Directors' report

For the year ended 31 December 2002

The Directors present their annual report on the affairs of the Group, together with the accounts and auditors' report, for the year ended 31 December 2002.

Principal activity

Ultra Electronics is a group of businesses engaged in the design, development and manufacture of electronic systems for the international 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:

		2002 £'000
Balance on profit and loss account, beginning of year *(as restated – see note 20)*		**14,588**
Profit for the financial year		**17,946**
Dividends:	Interim paid of 3.7p per share	**(2,439)**
	Final proposed of 7.5p per share	**(4,946)**
Amounts gifted to the Employee Share Ownership Trust *(see note 19)*		**(135)**
Foreign exchange differences		**474**
Balance on profit and loss account, end of year		**25,488**

The final 2002 dividend is proposed to be paid on 6 May 2003 to shareholders on the register at 11 April 2003. The interim dividend was paid on 27 September 2002, making a total of 11.2p (2001: 10.4p) 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 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 £58.6 million (2001: £50.1 million) was spent on engineering development of which £47.9 million (2001: £40.1 million) was funded by customers and £10.7 million (2001: £10.0 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 listed on page 33.

Substantial shareholdings

At 21 February 2003, 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
Zurich Financial Services Group	4.80	3,157,414
The Aegon UK plc Group of Companies	3.98	2,617,826
Fidelity International Limited	3.87	2,536,171
Legal and General	3.63	2,397,439
Sun Life Assurance	3.13	2,064,069
Scottish Widows Investment Partnership Limited	3.03	1,987,582

Charitable and political contributions

The Group contributed £14,000 (2001: £14,000) to charities and made no contributions for political purposes in either year.

Health, safety and the environment

Ultra's Board recognises that it is important, both for its employees and the communities in which it operates, that Ultra maintains high standards of health and safety and takes effective measures to ensure that its activities do not damage the environment.

The Board continues to operate a policy of bi-annual external audits of each UK site in respect of health, safety and environmental matters. These audits are next scheduled to take place during 2003. A similar process has recently been established for the Group's North American sites and the first of such audits commenced in early 2003.

In particular Ultra recognises the responsibility it has towards the environment. The Group Environmental Policy addresses compliance with environmental legislation, conformity with standards for air, waste disposal and noise, the economical use of materials and the establishment of environmental performance standards. All Ultra businesses commenced implementation of this policy during 2002, a process that will continue into 2003.

Business ethics and employment practices

Ultra's Board of Directors requires that its employees comply with the laws and standards of conduct of the countries in which it does business. The Directors and employees are all required to avoid personal conflicts of interest regarding company business.

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.

It is the policy of the Board 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 political belief. Applicants and employees are treated equally and fairly in respect of recruitment, remuneration, training, promotion and career development.

Employee consultation

The Board places considerable value on the involvement of its employees and keeps them informed on matters affecting them as employees, and on the various factors affecting the performance of the Group, through formal and informal meetings and a Group magazine. An employee survey, 'YOURviews', provides local management teams with feedback and an opportunity to benchmark across the Group.

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 31 December 2002 were 47 days (2001: 53 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.

Annual general meeting

Explanation of special business resolutions is given below:

Resolution 7

Arthur Andersen resigned as auditors of the Group during 2002 and the Board appointed Deloitte & Touche to replace them following a formal tender process. Resolution 7 confirms Deloitte & Touche as Ultra's auditors for the year to come.

Resolution 8

This resolution authorises the Directors to allot shares in the Company up to a maximum nominal amount of £1,100,666 (33% of the allotted and fully paid up share capital of the Company).

Resolution 9

This resolution authorises the Directors to allot shares for cash, without first having offered to allot such shares to existing shareholders in proportion to their existing holdings, in respect of 5% of the total issued share capital of the Company. Resolutions 8 and 9 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 10

This resolution authorises the Directors to purchase up to a total of 3,301,997 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.

By order of the Board,

D. Jeffcoat
Company Secretary
24 February 2003

Registered Office: 417 Bridport Road, Greenford, Middlesex UB6 8UA
Registered Number: 2830397

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 1999 internal control guidelines and has maintained a reporting process in accordance with them.

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 consists of the non-executive Directors and is chaired by Sir Frank Holroyd. A Directors' remuneration table is included in the Remuneration report, together with details of the Directors' pension entitlements, long-term incentive share awards and shareholdings. These disclosures are consistent with the latest Department of Trade and Industry regulations.

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

Ultra's internal controls are designed to meet the 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

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

All businesses are required to maintain written financial procedure manuals. Acquisitions, major capital investments and very large bids require Board approval.

Risk management

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

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

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

Risk management (continued)

The Board has established an Internal Audit function 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. Follow-up actions to deal with any control weaknesses are reported to the Committee every six months and Internal Audit confirms that satisfactory progress has been made during its next visit to the business concerned.

Financial reporting systems

The Group has a comprehensive system of financial reporting covering key performance indicators such as sales, profits and cash flow. The annual budget and five year strategic plan for each business are approved by the executive Directors and the Board approves the Group's budget and plan. The actual results for each business 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 presented to the Board.

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.

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 a going concern basis in preparing the accounts.

Statement of responsibilities

United Kingdom 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 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.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Remuneration report

UNAUDITED INFORMATION

Composition and role of the Remuneration Committee

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

The members of the Committee are the non-executive Directors (P Macfarlane and A Walker) and 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, annual bonuses payable (if any) and other terms and conditions of employment of the executive Directors and other senior executives. The Committee also approves the terms of any discretionary share schemes in which executive Directors and senior executives may be invited to participate, and the terms of the Company's Savings Related Share Option Scheme and All-Employee Share Ownership Plan.

The Committee consulted with one other Director, Dr Julian Blogh (Chief Executive), with regard to the remuneration and benefits packages offered to executive Directors and senior executives during the year (except in relation to his own remuneration and benefits package).

In addition, wholly independent advice on executive remuneration and share schemes was received from specialist consultants who were appointed by the Company and who provided no other services to the Company during the year.

Remuneration policy

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

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

Salaries

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

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

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

Annual bonus scheme

Bonus payments are based upon the achievement of operating profit and cash flow targets. The maximum bonus for 2002 was 40% of base salary. The performance measures for bonus payments are reviewed annually by the Committee to ensure that they are appropriate to the current market conditions and position of the Company and, therefore, that they continue to remain challenging. It is the opinion of the Committee that the use of operating profit and cash flow targets remain appropriate for the 2003 bonus. For 2003, the maximum bonus payable will be 50% of base salary. However, the maximum bonus will only be payable in return for exceptional performance which will require the achievement of even more stretching operating cash flow targets than was required to achieve maximum bonus in 2002.

Long-Term Incentive Plan

At the last Annual General Meeting in April 2002, shareholders approved the establishment of the Ultra Electronics Long-term Incentive Plan 2002-2007 (the 'New LTIP') to replace the previous Ultra Electronics Long-term Incentive Plan (the 'Old LTIP') that had expired. The Committee's current policy is for the New LTIP to be the sole vehicle through which long-term incentives are provided to executive Directors and that executive Directors who participate in the New LTIP will not be granted options under either the Company Share Option Plan or the Executive Share Option Scheme (which are share schemes operated by the Company for the benefit of less senior executives and certain key employees).

Under the New LTIP, a participant may be granted an award over ordinary shares worth up to 100% of gross base salary each year. The vesting of awards is dependent on the extent to which genuinely stretching performance conditions are met over the three-year period following grant. The Committee believes that the most appropriate approach to determine the extent to which these performance targets are achieved is for the relevant calculations to be undertaken by an independent third party. For the purposes of the performance targets, the Company's EPS will be taken as earnings per share calculated before goodwill amortisation but after exceptional items.

