

## Directors' report

For the year ended 30 December 1999

The Directors present their annual report on the affairs of the Group, together with the accounts and auditors' report, for the year ended 30 December 1999.

### Principal activities

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

### Results and dividends

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

	1999 £'000
Balance on profit and loss account, beginning of year	(13,302)
Profit for the financial year	15,559
Dividends: Interim paid of 3p per share	(1,951)
Final proposed of 6p per share	(3,920)
Amounts gifted to Employee Share Ownership Trust ( <i>see note 20</i> )	(556)
Foreign exchange differences	27
<b>Balance on profit and loss account, end of year</b>	<b>(4,143)</b>

The final 1999 dividend is proposed to be paid on 3 May 2000 to shareholders on the register on 24 March 2000.

### Future developments

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

### Research and development

The Directors are committed to maintaining a significant level of research and development expenditure in order to expand the Group's range of proprietary products. In the year a total of £44.9 million (1998: £42.6 million) was spent on engineering development of which £34.8 million (1998: £32.4 million) was funded by customers and £10.1 million (1998: £10.2 million) by the Group.

### Directors and their interests

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

## Substantial shareholdings

At 21 February 2000, the Company had been notified in accordance with Sections 198-208 of the Companies Act 1985 that the following were registered as having an interest in 3% or more of the Company's ordinary share capital:

	Percentage of ordinary share capital %	Number of 5p ordinary shares
Schroder Investment Management Ltd	15.92	10,350,939
Royal Bank of Canada Group	4.83	3,139,670
The Capital Group Companies, Inc	3.90	2,536,500
Standard Life	3.87	2,521,314
3i Group plc	3.13	2,045,596
The Aegon UK plc Group of Companies	3.10	2,015,326
Legal and General	3.05	1,984,625

## Charitable and political contributions

The Group contributed £14,000 (1998: £13,000) to charities and made no contributions for political purposes.

## Disabled employees

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

## Employee consultation

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

## Supplier payment policy

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

Trade creditor days of the Group for the year ended 30 December 1999 were 57 days (1998: 46 days), based on the ratio of Group trade creditors at the end of the year to the amounts invoiced during the year by suppliers. The Company had no trade creditors at the year end.

## Remuneration report

The Company complies with the relevant conditions in the Combined Code on corporate governance relating to Director's remuneration, as published by the London Stock Exchange.

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

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

## Salaries

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

## Bonus Scheme

The Company operates an annual bonus scheme for executive Directors. Bonus payments are based upon achievement of operating profit and cash flow targets. The maximum bonus for 1999 was 40% of basic annual salary.

## Long Term Incentive Plan

The Company operates a Long Term Incentive Plan (the 'Plan') for executive Directors and certain senior executives. The current rules of the Plan permit ordinary shares worth up to 50% of gross basic salary at the start of the Plan to be awarded each year, depending on the Group's performance over a three year period. The performance criteria for the 1999 award is based on the growth in the Group's earnings per share over a three year period from the date of the award, compared to improvements in the earnings per share of companies in the Engineering sector over this period.

Since adoption of the Plan prior to the flotation of the Company, it has become common practice for companies operating similar share-based incentive arrangements to the Plan to grant awards in excess of the Plan's current individual limit of shares with a market value of 50% of gross basic salary. Consequently, to ensure the Company continues to attract, retain and motivate executives, resolution 7 will be proposed at the forthcoming Annual General Meeting to increase the Plan's limit of individual participation in any provisional award to shares with a market value equal to 100% of basic salary.

**Long Term Incentive Plan (continued)**

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

	1999		1998		1997		1996	
	Potential award (No of shares)	Potential award value*	Potential award (No of shares)	Potential award value*	Potential award (No of shares)	Potential award value*	Potential award (No of shares)	Potential award value*
	£	£	£	£	£	£	£	£
J. Blogh	<b>21,175</b>	<b>85,759</b>	21,456	86,897	18,469	74,799	28,000	113,400
D. Caster	<b>13,365</b>	<b>54,128</b>	13,793	55,862	11,873	48,086	18,000	72,900
F. Hope	<b>11,375</b>	<b>46,069</b>	-	-	-	-	-	-
R. Lane	-	-	13,793	55,862	11,873	48,086	18,000	72,900
I. Yeoman	<b>13,365</b>	<b>54,128</b>	13,793	55,862	11,873	48,086	18,000	72,900

\*This is based on a mid-market price of 405 pence per share on 30 December 1999. Frank Hope was appointed an Executive Director on 1 January 1999.

**Directors' remuneration**

Directors' remuneration is detailed below:

	Basic salary	Fees	Annual performance bonus	Benefits	1999 Total	1998 Total
	£'000	£'000	£'000	£'000	£'000	£'000
P. Macfarlane	-	50	-	-	50	48
J. Blogh	169	-	42	10	221	226
D. Caster	107	-	27	7	141	147
F. Holroyd	-	19	-	-	19	18
F. Hope ( <i>appointed 1 January 1999</i> )	91	-	23	8	122	-
R. Lane	107	-	27	7	141	146
J. Taylor ( <i>retired 26 February 1999</i> )	19	-	-	1	20	147
A. Walker	-	19	-	-	19	18
I. Yeoman	107	-	27	9	143	149

Pension contributions to directors of £57,000 (1998: £104,000) were paid by the Company, including £17,000 (1998: £31,000) in respect of the highest paid director.

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

**Service contracts**

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

## Share schemes

The Company operates the Company Share Option Scheme and Executive Share Option Scheme for selected employees. These schemes are not available to employees who participate in the Long Term Incentive Plan. Options granted under these schemes are subject to performance criteria determined by the Remuneration Committee. The criteria for options issued require growth in earnings per ordinary share of the Group over any three year period between the grant and exercise of options to equal at least the median growth over that period of the Engineering Sector, with all the options being exercisable only if the growth falls within the top quartile of the Engineering Sector.

Due to the relatively low level of awards made under these schemes allied to the fact that executive Directors do not participate in the Company Share Option Scheme and Executive Share Option Scheme, resolution 8 will be proposed at the forthcoming Annual General Meeting to approve the Remuneration Committee's intention not to attach performance criteria to the exercise of future options granted under these schemes.

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

During the year the Company set up an Ultra Electronics Qualifying Share Ownership Trust to satisfy the options granted under the UK Savings Related Share Option Scheme, whose first maturity date was in 1999.

