Directors' report

For the year ended 30 December 2000

The Directors present their annual report on the affairs of the Group, together with the accounts and auditors' report, for the year ended 30 December 2000.

Principal activities

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

Results and dividends

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

		2000 £'000
Balance on profit and loss account, beginning of year		**(4,143)**
Profit for the financial year		**16,001**
Dividends:	Interim paid of 3.2p per share	**(2,091)**
	Final proposed of 6.5p per share	**(4,256)**
Amounts gifted to the Employee Share Ownership Trust *(see note 20)*		**(27)**
Goodwill written back on disposal of Helitune		**182**
Foreign exchange differences		**(680)**
Balance on profit and loss account, end of year		**4,986**

The final 2000 dividend is proposed to be paid on 30 April 2001 to shareholders on the register at 23 March 2001. The interim dividend was paid on 29 September 2000, making a total of 9.7p (1999: 9p) per share for the year.

Future developments

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

Research and development

The Directors are committed to maintaining a significant level of research and development expenditure in order to expand the Group's range of proprietary products. During the year a total of £47.3 million (1999: £44.9 million) was spent on engineering development of which £37.7 million (1999: £34.8 million) was funded by customers and £9.6 million (1999: £10.1 million) by the Group.

Directors and their interests

The Directors who served in the year and their interests in the shares of the Company are given on page 30.

Substantial shareholdings

At 23 February 2001, the Company had been notified in accordance with Sections 198-208 of the Companies Act 1985 that the following were registered as having an interest in 3% or more of the Company's ordinary share capital:

	Percentage of ordinary share capital %	Number of 5p ordinary shares
Schroder Investment Management Limited	8.04	5,265,371
Hill Samuel Asset Management	5.50	3,596,722
The Aegon UK plc Group of Companies	4.20	2,765,326
Standard Life	3.87	2,521,314
Scudder Threadneedle Investments Limited	3.55	2,323,733
3i Group plc	3.13	2,045,596
M&G Investment Management Limited	3.06	2,004,599
Legal and General	3.05	1,984,625
CGNU plc	3.01	1,968,107

Charitable and political contributions

The Group contributed £12,000 (1999: £14,000) to charities and made no contributions for political purposes in either year.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

The Group places considerable value on the involvement of its employees and has a practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings and a Group magazine.

Supplier payment policy

Operating divisions are responsible for agreeing the terms and conditions under which they conduct business transactions with their suppliers. It is Group policy that payments to suppliers are made in accordance with those terms, provided that the supplier is also complying with all relevant terms and conditions.

Trade creditor days of the Group for the year ended 30 December 2000 were 43 days (1999: 57 days), based on the ratio of Group trade creditors at the end of the year to the amounts invoiced during the year by suppliers. The Company had no trade creditors at the year end.

Remuneration report

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

The members of the Remuneration Committee are the non-executive Directors; Sir Frank Holroyd is the Chairman. The task of the Committee is to make recommendations to the Board on the framework of executive remuneration and to determine annually the individual salaries and other terms and conditions of employment of the executive Directors and other senior executives. The Committee also determines the terms of any discretionary share schemes in which executive Directors and senior executives may be invited to participate, and the terms of the Company's Savings Related Share Option Scheme.

The policy of the Remuneration Committee is to reward senior management competitively, enabling the Company to recruit, motivate and retain executives of high calibre, whilst avoiding paying more than is necessary.

Salaries

Salaries of executive Directors are reviewed by the Committee annually. The Committee uses surveys conducted by external remuneration consultants and information available in the annual reports of similar companies as sources of market information. The Committee takes account of pay and employment conditions elsewhere in the Group when determining annual salary increases.

Bonus Scheme

The Company operates an annual bonus scheme for executive Directors. Bonus payments are based upon achievement of operating profit and cash flow targets. The maximum bonus for 2000 was 40% of basic annual salary.

Long Term Incentive Plan

The Company operates a Long Term Incentive Plan (the 'Plan') for executive Directors and certain senior executives. Ordinary shares worth up to 100% of gross basic salary at the start of the Plan can be awarded each year, depending on the Group's performance over a three year period. The performance criteria for the 2000 award are based on the growth in the Group's earnings per share over a three year period from 1 January 2000, compared to improvements in the earnings per share of selected companies in the Engineering and Aerospace and Defence sectors over this period.

Details of the Long Term Incentive Plan awards for executive Directors are given below:

	2000		1999		1998		1997	
	Potential award (No of shares)	**Potential award value***	Potential award (No of shares)	Potential award value*	Potential award (No of shares)	Potential award value*	Potential award (No of shares)	Potential award value*
		£		£		£		£
J. Blogh	**45,455**	**187,956**	43,839	181,724	21,456	88,721	18,469	76,369
D. Caster	**28,671**	**118,556**	27,743	114,717	13,793	57,034	11,873	49,095
A. Hamment	**23,310**	**96,387**	-	-	-	-	-	-
F. Hope	**26,340**	**108,916**	23,605	97,607	-	-	-	-
D. Jeffcoat	**30,303**	**125,303**	-	-	-	-	-	-

*This is based on a mid-market price of 413.5 pence per share on 29 December 2000. Andrew Hamment and David Jeffcoat were appointed Directors during the period *(see below)*. During the year, the Group purchased £365,000 of Ultra shares (1999: £107,000) for the 1999 awards *(see note 13)*.

Long Term Incentive Plan (continued)

The following LTIP awards were exercised during the period:

	Number of shares	Value £'000
J. Blogh	**28,000**	**108**
D. Caster	**18,000**	**69**
F. Hope	**13,200**	**51**
R. Lane	**18,000**	**69**
I. Yeoman	**18,000**	**69**

Frank Hope received 13,200 shares in relation to an LTIP award prior to his becoming a director.

Directors' remuneration

Directors' emoluments are detailed below:

	Basic salary £'000	Fees £'000	Annual performance bonus £'000	Benefits £'000	2000 Total £'000	1999 Total £'000
P. Macfarlane	**-**	**55**	**-**	**-**	**55**	50
J. Blogh	**195**	**-**	**33**	**12**	**240**	221
D. Caster	**123**	**-**	**21**	**10**	**154**	141
A. Hamment *(appointed 17 August 2000)*	**37**	**-**	**6**	**3**	**46**	-
F. Holroyd	**-**	**21**	**-**	**-**	**21**	19
F. Hope	**115**	**-**	**19**	**11**	**145**	122
D. Jeffcoat *(appointed 24 July 2000)*	**62**	**-**	**11**	**6**	**79**	-
R. Lane *(retired 17 August 2000)*	**73**	**-**	**-**	**7**	**80**	141
J. Taylor *(retired 26 February 1999)*	**-**	**-**	**-**	**-**	**-**	20
A. Walker	**-**	**21**	**-**	**-**	**21**	19
I. Yeoman *(retired 24 July 2000)*	**71**	**-**	**-**	**7**	**78**	143
Total	**676**	**97**	**90**	**56**	**919**	876

Pension contributions to Directors of £69,000 (1999: £57,000) were paid by the Company, including £19,500 (1999: £17,000) in respect of the highest paid Director.

Aggregate Directors' remuneration and other benefits were as follows:

	2000 £'000	1999 £'000
Emoluments	**919**	876
Amounts receivable under long-term incentive schemes	**366**	-
	1,285	876

The fees of non-executive Directors are set by a committee of executive Directors in the absence of the non-executive Directors. Non-executive Directors are not eligible for pension scheme membership and do not participate in any of the Group's bonus or other incentive schemes.

