it is important, both for its employees and the communities in which it operates, that effective measures are in place to ensure that the Group minimises the environmental impact of its activities.

Ultra has a formal environmental policy that addresses compliance with environmental legislation, conformity with standards for air, waste disposal and noise, the economical use of materials and the establishment of appropriate environmental performance standards.

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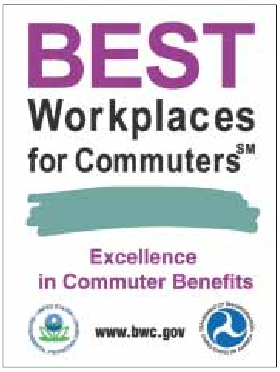
Manufacturing & Card Systems was the first Ultra business to be accredited to ISO 14001and now offers RoHS-compliant manufacturing services to its customers




Ultra MSI was recognised by the US Environmental Protection Agency and the Department of Transportation for excellence in commuter benefits

Progress is monitored through annual reporting and a bi-annual audit process. The Chief Executive has been appointed as the main Board member with overall environmental responsibility. The Managing Directors and Presidents of the operating businesses are responsible for implementation of the policy.

Bi-annual external audits covering environmental matters are conducted by independent, external, qualified auditors; the next cycle will take place in 2007. As with health and safety the audits and the resulting follow-up process have proved effective in reaching and maintaining high standards of compliance across all sites.

The results of the audits and annual reports from each business are reviewed by the Board each January.

In 2006 Manufacturing & Card Systems was the first Ultra business to be accredited to ISO 14001. As part of its environmental commitment all Magicard products are now compliant with the RoHS (Reduction of Hazardous Substances) and WEEE (Waste Electrical and Electronic Equipment) legislation and the business offers RoHS-compliant manufacturing services to its customers.

Other businesses have made investments to improve their environmental and business performance. For example, Sonar & Communication Systems has upgraded a compactor to reduce waste collections by 50% and installed new energy efficient air compressors while Maritime Systems has reduced energy consumption by 40% since 2002 through an energy reduction programme.

Following its move from Fairfield to Wallingford, Connecticut, in 2006, MSI was recognised by the US Environmental Protection Agency and the Department of Transportation for excellence in commuter benefits. This award was granted in recognition of MSI's efforts to provide alternative commuting options for their employees. MSI has 22 employees in a subsidised van pool and over 30 employees who take advantage of alternative work schedules including "compressed work weeks".

Nearly all Ultra businesses have video conferencing facilities. These have been progressively installed over the last eight years and have proven highly effective in holding reviews and other meetings without the need for travel.

## Charitable and community activities

In addition to the charitable donations made by the Group outlined in the Directors' report, Ultra employees are actively supported in their charitable fund raising endeavours. A large number of local and national charities is supported.

Charitable activities vary from donations to fund raising events including sponsored walks and runs, raffles and an employee cookbook. Many thousands of pounds are raised in this way.

As well as charitable work there is also a very wide variety of community-orientated activities. Ultra DNE has yet again been nominated for the Governor's Prevention Partnership Corporate Honor Roll in Connecticut through its participation in a mentoring programme at a local school. Ultra's Precision Air Systems business has continued to support work experience programmes with local schools. The Airport Systems business sponsors a local youth football team. Elsewhere, Ultra Manufacturing & Card Systems took part in the three-day "skills festival" event for secondary education students at a local college. Maritime Systems in Canada is a gold sponsor of the "Robots EAST" (Exploration and Awareness of Science and Technology) initiative which provides high school students from the Atlantic provinces with the opportunity to design, build and test large robots.

"The performance of Ultra is fundamentally driven by the individual and team contributions made by employees. The Group's success in innovating to meet customer needs is based on the broad range of skills and capabilities of employees."