## Directors' pension entitlements

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

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

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

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

### Directors' pension entitlements (continued)

Details of Directors' pension rights are given below:

	Age at	Years of	Additional	Contributions	Accrued	
	30 December	service at	pension earned	by Directors	entitlement at	
	1999	30 December	in excess of	for the	1999	1998
		1999	inflation during	year ended	£'000	£'000
			the year	30 December		
				1999		
			£'000	£'000	£'000	£'000
J. Blogh	56	16	10	8	78	66
D. Caster	46	12	4	5	30	25
F. Hope	45	5	3	4	14	10
R. Lane	57	14	5	5	51	45
I. Yeoman	44	9	2	4	20	17

### Directors' interests

Details of Directors' shareholdings are given below:

	At start of year		At end of year	
	Direct ownership	Indirect beneficial ownership	Direct ownership	Indirect beneficial ownership
P. Macfarlane	1,850	406,268	-	406,268
J. Blogh	60,294	1,740,585	60,494	1,740,385
D. Caster	785,379	486,783	785,579	486,783
F. Holroyd	6,000	-	6,000	-
F. Hope	3,600	200	3,800	-
R. Lane	-	1,372,163	200	1,371,963
A. Walker	300	-	300	-
I. Yeoman	876,062	492,101	874,512	490,151

There have been no changes in Directors' interests between 30 December 1999 and 21 February 2000.

## Annual general meeting

Explanations of special business resolutions are given below:

### **Resolution 7**

This resolution amends the rules of the Ultra Electronics Long Term Incentive Plan (the 'Plan') to increase the maximum value of the market value of shares comprised in any provisional award made to an individual under the Plan from 50% of that individual's gross basic salary to a maximum of 100%.

The Plan was adopted in September 1996, prior to flotation of the Company. Since then, it has become common practice for other companies operating similar share-based incentive arrangements to grant awards in excess of the Plan's current individual limit of shares with a market value of 50% of gross basic salary. Consequently, to ensure that the Company continues to attract, retain and motivate executives it is proposed that the Plan's individual limit is increased to shares with a market value of 100% of gross basic salary.

### **Resolution 8**

This resolution approves the proposal of the Remuneration Committee not to attach performance criteria to the exercise of future options granted under the Company Share Option Scheme and Executive Share Option Scheme.

The rules of the Company Share Option Scheme and Executive Share Option Scheme do not require the exercise of options to be subject to the satisfaction of any performance criteria. However, the Company has to date made the exercise of all options subject to certain earnings per share based performance criteria. Due to the relatively low level of awards made under the schemes allied to the fact that executive Directors do not participate in such schemes, the Company proposes not to attach performance criteria to the exercise of future options granted under the schemes.

### **Resolution 9**

This resolution authorises the Directors to allot shares in the Company up to a maximum nominal amount of £1,088,802 (a third of the allotted and fully paid up share capital of the Company).

### **Resolution 10**

This resolution authorises the Directors to allot shares for cash other than to existing shareholders in proportion to their existing holdings in respect of 5% of the total issued share capital of the Company.

Resolutions 9 and 10 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 11**

This resolution authorises the Directors to purchase up to a total of 3,266,407 of the Company's shares (representing 5% of the issued share capital of the Company). This authority expires on the earlier of 12 months from the date of passing this resolution or the conclusion of the next annual general meeting of the Company.

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

## **Auditors**

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

**By order of the Board,**

**I. Yeoman**

*Company Secretary*

21 February 2000

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



## Corporate governance

The Group has complied during the year with the Provisions of the Code of Best Practice set out in section 1 of the Combined Code as published in June 1998.

The Board, which currently comprises three independent non-executive Directors and five executive Directors, meets regularly throughout the year (normally monthly) and deals with important aspects of the Group's affairs including setting and monitoring strategy, reviewing performance, ensuring that the Group has adequate financial resources and reporting to shareholders. The Board has an Audit Committee, comprising the non-executive Directors, to review the scope of work and the findings of the Group's auditors, to commission any additional investigation work and to consider the adequacy of accounting controls and procedures. The Remuneration Committee is responsible for setting the remuneration of executive Directors. A remuneration report is included in the Directors' Report. The Board also has a Nominations Committee which comprises the non-executive Directors and the Chief Executive. The Committee, which is chaired by the Group Chairman, reviews all senior appointments.

## Internal financial control

The Board has overall responsibility for ensuring that the Group maintains a system of internal financial control to provide them with reasonable assurance regarding the reliability of financial information used both within the business and for publication, and that assets are safeguarded. There are inherent limitations in any system of internal financial control and accordingly even the most effective system can provide only reasonable, not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The Combined Code introduced a requirement that Directors review the effectiveness of the Group's system of internal controls. This extends the existing requirements in respect of internal financial controls to cover all controls including: financial, operational, compliance, and risk management.

Guidance for Directors Internal Control; Guidance for Directors on the Combined Code (the Turnbull guidance) was published in September 1999. However, the Directors have taken advantage of the London Stock Exchange's transitional rules and have continued to review and report upon internal financial controls in accordance with the ICAEW's 1994 guidance Internal Control and Financial Reporting.

Nevertheless, the Board confirm that they have established the procedures necessary to implement the Turnbull guidance such that they can fully comply with it for the accounting period ending on 30 December 2000.

The key features of the internal financial control system that operated throughout the year covered by the accounts are described under the following headings:

## Control environment

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

## Risk management

Divisional management has a responsibility for identifying the risks facing each of their businesses, and for putting in place procedures to mitigate and monitor such risks. Risks are formally assessed by the Board during the annual business planning process. The Directors are currently considering the creation of an internal audit function.

### Management information systems

The Group has a comprehensive system of financial reporting. The annual budget and five year strategic plan for each division are approved by the executive Directors and the Board approves the Group's budget and plan. Actual results for each division 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 there is also monthly cash reporting.

### Control procedures

All divisions are required to maintain written financial procedures manuals. Large capital expenditure projects require executive Director approval and acquisitions or significant bids by the Group require Board approval.

A monitoring system of rolling checks is in place to ensure compliance with control procedures and results are reported back to the Audit Committee.

The Board reviews the operation and effectiveness of this framework on a regular basis. Internal financial controls are constantly reviewed and updated where necessary. The Directors consider that there have been no weaknesses in internal financial control that have resulted in any material losses, contingencies or uncertainties requiring disclosure in the accounts.

### Going concern

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

### Statement of responsibilities

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period.

In preparing those accounts the Directors are required to:

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

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

**To the shareholders of Ultra Electronics Holdings plc**

We have audited the accounts on pages 37 to 60 which have been prepared under the historical cost convention and the accounting policies set on pages 40 to 42.

We have also examined the amounts disclosed relating to the emoluments, share options, long-term incentive scheme interests and pension benefits of the Directors which form part of the Directors' report on pages 25 to 32.