More particularly, the Committee's current policy is for vesting of awards to be dependent upon the Company's EPS growth over this three-year period relative to the EPS growth of the following group of aerospace, engineering and defence companies:

Aim Group plc	Delta plc	Senior plc
Alba plc	Domino Printing Sciences plc	Smiths Group plc
Alvis plc	Halma plc	Spirax-Sarco Engineering plc
Amstrad plc	Hampson Industries plc	Telemetrix plc
BAE Systems plc	Henlys Group plc	TT Electronics plc
Charter plc	Meggitt plc	Vitec Group plc
Chemring Group plc	Pressac plc	Volex Group plc
Chloride Group plc	Rolls-Royce plc	VT Group plc
Cobham plc	Rotork plc	Whatman plc

Vesting commences at 20% for median performance, rising on a straight-line basis so that the award vests in full for upper-quartile performance. To the extent that the targets are not met at the end of the three-year period, the award lapses. This system of measuring performance has been in place since 2000 and, in that period, upper-quartile performance has been achieved in each year against the comparative group of companies.

The Committee believes that the appropriate performance measure for New LTIP awards is comparative EPS, because this measure ensures that the Company's earnings growth must be at the upper-quartile of a group of similar companies before awards vest in full. Such earnings growth performance, sustained over the medium to long-term, should ensure above average share price growth.

The executive Directors are also eligible to participate in the Company's Inland Revenue approved Savings Related Share Option ("SAYE") Scheme and All-Employee Share Ownership Plan ("AESOP"). Under the SAYE Scheme, participants open an approved savings account. When the saving starts, options are granted to acquire the number of shares that the total savings (plus bonuses payable) will buy when the contract matures.

Under the AESOP, employees in the UK are offered the opportunity to buy shares up to the value of £1,500 per year from pre-tax salary. Shares are then held in trust on behalf of employees until the maturity date or until they leave the Company.

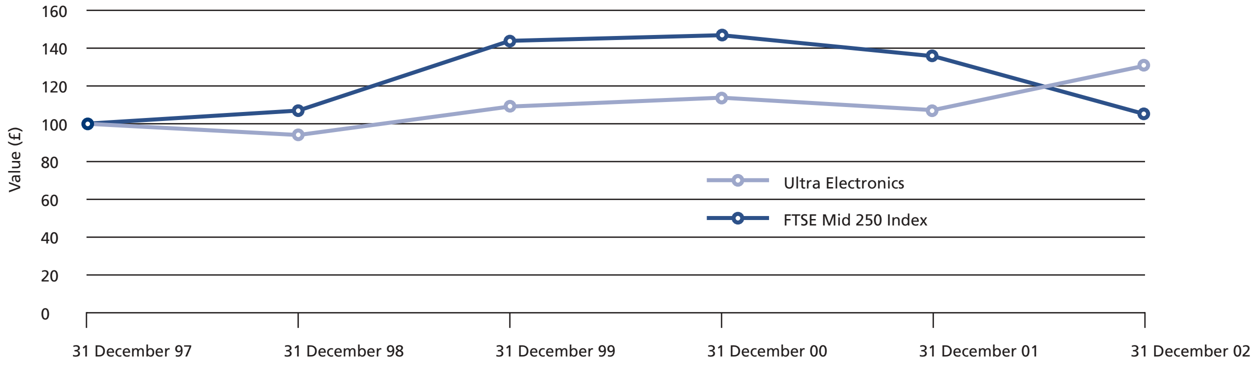
Total Shareholder Return performance graph

The graph below shows the Total Shareholder Return (TSR) performance of the Company in comparison to the FTSE Mid 250 over the past 5 years. The graph shows the value in 2002 of £100 invested in 1998, in the Company and in the Index.

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

Total Shareholder Return

Source: Datastream



Directors' service contracts

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

- the Committee's aim will be to avoid rewarding poor performance;
- the duty of the relevant executive Director to mitigate his loss will be taken into account; and
- no compensation payment can exceed one year's salary.The following table provides more information on each executive Director's service contract:

Name	Date of contract	Notice period
J. Blogh	25 September 1996	12 months
D. Caster	25 September 1996	12 months
A. Hamment	1 July 2000	12 months
F. Hope	1 January 1999	12 months
D. Jeffcoat	10 July 2000	12 months

No executive Directors had any provisions in their contracts for compensation on early termination other than the notice period.

The non-executive Directors have fixed twelve-month contracts expiring on 31 December each year with no notice period. There are no provisions in their contracts for compensation on early termination.

AUDITED INFORMATION

Directors' pension entitlements

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

The table below sets out the pension benefits earned by executive Directors for the year ended 31 December 2002:

	Age at year-end	Accrued benefit at beginning of period	**Increase in period (net of indexation)**	**Transfer value of increase in period**	**Accrued benefit at end of period**	Transfer value at beginning of period	**Transfer value at end of period**	**Movement in transfer value during period***
		£'000	**£'000**	**£'000**	**£'000**	£'000	**£'000**	**£'000**
J. Blogh	59	114	**11**	**107**	**127**	1,416	**1,448**	**20**
D. Caster	49	43	**4**	**20**	**48**	368	**313**	**(62)**
A. Hamment	48	32	**4**	**15**	**36**	256	**219**	**(42)**
F. Hope	48	20	**3**	**12**	**23**	159	**140**	**(24)**
D. Jeffcoat	52	5	**3**	**20**	**8**	44	**59**	**10**

*Less Director's contributions.

Directors' remuneration

Directors' emoluments are detailed below:

	Basic salary	**Fees**	**Annual performance bonus**	**Benefits**	**2002 Total**	2001 Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	£'000
P. Macfarlane	**-**	**62**	**-**	**-**	**62**	59
J. Blogh	**231**	**-**	**92**	**11**	**334**	305
D. Caster	**138**	**-**	**55**	**12**	**205**	186
A. Hamment	**110**	**-**	**44**	**10**	**164**	147
F. Holroyd	**-**	**24**	**-**	**-**	**24**	23
F. Hope	**132**	**-**	**53**	**10**	**195**	176
D. Jeffcoat	**141**	**-**	**56**	**12**	**209**	190
A. Walker	**-**	**24**	**-**	**-**	**24**	23
Total	**752**	**110**	**300**	**55**	**1,217**	1,109

Pension contributions to Directors of £87,000 (2001: £78,000) were paid by the Company, including £28,000 (2001: £22,000) in respect of the highest paid Director.

Other benefits of executive Directors comprise a car, provision of fuel and insurances for life, personal accident and family medical cover.

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 plans.

Directors' interests under Long-term Incentive Plans

As described above, the Company operated the Old LTIP until its expiry and replacement by the New LTIP. Details of the executive Directors' interests in these arrangements are given below:

Interests under the Ultra Electronics Long-term Incentive Plan (the 'Old LTIP')

	J. Blogh	D. Caster	A. Hamment	F. Hope	D. Jeffcoat	Market price of shares granted	Crystallising dates of outstanding awards
Award periods:							
1999	21,456	13,793	10,310*	11,285	-	£3.59	n/a
2000	43,839	27,743	20,233*	23,605	-	£4.00	April 2003
2001	45,455	28,671	23,310	26,340	30,303	£4.29	April 2004
Interests at 1 January 2002	110,750	70,207	53,853	61,230	30,303		
2002 award	52,170	31,302	24,662	29,879	32,013	£4.22	April 2005
1999 award crystallised during the year	(21,456)	(13,793)	(10,310)*	(11,285)	-		
Interests at 31 December 2002	**141,464**	**87,716**	**68,205**	**79,824**	**62,316**		

*These awards relate to periods prior to Andrew Hamment becoming a Director.

The 1999 award crystallised during the year as detailed above. These shares were granted under the Old LTIP that was subject to the above perfomance conditions. The actual date of the award was March 1999. The market price of the shares when granted was £3.59: the market price of the shares on vesting were £4.745.

During the year, the Group purchased 191,310 shares (nominal value of £9,566) for a net £824,000 relating to the 2002 awards. This includes £771,000 worth of Ultra shares for the Directors (2001: £676,000).

Interests under the Ultra Electronics Long-term Incentive Plan 2002-2007 (the 'New LTIP')

The first awards made under the New LTIP will occur in 2003.