Service contracts

Service contracts of executive Directors have a notice period of one year. In the event of early termination, compensation to Directors is capped at one year's salary.

Share schemes

The Company operates the Company Share Option Plan and Executive Share Option Scheme for selected employees. These schemes are not available to employees who participate in the Long Term Incentive Plan.

The Group also operates Savings Related Share Option Schemes for all employees. Employees who participate in the Schemes open an approved savings account. When the savings start, options are granted to acquire the number of shares that the total savings will buy when the contract matures.

Directors' pension entitlements

The Company operates a contributory pension scheme for Directors. A pension equal to two thirds of the salary at retirement is provided at the normal retirement age of 63 years. Where pensionable service is less than 20 years, the pension is calculated as one thirtieth of the retirement salary for each year of service.

With the Company's consent, Directors may retire from age 50. After age 58 Company consent to early retirement is not required. Pensions are reduced in the event of early retirement.

Death in service cover is a lump sum of four times pensionable earnings. In addition a spouse's pension of 33% of pensionable earnings is payable, together with an allowance for dependent children up to a maximum of 33% of pensionable earnings where relevant. On the death of a retired Director a spouse's pension of 50% of the Director's pension is payable.

Once the pension is in payment, the part of the Director's pension above the Guaranteed Minimum Pension will be increased each year in line with the increase in the retail price index, capped at 7.5%, above which increases are at the Trustees' discretion.

Details of Directors' pension rights are given below:

	Age at 30 December 2000	Years of service at 30 December 2000	Additional pension earned in excess of inflation during the year	Contributions by Directors for the year ended 30 December 2000	Accrued entitlement at 30 December 2000	1999
			£'000	£'000	£'000	£'000
J. Blogh	**57**	**17**	**17**	**10**	**95**	78
D. Caster	**47**	**13**	**7**	**6**	**37**	30
A. Hamment	**46**	**13**	**5**	**5**	**26**	21
F. Hope	**46**	**6**	**3**	**5**	**17**	14
D. Jeffcoat	**50**	**-**	**1**	**2**	**1**	-

Directors' interests

Details of Directors' shareholdings are given below:

	At start of year		At end of year	
	Direct ownership	Indirect beneficial ownership	Direct ownership	Indirect beneficial ownership
P. Macfarlane	-	406,268	**394,453**	**10,000**
J. Blogh	60,494	1,740,385	**143,958**	**884,921**
D. Caster	785,579	486,783	**785,579**	**486,783**
A. Hamment	18,831*	43,535*	**18,831**	**43,535**
F. Holroyd	6,000	-	**6,000**	**-**
F. Hope	3,800	-	**11,831**	**-**
D. Jeffcoat	-*	-*	**-**	**2,500**
A. Walker	300	-	**300**	**-**

There have been no changes in Directors' interests between 30 December 2000 and 26 February 2001.

*Andrew Hamment and David Jeffcoat became Directors during the year. The amounts presented as opening balances represent their interests on appointment.

Details of Directors' interests in Company SAYE schemes are given below:

		Exercise price	At start of year	At end of year
F. Hope	1996 SAYE scheme	£2.30	1,500	**1,500**
	1999 SAYE scheme	£3.79	890	**890**
A. Hamment	1996 SAYE scheme	£2.30	1,500	**1,500**

Annual general meeting

Explanations of special business resolutions are given below:

Resolution 7

This resolution authorises the Directors to allot shares in the Company up to a maximum nominal amount of £1,091,243 (33% of the allotted and fully paid up share capital of the Company).

Resolution 8

This resolution authorises the Directors to allot shares for cash, without first having offered to allot such shares to existing shareholders in proportion to their existing holdings, in respect of 5% of the total issued share capital of the Company.

Resolutions 7 and 8 comply with the Association of British Insurers' guidelines and renew similar authorities given previously. The authorities expire on the earlier of the conclusion of the next annual general meeting of the Company or 15 months after the date of passing these resolutions. The Directors have no current intention to exercise the authorities sought by these resolutions except for employee share option schemes.

Resolution 9

This resolution authorises the Directors to purchase up to a total of 3,273,728 of the Company's shares (representing 5% of the issued share capital of the Company). This authority expires on the earlier of 12 months from the date of passing this resolution or the conclusion of the next annual general meeting of the Company.

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

Auditors

The Directors will place a resolution before the annual general meeting to reappoint Arthur Andersen as auditors for the ensuing year.

By order of the Board,

D. Jeffcoat

Company Secretary

26 February 2001

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

Corporate governance

The Group complies with the Combined Code provisions on Corporate Governance. During the past year it has operated the procedures necessary to follow the guidance issued by the Turnbull Committee in September 1999 and has maintained a reporting process in accordance with that guidance.

The Board, which currently comprises three independent non-executive Directors and five executive Directors, normally meets monthly throughout the year. It deals with the important aspects of the Group's affairs including setting and monitoring strategy, reviewing performance, ensuring that the Group has adequate financial resources and reporting to shareholders. It has overall responsibility for reviewing the effectiveness of internal controls throughout the Group.

The Board has an Audit Committee, comprising the non-executive Directors and is chaired by Peter Macfarlane, which considers the adequacy of the Group's internal financial controls and procedures. The Committee reviews the scope of work and the findings of the Group's external and internal auditors and commissions any additional investigations that may be needed.

The Board Remuneration Committee is responsible for setting the remuneration of executive Directors. It comprises the non-executive Directors and is chaired by Sir Frank Holroyd. A remuneration report is included in the Directors' Report above, together with details of the Directors' shareholdings, long term incentive share awards and pension entitlements.

The Board also has a Nominations Committee which comprises the non-executive Directors and the Chief Executive. The Committee, which is chaired by Peter Macfarlane, reviews all senior appointments.

Internal controls

The Combined Code introduced a requirement that Directors review the effectiveness of the Group's system of internal controls. This extended the previous requirements in respect of internal financial controls to cover all areas of risk including strategic, operational, financial and information systems.

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

Control environment

The Directors have implemented an organisational structure with clearly defined lines of responsibility and delegation of authority. Ethical values and control consciousness are communicated to managers and staff via performance appraisal and development and training programmes.

All businesses are required to maintain written financial procedure manuals. Large capital investments require executive Director approval and acquisitions or significant bids by the Group require Board approval.

Risk management

Management has a responsibility for identifying the risks facing their businesses and for putting in place procedures to monitor and mitigate such risks.

Strategic risks are formally assessed by the Board during the annual strategic planning process and steps are taken following this process to ensure that all such risks are minimised going forward.

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

An Internal Audit function has been established during the year, with responsibility to review financial and information systems control procedures throughout the Group, following a two-year cycle. Major businesses and those judged to represent a higher risk are reviewed annually, with the remaining businesses being visited at least once every two years. Internal Audit reports to the Chief Executive and presents its findings to the Audit Committee. During follow-up visits, Internal Audit will confirm that actions have been taken to deal with any control weaknesses previously identified.

Management information systems

The Group has a comprehensive system of financial reporting. The annual budget and five year strategic plan for each business are approved by the executive Directors and the Board approves the Group's budget and plan. Actual results for each business are reported monthly to the Board and variances against budget are monitored by the executive Directors. Revised forecasts for the year are prepared each month and monthly cash reporting is also carried out.