# Board of Directors


01


02


03


04

01 **Julian Blogh** CBE PhD CEng
Chairman, age 63, worked for Ferranti Radar and Plessey Radar before joining Dowty Electronic Systems where he was Managing Director of Sonar & Communication Systems from 1987 to 1992, when he was appointed Managing Director of Dowty Avionics. He led the management buy-out of seven defence and aerospace electronics businesses from the Dowty Group to form Ultra Electronics and became Chief Executive when it began trading in October 1993. Dr Blogh was also appointed Deputy Chairman in April 2004 and became Chairman in April 2005. Dr Blogh is also the non-executive Chairman of Gooch & Housego.

02 **Douglas Caster** BSc MIET
Chief Executive, age 53, started as a Design Engineer with Racal in 1975, before moving to Schlumberger and then to Dowty as Engineering Director of Sonar & Communication Systems in 1988. In 1992, he became Managing Director of that business and joined the board of Ultra in October 1993. In 1999 he became Managing Director of Command & Control Systems with responsibility for Manufacturing & Card Systems, PMES, and ATS. In April 2000, he was promoted to the position of Managing Director of the Information & Power Systems division. In April 2004 he was appointed Chief Operating Officer and became Chief Executive in April 2005.

03 **Chris Bailey*** FCA MCT
Non-Executive Director, age 60, was appointed to the board in January 2005. Mr Bailey was Group Finance Director of Aggregate Industries plc until 2004. He was the Finance Director of the precursor companies of Aggregate Industries from 1984 until its formation in 1997. He is a Fellow of the Institute of Chartered Accountants of England & Wales and is also a Member of the Association of Corporate Treasurers. Mr Bailey is also a non-executive director of Rok plc.

04 **Ian Griffiths*** BSc
Non-Executive Director, age 56, was appointed to the Board in April 2003. Until February 2006, he was a main board executive director of GKN plc, where he was Group Managing Director GKN Automotive. Mr Griffiths was responsible for all of GKN's automotive activities worldwide. Prior to this he was Chief Executive of GKN Driveline and had been a member of the GKN Driveline senior management team since 1990. In February 2006, Mr Griffiths became Managing Director, Royal Mail Letters.

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05 **Andy Hamment** BA FRAeS
Group Marketing Director, age 52, started his career with Hawker Siddeley before moving to Schlumberger in 1980, working in procurement and then marketing at Weston Aerospace before transferring to Solartron as Aerospace Business Manager. He joined Dowty in 1988 as Managing Director of the Controls business. He was appointed to his current position in July 2000 and joined the Board at that time.

06 **Frank Hope** PhD CPhys MInstP
Managing Director, Information & Power Systems, age 52, started his career with Tecalemit as a design engineer working on robotics. He spent 13 years with Avimo Limited latterly as Managing Director, having previously held the positions of Technical Director and Operations Director. He joined Ultra in 1994 as Managing Director of the Electrics business. Dr Hope was appointed to the Board of Ultra in January 1999 and in April 2000 became Managing Director of Aircraft & Vehicle Systems. He was appointed to his current position in April 2004.

07 **David Jeffcoat** BA FCMA
Finance Director and Company Secretary, age 56, started his career as a production engineer in the car industry. Since qualifying as an accountant he has held senior financial positions in several large corporations including GlaxoWellcome plc, where he was Finance Director of two subsidiaries. Before joining Ultra he was Group Financial Controller of Smiths Industries plc for three years. He was appointed to the Board in July 2000.

08 **Andrew Walker*** MA CEng
Senior Non-Executive Director, age 55, was appointed to the Board in June 1996. He is Chairman of both the Audit and Remuneration Committees. Joining the Dowty Group plc in 1978, he became an operating board member in 1991. Following TI Group's acquisition of Dowty, he became Managing Director of John Crane Polymer Engineering. He was Chief Executive of South Wales Electricity plc (SWALEC) from 1993 to 1996, and was Chief Executive of McKechnie plc from 1997 to 2001. Mr Walker is also a Non-Executive Director of Halma plc, API Group plc, Manganese Bronze Holdings plc, Porvair plc, Delta plc, Fountains plc and is Chairman of Bioganix Ltd.