**Respective responsibilities of Directors and auditors**

The Directors are responsible for preparing the Annual Report including, as described on page 34, preparing the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute in the United Kingdom, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

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

We review whether the Corporate Governance statement on pages 33 and 34 reflect the Company's compliance with the seven provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's Corporate Governance procedures or its risk and control procedures.

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

**Basis of audit opinion**

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

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

## Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 30 December 1999 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**Arthur Andersen**

**Chartered Accountants and Registered Auditors**

Abbots House, Abbey Street, Reading RG1 3BD

21 February 2000

## Consolidated profit and loss account

For the year ended 30 December 1999

	Note	1999 £'000	1998 £'000
<b>Turnover</b>			
– existing operations		<b>189,586</b>	158,654
– acquisitions		<b>3,395</b>	-
	2	<b>192,981</b>	158,654
<b>Cost of sales</b>			
– existing operations		<b>(142,454)</b>	(116,773)
– acquisitions		<b>(2,520)</b>	-
		<b>(144,974)</b>	(116,773)
<b>Gross profit</b>			
– existing operations		<b>47,132</b>	41,881
– acquisitions		<b>875</b>	-
		<b>48,007</b>	41,881
<b>Other operating expenses (net)</b>	3	<b>(24,773)</b>	(21,026)
<b>Operating profit</b>			
– existing operations		<b>22,693</b>	20,855
– acquisitions		<b>541</b>	-
		<b>23,234</b>	20,855
Interest receivable and similar income		<b>254</b>	390
Interest payable and similar charges	4	<b>(1,557)</b>	(188)
<b>Profit on ordinary activities before taxation</b>	5	<b>21,931</b>	21,057
Tax on profit on ordinary activities	7	<b>(6,372)</b>	(6,416)
<b>Profit on ordinary activities after taxation, being the profit for the financial year</b>		<b>15,559</b>	14,641
Dividends	8	<b>(5,871)</b>	(5,265)
<b>Retained profit for the year</b>		<b>9,688</b>	9,376

### Earnings per ordinary share (pence):

After goodwill amortisation

Basic	9	<b>23.9</b>	22.5
Diluted	9	<b>23.8</b>	22.4

Before goodwill amortisation

Basic	9	<b>25.9</b>	22.6
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A statement of movements on reserves is given in note 21 to the accounts.

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

## Balance sheets

30 December 1999

		Group	Group	Company	Company
	<i>Note</i>	1999 £'000	1998 £'000	1999 £'000	1998 £'000
<b>Fixed assets</b>					
Tangible assets	10	14,874	13,343	72	33
Intangible assets – Patents and trademarks	11	291	-	-	-
Intangible assets – Goodwill	12	27,374	19,649	-	-
Investments	13	342	516	39,899	21,122
		<b>42,881</b>	33,508	<b>39,971</b>	21,155
<b>Current assets</b>					
Stocks	14	20,885	23,276	-	-
Debtors: Amounts falling due after more than one year	15	1,199	1,417	15,673	27,612
Debtors: Amounts falling due within one year	15	37,075	22,968	8,664	15,004
Cash at bank and in hand		12,976	14,607	8,565	-
		<b>72,135</b>	62,268	<b>32,902</b>	42,616
<b>Creditors:</b> Amounts falling due within one year	16	<b>(86,489)</b>	(77,986)	<b>(34,897)</b>	(31,062)
<b>Net current (liabilities)/assets</b>		<b>(14,354)</b>	(15,718)	<b>(1,995)</b>	11,554
<b>Total assets less current liabilities</b>		<b>28,527</b>	17,790	<b>37,976</b>	32,709
<b>Creditors:</b> Amounts falling due after one year	17	<b>(500)</b>	(557)	-	-
<b>Provisions for liabilities and charges</b>	19	<b>(4,613)</b>	(4,235)	-	-
<b>Net assets</b>		<b>23,414</b>	12,998	<b>37,976</b>	32,709
<b>Capital and reserves</b>					
Called-up share capital	20	3,266	3,250	3,266	3,250
Share premium account	21	24,291	23,050	24,291	23,050
Profit and loss account	21	(4,143)	(13,302)	10,419	6,409
<b>Equity shareholders' funds</b>	22	<b>23,414</b>	12,998	<b>37,976</b>	32,709

Signed on behalf of the Board

J. Blogh, *Director*

I. Yeoman, *Director*

21 February 2000

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

## Consolidated cash flow statement

For the year ended 30 December 1999

	Note	1999 £'000	1998 £'000
<b>Net cash inflow from operating activities</b>	23	<b>12,564</b>	25,466
Returns on investments and servicing of finance	23	<b>(1,267)</b>	247
Taxation – UK		<b>(7,461)</b>	(6,220)
– Overseas		<b>(300)</b>	(264)
Capital expenditure and financial investment	23	<b>(4,355)</b>	(3,699)
Acquisitions	23	<b>(5,846)</b>	(17,749)
Equity dividends paid		<b>(5,461)</b>	(4,875)
<b>Cash outflow before financing</b>		<b>(12,126)</b>	(7,094)
Financing	23	<b>10,316</b>	12,721
<b>(Decrease)/Increase in cash in the year</b>		<b>(1,810)</b>	5,627

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

## Consolidated statement of total recognised gains and losses

For the year ended 30 December 1999

	1999 £'000	1998 £'000
Group profit for the financial year	<b>9,688</b>	9,376
Gain/(loss) on foreign currency translation	<b>27</b>	(508)
<b>Total recognised gains and losses</b>	<b>9,715</b>	8,868

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

## 1 Accounting policies

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

### **a) Basis of accounting**

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

### **b) Basis of consolidation**

The Group's accounts consolidate the accounts of Ultra Electronics Holdings plc and all of its subsidiary undertakings made up to 30 December 1999 using the acquisition method of accounting. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of control passing or up to the date of control being relinquished.

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

### **c) Goodwill**

Goodwill, representing the excess of the fair value of consideration given over the fair value of separable net assets acquired, is capitalised as an intangible asset and is amortised over a period of 20 years, being the Directors' assessment of its likely future value. Provision is made for any impairment. For acquisitions made prior to 31 December 1997 goodwill was considered separately for each acquisition and was written off immediately to the goodwill reserve, depending on the Directors' assessment of its likely future value to the Group. That reserve has since been offset against the profit and loss account balance.

### **d) Research and development**

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

### **e) Patents and trademarks**

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

### **f) Tangible fixed assets**

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

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

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

Freehold land is not depreciated.