Effectiveness of controls

The Board accepts overall responsibility for reviewing the operation and effectiveness of the Group's internal control framework on a regular basis; internal procedures are reviewed and updated where necessary. The Board has performed a specific assessment for the purpose of this annual report. This assessment considered all significant aspects of internal control arising during the period covered by the report including the work of Internal Audit. The Audit Committee assists the Board in discharging its review responsibilities. The Directors consider that there have been no weaknesses in internal control that resulted in any material losses, contingencies or uncertainties requiring disclosure in the accounts.

Going concern

After making enquiries the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Statement of responsibilities

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

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

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

To the shareholders of Ultra Electronics Holdings plc

We have audited the accounts on pages 36 to 60 which have been prepared under the historical cost convention and the accounting policies set out on pages 39 to 41. We have also examined the amounts disclosed relating to the emoluments, share options, long-term incentive scheme interests and pension benefits of the Directors which form part of the remuneration report on pages 27 to 30.

Respective responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report including, as described on page 33, preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the accounts, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company and the Group is not disclosed.

We review whether the Corporate Governance statement on pages 32 and 33 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's Corporate Governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the Corporate Governance statement, and consider whether it is consistent with the audited accounts. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 30 December 2000 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen

Chartered Accountants and Registered Auditors

Abbots House, Abbey Street, Reading RG1 3BD

26 February 2001

Consolidated profit and loss account

For the year ended 30 December 2000

	Note		2000 £'000		1999 £'000
Turnover					
– existing operations			**209,665**		192,981
– acquisitions			**17,267**		-
Continuing operations	*2*		**226,932**		192,981
Cost of sales					
– existing operations			**(158,332)**		(144,974)
– acquisitions			**(11,017)**		-
Continuing operations			**(169,349)**		(144,974)
Gross profit					
– existing operations			**51,333**		48,007
– acquisitions			**6,250**		-
Continuing operations			**57,583**		48,007
Other operating expenses (net)	*3*		**(30,231)**		(24,773)
Operating profit can be analysed as:					
– existing operations before goodwill amortisation		27,336		24,545	
– goodwill amortisation on existing operations		(1,453)		(1,311)	
– existing operations			**25,883**		23,234
– acquisitions before goodwill amortisation		2,989		-	
– goodwill amortisation on acquisitions		(1,520)		-	
– acquisitions			**1,469**		-
Continuing operations			**27,352**		23,234
Finance charges (net)	*4*		**(4,701)**		(1,303)
Profit on ordinary activities before taxation	*5*		**22,651**		21,931
Tax on profit on ordinary activities	*7*		**(6,650)**		(6,372)
Profit on ordinary activities after taxation, being the profit for the financial year			**16,001**		15,559
Dividends paid and proposed on equity shares	*8*		**(6,347)**		(5,871)
Retained profit for the year			**9,654**		9,688

		Note	2000	1999
Earnings per ordinary share (pence):				
After goodwill amortisation				
	Basic	*9*	**24.5**	23.9
	Diluted	*9*	**24.4**	23.8
Before goodwill amortisation				
	Basic	*9*	**29.0**	25.9

A statement of movements on reserves is given in note 21 to the accounts.

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

Balance sheets

30 December 2000

	Note	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Fixed assets					
Tangible assets	*10*	**16,145**	14,874	**73**	72
Intangible assets – Patents and trademarks	*11*	**507**	291	**-**	-
Intangible assets – Goodwill	*12*	**67,191**	27,374	**-**	-
Investments	*13*	**364**	342	**86,159**	39,899
		84,207	42,881	**86,232**	39,971
Current assets					
Stocks	*14*	**19,235**	20,885	**-**	-
Debtors: Amounts falling due after more than one year	*15*	**548**	1,199	**24,026**	15,673
Debtors: Amounts falling due within one year	*15*	**50,792**	37,075	**17,776**	8,664
Cash at bank and in hand		**12,823**	12,976	**2,279**	8,565
		83,398	72,135	**44,081**	32,902
Creditors: Amounts falling due within one year	*16*	**(90,168)**	(86,489)	**(39,896)**	(34,897)
Net current (liabilities)/assets		**(6,770)**	(14,354)	**4,185**	(1,995)
Total assets less current liabilities		**77,437**	28,527	**90,417**	37,976
Creditors: Amounts falling due after more than one year	*17*	**(41,804)**	(500)	**(54,385)**	-
Provisions for liabilities and charges	*19*	**(2,646)**	(4,613)	**-**	-
Net assets		**32,987**	23,414	**36,032**	37,976
Capital and reserves					
Called-up share capital	*20*	**3,274**	3,266	**3,274**	3,266
Share premium account	*21*	**24,727**	24,291	**24,727**	24,291
Profit and loss account	*21*	**4,986**	(4,143)	**8,031**	10,419
Equity shareholders' funds	*22*	**32,987**	23,414	**36,032**	37,976

Signed on behalf of the Board

J. Blogh, *Chief Executive*

D. Jeffcoat, *Finance Director*

26 February 2001

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

Consolidated cash flow statement

For the year ended 30 December 2000

	Note	2000 £'000	1999 £'000
Net cash inflow from operating activities	*23*	**19,790**	12,564
Returns on investments and servicing of finance	*23*	**(3,923)**	(1,267)
Taxation – UK		**(4,450)**	(7,461)
– Overseas		**(608)**	(300)
Capital expenditure and financial investment	*23*	**(3,312)**	(4,355)
Acquisitions	*23*	**(44,721)**	(5,846)
Equity dividends paid		**(6,011)**	(5,461)
Cash outflow before financing		**(43,235)**	(12,126)
Financing	*23*	**42,785**	10,316
Decrease in cash in the year		**(450)**	(1,810)

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

Consolidated statement of total recognised gains and losses

For the year ended 30 December 2000

	2000 £'000	1999 £'000
Group profit for the financial year	**9,654**	9,688
(Loss)/Gain on foreign currency translation	**(680)**	27
Total recognised gains and losses	**8,974**	9,715

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

1 Accounting policies

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

a) Basis of accounting

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

b) Basis of consolidation

The Group's accounts consolidate the accounts of Ultra Electronics Holdings plc and all of its subsidiary undertakings up to 30 December 2000 using the acquisition method of accounting. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of control passing or up to the date of control being relinquished.

No profit and loss account is presented for Ultra Electronics Holdings plc, as permitted by section 230 of the Companies Act 1985.

c) Goodwill

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

For acquisitions made prior to 31 December 1997 goodwill was considered separately for each acquisition and was written off immediately to the goodwill reserve, depending on the Directors' assessment of its likely future value to the Group. That reserve has since been offset against the profit and loss account balance. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

d) Research and development

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

e) Patents and trademarks

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

f) Tangible fixed assets

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

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

Freehold buildings	50 years
Short leasehold improvements	over remaining period of lease
Plant, equipment and vehicles	3 to 20 years

Freehold land is not depreciated.

1 Accounting policies (continued)

g) Investments

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

h) Stocks

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

i) Taxation

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

Deferred taxation is provided using the liability method on all timing differences only to the extent that they are expected to reverse in the future without being replaced, except that the deferred tax effects of timing differences arising from pensions is always recognised in full, if material.

j) Pension costs

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

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

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

k) Warranty

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

l) Foreign currency

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

1 Accounting policies (continued)

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

m) Turnover

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

n) Government grants

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

o) Leases

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

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

p) Derivative financial instruments and financing costs

A description of how the Group manages its financial risks is included in the Financial Review on pages 20 and 21. Forward exchange contracts are used to hedge foreign exchange exposures arising on forecast receipts and payments in foreign currencies. Gains and losses are taken to the profit and loss on maturity of the hedge.