Directors' interests under the Savings Related Share Option Scheme

As described above, the Company operates a Savings-Related Share Option Scheme in which the executive Directors are eligible to participate. Details of the executive Directors' interests in this arrangement are given below:

Name of Director	Options held at start of year	**Options held at end of year**	**Date from which exercisable**	**Expiry date**
F. Hope	890	**890**	**1 December 2004**	**31 May 2005**

All of the options were granted at £3.79 per share. The market price of ordinary shares at 31 December 2002 was £4.515 and the range during the year was £3.835 to £5.10.

In 1999, the Company set up an Employee Share Ownership Trust to satisfy options granted under the Group's SAYE schemes. During the year, the Trust purchased 144,526 newly allotted Ultra Electronics Holdings plc shares (nominal value £7,226) for £660,026.

Directors' interests under the All-Employee Share Ownership Plan

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

Name of Director	Interests as at start of the year	Partnership shares acquired during year	Interests as at end of the year	Interests at 21 February 2003
D. Caster	239	**343**	**582**	**637**
A. Hamment	239	**343**	**582**	**637**
F. Hope	239	**343**	**582**	**637**
D. Jeffcoat	154	**341**	**495**	**550**
Total	871	**1,370**	**2,241**	**2,461**

During the year, the Share Ownership Plan Trust established and operated in connection with the AESOP purchased 71,294 Ultra Electronics Holdings plc shares (nominal value £3,565) for £316,293. One executive Director, David Jeffcoat, is a trustee of the Plan Trust as well as participating in the AESOP.

Directors' interests

Details of Directors' shareholdings are given below:

	At start of year		At end of year		At 21 Feb 2003
	Direct ownership	Indirect beneficial ownership	**Direct ownership**	**Indirect beneficial ownership**	**Direct ownership**
P. Macfarlane	194,453	208,900	**192,653**	**194,300**	**192,653**
J. Blogh	162,427	884,921	**183,883**	**884,921**	**183,883**
D. Caster	785,818	486,783	**799,954**	**486,783**	**800,009**
A. Hamment	20,570	43,535	**31,223**	**43,535**	**31,278**
F. Holroyd	6,000	-	**6,000**	**-**	**6,000**
F. Hope	23,464	-	**35,092**	**-**	**35,147**
D. Jeffcoat	154	2,500	**495**	**13,500**	**550**
A. Walker	300	-	**300**	**-**	**300**

There were no changes in indirect beneficial ownership between 1 January and 21 February 2003.

Sir Frank Holroyd

Chairman of the Remuneration Committee

24 February 2003

Deloitte & Touche

To the members of Ultra Electronics Holdings plc

We have audited the accounts of Ultra Electronics Holdings plc for the year ended 31 December 2002 which comprise the Consolidated Profit and Loss Account, the Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the related Notes numbered 1 to 25 and the Statement of Accounting Policies. These accounts have been prepared under the accounting policies set out therein. We have also audited the information in the part of the Directors' Remuneration report that is described as having been audited.

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

Respective responsibilities of Directors and Auditors

As described in the statement of Directors' responsibilities, the Company's Directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom law and accounting standards. They are also responsible for the preparation of the other information contained in the annual report including the Directors' Remuneration report. Our responsibility is to audit the accounts and the part of the Directors' Remuneration report described as having been audited in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the accounts give a true and fair view and whether the accounts and the part of the Directors' Remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985. 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 regarding Directors' remuneration and transactions with the Company and other members of the Group is not disclosed.

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

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

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 and the part of the Directors' Remuneration report described as having been audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Company and 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 and the part of the Directors' Remuneration report described as having been audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts and the part of the Directors' Remuneration report described as having been audited.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the profit of the Group for the year then ended and the accounts and part of the Directors' Remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants and Registered Auditors
Reading
24 February 2003

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

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

Consolidated profit and loss account

For the year ended 31 December 2002

		Note	2002 £'000	Restated *Note 20* 2001 £'000
Turnover				
– existing operations			**253,521**	239,540
– acquisition			**6,831**	-
Continuing operations		*1*	**260,352**	239,540
Cost of sales				
– existing operations			**(189,967)**	(178,446)
– acquisition			**(5,751)**	-
Continuing operations			**(195,718)**	(178,446)
Gross profit				
– existing operations			**63,554**	61,094
– acquisition			**1,080**	-
Continuing operations			**64,634**	61,094
Other operating expenses (net)		*2*	**(35,056)**	(33,061)
Operating profit				
– existing operations			**29,323**	28,033
– acquisition			**255**	-
Continuing operations			**29,578**	28,033
Finance charges (net)		*3*	**(3,533)**	(4,624)
Profit on ordinary activities before taxation		*4*	**26,045**	23,409
Tax on profit on ordinary activities		*6*	**(8,099)**	(7,086)
Profit on ordinary activities after taxation, being the profit for the financial year			**17,946**	16,323
Dividends paid and proposed on equity shares		*7*	**(7,385)**	(6,835)
Retained profit for the year			**10,561**	9,488
Earnings per ordinary share (pence):				
After goodwill amortisation				
	Basic	*8*	**27.3**	24.9
	Diluted	*8*	**27.3**	24.8
Before goodwill amortisation				
	Basic	*8*	**33.2**	30.5

A statement of movements on reserves is given in note 20 to the accounts.

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

Balance sheets

31 December 2002

	Note	Group 2002 £'000	Group Restated *Note 20* 2001 £'000	Company 2002 £'000	Company Restated *Note 20* 2001 £'000
Fixed assets					
Tangible assets	*9*	**15,180**	15,426	**30**	52
Intangible assets – Patents and trademarks	*10*	**605**	650	**-**	-
Intangible assets – Goodwill	*11*	**80,871**	64,412	**-**	-
Investments	*12*	**1,050**	836	**118,726**	99,228
		97,706	81,324	**118,756**	99,280
Current assets					
Stocks	*13*	**23,834**	22,030	**-**	-
Debtors: Amounts falling due within one year	*14*	**57,579**	55,147	**11,337**	20,066
Debtors: Amounts falling due after more than one year	*14*	**-**	77	**8,100**	12,113
Cash at bank and in hand		**8,132**	15,992	**2**	2
		89,545	93,246	**19,439**	32,181
Creditors: Amounts falling due within one year	*15*	**(80,622)**	(94,834)	**(37,663)**	(45,386)
Net current assets/(liabilities)		**8,923**	(1,588)	**(18,224)**	(13,205)
Total assets less current liabilities		**106,629**	79,736	**100,532**	86,075
Creditors: Amounts falling due after more than one year	*16*	**(46,126)**	(32,907)	**(61,869)**	(48,611)
Provisions for liabilities and charges	*18*	**(4,822)**	(3,165)	**-**	-
Net assets		**55,681**	43,664	**38,663**	37,464
Capital and reserves					
Called-up share capital	*19*	**3,302**	3,288	**3,302**	3,288
Share premium account	*20*	**26,891**	25,788	**26,891**	25,788
Profit and loss account	*20*	**25,488**	14,588	**8,470**	8,388
Equity shareholders' funds	*21*	**55,681**	43,664	**38,663**	37,464

Signed on behalf of the Board

J. Blogh, *Chief Executive*

D. Jeffcoat, *Finance Director*

24 February 2003

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

Consolidated cash flow statement

For the year ended 31 December 2002

	Note	**2002 £'000**	2001 £'000
Net cash inflow from operating activities	*22*	**42,765**	39,328
Returns on investments and servicing of finance	*22*	**(3,414)**	(4,972)
Taxation – UK		**(6,440)**	(6,948)
– Overseas		**(839)**	(1,435)
Capital expenditure and financial investment	*22*	**(4,076)**	(4,172)
Acquisitions	*22*	**(21,996)**	(130)
Equity dividends paid		**(7,045)**	(6,485)
Cash (outflow)/inflow before financing		**(1,045)**	15,186
Financing	*22*	**(6,381)**	(11,963)
(Decrease)/increase in cash in the year		**(7,426)**	3,223