## 1 Accounting policies (continued)

### **g) Investments**

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

### **h) Stocks**

Stocks and work in progress are valued at the lower of cost (determined on a first-in, first-out basis and including an appropriate proportion of overheads) and net realisable value, less payments on account. Profit is taken on long-term contracts by reference to an assessment of the outcome and the proportion of work completed.

### **i) Taxation**

The tax charge is based on the profit for the year and takes into account tax deferred due to timing differences between the treatment of certain items for tax and accounting purposes.

Deferred taxation is calculated on the liability method and is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of the reversal. Deferred tax is not provided on timing differences which, in the opinion of the Directors, will probably not reverse.

### **j) Pension costs**

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

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

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

### **k) Warranty**

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

### **l) Foreign currency**

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

## 1 Accounting policies (continued)

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

### ***m) Turnover***

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

### ***n) Government grants***

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

### ***o) Leases***

Assets held under finance leases, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and are depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss accounts 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***

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

An interest rate collar is in place to hedge the Group's exposure to movements in US interest rates. Interest payable or receivable on the collar is accrued in the same way as interest arising on deposits or borrowings.

## 2 Segment information

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

	1999 £'000	1998 £'000
United Kingdom	104,840	85,715
Continental Europe	23,024	20,967
North America	57,664	42,948
Rest of the World	7,453	9,024
	<b>192,981</b>	158,654

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

	United Kingdom		North America		Group	
	1999 £'000	1998 £'000	1999 £'000	1998 £'000	1999 £'000	1998 £'000
Turnover	150,309	133,056	42,672	25,598	192,981	158,654
Operating profit	19,560	17,886	3,674	2,969	23,234	20,855
Interest (net)					(1,303)	202
Profit before tax					21,931	21,057
Net operating (liabilities)/assets	(14,361)	(13,474)	5,765	1,607	(8,596)	(11,867)

## 3 Other operating expenses (net)

	Existing operations		Acquisitions		Total	
	£'000	£'000	£'000	£'000	£'000	£'000
Selling and distribution costs	9,249	-	9,249	-	9,249	9,416
Administrative expenses	15,641	334	15,975	334	15,975	12,132
Other operating income	(451)	-	(451)	-	(451)	(522)
	<b>24,439</b>	<b>334</b>	<b>24,773</b>	<b>334</b>	<b>24,773</b>	21,026

## 4 Interest payable and similar charges

	1999 £'000	1998 £'000
On bank loans, overdrafts and other loans		
– repayable within five years	1,535	183
On finance leases	22	5
	<b>1,557</b>	188

## 5 Profit on ordinary activities before taxation

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

	1999 £'000	1998 £'000
Depreciation and amounts written off tangible fixed assets		
– owned	<b>3,189</b>	2,483
– leased	<b>64</b>	21
Provision against investments	<b>344</b>	282
Amortisation of goodwill, patents and trademarks	<b>1,318</b>	41
Operating lease rentals		
– plant and machinery	<b>1,201</b>	988
– land and buildings	<b>2,332</b>	1,728
Research and development ( <i>see also Directors' report</i> )	<b>10,136</b>	10,222
Auditors' remuneration		
– audit fees	<b>135</b>	176
– other	<b>23</b>	193
Government grants received	<b>(30)</b>	(17)

## 6 Staff costs

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

	1999 £'000	1998 £'000
Employee costs during the year amounted to:		
Wages and salaries	<b>50,582</b>	39,222
Social security costs	<b>4,656</b>	3,482
Other pension costs	<b>2,757</b>	2,535
	<b>57,995</b>	45,239

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

	1999 Number	1998 Number
Production	<b>936</b>	752
Engineering	<b>711</b>	590
Selling	<b>124</b>	102
Support services	<b>308</b>	263
	<b>2,079</b>	1,707

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

## 7 Tax on profit on ordinary activities

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

	1999 £'000	1998 £'000
<b>UK taxes</b>		
Corporation tax at 30.25% (1998: 31%)	5,736	5,944
Adjustment in respect of prior years	49	(121)
	<b>5,785</b>	5,823
<b>Overseas taxes</b>		
Current taxation	393	661
Adjustment in respect of prior years	194	(68)
	<b>587</b>	593
	<b>6,372</b>	6,416

## 8 Dividends paid and proposed

	1999 £'000	1998 £'000
Interim ordinary dividend paid of 3p per share (1998: 2.7p)	1,951	1,755
Final ordinary dividend proposed of 6p per share (1998: 5.4p)	3,920	3,510
	<b>5,871</b>	5,265

## 9 Earnings per share

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

	1999 No. of shares	1998 No. of shares
Number of shares used for basic earnings per share	65,055,293	65,004,324
Number of shares deemed to be issued at nil consideration following exercise of share options	371,693	325,790
Number of shares used for diluted earnings per share	<b>65,426,986</b>	65,330,114

Earnings attributable to ordinary shareholders:

	1999 £'000	1998 £'000
After goodwill amortisation	15,559	14,641
Before goodwill amortisation	<b>16,870</b>	14,682

## 10 Tangible fixed assets

The movement in the year was as follows:

### GROUP

	Land and Buildings Freehold £'000	Buildings Short leasehold £'000	Plant and machinery £'000	Total £'000
<b>Cost</b>				
Beginning of year	3,768	2,719	20,960	27,447
Foreign exchange differences	123	2	163	288
Acquisition of subsidiary undertakings	-	119	724	843
Other additions	24	94	4,154	4,272
Disposals	-	-	(324)	(324)
<b>End of year</b>	<b>3,915</b>	<b>2,934</b>	<b>25,677</b>	<b>32,526</b>
<b>Depreciation</b>				
Beginning of year	334	1,015	12,755	14,104
Foreign exchange differences	21	(33)	158	146
Acquisition of subsidiary undertakings	-	67	403	470
Charge	116	231	2,906	3,253
Disposals	-	-	(321)	(321)
<b>End of year</b>	<b>471</b>	<b>1,280</b>	<b>15,901</b>	<b>17,652</b>
<b>Net book value</b>				
Beginning of year	3,434	1,704	8,205	13,343
<b>End of year</b>	<b>3,444</b>	<b>1,654</b>	<b>9,776</b>	<b>14,874</b>

Freehold land amounting to £1,055,000 (1998: £1,040,000) has not been depreciated. Plant and machinery includes fixtures and fittings, tooling and test rigs, computers and motor vehicles. The net book value of assets held under finance leases was £162,000 (1998: £178,000).