Costs associated with arranging Group finance are capitalised and written off in accordance with FRS 4.

2 Segment information

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

	2000 £'000	1999 £'000
United Kingdom	**113,190**	104,840
Continental Europe	**23,486**	23,024
North America	**79,719**	57,664
Rest of the World	**10,537**	7,453
	226,932	192,981

2 Segment information (continued)

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

	United Kingdom		North America		Group	
	2000 £'000	1999 £'000	**2000 £'000**	1999 £'000	**2000 £'000**	1999 £'000
Turnover	**165,304**	150,309	**61,628**	42,672	**226,932**	192,981
Trading profit	**27,166**	19,797	**3,159**	4,748	**30,325**	24,545
Goodwill amortisation					**(2,973)**	(1,311)
Operating profit					**27,352**	23,234
Interest (net)					**(4,701)**	(1,303)
Profit before tax					**22,651**	21,931
Net operating assets	**12,042**	10,141	**10,009**	5,765	**22,051**	15,906

Turnover and operating profit by division were as follows:

	Turnover		Profit	
	2000 £'000	1999 £'000	**2000 £'000**	1999 £'000
Division				
Air and Land Systems	**158,315**	129,370	**22,104**	18,065
Information and Sea Systems	**68,617**	63,611	**8,221**	6,480
	226,932	192,981	**30,325**	24,545
Goodwill amortisation			**(2,973)**	(1,311)
Operating profit			**27,352**	23,234

3 Other operating expenses (net)

			2000	1999
	Existing operations £'000	**Acquisitions £'000**	**Total £'000**	Total £'000
Selling and distribution costs	**9,000**	**920**	**9,920**	9,249
Administrative expenses	**17,016**	**3,861**	**20,877**	15,975
Other operating income	**(566)**	**-**	**(566)**	(451)
	25,450	**4,781**	**30,231**	24,773

4 Finance charges (net)

	2000 £'000	1999 £'000
Interest receivable and similar income	**269**	254
Amortisation of finance costs of debt	**(38)**	-
On bank loans, overdrafts and other loans		
– repayable within five years	**(4,909)**	(1,535)
On finance leases	**(23)**	(22)
	(4,701)	(1,303)

5 Profit on ordinary activities before taxation

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

	2000 £'000	1999 £'000
Depreciation and amounts written off tangible fixed assets		
– owned	**4,241**	3,189
– held under finance leases and hire purchase contracts	**88**	64
Provision against investments	**280**	344
Amortisation of goodwill	**2,973**	1,311
Amortisation of patents and trademarks	**23**	7
Operating lease rentals		
– plant and machinery	**1,407**	1,201
– other	**2,948**	2,332
Research and development *(see also Directors' report)*	**9,555**	10,136
Auditors' remuneration		
– audit fees	**158**	135
– other	**66**	23
Government grants received	**(10)**	(30)

In addition to the above, Arthur Andersen received £49,000 in connection with the Group's acquisition of DF Group Limited, which has been included within the cost of the investment.

6 Staff costs

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

Employee costs during the year amounted to:

	2000 £'000	1999 £'000
Wages and salaries	**59,453**	50,582
Social security costs	**5,884**	4,656
Other pension costs	**2,993**	2,757
	68,330	57,995

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

	2000 Number	1999 Number
Production	**1,068**	936
Engineering	**772**	711
Selling	**132**	124
Support services	**331**	308
	2,303	2,079

Information on Directors' remuneration is given in the Directors' Report.

7 Tax on profit on ordinary activities

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

	2000 £'000	1999 £'000
UK taxes		
Corporation tax	**7,151**	5,736
Adjustment in respect of prior years	**(1,185)**	49
	5,966	5,785
Overseas taxes		
Current taxation	**499**	393
Adjustment in respect of prior years	**185**	194
	684	587
	6,650	6,372

8 Dividends paid and proposed on equity shares

	2000 £'000	1999 £'000
Interim ordinary dividend paid of 3.2p per share (1999: 3p)	**2,091**	1,951
Final ordinary dividend proposed of 6.5p per share (1999: 6p)	**4,256**	3,920
	6,347	5,871

9 Earnings per share

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

	2000 No. of shares	1999 No. of shares
Number of shares used for basic earnings per share	**65,406,291**	65,055,293
Number of shares deemed to be issued at nil consideration following exercise of share options	**221,037**	371,693
Number of shares used for diluted earnings per share	**65,627,328**	65,426,986

Earnings attributable to ordinary shareholders:

	2000 £'000	1999 £'000
After goodwill amortisation	**16,001**	15,559
Before goodwill amortisation	**18,974**	16,870

10 Tangible fixed assets

The movement in the year was as follows:

GROUP

	Land and Buildings Freehold £'000	Land and Buildings Short leasehold £'000	Plant and machinery £'000	Total £'000
Cost				
Beginning of year	3,915	2,934	25,677	32,526
Foreign exchange differences	80	23	604	707
Acquisition of subsidiary undertakings	1,036	518	1,794	3,348
Other additions	74	183	3,166	3,423
Disposals	-	-	(1,654)	(1,654)
End of year	**5,105**	**3,658**	**29,587**	**38,350**
Depreciation				
Beginning of year	471	1,280	15,901	17,652
Foreign exchange differences	18	16	413	447
Acquisition of subsidiary undertakings	111	274	832	1,217
Charge	139	334	3,856	4,329
Disposals	-	-	(1,440)	(1,440)
End of year	**739**	**1,904**	**19,562**	**22,205**
Net book value				
Beginning of year	3,444	1,654	9,776	14,874
End of year	**4,366**	**1,754**	**10,025**	**16,145**

Freehold land amounting to £1,021,000 (1999: £1,055,000) has not been depreciated. Plant and machinery includes fixtures and fittings, tooling and test rigs, computers and motor vehicles. The net book value of assets held under finance leases was £276,000 (1999: £162,000).

COMPANY

	Plant and machinery £'000
Cost	
Beginning of year	187
Additions	31
End of year	**218**
Depreciation	
Beginning of year	115
Charge	30
End of year	**145**
Net book value	
Beginning of year	72
End of year	**73**

11 Intangible assets – Patents and trademarks

	Group £'000
Cost	
Beginning of year	298
Additions	239
End of year	**537**
Amortisation	
Beginning of year	7
Charge	23
End of year	**30**
Net book value	
Beginning of year	291
End of year	**507**

12 Intangible assets – Goodwill

	Group £'000
Cost	
Beginning of year	28,726
Additions *(see below)*	42,790
End of year	**71,516**
Amortisation	
Beginning of year	1,352
Charge	2,973
End of year	**4,325**
Net book value	
Beginning of year	27,374
End of year	**67,191**

a) Acquisition during the year – DF Group Limited

On 14 April 2000, the Group purchased all of the share capital of DF Group Limited, with operations in Preston and Manchester, England, for a cash consideration after overdrafts of £44,723,000. The aggregate net assets acquired and their fair values were as follows:

12 Intangible assets – Goodwill (continued)

a) Acquisition during the year – DF Group Limited (continued)

	Book value	Accounting policy alignment	Other adjustments	Fair value
	£'000	£'000	£'000	£'000
Tangible fixed assets	2,131	-	-	2,131
Current assets:				
Stocks	-	385	-	385
Debtors	5,698	(391)	(579)	4,728
Bank overdraft	(451)	-	-	(451)
Creditors falling due within one year	(3,484)	(758)	(849)	(5,091)
Net assets acquired	3,894	(764)	(1,428)	1,702
Goodwill capitalised				42,570
Purchase consideration, including certain costs				44,272