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 31 December 2002

	2002 £'000	Restated *Note 20* 2001 £'000
Group profit for the financial year	**17,946**	16,323
Gain/(loss) on foreign currency translation	**474**	(480)
Adjustment in respect of the adoption of FRS 19 for prior periods *(see note 20)*	**1,162**	-
Total recognised gains and losses relating to the year	**19,582**	15,843

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

1 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:

	2002 £'000	2001 £'000
United Kingdom	**110,547**	110,680
Continental Europe	**33,700**	32,014
North America	**100,549**	84,144
Rest of the World	**15,556**	12,702
	260,352	239,540

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

	United Kingdom		North America		Group	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000	2002 £'000	Restated 2001 £'000
Turnover	**167,061**	167,528	**93,291**	72,012	**260,352**	239,540
Trading profit	**23,940**	24,303	**9,513**	7,382	**33,453**	31,685
Goodwill amortisation					**(3,875)**	(3,652)
Operating profit					**29,578**	28,033
Interest (net)					**(3,533)**	(4,624)
Profit before tax					**26,045**	23,409
Net operating assets	**13,548**	16,283	**11,150**	12,925	**24,698**	29,208
Net non operating assets					**30,983**	14,456
Net assets					**55,681**	43,664

Turnover and trading profit by division were as follows:

	Turnover		Profit	
	2002 £'000	2001 £'000	2002 £'000	Restated 2001 £'000
Division				
Air & Land Systems	**177,493**	165,121	**22,464**	24,050
Information & Sea Systems	**82,859**	74,419	**10,989**	7,635
	260,352	239,540	**33,453**	31,685
Goodwill amortisation			**(3,875)**	(3,652)
Operating profit			**29,578**	28,033

2 Other operating expenses (net)

	2002			2001
	Existing Operations £'000	Acquisition £'000	Total £'000	Restated Total £'000
Selling and distribution costs	**10,793**	**55**	**10,848**	10,833
Administrative expenses	**24,227**	**770**	**24,997**	22,995
Other operating income	**(789)**	**-**	**(789)**	(767)
	34,231	**825**	**35,056**	33,061

3 Finance charges (net)

	2002 £'000	2001 £'000
Interest receivable and similar income	**144**	300
Amortisation of finance costs of debt	**(196)**	(57)
Interest payable on bank loans and overdraft		
– repayable within five years	**(3,466)**	(4,846)
Interest payable on finance leases	**(15)**	(21)
	(3,533)	(4,624)

4 Profit on ordinary activities before taxation

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

	2002 £'000	Restated 2001 £'000
Depreciation and amounts written off tangible fixed assets		
– owned	**3,698**	3,903
– held under finance leases and hire purchase contracts	**73**	121
Provision against investments	**604**	372
Amortisation of goodwill	**3,875**	3,652
Amortisation of patents and trademarks	**45**	37
Operating lease rentals		
– plant and machinery	**1,163**	1,293
– land and buildings	**3,546**	3,090
Research and development		
– current year expenditure *(see also Directors' report)*	**10,687**	10,022
Auditors' remuneration		
– audit fees and expenses	**195**	166
– other fees and expenses	**21**	-
Government grants received	**(63)**	(49)

In addition to the above, in 2002 Deloitte & Touche received £18,000 in connection with the Group's refinancing of existing facilities. This has been included as part of the cost of raising debt.

5 Staff costs

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

Employee costs during the year amounted to:

	2002 £'000	2001 £'000
Wages and salaries	**69,591**	65,983
Social security costs	**6,182**	6,104
Other pension costs *(see also note 24)*	**3,956**	3,060
	79,729	75,147

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

	2002 Number	2001 Number
Production	**1,026**	1,089
Engineering	**904**	809
Selling	**132**	132
Support services	**333**	346
	2,395	2,376

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

6 Tax on profit on ordinary activities

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

	2002 £'000	Restated 2001 £'000
UK taxes		
Corporation tax at 30%	**7,139**	6,138
Adjustment in respect of prior years	**(477)**	8
	6,662	6,146
Overseas taxes		
Current taxation	**917**	1,343
Adjustment in respect of prior years	**(22)**	(151)
	895	1,192
Total current tax	**7,557**	7,338
Deferred tax		
Origination and reversal of timing differences		
UK deferred tax	**482**	(278)
Overseas deferred tax	**60**	26
Total deferred tax *(see note 18)*	**542**	(252)
Total tax on profit on ordinary activities	**8,099**	7,086

6 Tax on profit on ordinary activities (continued)

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

GROUP

	2002 £'000	2001 £'000
Group profit on ordinary activities before tax	**26,045**	23,409
Tax on Group profit on ordinary activities at standard UK corporation tax rate of 30% (2001: 30%)	**7,813**	7,023
Effects of:		
Expenses not deductible for tax purposes	**837**	816
Capital allowances less depreciation	**(56)**	21
Other timing differences	**547**	(219)
Utilisation of UK tax losses	**-**	(143)
Utilisation of US tax losses	**(1,353)**	(195)
Higher tax rates on overseas earnings	**268**	331
ACT brought forward relieved	**-**	(153)
Adjustments to tax charge in respect of previous periods	**(499)**	(143)
Group current tax charge for the year	**7,557**	7,338

7 Dividends paid and proposed on equity shares

	2002 £'000	2001 £'000
Interim ordinary dividend paid of 3.7p per share (2001: 3.4p)	**2,439**	2,229
Final ordinary dividend proposed of 7.5p per share (2001: 7.0p)	**4,946**	4,606
	7,385	6,835

8 Earnings per share

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

	2002 No. of shares	2001 No. of shares
Number of shares used for basic earnings per share	**65,647,904**	65,543,566
Number of shares deemed to be issued at nil consideration following exercise of share options	**174,036**	168,697
Number of shares used for diluted earnings per share	**65,821,940**	65,712,263

Earnings attributable to ordinary shareholders:

	2002 £'000	Restated 2001 £'000
After goodwill amortisation	**17,946**	16,323
Before goodwill amortisation*	**21,821**	19,975

*Presented as an alternative performance measure.

9 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	5,151	3,779	31,573	40,503
Foreign exchange differences	(167)	(35)	(1,122)	(1,324)
Acquisition of subsidiary undertaking	-	-	4,469	4,469
Additions	145	371	2,901	3,417
Disposals	-	(273)	(1,660)	(1,933)
End of year	**5,129**	**3,842**	**36,161**	**45,132**
Depreciation				
Beginning of year	865	2,185	22,027	25,077
Foreign exchange differences	(48)	(33)	(834)	(915)
Acquisition of subsidiary undertaking	-	-	3,922	3,922
Charge	137	240	3,394	3,771
Disposals	-	(269)	(1,634)	(1,903)
End of year	**954**	**2,123**	**26,875**	**29,952**
Net book value				
Beginning of year	4,286	1,594	9,546	15,426
End of year	**4,175**	**1,719**	**9,286**	**15,180**

Freehold land amounting to £999,772 (2001: £1,015,000) has not been depreciated. Plant and machinery includes fixtures and fittings, tooling and test rigs, computers and motor vehicles. The net book value of plant and machinery held under finance leases was £48,000 (2001: £131,000).

COMPANY

	Plant and machinery £'000
Cost	
Beginning of year	228
Additions	2
End of year	**230**
Depreciation	
Beginning of year	176
Charge	24
End of year	**200**
Net book value	
Beginning of year	52
End of year	**30**

10 Intangible assets – Patents and trademarks

	Group £'000
Cost	
Beginning of year	717
Additions	-
End of year	**717**
Amortisation	
Beginning of year	67
Charge	45
End of year	**112**
Net book value	
Beginning of year	650
End of year	**605**

11 Intangible assets – Goodwill

	Restated Group £'000
Cost	
Beginning of year	72,389
Additions *(see below)*	20,334
End of year	**92,723**
Amortisation	
Beginning of year	7,977
Charge	3,875
End of year	**11,852**
Net book value	
Beginning of year	64,412
End of year	**80,871**

11 Intangible assets – Goodwill (continued)

Acquisition during the year – Tactical Communication Systems Inc.