### COMPANY

	Plant and machinery £'000
<b>Cost</b>	
Beginning of year	122
Additions	65
<b>End of year</b>	<b>187</b>
<b>Depreciation</b>	
Beginning of year	89
Charge	26
<b>End of year</b>	<b>115</b>
<b>Net book value</b>	
Beginning of year	33
<b>End of year</b>	<b>72</b>

**11 Intangible assets – Patents and trademarks**

	Group
	£'000
<b>Cost</b>	
Acquisitions	298
<b>Depreciation</b>	
Charge for the year	7
<b>Net book value at end of year</b>	<b>291</b>

**12 Intangible assets – Goodwill**

	Group
	£'000
<b>Cost</b>	
Beginning of year	19,690
Additions ( <i>see below</i> )	9,036
<b>End of year</b>	<b>28,726</b>
<b>Amortisation</b>	
Beginning of year	41
Charge	1,311
<b>End of year</b>	<b>1,352</b>
<b>Net book value</b>	
Beginning of year	19,649
<b>End of year</b>	<b>27,374</b>

**a) Acquisition during the year****Advanced Programming Concepts Inc**

On 20 July 1999, the Group purchased all the share capital of Advanced Programming Concepts Inc (APC), a company based in Austin, Texas, USA, for a cash consideration of £6.045 million. The aggregate net assets acquired and their fair values were as follows:

	Book and fair value to the Group
	£'000
<b>Tangible fixed assets</b>	<b>373</b>
<b>Current assets:</b>	
Stocks	162
Debtors	753
Cash	692
Creditors falling due within one year	(1,015)
<b>Net assets acquired</b>	<b>965</b>
Goodwill capitalised	5,275
<b>Purchase consideration, including certain costs</b>	<b>6,240</b>

**12 Intangible assets – Goodwill (continued)**

APC's net operating cash inflow during the period after acquisition was £83,000 together with an inflow of £20,000 in respect of net returns on investments and servicing of finance.

APC earned a profit before tax of £635,000 in the year ended 31 December 1998 from a turnover of £5.42 million. Profit after tax was £585,000. The turnover of the business acquired from the end of its previous financial year to the date of acquisition was £3.43 million producing a profit before tax of £147,000.

**b) Revisions to fair values**

Fair values on acquisition have been adjusted for two businesses purchased in 1998. Additional provisions have been created at Power Magnetics and Electronic Systems Limited and UnderSea Sensor Systems Inc. The revised fair values relate principally to finalised assessment of long term contract balances, to which provisional fair values were attributed in the prior year. These are as follows:

**Power Magnetics and Electronic Systems Limited**

	Book value	Adjustments as at 30 Dec 1998	Further adjustments	Fair value to the Group
	£'000	£'000	£'000	£'000
<b>Tangible fixed assets</b>	<b>2,088</b>	<b>(354)</b>	-	<b>1,734</b>
<b>Current assets:</b>				
Stocks	1,849	(420)	(33)	1,396
Debtors	2,694	(178)	(31)	2,485
Creditors falling due within one year	(4,696)	(1,505)	(584)	(6,785)
Provisions for liabilities and charges	(285)	-	-	(285)
<b>Net assets/(liabilities) acquired</b>	<b>1,650</b>	<b>(2,457)</b>	<b>(648)</b>	<b>(1,455)</b>
Goodwill capitalised				4,500
<b>Purchase consideration, including certain costs</b>				<b>3,045</b>

**UnderSea Sensor Systems Inc**

	Book value	Adjustments as at 30 Dec 1998	Further adjustments	Fair value to the Group
	£'000	£'000	£'000	£'000
<b>Tangible fixed assets</b>	<b>340</b>	-	-	<b>340</b>
<b>Current assets:</b>				
Stocks	2,192	(841)	(1,351)	-
Debtors	208	-	-	208
Creditors falling due within one year	(1,943)	(2,159)	(1,762)	(5,864)
<b>Net assets/(liabilities) acquired</b>	<b>797</b>	<b>(3,000)</b>	<b>(3,113)</b>	<b>(5,316)</b>
Goodwill capitalised				18,951
<b>Purchase consideration, including certain costs</b>				<b>13,635</b>



## 13 Investments

### a) Principal subsidiary undertakings

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

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

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

### b) Current year movement on fixed asset investments

	Group			Company			
	Own shares £'000	Long Term Incentive Plan shares £'000	Total £'000	Own shares £'000	Long Term Incentive Plan shares £'000	Investment in subsidiary undertakings £'000	Total £'000
<b>Cost</b>							
Beginning of year	-	975	975	-	975	20,606	21,581
Additions (see also note 12)	63	107	170	63	107	18,951	19,121
<b>End of year</b>	<b>63</b>	<b>1,082</b>	<b>1,145</b>	<b>63</b>	<b>1,082</b>	<b>39,557</b>	<b>40,702</b>
<b>Provision</b>							
Beginning of year	-	459	459	-	459	-	459
Charge	-	344	344	-	344	-	344
<b>End of year</b>	<b>-</b>	<b>803</b>	<b>803</b>	<b>-</b>	<b>803</b>	<b>-</b>	<b>803</b>
<b>Net book value</b>							
Beginning of year	-	516	516	-	516	20,606	21,122
<b>End of year</b>	<b>63</b>	<b>279</b>	<b>342</b>	<b>63</b>	<b>279</b>	<b>39,557</b>	<b>39,899</b>

During the year, the Company capitalised £12,711,000 of loans to subsidiary undertakings.

**14 Stocks**

	<b>Group</b>	Group
	<b>1999</b>	1998
	<b>£'000</b>	£'000
Raw materials and consumables	<b>12,587</b>	12,595
Work-in-progress	<b>15,400</b>	10,812
Finished goods and goods for resale	<b>3,302</b>	2,124
Payments on account	<b>(11,176)</b>	(4,564)
	<b>20,113</b>	20,967
Long-term contract balances		
– costs less foreseeable losses	<b>1,108</b>	3,085
– less payments on account	<b>(336)</b>	(776)
	<b>772</b>	2,309
	<b>20,885</b>	23,276

**15 Debtors**

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>1999</b>	1998	<b>1999</b>	1998
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
<b>Amounts falling due within one year:</b>				
Trade debtors	<b>21,013</b>	15,652	-	-
Amounts recoverable on contracts	<b>12,527</b>	3,645	-	-
Amounts owed by subsidiary undertakings	-	-	<b>8,499</b>	14,878
Other debtors	<b>2,079</b>	1,760	-	-
Prepayments and accrued income	<b>1,456</b>	1,911	<b>165</b>	126
	<b>37,075</b>	22,968	<b>8,664</b>	15,004
<b>Amounts falling due after more than one year:</b>				
Amounts recoverable on contracts	<b>1,199</b>	1,417	-	-
Amounts owed by subsidiary undertakings	-	-	<b>15,673</b>	27,612
	<b>1,199</b>	1,417	<b>15,673</b>	27,612