The consolidated results of DF Group Limited for the period from 1 June 1999 to 14 April 2000, based on accounting policies followed prior to acquisition, were turnover £22,300,000, gross profit £8,100,000, other operating expenses £4,200,000 and exceptional items of £4,100,000, resulting in an operating loss of £200,000. Net finance charges payable were £900,000 and taxation £600,000, giving a loss after tax of £1,700,000. DF Group Limited earned a profit after tax of £1,150,000 in the year ended 31 May 1999.

b) Revisions to fair values – Advanced Programming Concepts Inc

Fair values on acquisition have been adjusted for Advanced Programming Concepts Inc, which was purchased in 1999. The revisions relate principally to tax adjustments. These are as follows:

	Book value	Adjustments	Fair value
	£'000	£'000	£'000
Tangible fixed assets	373	-	373
Current assets:			
Stocks	162	-	162
Debtors	753	-	753
Cash	692	-	692
Creditors falling due within one year	(1,015)	(220)	(1,235)
Net assets acquired	965	(220)	745
Goodwill capitalised			5,495
Purchase consideration, including certain costs			6,240

c) Sale of business – Helitune

On 23 June 2000, the Group sold the assets and trade of Helitune, a business involved in the design and manufacture of helicopter rotor balancing equipment. The gross profit of Helitune up to the date of disposal was £130,000 (1999: £24,000). Fair value of the consideration receivable was £367,000 (£267,000 of which was received in 2000), relating to £167,000 of current assets, £182,000 of goodwill and deal costs of £26,000. The loss on sale was £8,000.

The results for the period to the date of disposal are not considered material to the Group.

13 Investments

a) Principal subsidiary undertakings

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

Name	Place of registration or incorporation
Advanced Programming Concepts Inc	Texas, USA
Ultra Electronics Limited	England and Wales
Datel Defence Limited	England and Wales
EMS Development Corporation Inc	Delaware, USA
Ferranti Air Systems Limited	England and Wales
Flightline Electronics Inc	Delaware, USA
Hermes Electronics Inc	Canada
Measurement Systems Inc	Delaware, USA
Power Magnetics and Electronic Systems Limited	England and Wales
UnderSea Sensor Systems Inc	Delaware, USA

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

b) Current year movement on fixed asset investments

	Group			Company			
	Own shares £'000	Long Term Incentive Plan shares £'000	Total £'000	Own shares £'000	Long Term Incentive Plan shares £'000	Investment in subsidiary undertakings £'000	Total £'000
Cost							
Beginning of year	63	1,082	1,145	63	1,082	39,557	40,702
Additions *(see also note 12)*	-	365	365	-	365	46,238	46,603
Disposals	(63)	(480)	(543)	(63)	(480)	-	(543)
End of year	**-**	**967**	**967**	**-**	**967**	**85,795**	**86,762**
Provision							
Beginning of year	-	803	803	-	803	-	803
Charge	-	280	280	-	280	-	280
Disposals	-	(480)	(480)	-	(480)	-	(480)
End of year	**-**	**603**	**603**	**-**	**603**	**-**	**603**
Net book value							
Beginning of year	63	279	342	63	279	39,557	39,899
End of year	**-**	**364**	**364**	**-**	**364**	**85,795**	**86,159**

During the year, the Company capitalised £1,416,000 (1999: £12,711,000) of loans to subsidiary undertakings.

14 Stocks

	Group 2000 £'000	Group 1999 £'000
Raw materials and consumables	**13,889**	12,587
Work-in-progress	**16,976**	15,400
Finished goods and goods for resale	**1,264**	3,302
Payments on account	**(12,985)**	(11,176)
	19,144	20,113
Long-term contract balances		
– costs less foreseeable losses	**207**	1,108
– less payments on account	**(116)**	(336)
	91	772
	19,235	20,885

15 Debtors

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Amounts falling due within one year:				
Trade debtors	**33,578**	21,013	**-**	-
Amounts recoverable on contracts	**14,195**	12,527	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**17,636**	8,499
Other debtors	**1,152**	2,079	**91**	-
Prepayments and accrued income	**1,867**	1,456	**49**	165
	50,792	37,075	**17,776**	8,664
Amounts falling due after more than one year:				
Amounts recoverable on contracts	**548**	1,199	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**24,026**	15,673
	548	1,199	**24,026**	15,673

16 Creditors: Amounts falling due within one year

	Group	Group	Company	Company
	2000 **£'000**	1999 £'000	**1999** **£'000**	1999 £'000
Obligations under finance leases	**122**	61	**-**	-
Bank loans	**27,127**	24,502	**27,127**	24,502
Payments received on account	**17,264**	16,501	**-**	-
Trade creditors	**15,852**	17,212	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**6,599**	5,224
Other creditors:				
– Corporation tax payable	**6,508**	4,734	**573**	697
– VAT	**2,013**	1,524	**15**	20
– social security and PAYE	**1,628**	1,107	**103**	-
– other creditors	**3,814**	5,577	**913**	-
Pension related liabilities	**316**	354	**29**	29
Accruals and deferred income	**11,268**	10,997	**281**	505
Proposed dividends	**4,256**	3,920	**4,256**	3,920
	90,168	86,489	**39,896**	34,897

Bank loans totalling £24,181,000 were unsecured and matured on 5 January 2001. The interest rate charged was related to LIBOR. Bank loan instalment payments of £3,000,000 are due on 12 April 2001. The interest rate charged on this loan is 7.8% *(see also note 17)*.

17 Creditors: Amounts falling due after more than one year

	Group	Group	Company	Company
	2000 **£'000**	1999 £'000	**2000** **£'000**	1999 £'000
Obligations under finance leases	**148**	119	**-**	-
Bank loan	**41,322**	-	**41,322**	-
Payments received on account	**334**	381	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**13,063**	-
	41,804	500	**54,385**	-

The bank loan is unsecured and due for repayment in instalments within 5 years. Interest is charged at 7.8%.

17 Creditors: Amounts falling due after more than one year (continued)

Borrowings fall due as analysed below:

	Group 2000 £'000	Group 1999 £'000	Company 2000 £'000	Company 1999 £'000
Bank loans				
In one year or less or on demand	**27,181**	24,502	**27,181**	24,502
In more than one year but not more than two years	**6,000**	-	**6,000**	-
In more than two years but not more than five years	**35,500**	-	**35,500**	-
	68,681	24,502	**68,681**	24,502
Less: unamortised finance costs of debt	**(232)**	-	**(232)**	-
	68,449	24,502	**68,449**	24,502
Less: included in creditors: amounts falling due within one year	**(27,127)**	(24,502)	**(27,127)**	(24,502)
	41,322	-	**41,322**	-
Finance leases				
In one year or less or on demand	**122**	61	**-**	-
In more than one year but not more than two years	**110**	51	**-**	-
In more than two years but not more than five years	**38**	68	**-**	-
	270	180	**-**	-
Less: included in creditors: amounts falling due within one year	**(122)**	(61)	**-**	-
	148	119	**-**	-

18 Financial risk management

The Group's approach to managing financial risk is described in the Financial Review on pages 20 to 21. Certain financial assets, such as investments in subsidiary undertakings are excluded from the scope of these disclosures. As permitted by FRS 13, short term debtors and creditors have been excluded from the disclosures except for the currency risk disclosures.