On 27 September 2002, the Group purchased all of the share capital of Tactical Communication Systems Inc. (TCS), a company based in Montreal, Canada, for a cash consideration before expenses of £21.5 million. TCS was previously a division of CMC Electronics Inc. The book value of the identifiable assets and liabilities acquired and their provisional fair values, based on the Directors' initial assessment of net realisable value, were as follows:

	Book value	Revaluations	Fair value
	£'000	£'000	£'000
Tangible fixed assets	547	-	547
Current assets:			
Stocks	5,102	(1,901)	3,201
Debtors	133	112	245
Creditors falling due within one year	(1,104)	(168)	(1,272)
Provisions for liabilities and charges	(529)	(580)	(1,109)
Net assets acquired	4,149	(2,537)	1,612
Goodwill capitalised			20,334
Purchase consideration, including certain costs			21,946

The TCS results for the period 1 April 2002 to 27 September 2002, based on accounting policies followed prior to acquisition, were turnover £8.1 million, cost of sales £6.2 million, gross profit £1.9 million, other operating expenses £1.2 million, resulting in an operating profit of £0.7 million. TCS earned a profit before tax of £4.5 million in the year ended 31 March 2002 based on information provided to the Company.

12 Investments

a) Principal subsidiary undertakings

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

Name	Place of registration or incorporation
Ultra Electronics Limited	England and Wales
Advanced Programming Concepts Inc	Texas, USA
Datel Defence Limited	England and Wales
Ferranti Air Systems Limited	England and Wales
Flightline Electronics Inc	New York, USA
Measurement Systems Inc	Delaware, USA
Tactical Communication Systems Inc	Canada
Ultra Electronics Maritime Systems Inc	Canada
UnderSea Sensor Systems Inc	Delaware, USA

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

12 Investments (continued)

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	42	1,274	1,316	42	1,274	98,392	99,708
Additions	36	824	860	36	824	21,946	22,806
Disposals	(42)	-	(42)	(42)	-	-	(42)
Redemption of long-term loans	-	-	-	-	-	(2,662)	(2,662)
Transfer to participants	-	(107)	(107)	-	(107)	-	(107)
End of year	**36**	**1,991**	**2,027**	**36**	**1,991**	**117,676**	**119,703**
Provision							
Beginning of year	-	480	480	-	480	-	480
Charge	-	604	604	-	604	-	604
Transfer to participants	-	(107)	(107)	-	(107)	-	(107)
End of year	**-**	**977**	**977**	**-**	**977**	**-**	**977**
Net book value							
Beginning of year	42	794	836	42	794	98,392	99,228
End of year	**36**	**1,014**	**1,050**	**36**	**1,014**	**117,676**	**118,726**

13 Stocks

	Group	Group
	2002 £'000	2001 £'000
Raw materials and consumables	**15,696**	15,457
Work-in-progress	**14,070**	20,315
Finished goods and goods for resale	**2,045**	1,235
Payments on account	**(8,514)**	(15,064)
	23,297	21,943
Long-term contract balances		
– costs less foreseeable losses	**766**	522
– less payments on account	**(229)**	(435)
	537	87
	23,834	22,030

No stocks were held by the Company at either year-end.

14 Debtors

	Group	Group	Company	Company
		Restated		Restated
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Amounts falling due within one year:				
Trade debtors	**34,615**	35,933	**-**	-
Amounts recoverable on contracts	**17,284**	14,233	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**10,968**	19,357
Deferred tax assets *(see note 18)*	**1,036**	1,243	**122**	564
Other debtors	**2,045**	1,867	**95**	50
Prepayments and accrued income	**2,599**	1,871	**152**	95
	57,579	55,147	**11,337**	20,066
Amounts falling due after more than one year:				
Amounts recoverable on contracts	**-**	77	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**8,100**	12,113
	-	77	**8,100**	12,113

15 Creditors: Amounts falling due within one year

	Group	Group	Company	Company
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Obligations under finance leases	**43**	111	**-**	-
Bank loans and overdraft *(see note 16)*	**1,219**	23,536	**27,842**	34,954
Payments received on account	**27,078**	23,131	**-**	-
Trade creditors	**20,161**	19,811	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**2,559**	3,653
Other creditors:				
– Corporation tax payable	**5,930**	5,650	**707**	822
– VAT	**1,173**	1,168	**-**	21
– social security and PAYE	**2,176**	1,818	**119**	121
– other creditors	**4,278**	4,732	**726**	667
Pension related liabilities	**282**	331	**-**	34
Accruals and deferred income	**13,336**	9,940	**764**	508
Proposed dividends	**4,946**	4,606	**4,946**	4,606
	80,622	94,834	**37,663**	45,386

16 Creditors: Amounts falling due after more than one year

	Group	Group	**Company**	Company
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000
Obligations under finance leases	**-**	39	**-**	-
Bank loans	**46,126**	32,868	**46,126**	32,868
Amounts owed to subsidiary undertakings	**-**	-	**15,743**	15,743
	46,126	32,907	**61,869**	48,611

The bank loans are unsecured and due for repayment in 3 years. Interest is charged at 0.85% above base rates.

Borrowings fall due as analysed below:

	Group	Group	**Company**	Company
	2002 £'000	2001 £'000	**2002 £'000**	2001 £'000
Bank loans and overdraft				
In one year or less or on demand	**1,341**	23,594	**27,964**	35,012
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	**46,364**	27,000	**46,364**	27,000
	47,705	56,594	**74,328**	68,012
Less: unamortised finance costs of debt	**(360)**	(190)	**(360)**	(190)
	47,345	56,404	**73,968**	67,822
Less: included in Creditors: Amounts falling due within one year	**(1,219)**	(23,536)	**(27,842)**	(34,954)
	46,126	32,868	**46,126**	32,868

	Group	Group
	2002 £'000	2001 £'000
Finance leases		
In one year or less or on demand	**43**	111
In more than one year but not more than two years	**-**	39
	43	150
Less: included in Creditors: Amounts falling due within one year	**(43)**	(111)
	-	39

The Company had no finance leases at either year-end.

17 Financial risk management

The Group's approach to managing financial risk is described in the Financial Review on page 19. 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 2002 £'000	**Interest free 2002 £'000**	**Total 2002 £'000**	At floating interest rates 2001 £'000	Interest free 2001 £'000	Total 2001 £'000
Financial assets						
Sterling	**246**	**-**	**246**	7,018	77	7,095
US dollar	**11,036**	**-**	**11,036**	6,631	-	6,631
Canadian dollar	**2,224**	**-**	**2,224**	1,970	-	1,970
Korean won	**296**	**-**	**296**	181	-	181
Euro	**575**	**-**	**575**	141	-	141
Other	**57**	**-**	**57**	51	-	51
	14,434	**-**	**14,434**	15,992	77	16,069

The financial assets of the Group comprised:

	2002 £'000	2001 £'000
Cash	**8,132**	15,992
Creditors: Bank overdraft falling due within one year (see below)	**6,302**	-
Debtors: Amounts falling due after more than one year	**-**	77
	14,434	16,069

The Group's overdraft has been disaggregated into financial assets and financial liabilities for the purpose of this disclosure.

	At fixed interest rates 2002 £'000	**At floating interest rates 2002 £'000**	**Total 2002 £'000**	At fixed interest rates 2001 £'000	At floating interest rates 2001 £'000	Total 2001 £'000
Financial liabilities						
Sterling	**16,543**	**7,283**	**23,826**	33,138	6,200	39,338
US dollar	**5,834**	**3,165**	**8,999**	12,250	5,156	17,406
Canadian dollar	**-**	**20,865**	**20,865**	-	-	-
	22,377	**31,313**	**53,690**	45,388	11,356	56,744

The financial liabilities of the Group comprised:

	2002 £'000	2001 £'000
Total borrowings and finance leases	**46,169**	56,744
Creditors: Bank overdraft falling due within one year	**7,521**	-
	53,690	56,744

The benchmark rate for floating interest rates is Royal Bank of Scotland base rates.