**16 Creditors: Amounts falling due within one year**

	Group	Group	Company	Company
	1999	1998	1999	1998
	£'000	£'000	£'000	£'000
Obligations under finance leases	61	59	-	-
Bank overdraft	-	-	-	1,492
Bank loans	24,502	14,512	24,502	14,512
Payments received on account	16,501	18,744	-	-
Trade creditors	17,212	13,708	-	-
Amounts owed to subsidiary undertakings	-	-	5,224	8,858
Other creditors:				
– Corporation tax payable	4,734	5,990	697	1,370
– VAT	1,524	1,244	20	15
– social security and PAYE	1,107	1,170	-	-
– other creditors	5,577	7,402	-	439
Pension related liabilities	354	329	29	38
Accruals and deferred income	10,997	11,318	505	828
Proposed dividends	3,920	3,510	3,920	3,510
	<b>86,489</b>	77,986	<b>34,897</b>	31,062

The bank loans were unsecured and matured in January 2000. The interest rate charged was related to LIBOR.

**17 Creditors: Amounts falling due after more than one year**

	Group	Group
	1999	1998
	£'000	£'000
Obligations under finance leases	119	148
Payments received on account	381	250
Trade creditors	-	108
Other creditors	-	51
	<b>500</b>	557

Of the finance lease obligations £51,000 (1998: £42,000) is due between 1 and 2 years and £68,000 (1998: £106,000) between 2 and 5 years.

## 18 Financial risk management

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

### a) Interest rate profile at 30 December 1999

	At floating interest rates £'000	Interest free £'000	Total £'000
<b>Financial assets</b>			
Sterling	3,664	1,199	<b>4,863</b>
US dollars	7,514	-	<b>7,514</b>
Canadian dollars	1,768	-	<b>1,768</b>
Euro	30	-	<b>30</b>
	12,976	1,199	<b>14,175</b>

The financial assets of the Group comprised:

	1999 £'000
Cash	<b>12,976</b>
Debtors: Amounts recoverable on contracts falling due after more than one year	<b>1,199</b>
	<b>14,175</b>

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

The financial liabilities of the Group comprised:

	1999 £'000
Total borrowings and finance leases	<b>24,682</b>
Creditors: Payments on account falling due after more than one year	<b>381</b>
	<b>25,063</b>

**18 Financial risk management (continued)**

The Group has a long-term loan facility of \$40 million to hedge overseas net investments. To hedge the inherent interest rate risk, the Group has taken out an interest rate collar with a variable notional amount, at 30 December 1999 of \$26.7 million, with a cap set at 6.5% and a floor of 4.67%. These interest rates were not triggered during the year and hence the borrowings have been classified as floating. Other facilities comprise a floating rate bank loan of £5 million, set with reference to the prevailing LIBOR rate. The weighted average profile is as follows:

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

**b) Currency risk at 30 December 1999**

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 \$ 1999 £'000	Other 1999 £'000	Total 1999 £'000
<b>Functional currency of Group operations</b>			
Sterling £	2,878	(289)	<b>2,589</b>
US \$	-	-	-
Canadian \$	(384)	-	<b>(384)</b>
	2,494	(289)	<b>2,205</b>

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

**c) Maturity of financial liabilities**

The maturity profile of the Group's financial liabilities, other than short term creditors such as trade creditors and accruals, at 30 December 1999 was as follows:

	1999 £'000
In one year or less, or on demand	<b>24,563</b>
In more than one year but not more than two years	<b>432</b>
In more than two years but not more than five years	<b>68</b>
	<b>25,063</b>

**18 Financial risk management (continued)****d) Undrawn committed borrowing facilities**

The Group's undrawn committed borrowing facilities available at 30 December 1999, in respect of which all conditions precedent have been met, were as follows:

	1999 £'000
Expiring in one year or less	9,637
Expiring in more than two years	6,254
	<b>15,891</b>

**e) Fair value of financial instruments**

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

	1999 Book value £'000	1999 Fair value £'000
<b>Derivative financial instruments held to hedge the interest rate profile and currency profile</b>		
Interest rate collar	-	156
<b>Derivative financial instruments held to hedge the currency exposure on expected future sales</b>		
Forward foreign exchange contracts	-	111
	-	<b>267</b>

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

**f) Gains and losses on hedges**

Forward exchange contracts are used to hedge exchange exposures arising on forecast receipts and payments in foreign currencies. Gains and losses are taken to the profit and loss account on maturity of the hedge. The interest rate collar is used to manage the interest rate profile. Gains and losses disclosed below are based on market values at 30 December 1999.

	Gains £'000	Losses £'000	Total net gains/(losses) £'000
Unrecognised gains and (losses) on hedges at 30 December 1998	906	(2,225)	(1,319)
(Gains) and losses arising before 30 December 1998, recognised 1999	(876)	1,066	190
Gains and (losses) arising before 30 December 1998, not recognised in 1999	30	(1,159)	(1,129)
Gains arising in 1999, not recognised in 1999	619	777	1,396
Unrecognised gains and (losses) on hedges at 30 December 1999	649	(382)	267
<b>Of which:</b>			
Gains and (losses) expected to be recognised in 2000	544	(192)	352
Gains and (losses) expected to be recognised in 2001 and beyond	105	(190)	(85)

**19 Provisions for liabilities and charges****Warranties**

	<b>Group</b>
	<b>£'000</b>
Beginning of year	4,235
Utilised during the year	(1,316)
Charged to the profit and loss account	1,694
<b>End of year</b>	<b>4,613</b>

**Deferred taxation**

	<b>Group</b>	Group	<b>Company</b>	Company
	<b>1999</b>	1998	<b>1999</b>	1998
	<b>£'000</b>	£'000	<b>£'000</b>	£'000
<b>Provided:</b>				
Excess of tax allowances over book depreciation of fixed assets	<b>883</b>	210	-	-
Other timing differences relating to current assets and liabilities (restricted, see below)	<b>(883)</b>	(210)	-	-
	-	-	-	-
<b>Unprovided deferred tax assets:</b>				
Other timing differences relating to current assets and liabilities	<b>(1,070)</b>	(1,072)	<b>(12)</b>	(166)

**20 Called-up share capital**

	<b>1999</b>		1998	
	<b>No.</b>	<b>£000</b>	No.	£000
<b>Authorised:</b>				
5p ordinary shares	<b>90,000,000</b>	<b>4,500</b>	90,000,000	4,500
<b>Allotted, called-up and fully paid:</b>				
5p ordinary shares	<b>65,328,148</b>	<b>3,266</b>	65,007,721	3,250

320,427 ordinary shares having a nominal value of £16,021 were allotted during the year under the terms of the Group's various Savings Related Share Option Schemes. The aggregate consideration received by the Company was £1.257 million. As noted in the Directors report, 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 £556,000 to the Trust.