a) Interest rate profile

	At floating interest rates 2000 £'000	Interest free 2000 £'000	Total 2000 £'000	At floating interest rates 1999 £'000	Interest free 1999 £'000	Total 1999 £'000
Financial assets						
Sterling	4,340	548	**4,888**	3,664	1,199	4,863
US dollar	6,206	-	**6,206**	7,514	-	7,514
Canadian dollar	1,928	-	**1,928**	1,768	-	1,768
Euro	284	-	**284**	30	-	30
Other	65	-	**65**	-	-	-
	12,823	548	**13,371**	12,976	1,199	14,175

The financial assets of the Group comprised:

	2000 £'000	1999 £'000
Cash	**12,823**	12,976
Debtors: Amounts falling due after more than one year	**548**	1,199
	13,371	14,175

18 Financial risk management (continued)

a) Interest rate profile (continued)

	At fixed interest rates 2000 £'000	At floating interest rates 2000 £'000	Financial liabilities on which no interest is paid 2000 £'000	**Total 2000 £'000**
Financial liabilities				
Sterling	44,751	6,600	334	**51,685**
US dollar	19	17,581	-	**17,600**
	44,770	24,181	334	**69,285**

	At fixed interest rates 1999 £'000	At floating interest rates 1999 £'000	Financial liabilities on which no interest is paid 1999 £'000	Total 1999 £'000
Financial liabilities				
Sterling	148	5,000	381	5,529
US dollar	32	19,502	-	19,534
	180	24,502	381	25,063

The financial liabilities of the Group comprised:

	2000 £'000	1999 £'000
Total borrowings and finance leases	**68,951**	24,682
Creditors: Payments on account falling due after more than one year	**334**	381
	69,285	25,063

The Group has a loan of $26.3 million to hedge overseas net investments. To hedge the inherent interest rate risk, the Group has taken out an interest rate collar with a variable notional amount, at 30 December 2000 of $25.7 million, with a cap set at 6.5% and a floor of 4.67%. The interest rate cap was triggered during the year, but returned to within the cap and floor by the year end. Hence the borrowings have been classified as floating. An interest rate swap has been taken out to fix the interest rate on the £44.5 million loan at 7.8%. A £6.6 million bank loan is at floating rates, set with reference to the prevailing LIBOR rate. The weighted average profile is as follows:

2000	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average period until maturity Years
Currency			
Sterling	7.8	2.9	2.0
US dollar	9.8	2.2	-
	7.8	2.9	2.0

18 Financial risk management (continued)

a) Interest rate profile (continued)

1999

	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average period until maturity Years
Currency			
Sterling	8.5	3.7	1.5
US dollar	12.3	2.2	-
	9.2	3.4	1.5

b) Currency risk

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

Net foreign currency monetary assets/(liabilities)

	US $ 2000 £'000	Other 2000 £'000	**Total 2000 £'000**	US $ 1999 £'000	Other 1999 £'000	Total 1999 £'000
Functional currency of Group operations						
Sterling £	1,540	(58)	**1,482**	2,878	(289)	2,589
US $	-	-	**-**	-	-	-
Canadian $	(398)	-	**(398)**	(384)	-	(384)
	1,142	(58)	**1,084**	2,494	(289)	2,205

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

c) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, other than short term creditors such as trade creditors and accruals, at 30 December 2000 was as follows:

	2000 £'000	1999 £'000
In one year or less, or on demand	**27,303**	24,563
In more than one year but not more than two years	**6,444**	432
In more than two years but not more than five years	**35,538**	68
	69,285	25,063

18 Financial risk management (continued)

d) Undrawn committed borrowing facilities

The Group's undrawn committed borrowing facilities available at 30 December 2000, in respect of which all conditions precedent have been met, were as follows:

	2000 £'000	1999 £'000
Expiring in one year or less	**3,173**	9,637
Expiring in more than two years	**13,101**	6,254
	16,274	15,891

e) Fair value of financial instruments

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

	2000 Book value £'000	2000 Fair value £'000	1999 Book value £'000	1999 Fair value £'000
Derivative financial instruments held to hedge the interest rate profile and currency profile				
– Interest rate collar	**-**	**11**	-	156
– Interest rate swap	**-**	**(1,182)**	-	-
Derivative financial instruments held to hedge the currency exposure on expected future sales				
– Forward foreign exchange contracts	**-**	**(537)**	-	111
	-	**(1,708)**	-	267

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

f) Gains and losses on hedges

Forward exchange contracts are used to hedge exchange exposures arising on forecast receipts and payments in foreign currencies. Gains and losses are taken to the profit and loss account on maturity of the hedge. The interest rate collar and interest swap are used to manage the interest rate profile. Gains and losses disclosed below are based on market values at 30 December 2000.

	Gains £'000	Losses £'000	Total net gains/(losses) £'000
Unrecognised gains and (losses) on hedges at 30 December 1999	**649**	**(382)**	**267**
(Gains) and losses arising before 30 December 1999, recognised 2000	**(380)**	**192**	**(188)**
Gains and (losses) arising before 30 December 1999, not recognised in 2000	**269**	**(190)**	**79**
Gains and (losses) arising in 2000, not recognised in 2000	**128**	**(1,915)**	**(1,787)**
Unrecognised gains and (losses) on hedges at 30 December 2000	**397**	**(2,105)**	**(1,708)**
Of which:			
Gains and (losses) expected to be recognised in 2001	**144**	**(760)**	**(616)**
Gains and (losses) expected to be recognised in 2002 and beyond	**253**	**(1,345)**	**(1,092)**

19 Provisions for liabilities and charges

Warranties

	Group
	£'000
Beginning of year	4,613
Exchange difference	15
Utilised during the year	(1,085)
Released to the profit and loss account	(897)
End of year	**2,646**

Deferred taxation

	Group	Group	**Company**	Company
	2000 £'000	1999 £'000	**2000 £'000**	1999 £'000
Provided:				
Excess of tax allowances over book depreciation of fixed assets	**437**	883	**-**	-
Other timing differences relating to current assets and liabilities (restricted, see below)	**(437)**	(883)	**-**	-
	-	-	**-**	-
Unprovided deferred tax assets:				
Other timing differences relating to current assets and liabilities	**(518)**	(1,070)	**(384)**	(12)

20 Called-up share capital

	2000		1999	
	No.	**£000**	No.	£000
Authorised:				
5p ordinary shares	**90,000,000**	**4,500**	90,000,000	4,500
Allotted, called-up and fully paid:				
5p ordinary shares	**65,474,567**	**3,274**	65,328,148	3,266

146,419 ordinary shares having a nominal value of £7,321 were allotted during the year under the terms of the Group's various Savings Related Share Option Schemes. The aggregate consideration received by the Company was £444,000. In 1999, the Company set up an Employee Share Ownership Trust to satisfy options granted under the Group's SAYE scheme and, during the year, employing UK Companies within the Group gifted £27,000 to the Trust.