17 Financial risk management (continued)

a) Interest rate profile (continued)

The Group has loans of C$52.9 million and US$14.5 million to hedge overseas net investments. To hedge the inherent interest rate risk, the Group has taken out an interest rate collar with a notional amount at 31 December 2002 of $9.4 million, with a cap set at 6.5% and a floor of 4.67%. The interest rate floor was triggered at the year-end and hence part of the US$ borrowings have been classified as fixed. An interest rate swap has been taken out to fix the interest rate on a £16.5 million loan at 6.7% (before margin of 0.85%). The weighted average profile is as follows:

2002

	Fixed rate financial liabilities	
	Weighted average interest rate %	**Weighted average period for which rate is fixed Years**
Currency		
Sterling	**7.5**	**3.0**

2001

	Fixed rate financial liabilities	
	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Currency		
Sterling	7.8	2.6
US dollar	9.8	1.3
	7.8	2.6

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$ 2002 £'000	**C$ 2002 £'000**	**Other 2002 £'000**	**Total 2002 £'000**	US$ 2001 £'000	C$ 2001 £'000	Other 2001 £'000	Total 2001 £'000
Functional currency of Group operations								
Sterling	**1,411**	**849**	**172**	**2,432**	259	816	417	1,492
US $	**-**	**-**	**-**	-	-	-	-	-
Canadian $	**851**	**-**	**-**	**851**	(29)	-	-	(29)
	2,262	**849**	**172**	**3,283**	230	816	417	1,463

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

17 Financial risk management (continued)

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 31 December 2002 was as follows:

	2002 £'000	2001 £'000
In one year or less, or on demand	**7,564**	23,705
In more than one year but not more than two years	**-**	6,039
In more than two years but not more than five years	**46,126**	27,000
	53,690	56,744

d) Undrawn committed borrowing facilities

The Group's undrawn committed borrowing facilities available at 31 December 2002, in respect of which all conditions precedent have been met, were as follows:

	2002 £'000	2001 £'000
Expiring in one year or less	**-**	13,800
Expiring in more than two years	**33,636**	16,717
	33,636	30,517

e) Fair value of financial instruments

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

	2002 Book value £'000	**2002 Fair value £'000**	2001 Book value £'000	2001 Fair value £'000
Derivative financial instruments held to hedge the interest rate profile and currency profile				
– Interest rate collar	**-**	**(43)**	-	(212)
– Interest rate swap	**-**	**(1,531)**	-	(1,441)
Derivative financial instruments held to hedge the currency exposure on expected future sales				
– Forward foreign exchange contracts	**-**	**1,471**	-	(1,045)
	-	**(103)**	-	(2,698)

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.

17 Financial risk management (continued)

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 31 December 2002.

	Gains £'000	Losses £'000	Total net gains/(losses) £'000
Unrecognised gains and (losses) on hedges at 31 December 2001	**112**	**(2,810)**	**(2,698)**
(Gains) and losses arising before 31 December 2001, recognised 2002	**(87)**	**1,287**	**1,200**
Gains and (losses) arising before 31 December 2001, not recognised in 2002	**25**	**(1,523)**	**(1,498)**
Gains and (losses) arising in 2002, not recognised in 2002	**2,122**	**(727)**	**1,395**
Unrecognised gains and (losses) on hedges at 31 December 2002	**2,147**	**(2,250)**	**(103)**
Of which:			
Gains and (losses) expected to be recognised in 2003	**1,341**	**(741)**	**600**
Gains and (losses) expected to be recognised in 2004 and beyond	**806**	**(1,509)**	**(703)**

18 Provisions for liabilities and charges

GROUP

	Deferred taxation	Warranties	Total £'000
Beginning of year (as restated)	421	2,744	3,165
Exchange differences	(37)	(43)	(80)
Acquisition of subsidiary undertaking	-	1,109	1,109
Transfer to deferred tax assets	(106)	-	(106)
Utilised during the year	-	(585)	(585)
Charge to the profit and loss account	549	770	1,319
End of year	**827**	**3,995**	**4,822**

The Company had no warranty provisions at either year-end. The Company's deferred tax asset is included in 'Debtors: Amounts falling due within one year'.

Deferred taxation

Net deferred tax movements during the year were as follows:

	Group 2002 £'000	Company 2002 £'000
Beginning of year	(822)	(564)
Exchange differences	71	-
Charge to the profit and loss account	542	442
End of year	**(209)**	**(122)**

18 Provisions for liabilities and charges (continued)

Deferred tax balances are analysed as follows:

	Group	Group	Company	Company
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Accelerated/(deferred) capital allowances	**696**	620	**(8)**	(6)
Other timing differences relating to current assets and liabilities	**(905)**	(1,442)	**(114)**	(558)
Deferred tax asset	**(209)**	(822)	**(122)**	(564)

These balances are shown as follows:

	Group	Group	Company	Company
	2002	2001	**2002**	2001
	£'000	£'000	**£'000**	£'000
Debtors: Amounts falling due within one year *(see note 14)*	**(1,036)**	(1,243)	**(122)**	(564)
Provisions for liabilities and charges *(see above)*	**827**	421	**-**	-
	(209)	(822)	**(122)**	(564)

Deferred tax in respect of the Group's defined benefit pension scheme is disclosed in note 24. The Group has not recognised deferred tax assets of £2.5 million relating to tax losses, due to the uncertainty as to their recoverability.

19 Called-up share capital

		2002		2001
	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	**66,039,930**	**3,302**	65,763,560	3,288

276,370 ordinary shares having a nominal value of £13,819 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received by the Company was £1,116,673. 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 £135,000 (2001: £349,000) to the Trust.

19 Called-up share capital (continued)

Share options

At 31 December 2002 the following options granted to staff remained outstanding:

	Options granted	Number of shares 2002	2001	Option price (£)	Exercise dates
Savings Related Share	1996	**-**	25,050	2.30	December 2001 - May 2002
Option Scheme	1999	**184,539**	353,473	3.79	December 2002 - May 2005
	2000	**26,696**	45,225	3.87	August 2003 - February 2004
	2001	**33,082**	34,722	3.88	September 2003 - December 2003
		244,317	458,470		
Company Share Option Plan	1996	**45,260**	69,164	2.87	March 2000 - November 2006
	1997	-	10,715	2.80	March 2000 - March 2007
	1998	**40,379**	59,646	4.05	March 2001 - March 2008
	1999	**78,728**	102,450	4.15 to 4.265	March 2002 - September 2009
	2000	**113,670**	122,168	3.855	May 2003 - May 2010
	2001	**99,923**	105,081	4.385	March 2004 - March 2011
	2002	**93,757**	-	4.485	March 2005 - March 2012
		471,717	469,224		
Executive Share Option Scheme	1996	**27,088**	51,550	2.87	March 2000 - November 2003
	1997	**8,832**	14,546	2.80	March 2000 - March 2004
	1998	**17,851**	25,114	4.05	March 2001 - March 2005
	1999	**135,903**	156,961	4.15 to 4.265	March 2002 - September 2006
	2000	**207,898**	213,389	3.855 to 4.39	May 2003 - May 2007
	2001	**241,436**	249,907	4.385	March 2004 - March 2008
	2002	**272,678**	-	4.485	March 2005 - March 2009
		911,686	711,467		

20 Reserves

	Group		Company	
	Share premium £'000	Profit and loss account £'000	Share premium £'000	Profit and loss account £'000
Beginning of year	25,788	13,426	25,788	7,824
Prior year adjustment *(see below)*	-	1,162	-	564
Retained profit for the year	-	10,561	-	82
Amounts gifted to the Employee Share Ownership Trust *(see note 19)*	-	(135)	-	-
Issue of new shares	1,103	-	1,103	-
Foreign exchange differences	-	474	-	-
End of year	**26,891**	**25,488**	**26,891**	**8,470**

Cumulative goodwill written off directly to reserves is £33,294,000 (2001: £33,294,000). The Company's retained profit for the year is after dividends of £7,385,000.