## 20 Called-up share capital (continued)

### Share options

At 30 December 1999 the following options granted to staff remained outstanding:

	Options granted	Number of shares		Option price (£)	Option dates
		1999	1998		
Savings Related Share	1996	<b>308,169</b>	646,784	2.30	November 1999 - May 2002
Option Scheme	1997	<b>23,301</b>	44,044	2.34 to 2.37	June 1999 - September 2000
	1998	<b>10,098</b>	10,895	3.67	May 2000 - November 2000
	1999	<b>470,437</b>	-	3.70 to 3.84	June 2001 - May 2005
		<b>812,005</b>	701,723		
Company Share Option Plan	1996	<b>125,424</b>	135,876	2.87	March 2000 - November 2006
	1997	<b>21,429</b>	21,429	2.80	March 2001 - March 2007
	1998	<b>78,638</b>	88,587	4.05	March 2002 - March 2008
	1999	<b>109,595</b>	-	4.15 to 4.265	March 2003 - September 2009
		<b>335,086</b>	245,892		
Executive Share Option Plan	1996	<b>82,226</b>	87,034	2.87	March 2000 - November 2003
	1997	<b>39,188</b>	39,188	2.80	March 2001 - March 2004
	1998	<b>27,437</b>	27,437	4.05	March 2002 - March 2005
	1999	<b>186,921</b>	-	4.15 to 4.265	March 2003 - September 2009
		<b>335,772</b>	153,659		

## 21 Reserves

	Group		Company	
	Share premium £'000	Profit and loss account £'000	Share premium £'000	Profit and loss account £'000
Beginning of year	23,050	(13,302)	23,050	6,409
Retained profit for the year	-	9,688	-	4,015
Amounts gifted to Employee Share Ownership Trust ( <i>see note 20</i> )	-	(556)	-	-
Issue of new shares	1,241	-	1,241	-
Foreign exchange differences	-	27	-	(5)
<b>End of year</b>	<b>24,291</b>	<b>(4,143)</b>	<b>24,291</b>	<b>10,419</b>

Cumulative goodwill written off directly to the profit and loss reserve is £33,476,000 (1998: £33,476,000).



**22 Reconciliation of movements in Group equity shareholders' funds**

	<b>£'000</b>
Retained profit for the financial year	9,688
Foreign exchange differences	27
Amounts gifted to Employee Share Ownership Trust ( <i>see note 20</i> )	(556)
Issue of new shares	1,257
Net increase to equity shareholders' funds	10,416
Opening equity shareholders' funds	12,998
<b>Closing equity shareholders' funds</b>	<b>23,414</b>

**23 Cash flow information*****Reconciliation of operating profit to operating cash flow***

	<b>1999 £'000</b>	1998 £'000
Operating profit	<b>23,234</b>	20,855
Depreciation and amounts written off tangible fixed assets	<b>3,253</b>	2,504
Amortisation of goodwill	<b>1,311</b>	41
Amortisation of patents and trademarks	<b>7</b>	-
Provision against investments	<b>344</b>	282
(Profit)/Loss on disposal of tangible fixed assets	<b>(8)</b>	22
Decrease/(Increase) in stocks	<b>262</b>	(3,036)
(Increase)/Decrease in debtors	<b>(13,309)</b>	3,956
(Decrease)/Increase in creditors	<b>(2,899)</b>	298
Increase in provisions	<b>375</b>	534
Other	<b>(6)</b>	10
<b>Net cash inflow from operating activities</b>	<b>12,564</b>	25,466

***Analysis of cash flows***

	<b>1999 £'000</b>	1998 £'000
<b>Returns on investments and servicing of finance</b>		
Interest received	<b>253</b>	392
Interest paid	<b>(1,498)</b>	(140)
Interest element of finance lease rentals	<b>(22)</b>	(5)
<b>Net cash (outflow)/inflow from returns on investments and servicing of finance</b>	<b>(1,267)</b>	247
<b>Capital expenditure and financial investment</b>		
Capital expenditure	<b>(4,248)</b>	(3,204)
Purchase of Long Term Incentive Plan shares	<b>(107)</b>	(495)
<b>Net cash outflow from capital expenditure and financial investment</b>	<b>(4,355)</b>	(3,699)

**23 Cash flow information (continued)***Analysis of cash flows (continued)*

	1999 £'000	1998 £'000
<b>Acquisitions and disposals</b>		
Purchase of business undertakings	<b>(6,240)</b>	(16,680)
Net cash/(overdraft) acquired with business undertakings	<b>692</b>	(1,069)
Purchase of patents and trademarks	<b>(298)</b>	-
<b>Net cash outflow for acquisitions and disposals</b>	<b>(5,846)</b>	(17,749)
<b>Financing</b>		
Issue of ordinary share capital (net of expenses)	<b>638</b>	14
Capital element of finance lease rental payments	<b>(27)</b>	(17)
Debt due within one year	<b>9,705</b>	12,724
<b>Net cash inflow from financing</b>	<b>10,316</b>	12,721

*Analysis of changes in net funds*

	At start of year £'000	Cash flow £'000	Acquisitions (excl. cash and overdrafts) £'000	Foreign exchange £'000	At end of year £'000
<b>1998</b>					
Cash at bank and in hand	9,001	5,627	-	(21)	<b>14,607</b>
Overdrafts	-	1,069	(1,069)	-	-
Debt due within one year	-	(12,724)	(1,527)	(261)	<b>(14,512)</b>
Finance leases	(34)	17	(190)	-	<b>(207)</b>
	8,967	(6,011)	(2,786)	(282)	<b>(112)</b>
<b>1999</b>					
Cash at bank and in hand	<b>14,607</b>	<b>(1,810)</b>	-	<b>179</b>	<b>12,976</b>
Debt due within one year	<b>(14,512)</b>	<b>(9,705)</b>	-	<b>(285)</b>	<b>(24,502)</b>
Finance leases	<b>(207)</b>	<b>27</b>	-	-	<b>(180)</b>
	<b>(112)</b>	<b>(11,488)</b>	-	<b>(106)</b>	<b>(11,706)</b>