20 Called-up share capital (continued)

Share options

At 30 December 2000 the following options granted to staff remained outstanding:

	Options granted	Number of shares 2000	1999	Option price (£)	Exercise dates
Savings Related Share	1996	**219,060**	308,169	2.30	November 1999 - May 2002
Option Scheme	1997	**-**	23,301	2.34 to 2.37	June 1999 - September 2000
	1998	**-**	10,098	3.67	May 2000 - November 2000
	1999	**420,164**	470,437	3.70 to 3.84	June 2001 - May 2005
	2000	**61,896**	-	3.87	August 2002 - February 2004
		701,120	812,005		
Company Share Option Plan	1996	**97,068**	125,424	2.87	March 2000 - November 2006
	1997	**10,715**	21,429	2.80	March 2000 - March 2007
	1998	**72,563**	78,638	4.05	March 2001 - March 2008
	1999	**105,340**	109,595	4.15 to 4.265	March 2002 - September 2009
	2000	**126,879**	-	3.855	May 2003 - May 2010
		412,565	335,086		
Executive Share Option Scheme	1996	**64,545**	82,226	2.87	March 2000 - November 2006
	1997	**28,831**	39,188	2.80	March 2000 - March 2007
	1998	**27,437**	27,437	4.05	March 2001 - March 2008
	1999	**161,780**	186,921	4.15 to 4.265	March 2002 - September 2009
	2000	**226,953**	-	3.855	May 2003 - May 2010
		509,546	335,772		

21 Reserves

	Group		Company	
	Share premium £'000	Profit and loss account £'000	Share premium £'000	Profit and loss account £'000
Beginning of year	24,291	(4,143)	24,291	10,419
Retained profit/(loss) for the year	-	9,654	-	(2,384)
Amounts gifted to the Employee Share Ownership Trust *(see note 20)*	-	(27)	-	-
Goodwill previously written off included in retained profit	-	182	-	-
Issue of new shares	436	-	436	-
Foreign exchange differences	-	(680)	-	(4)
End of year	**24,727**	**4,986**	**24,727**	**8,031**

Cumulative goodwill written off to the profit and loss account is £33,294,000 (1999: £33,476,000).

22 Reconciliation of movements in Group equity shareholders' funds

	£'000
Retained profit for the financial year	9,654
Foreign exchange differences	(680)
Goodwill previously written off included in retained profit	182
Amounts gifted to the Employee Share Ownership Trust *(see note 20)*	(27)
Issue of new shares	444
Net increase to equity shareholders' funds	9,573
Opening equity shareholders' funds	23,414
Closing equity shareholders' funds	**32,987**

23 Cash flow information

Reconciliation of operating profit to operating cash flow

	2000 £'000	1999 £'000
Operating profit	**27,352**	23,234
Depreciation and amounts written off tangible fixed assets	**4,329**	3,253
Amortisation of goodwill	**2,973**	1,311
Amortisation of patents and trademarks	**23**	7
Provision against investments	**280**	344
Loss/(Profit) on disposal of tangible fixed assets	**10**	(8)
Decrease in stocks	**2,192**	262
Increase in debtors	**(7,822)**	(13,309)
Decrease in creditors	**(7,758)**	(2,899)
(Decrease)/Increase in provisions	**(1,982)**	375
Other	**193**	(6)
Net cash inflow from operating activities	**19,790**	12,564

Analysis of cash flows

	2000 £'000	1999 £'000
Returns on investments and servicing of finance		
Interest received	**269**	253
Interest paid	**(4,169)**	(1,498)
Interest element of finance lease rentals	**(23)**	(22)
Net cash outflow from returns on investments and servicing of finance	**(3,923)**	(1,267)
Capital expenditure and financial investment		
Capital expenditure	**(2,947)**	(4,248)
Purchase of Long Term Incentive Plan shares	**(365)**	(107)
Net cash outflow from capital expenditure and financial investment	**(3,312)**	(4,355)

23 Cash flow information (continued)

Analysis of cash flows (continued)

	2000 £'000	1999 £'000
Acquisitions and disposals		
Purchase of business undertakings	**(44,272)**	(6,240)
Net (overdraft)/cash acquired with business undertakings	**(451)**	692
Disposal of subsidiary undertaking	**241**	-
Purchase of patents and trademarks	**(239)**	(298)
Net cash outflow for acquisitions and disposals	**(44,721)**	(5,846)
Financing		
Issue of ordinary share capital (net of expenses)	**417**	638
Capital element of finance lease rental payments	**(128)**	(27)
Debt due within one year	**1,174**	9,705
Debt due after one year	**41,322**	-
Net cash inflow from financing	**42,785**	10,316

Companies acquired in the period contributed £1,840,000 to the Group's net operating cash flows, utilised £175,000 for capital expenditure and paid £213,000 in respect of taxation.

Analysis of changes in net funds

	At start of year £'000	Cash flow £'000	Acquisitions (excl. cash and overdrafts) £'000	Other non cash £'000	Foreign exchange £'000	At end of year £'000
1999						
Cash at bank and in hand	14,607	(1,810)	-	-	179	**12,976**
Debt due within one year	(14,512)	(9,705)	-	-	(285)	**(24,502)**
Finance leases	(207)	27	-	-	-	**(180)**
	(112)	(11,488)	-	-	(106)	**(11,706)**
2000						
Cash at bank and in hand	**12,976**	**(450)**	**-**	**-**	**297**	**12,823**
Debt due within one year	**(24,502)**	**(1,174)**	**-**	**(38)**	**(1,413)**	**(27,127)**
Debt due after one year	**-**	**(41,322)**	**-**	**-**	**-**	**(41,322)**
Finance leases	**(180)**	**128**	**(41)**	**(177)**	**-**	**(270)**
	(11,706)	**(42,818)**	**(41)**	**(215)**	**(1,116)**	**(55,896)**

23 Cash flow information (continued)

Reconciliation of net cash flow to movement in net debt

	2000 £'000	1999 £'000
Decrease in cash in the year	**(450)**	(1,810)
Cash inflow from increase in debt and lease financing	**(42,368)**	(9,678)
Change in net debt resulting from cash flows	**(42,818)**	(11,488)
Amortisation of finance costs of debt	**(38)**	-
Debt and finance leases acquired with subsidiary undertakings	**(41)**	-
New finance leases	**(177)**	-
Translation difference	**(1,116)**	(106)
Movement in net debt in the year	**(44,190)**	(11,594)
Net debt at start of year	**(11,706)**	(112)
Net debt at end of year	**(55,896)**	(11,706)

24 Guarantees and other financial commitments

a) Capital commitments

At the end of the year capital commitments were:

	Group	Group	Company	Company
	2000 £'000	1999 £'000	2000 £'000	1999 £'000
Contracted but not provided	**297**	690	**-**	-

b) Lease commitments

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

	Group	Group	Company	Company
	Land and buildings £'000	Plant and machinery £'000	Land and buildings £'000	Plant and machinery £'000
2000				
Operating leases which expire				
– within one year	**38**	**219**	**-**	**11**
– within two to five years	**958**	**1,014**	**-**	**13**
– after five years	**1,921**	**2**	**-**	**-**
	2,917	**1,235**	**-**	**24**
1999	2,629	1,426	-	38

24 Guarantees and other financial commitments (continued)

c) Pension arrangements

Most UK employees of the Group are eligible to join the Ultra Electronics Limited defined benefit scheme which was established on 1 March 1994. The Group also operates two defined contribution schemes for overseas employees. Within the UK, DF Group employees are able to participate in a defined contribution plan.

The pension cost for the year was £2,993,000 (1999: £2,757,000) of which £2,418,000 (1999: £2,503,000) related to the regular cost of the defined benefit scheme. Contribution balances prepaid or payable at the year end are shown in the balance sheet under prepayments or accruals as appropriate. Pension contributions have been made in accordance with actuarial advice. The cost of overseas pension schemes was £393,000 (1999: £254,000).

The defined benefit scheme was actuarially assessed at 6 April 1998 using the projected unit method. The principal assumptions adopted in the valuation were that the scheme's yield would be 9.0% per annum, salary increases would be 7.5% per annum and that pensions would increase by 4.5% per annum.