Prior year adjustment

In previous years, the Group complied with the Statement of Standard Accounting Practice 15 – Deferred Tax (SSAP 15) which has been superseded by the introduction of the Financial Reporting Standard 19 – Deferred Tax (FRS 19). FRS 19 has been adopted for the first time by the Group in this Annual Report. SSAP 15 required provision for deferred tax to be made using the liability method to the extent that net deferred tax assets or liabilities were likely to crystallise in the foreseeable future, i.e. a partial provisioning approach. FRS 19 requires a full provisioning approach.

20 Reserves (continued)

The effect of the implementation of FRS 19 on the reported results is as follows:

	2002 £'000	2001 £'000
Profit and Loss Account		
Goodwill amortisation	**(19)**	(33)
Tax on profits	**(542)**	252
(Reduction)/increase in retained profits	**(561)**	219
Balance Sheet		
Increase in goodwill	**321**	340
Increase in deferred tax assets	**1,036**	1,243
Increase in deferred tax liabilities	**(827)**	(421)
Increase in net assets	**530**	1,162

The adoption of FRS 19 has resulted in the recognition of deferred tax assets primarily in respect of timing differences and tax deductible goodwill in the US. In addition, deferred tax liabilities arise on accelerated capital allowances and other short-term timing differences which were not recognised previously under SSAP 15.

The increase in goodwill is in respect of deferred tax liabilities previously unrecognised on the acquisition of the DF Group Limited in 2000.

21 Reconciliation of movements in Group equity shareholders' funds

	£'000
Retained profit for the financial year	10,561
Foreign exchange differences	474
Amounts gifted to the Employee Share Ownership Trust *(see note 19)*	(135)
Issue of new shares	1,117
Net increase to equity shareholders' funds	12,017
Opening equity shareholders' funds (as restated)	43,664
Closing equity shareholders' funds	**55,681**

22 Cash flow information

Reconciliation of operating profit to operating cash flow

	2002 £'000	Restated 2001 £'000
Operating profit	**29,578**	28,033
Depreciation and amounts written off tangible fixed assets	**3,771**	4,024
Amortisation of goodwill	**3,875**	3,652
Amortisation of patents and trademarks	**45**	37
Provision against investments	**604**	372
(Profit)/loss on disposal of tangible fixed assets	**(11)**	56
Decrease/(increase) in stocks	**623**	(2,649)
Increase in debtors	**(3,240)**	(2,520)
Increase in creditors	**6,161**	8,366
Increase in provisions	**1,410**	95
Other	**(51)**	(138)
Net cash inflow from operating activities	**42,765**	39,328

22 Cash flow information (continued)

Analysis of cash flows

	2002 £'000	2001 £'000
Returns on investments and servicing of finance		
Interest received	**144**	300
Interest paid	**(3,543)**	(5,251)
Interest element of finance lease rentals	**(15)**	(21)
Net cash outflow from returns on investments and servicing of finance	**(3,414)**	(4,972)
Capital expenditure and financial investment		
Capital expenditure	**(3,293)**	(3,370)
Sale of tangible fixed assets	**41**	-
Purchase of Long-term Incentive Plan shares	**(824)**	(802)
Net cash outflow from capital expenditure and financial investment	**(4,076)**	(4,172)
Acquisitions		
Purchase of business undertaking	**(21,946)**	-
Purchase of patents and trademarks	**(50)**	(130)
Net cash outflow from acquisitions	**(21,996)**	(130)
Financing		
Issue of ordinary share capital (net of expenses)	**988**	726
Capital element of finance lease rental payments	**(107)**	(120)
Debt due within one year	**(22,381)**	(4,069)
Debt due after more than one year	**15,119**	(8,500)
Net cash outflow from financing	**(6,381)**	(11,963)

Tactical Communication Systems Inc. contributed £117,000 to the Group's operating cash flows following acquisition and utilised £324,000 for capital expenditure.

Analysis of changes in net funds

	At start of year £'000	Cash flow £'000	Other non cash £'000	Foreign exchange £'000	At end of year £'000
2001					
Cash at bank and in hand	12,823	3,223	-	(54)	15,992
Debt due within one year	(27,127)	4,069	(11)	(467)	(23,536)
Debt due after more than one year	(41,322)	8,500	(46)	-	(32,868)
Finance leases	(270)	120	-	-	(150)
	(55,896)	15,912	(57)	(521)	(40,562)
2002					
Cash at bank and in hand	**15,992**	**(7,426)**	**-**	**(434)**	**8,132**
Debt due within one year	**(23,536)**	**22,381**	**(64)**	**-**	**(1,219)**
Debt due after more than one year	**(32,868)**	**(15,119)**	**(132)**	**1,993**	**(46,126)**
Finance leases	**(150)**	**107**	**-**	**-**	**(43)**
	(40,562)	**(57)**	**(196)**	**1,559**	**(39,256)**

22 Cash flow information (continued)

Reconciliation of net cash flow to movement in net debt

	2002 £'000	2001 £'000
(Decrease)/increase in cash in the year	**(7,426)**	3,223
Cash outflow from decrease in debt and lease financing	**7,369**	12,689
Change in net debt resulting from cash flows	**(57)**	15,912
Amortisation of finance costs of debt	**(196)**	(57)
Translation difference	**1,559**	(521)
Movement in net debt in the year	**1,306**	15,334
Net debt at start of year	**(40,562)**	(55,896)
Net debt at end of year	**(39,256)**	(40,562)

There have been no major non-cash transactions in either year.

23 Guarantees and other financial commitments

a) Capital commitments

At the end of the year capital commitments were:

	Group	Group	Company	Company
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Contracted but not provided	**424**	258	**-**	-

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
2002				
Operating lease rentals which expire				
– within one year	**19**	**230**	**-**	**23**
– within two to five years	**516**	**797**	**-**	**22**
– after five years	**3,171**	**-**	**-**	**-**
	3,706	**1,027**	**-**	**45**
2001	2,999	1,050	-	33

24 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. Within the UK, DF Group employees are able to participate in a defined contribution plan. The Group also operates two defined contribution schemes for overseas employees.

The pension cost for the year was £3,956,000 (2001: £3,060,000) of which £3,127,000 (2001: £2,446,000) 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 contribution rate for the defined benefit scheme in 2002 was 12% of pensionable earnings and the agreed contribution rate for 2003 is 13.5% of pensionable earnings. The cost of the overseas pension schemes was £526,000 (2001: £324,000).

The defined benefit scheme was actuarially assessed at 6 April 2001 using the projected unit method. The principal assumptions adopted in the valuation were that the scheme's yield would be 6.5% per annum, salary increases would be 4.5% per annum for staff members and 5% for Directors, and that pensions would increase by 2.25% per annum.

The market value of the scheme at 6 April 2001 was £64.3 million. The solvency of the scheme was established at 105% using the scheme's normal funding assumptions. The SSAP24 valuation does not take into account any impact of the fall in general stock market values since that date. Any such impact will be reflected in the next full triennial valuation in 2004, based upon which subsequent pension costs will be determined until the adoption of FRS 17, which uses a different basis to SSAP 24. Tactical Communication Systems Inc., based in Montreal, Canada and acquired during the year, has a defined benefit scheme. A valuation is currently being prepared: any surplus or deficit is not expected to be material to the Group.

FRS 17 retirement benefits

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation as at 6 April 2001 and updated by our actuaries, Entegria Limited, in order to assess the liabilities of the Ultra Electronics Pension Scheme at 31 December 2002. Scheme assets are stated at their market value on that date.