## 23 Cash flow information (continued)

### Reconciliation of net cash flow to movement in net debt

	1999 £'000	1998 £'000
<b>(Decrease)/Increase in cash in the year</b>	<b>(1,810)</b>	5,627
Cash inflow from increase in debt and lease financing	<b>(9,678)</b>	(11,638)
<b>Change in net debt resulting from cash flows</b>	<b>(11,488)</b>	(6,011)
Debt and finance leases acquired with subsidiary undertakings	-	(2,786)
Translation difference	<b>(106)</b>	(282)
<b>Movement in net debt in the year</b>	<b>(11,594)</b>	(9,079)
<b>Net (debt)/funds at start of year</b>	<b>(112)</b>	8,967
<b>Net debt at end of year</b>	<b>(11,706)</b>	(112)

## 24 Guarantees and other financial commitments

### a) Capital commitments

At the end of the year capital commitments were:

	Group 1999 £'000	Group 1998 £'000	Company 1999 £'000	Company 1998 £'000
Contracted but not provided	<b>690</b>	377	-	-

### b) Lease commitments

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

	Group Land and buildings £'000	Group Plant and machinery £'000	Company Land and buildings £'000	Company Plant and machinery £'000
<b>1999</b>				
Operating leases which expire				
– within 1 year	<b>86</b>	<b>209</b>	-	-
– within 2-5 years	<b>708</b>	<b>908</b>	-	<b>38</b>
– after 5 years	<b>1,835</b>	<b>309</b>	-	-
	<b>2,629</b>	<b>1,426</b>	-	<b>38</b>
<b>1998</b>	1,988	1,047	-	37

## 24 Guarantees and other financial commitments (continued)

### *c) Pension arrangements*

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

The pension cost for the year was £2,757,000 (1998: £2,535,000) of which £2,503,000 (1998: £2,371,000) related to the regular cost of the defined benefit scheme. Contribution balances prepaid or payable at the year end are shown in the balance sheet under prepayments or accruals as appropriate. Pension contributions have been made in accordance with actuarial advice. The cost of overseas pension schemes was £254,000 (1998: £139,000).

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

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

## Shareholder analysis

30 December 1999

### By category of shareholder

	Shares held	
	Number '000	% share capital
Pension funds	16,985	26
Unit trusts	25,347	39
Insurance companies	7,460	11
Venture capital	2,685	4
Private investors	4,397	7
Other	8,454	13
	<b>65,328</b>	<b>100</b>

### By size of holding

	Holders		Shares held	
	Number	% of holders	Number '000	% share capital
1-100	42	3	3	-
101-500	688	48	162	-
501-1000	229	16	173	-
1,001-5,000	269	19	451	1
5,001-10,000	28	2	215	-
10,001-50,000	56	4	1,376	2
50,001-100,000	28	2	2,099	3
100,000 and over	80	6	60,849	94
	<b>1,420</b>	<b>100</b>	<b>65,328</b>	<b>100</b>

### Financial calendar

24 March 2000	Record date for 1999 final dividend
28 April 2000	Annual General Meeting
3 May 2000	1999 final dividend paid
August 2000	Interim results announced
October 2000	Interim dividend paid

## Notice of Meeting

Notice is hereby given that the seventh annual general meeting of Ultra Electronics Holdings plc will be held at 417 Bridport Road, Greenford, Middlesex UB6 8UA on Friday 28 April 2000 at 10.00am for the following purposes:

### Ordinary business

**Resolution 1:** To receive and adopt the Company's annual accounts for the financial year ended 30 December 1999 together with the Directors' report and auditors' report on those accounts.

**Resolution 2:** To declare a final dividend for the year ended 30 December 1999 of 6p per ordinary share, payable to shareholders on the register at the close of business on 24 March 2000.

**Resolution 3:** To re-elect D. Caster as a Director, retiring by rotation in accordance with Article 76 of the Company's articles of association.

**Resolution 4:** To re-elect Sir Frank Holroyd as a Director, retiring by rotation in accordance with Article 76 of the Company's articles of association.

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

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

### Special business

To consider and, if thought fit, to pass the following resolutions of which resolutions 7, 8 and 9 will be proposed as ordinary resolutions and resolutions 10 and 11 will be proposed as special resolutions:

**Resolution 7:**

That the rules of the Ultra Electronics Long Term Incentive Plan be altered by the deletion of rule 3.2 and the substitution for it of the following new rule 3.2:

"3.2 The market value of Shares comprised in any provisional Award made to an Eligible Employee on the date the provisional Award is made shall not exceed 100% of his gross basic salary at that date. Not more than one provisional Award shall be made to each Eligible Employee in any Financial Year."

**Resolution 8:**

That the exercise of future options awarded under the Ultra Electronics Company Share Option Scheme and the Ultra Electronics Executive Share Option Scheme are not required to be subject to the satisfaction of performance criteria.

**Resolution 9:**

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 £1,088,802 (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 10:**

That, in substitution for all existing powers and subject to the passing of resolution 9, the Directors be generally empowered pursuant to section 95 of the Companies Act 1985 (the "Act") to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the general authority conferred by resolution 9 as if section 89(1) of the Act did not apply to the allotment, 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
- (B) is limited to:
  - (i) allotments of equity securities in connection with a rights issue in favour of holders of ordinary shares made in proportion (as nearly as may be) to their respective existing holdings of ordinary shares but subject to the Directors having a right to make such exclusions or other arrangements in connection with the offer as they deem necessary or expedient:
    - (a) to deal with equity securities representing fractional entitlements; and
    - (b) to deal with legal or practical problems arising in any overseas territory or by virtue of shares being represented by depository receipts, the requirements of any regulatory body or stock exchange; or any other matter whatsoever; and
  - (ii) allotments of equity securities for cash otherwise than pursuant to paragraph (i) up to an aggregate nominal amount of £163,320.

**Resolution 11:**

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 3,266,407 (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

**I. C. Yeoman** *Company Secretary*

27 March 2000

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 Wednesday 26 April 2000 shall be entitled to attend and vote at the above meeting. Changes to entries in the register of members after 6.00pm on Wednesday 26 April 2000 shall be disregarded in determining the rights of any person to attend and vote at the meeting.
2. A member of the Company who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of the member. A proxy need not also be a member.
3. To be effective, the form of proxy and any authority under which it was executed (or a notarially certified copy of such authority) must be deposited with the Company's Registrars **Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 3UH** not less than 48 hours before the time fixed for the meeting.  
Completion of the enclosed proxy form will not preclude shareholders from attending and voting at the meeting in person.
4. Copies of the Register of Interests of Directors (and their families) in the capital of the Company, the Directors' service contracts and the rules of the Ultra Electronics Long Term Incentive Plan will be available for inspection for at least 15 minutes prior to and during the meeting.