The market value of the scheme at 6 April 1998 was £53.2 million. The solvency of the scheme was established at 112% using the scheme's normal funding assumptions.

Shareholder Analysis

30 December 2000

By category of shareholder

	Shares held Number '000	Shares held % share capital
Pension funds	**13,141**	**20**
Unit trusts	**26,498**	**40**
Insurance companies	**9,134**	**14**
Venture capital	**2,285**	**4**
Private investors	**4,079**	**6**
Investment trusts and other funds	**4,492**	**7**
Other	**5,846**	**9**
	65,475	**100**

By size of holding

	Holders		Shares held	
	Number	% of holders	Number '000	% share capital
1-100	**47**	**4**	**3**	**-**
101-500	**555**	**46**	**132**	**-**
501-1,000	**181**	**15**	**139**	**-**
1,001-5,000	**251**	**21**	**418**	**1**
5,001-10,000	**34**	**3**	**255**	**-**
10,001-50,000	**43**	**3**	**1,024**	**2**
50,001-100,000	**23**	**2**	**1,620**	**2**
100,000 and over	**79**	**6**	**61,884**	**95**
	1,213	**100**	**65,475**	**100**

Financial calendar

23 March 2001	Record date for 2000 final dividend
26 April 2001	Annual General Meeting
30 April 2001	2000 final dividend paid
August 2001	Interim results announced
October 2001	Interim dividend paid

Notice of Meeting

Notice is hereby given that the seventh annual general meeting of Ultra Electronics Holdings plc will be held at 417 Bridport Road, Greenford, Middlesex UB6 8UA on Friday 26 April 2001 at 10.00am for the following purposes:

Ordinary business

Resolution 1: To receive and adopt the Company's annual accounts for the financial year ended 30 December 2000 together with the Directors' report and Auditors' report on those accounts.

Resolution 2: To declare a final dividend for the year ended 30 December 2000 of 6.5p per ordinary share, payable to shareholders on the register at the close of business on 23 March 2001.

Resolution 3: To re-elect A. Hamment as a Director, retiring following his appointment during the year.

Resolution 4: To re-elect D. Jeffcoat as a Director, retiring following his appointment during the year.

Resolution 5: To re-elect A. Walker as a Director, retiring by rotation in accordance with Article 76 of the Company's articles of association.

Resolution 6: To re-appoint Arthur Andersen as auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company and to authorise the Directors to fix their remuneration.

A. Hamment and D. Jeffcoat, who are proposed for re-election at the annual general meeting, have twelve month rolling contracts.

Special business

To consider and, if thought fit, to pass the following resolutions of which resolution 7 will be proposed as an ordinary resolution and resolutions 8 and 9 will be proposed as special resolutions:

Resolution 7:

That in substitution for all existing authorities the Directors be generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £1,091,243 (approximately one third of the allotted and fully paid share capital of the Company) for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the passing of this resolution or at the conclusion of the next annual general meeting of the Company, whichever first occurs, but the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the Directors may allot relevant securities in pursuance of that offer or agreement as if the authority conferred by this resolution had not expired.

Resolution 8:

That, in substitution for all existing powers and subject to the passing of resolution 7, the Directors be generally empowered, in accordance with Article 4 of the Articles of Association, to allot equity securities for cash provided that the power conferred by this resolution:

(A) will expire 15 months after the passing of this resolution or at the conclusion of the next annual general meeting of the Company, whichever first occurs, but the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after expiry of this power and the Directors may allot equity securities in pursuance of that offer or agreement as if the power conferred by this resolution had not expired; and

Resolution 8 (continued)

(B) is limited to:

(i) allotments of equity securities in connection with a rights issue in favour of holders of ordinary shares made in proportion (as nearly as may be) to their respective existing holdings of ordinary shares but subject to the Directors having a right to make such exclusions or other arrangements in connection with the offer as they deem necessary or expedient:

(a) to deal with equity securities representing fractional entitlements; and

(b) to deal with legal or practical problems arising in any overseas territory or by virtue of shares being represented by depository receipts, the requirements of any regulatory body or stock exchange; or any other matter whatsoever; and

(ii) allotments of equity securities for cash otherwise than pursuant to paragraph *(i)* up to an aggregate nominal amount of £163,686.

Resolution 9:

That the Company be generally and unconditionally authorised to make one or more market purchases (within the meaning of S163(3) of the Companies Act 1985) of ordinary shares of 5p each in the capital of the Company ("ordinary shares") provided that:

(i) the maximum aggregate number of ordinary shares authorised to be purchased is 3,273,728 (representing 5% of the issued share capital);

(ii) the minimum price which may be paid for an ordinary share is 5p;

(iii) the maximum price which may be paid for an ordinary share is an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the 5 business days immediately preceding the day on which that ordinary share is purchased;

(iv) this authority expires at the conclusion of the next annual general meeting of the Company or within 12 months from the date of the passing of this resolution whichever is earlier; and

(v) the Company may make a contract to purchase ordinary shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of ordinary shares in pursuance of any such contract.

By order of the Board

D. Jeffcoat *Company Secretary*

16 March 2001

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

Notes

1. Only those members entered in the register of members of the Company as at 6.00pm on Tuesday 24th April 2001 shall be entitled to attend and vote at the above meeting. Changes to entries in the register of members after 6.00pm on Tuesday 24th April 2001 shall be disregarded in determining the rights of any person to attend and vote at the meeting.
2. A member of the Company who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of the member. A proxy need not also be a member.
3. To be effective, the form of proxy and any authority under which it was executed (or a notarially certified copy of such authority) must be deposited with the Company's Registrars **Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 3UH** not less than 48 hours before the time fixed for the meeting. Completion of the enclosed proxy form will not preclude shareholders from attending and voting at the meeting in person.
4. Copies of the Register of Interests of Directors (and their families) in the capital of the Company, the Directors' service contracts and the rules of the Ultra Electronics Long Term Incentive Plan will be available for inspection for at least 15 minutes prior to and during the meeting.

Five year review

	1996 £m	1997 £m	1998 £m	1999 £m	**2000 £m**
Turnover					
Existing operations	121.4	137.6	157.9	189.6	**209.6**
Acquisitions	2.2	5.7	0.8	3.4	**17.3**
Total turnover	123.6	143.3	158.7	193.0	**226.9**
Operating profit (before goodwill amortisation)	14.0	18.0	20.9	24.5	**30.3**
Operating profit margin % (before goodwill amortisation)	11.3%	12.6%	13.2%	12.7%	**13.4%**
Profit before goodwill amortisation and tax	14.1	18.1	21.1	23.2	**25.6**
Profit after taxation	9.8	13.2	14.6	15.6	**16.0**
Cash inflow from operating activities *(see note 1)*	16.0	17.0	21.8	8.2	**16.5**
Free cash flow before dividends and acquisitions	12.9	13.7	15.5	(0.8)	**7.7**
Net funds/(debt) at year-end	5.7	9.0	(0.1)	(11.7)	**(55.9)**
Headline earnings per share (p) *(see note 2)*	16.1	20.3	22.6	25.9	**29.0**
Dividends per share (p)	-	7.2	8.1	9.0	**9.7**
Average employee numbers	1,467	1,640	1,707	2,079	**2,303**

Notes

1. Cash flow from operating activities is stated after capital expenditure and financial investments.
2. Headline earnings per share are calculated before goodwill amortisation and earnings dilution.