The financial assumptions used to calculate pension scheme liabilities under FRS 17 are:

Valuation method	**Projected unit 2002**	Projected unit 2001
Discount rate	**5.5% pa**	5.8% pa
Inflation rate	**2.25% pa**	2.5% pa
Increases to pensions in payment	**2.0% pa**	2.25% pa
Salary increases – Directors	**5.0% pa**	4.25% pa
– Staff	**3.5% pa**	3.75% pa

	Long-term rate of return expected at 31 December 2002 per annum	**Value at 31 December 2002 £m**	Long-term rate of return expected at 31 December 2001 per annum	Value at 31 December 2001 £m
Equities	**7.0%**	**42.9**	7.25%	54.4
Bonds	**5.5%**	**5.0**	5.8%	7.0
Other	**4.5%**	**4.1**	5.8%	1.3
Total market value of assets		**52.0**		62.7
Present value of scheme liabilities		**(81.2)**		(72.9)
Deficit in the scheme		**(29.2)**		(10.2)
Related deferred tax asset		**8.8**		3.1
Net pension liability		**(20.4)**		(7.1)

24 Pension arrangements (continued)

Movement in scheme deficit during the year:

	2002 £m
At 1 January 2002	**(10.2)**
Current service cost	**(4.0)**
Contributions	**3.0**
Net finance income *(see below)*	**0.2**
Actuarial loss *(see below)*	**(18.2)**
At 31 December 2002	**(29.2)**

Analysis of the amount which would be credited to net finance charges under FRS 17:

	2002 £m
Expected return on pension scheme assets	**4.5**
Interest on pension scheme liabilities	**(4.3)**
	0.2

Analysis of the actuarial loss in the statement of total recognised gains and losses under FRS 17:

	2002 £m
Actual return less expected return on pension scheme assets	**(17.5)**
Experience gains arising on the scheme liabilities	**1.3**
Changes in assumptions underlying the present value of the scheme liabilities	**(2.0)**
	(18.2)

The actual return less expected return on pension scheme assets represents -33.7% of total scheme assets. The experience gains arising on scheme liabilities represent 1.6% of total scheme liabilities. The total actuarial loss represents 22.4% of total scheme liabilities.

If the pension liability was recognised in the accounts, the Group's net assets and profit and loss reserve would be as follows:

	2002 £m	2001 £m
Net assets excluding pension liability	**55.7**	43.7
Pension liability	**(20.4)**	(7.1)
Net assets including pension liability	**35.3**	36.6
Profit and loss reserve excluding pension liability	**25.5**	14.6
Pension liability	**(20.4)**	(7.1)
Profit and loss reserve including pension liability	**5.1**	7.5

25 Related party transactions

There have been no related party transactions with Directors other than the payment of emoluments in the normal course of business, as disclosed in the Remuneration report.

Statement of 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, incorporating the adoption of Financial Reporting Standard 19 – Deferred tax in both the current and prior 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 each year 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. The Company's retained profit for the year is disclosed in note 20.

c) 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, calculated with reference to the total expected value of the contracts.

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) 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.

f) Warranty

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

g) Government grants

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

h) 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 useful economic life. Provision is made for any impairment.

For acquisitions made prior to 30 December 1997 goodwill was considered separately for each acquisition and was written off immediately to the goodwill reserve as a matter of accounting policy, 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.

i) 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	40 to 50 years
Short leasehold improvements	over remaining period of lease
Plant and machinery	3 to 20 years
IT hardware and software	3 to 5 years

Freehold land is not depreciated.

j) 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.

k) 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.

l) 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.

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

m) Taxation (continued)

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

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

n) 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.

The trading results and cash flows 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.

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

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 written off in accordance with FRS 4. The costs are offset against the loan and amortised over the life of the loan.

Shareholder Analysis

31 December 2002

By category of shareholder

	Shares held Number '000	% share capital
Pension funds	**13,644**	**21**
Unit trusts	**29,592**	**45**
Insurance companies	**7,674**	**12**
Private investors	**2,384**	**4**
Investment trusts and other funds	**6,650**	**10**
Other	**6,096**	**8**
	66,040	**100**

By size of holding

	Holders		Shares held	
	Number	% of holders	Number '000	% share capital
1-100	**66**	**5**	**4**	**-**
101-500	**505**	**35**	**129**	**-**
501-1,000	**314**	**22**	**213**	**-**
1,001-5,000	**297**	**21**	**565**	**1**
5,001-10,000	**41**	**3**	**319**	**1**
10,001-50,000	**83**	**6**	**1,934**	**3**
50,001-100,000	**21**	**1**	**1,481**	**2**
100,000 and over	**108**	**7**	**61,395**	**93**
	1,435	**100**	**66,040**	**100**

Financial calendar

11 April 2003	Record date for 2002 final dividend
17 April 2003	Annual General Meeting
6 May 2003	2002 final dividend paid
4 August 2003	Interim results announced
September 2003	Interim dividend paid

Notice of Meeting

Notice is hereby given that the annual general meeting of Ultra Electronics Holdings plc will be held at 417 Bridport Road, Greenford, Middlesex UB6 8UA on Thursday 17 April 2003 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 31 December 2002 together with the Directors' report and Auditors' report on those accounts.

Resolution 2: To declare a final dividend for the year ended 31 December 2002 of 7.5p per ordinary share, payable to shareholders on the register at the close of business on 11 April 2003.

Resolution 3: To receive and adopt the Directors' Remuneration report for the financial year ended 31 December 2002.

Resolution 4: To re-elect Mr D. Caster as a Director, retiring by rotation in accordance with Article 76 of the Company's articles of association.

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

Resolution 6: To re-elect Mr A. Hamment as a Director, retiring by rotation in accordance with Article 76 of the Company's articles of association.

Resolution 7: To appoint Deloitte & Touche 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. Deloitte & Touche were appointed as auditors by the Board during the year to fill the casual vacancy created by the resignation of Arthur Andersen.

Special business

To consider and, if thought fit, to pass the following resolutions of which resolution 8 will be proposed as an ordinary resolution and resolutions 9 and 10 will be proposed as special resolutions:

Resolution 8:

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 £1,100,666 (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 9:

That, in substitution for all existing powers and subject to the passing of resolution 8, 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 9 (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 £165,100.

Resolution 10:

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 3,301,997 (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

21 March 2003

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 15th April 2003 shall be entitled to attend and vote at the above meeting. Changes to entries in the register of members after 6.00pm on Tuesday 15th April 2003 shall be disregarded in determining the rights of any person to attend and vote at the meeting. These requirements reflect Regulation 41 of The Uncertificated Securities Regulations 2001.
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 6ZL** 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 share capital of the Company and the Directors' service contracts will be available for inspection for at least 15 minutes prior to and during the meeting.

Five year review

	1998 £m	1999 £m	Restated 2000 £m	Restated 2001 £m	**2002 £m**
Turnover					
Air & Land Systems	110.2	129.4	158.3	165.1	**177.5**
Information & Sea Systems	48.5	63.6	68.6	74.4	**82.9**
Total turnover	158.7	193.0	226.9	239.5	**260.4**
Operating profit (before goodwill amortisation)					
Air & Land Systems	14.5	18.0	22.1	24.1	**22.5**
Information & Sea Systems	6.4	6.5	8.2	7.6	**11.0**
Total	20.9	24.5	30.3	31.7	**33.5**
Operating profit margin % (before goodwill amortisation)	13.2%	12.7%	13.4%	13.2%	**12.9%**
Profit before goodwill amortisation and tax	21.1	23.2	25.6	27.1	**29.9**
Profit after taxation	14.6	15.6	15.8	16.3	**17.9**
Cash inflow from operating activities *(see note 1)*	21.8	8.2	16.5	35.2	**38.7**
Free cash flow before dividends and acquisitions	15.5	(0.8)	7.5	21.8	**28.0**
Net debt at year-end	(0.1)	(11.7)	(55.9)	(40.6)	**(39.3)**
Headline earnings per share (p) *(see note 2)*	22.6	25.9	28.7	30.5	**33.2**
Dividends per share (p)	8.1	9.0	9.7	10.4	**11.2**
Average employee numbers	1,707	2,079	2,303	2,376	**2,395**

Notes

1. Cash flow from operating activities is stated after capital expenditure and financial investments.
2. Headline earnings per share is calculated before goodwill amortisation and earnings dilution.
3. 2000 and 2001 have been restated following the adoption of FRS 19. It has not been possible to restate earlier years with respect to this Financial Reporting Standard.