## The Board of Ultra comprises individuals with the breadth and depth of experience necessary to steer the continued development of the Group

*Audit and Remuneration Committee members

# Executives and Advisors

### Executive Team members

**Douglas Caster**
Chief Executive

**David Jeffcoat**
Group Financial Director
& Company Secretary

**Andy Hamment**
Group Marketing Director

**Frank Hope**
Managing Director
Information & Power Systems

**Alan Jan-Janin**
Managing Director
Aircraft & Vehicle Systems

**Rakesh Sharma**
Managing Director
Tactical & Sonar Systems

**Keith Thomson**
Group Human Resources Director

**Colin Ross**
Managing Director
Controls

### Business MDs & Presidents

**Marc Lawrence**
President
Audiopack

**Bill Gill**
President
DNE Technologies

**Carlos Santiago**
President
Flightline Systems

**Doug Burd**
President
Maritime Systems

**Rick Kielmeyer**
President
Ocean Systems

**Phil Evans**
Managing Director
Sonar & Communication Systems

**Alan Barker**
President
Tactical Communication Systems

**Roland Fritts**
President
UnderSea Sensor Systems Inc.

**Colin Ross**
Managing Director
Controls

**Jason Birtwistle**
Managing Director
Datel

**Mark Doyle**
Managing Director
Electrics

**Ken Tasch**
President
Measurement Systems Inc.

**Andy Yates**
Managing Director
Precision Air Systems

**Graeme Stacey**
Managing Director
Airport Systems

**John McAlonan**
President
Advanced Tactical Systems

**Paul Summers**
Managing Director
Command & Control Systems

**Pete Crawford**
President
EMS

**Ray Coles**
Managing Director
Manufacturing & Card Systems

**Andy Freer**
Managing Director
PMES

**Mike Clayton**
Managing Director
SML

### External auditors

**Deloitte & Touche LLP**
Hill House
1 Little New Street
London EC4A 3TR

### Principal bankers

**The Royal Bank of Scotland plc**
135 Bishopsgate
London EC2 3UR

### Solicitors

**Clifford Chance LLP**
10 Upper Bank Street
Canary Wharf
London E14 5JJ

**Osborne Clarke**
2 Temple Back East
Temple Quay
Bristol BS1 6EG

### Merchant bankers

**Citigroup Global Markets Limited**
Citigroup Centre
33 Canada Square
Canary Wharf
London E14 5LB

### Stockbrokers

**JPMorgan Cazenove Limited**
20 Moorgate
London EC2R 6DA

### Registrars

**Lloyds TSB Registrars**
The Causeway
Worthing
West Sussex BN99 6DA

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# Business Addresses

## Aircraft & Vehicle Systems

**Controls**
417 Bridport Road
Greenford
Middlesex UB6 8UE
England
Tel: +44 (0) 20 8813 4444
Fax: +44 (0) 20 8813 4351
www.ultracontrols.aero

**Datel**
1 Chain Caul Way
Ashton-on-Ribble
Preston
Lancashire PR2 2YL
England
Tel: +44 (0) 1772 325200
Fax: +44 (0) 1772 325201
www.ultra-datel.com

**Electrics**
Kingsditch Lane
Cheltenham
Gloucestershire GL51 9PG
England
Tel: +44 (0) 1242 221166
Fax: +44 (0) 1242 221167
www.ultra-electrics.com

**Measurement Systems Inc.**
50 Barnes Park North
Suite 102
Wallingford
Connecticut 06492-5912
USA
Tel: +1 203 949 3500
Fax: +1 203 949 3598
www.ultra-msi.com

**Precision Air Systems**
Anson Business Park
Cheltenham Road East
Gloucester GL2 9QN
England
Tel: +44 (0) 1452 714382
Fax: +44 (0) 1452 715252
www.ultra-pas.com

PHOTOGRAPHY
Main Board: Molyneux Associates
Platforms/end applications courtesy of: Airbus, BAA, BAE Systems, Boeing, British Energy, Eurofighter, Lockheed Martin, US DoD.

## Information & Power Systems

**Advanced Tactical Systems**
3300 Duval Road, Suite 200
Austin
Texas 78759
USA
Tel: +1 512 327 6795
Fax: +1 512 327 8043
www.ultra-ats.com

**Airport Systems**
The Oaks
Crewe Road
Wythenshawe
Manchester M23 9SS
England
Tel: +44 (0) 161 946 3600
Fax: +44 (0) 161 946 3601
www.ultra-as.com

**Command & Control Systems**
Knaves Beech Business Centre
Loudwater
High Wycombe
Buckinghamshire HP10 9UT
England
Tel: +44 (0) 1628 530000
Fax: +44 (0) 1628 524557
www.ultra-ccs.com

**EMS**
95 Horseblock Road
PO Box 640
Yaphank
New York 11980
USA
Tel: +1 631 345 6200
Fax: +1 631 345 6216
www.ultra-ems.com

**Manufacturing & Card Systems**
Waverley House
Hampshire Road
Granby Estate
Weymouth
Dorset DT4 9XD
England
Tel: +44 (0) 1305 784738
Fax: +44 (0) 1305 777904
www.ultra-mcs.com

**PMES**
Armitage Road
Rugeley
Staffordshire WS15 1DR
England
Tel: +44 (0) 1889 503300
Fax: +44 (0) 1889 572929
www.ultra-pmes.com

**SML Technologies**
316 Botley Road
Burridge
Southampton
Hampshire SO31 1BQ
England
Tel: +44 (0) 1489 557373
Fax: +44 (0) 1489 557374
www.ultra-sml.com

## Tactical & Sonar Systems

**Audiopack**
4933 Neo Parkway
Garfield Heights
Ohio
OH 44128-3103
USA
Tel: +1 216 332 7040
Fax: +1 216 332 7046
www.ultra-ap.com

**DNE Technologies**
50 Barnes Park North
Wallingford
Connecticut 06492-5912
USA
Tel: +1 203 265 7151
Fax: +1 203 265 9101
www.ultra-dne.com

**Flightline Systems**
7625 Omnitech Place
Victor
New York 14564-9795
USA
Tel: +1 585 924 4000
Fax: +1 585 924 5732
www.ultra-fei.com

**Maritime Systems**
40 Atlantic Street
Dartmouth
Nova Scotia B2Y4N2
Canada
Tel: +1 902 466 7491
Fax: +1 902 463 6098
www.ultra-uems.com

**Ocean Systems**
115 Bay State Drive
Braintree
Massachusetts 02184-5203
USA
Tel: +1 781 848 3400
Fax: +1 781 843 2153
www.ultra-os.com

**Sonar & Communication Systems**
419 Bridport Road
Greenford
Middlesex UB6 8UA
England
Tel: +44 (0) 20 8813 4567
Fax: +44 (0) 20 8813 4568
www.ultra-scs.com

**Tactical Communication Systems**
600 Dr Frederik Philips Boulevard
Ville Saint-Laurent
Quebec H4M2S9
Canada
Tel: +1 514 855 6363
Fax: +1 514 855 6353
www.ultra-tcs.com

**UnderSea Sensor Systems Inc.**
4578 East Park 30 Drive
Columbia City
Indiana 46725-8869
USA
Tel: +1 260 248 3500
Fax: +1 260 248 3510
www.ultra-ussi.com

Registered Office:
**Ultra Electronics Holdings plc**
417 Bridport Road
Greenford
Middlesex UB6 8UA
England
Tel: +44 (0) 20 8813 4321
Fax: +44 (0) 20 8813 4322
www.ultra-electronics.com
information@ultra-electronics.com

Design: **HAT Associates** +44 (0)1242 253112