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 2003.

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:

		2003 £'000
Balance on profit and loss account, beginning of year		25,488
Profit for the financial year		20,406
Dividends:	Interim paid of 4.1p per share	(2,730)
	Final proposed of 8.2p per share	(5,443)
Foreign exchange differences		(3,355)
Balance on profit and loss account, end of year		**34,366**

The final 2003 dividend is proposed to be paid on 7 May 2004 to shareholders on the register at 13 April 2004.

The interim dividend was paid on 26 September 2003, making a total of 12.3p (2002: 11.2p) 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 £65.4 million (2002: £58.6 million) was spent on engineering development of which £52.7 million (2002: £47.9 million) was funded by customers and £12.7 million (2002: £10.7 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 35.

Substantial shareholdings

At 20 February 2004, 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
Deutsche Bank AG	17.29	11,475,228
Fidelity International Limited	5.19	3,440,947
Barclays plc	4.06	2,694,945
The Aegon UK plc Group of Companies	3.98	2,617,826
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 £28,000 (2002: £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.

Bi-annual external audits covering health, safety and environmental matters have been conducted on UK sites for several years. The Board extended this process to North American sites in 2003. The audits and the resulting follow-up has proved effective in maintaining high standards across the UK sites and similar benefits are expected in North America.

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. Progress is monitored through annual reporting and the bi-annual audit process.

Business ethics and employment practices

Ultra's Board of Directors requires that the Group's employees comply with the laws and standards of conduct of the countries in which it does business. Directors and employees are 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. The employee survey, 'YOURviews', provides local management teams with feedback and an opportunity to benchmark across the Group. This process has been further extended during 2003.

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 2003 were 43 days (2002: 47 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 either year-end.

Directors' report (continued)

Annual General Meeting

Explanation of special business resolutions is given below:

Resolution 8

This resolution authorises the Directors to allot shares in the Company up to a maximum nominal amount of £1,105,986 (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 3,317,958 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
23 February 2004

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

Combined code compliance

The Group complies with the Combined Code provisions on Corporate Governance issued in June 1998. During the past year it has operated all of the procedures necessary to follow the 1999 internal control guidelines and has maintained a reporting process in accordance with them. The Group also complies, or is taking action to ensure compliance, with the majority of the provisions of the new Combined Code ('the new Code') on Corporate Governance that was published in July 2003. A summary of the Group's compliance position follows.

Main Board

The Board deals with the important aspects of the Group's affairs including setting and monitoring strategy, reviewing performance, ensuring that the Group has adequate financial resources and reporting to shareholders. The Board has established Audit, Nominations and Remuneration Committees, to which certain key responsibilities are delegated. These responsibilities, which are in line with the recommendations of the Combined Code, are set out below.

The main Board comprises the Chairman, two independent non-executive Directors and five executive Directors. It is the view of the Directors that this structure is appropriate for Ultra given the relative complexity of the business and the desire of the Board to maintain a flexible, rapid and informed decision making process. Any increase in the number of non-executive Directors would result in reduced focus, slower decisions and a higher cost base. Therefore the Board does not intend to appoint more Directors at the present time.

The Board met ten times during the year. Details of the numbers of meetings of the main Board and its sub-committees that were attended by the individual Directors are set out in the table on page 28.

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

Audit Committee

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

The Audit Committee comprises Andrew Walker, senior independent non-executive Director, Ian Griffiths and Peter Macfarlane. Mr Walker has been appointed Committee Chairman with effect from January 2004. Mr Macfarlane was the Committee Chairman during 2003 and has been a member of the Committee for a number of years. The Board has decided that he should continue as a Committee member even though he is the Chairman of the Group and this is not consistent with the proposed provisions of the new Code. He is a qualified accountant and was Finance Director of Allied Domecq until the late 1990's. This experience has given him wide ranging financial expertise invaluable to the Committee, where he plays an important role in monitoring the integrity of the Group's financial statements and the overall financial performance of the Group.

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

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

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

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

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

Audit Committee (continued)

It is the policy of the Group that non-audit services provided by Deloitte & Touche LLP, the Group's external auditors, be normally restricted to regulatory reporting, due diligence assignments of potential acquisition targets and other attestation work. In connection with due diligence assignments, the Board believes that the auditors' familiarity with the accounting techniques that are involved in the Group's long-term contracting activities serves them well in carrying out effective due diligence reviews of other similar companies.

Nominations Committee

The Nominations Committee comprises the non-executive Directors and the Chief Executive. The Committee is chaired by Peter Macfarlane and met three times during 2003. The key responsibility of the Committee is to review all main Board and sub-committee appointments. The main actions taken by the Committee during the year were:

(a) to recommend the appointment of Ian Griffiths to the Board as a replacement for Sir Frank Holroyd;

(b) to recommend the appointment of Andrew Walker as Chairman of the Remuneration Committee with effect from July 2003; and

(c) to recommend the appointment of Andrew Walker as Chairman of the Audit Committee with effect from January 2004.

The process used to recruit Mr Griffiths involved preparing a job description and candidate profile, appointing executive search consultants to recommend a shortlist of potential candidates and conducting a series of interviews with them before selecting Mr Griffiths as the most suitable. The Board is confident that this process has resulted in the appointment of a new Director who brings the benefit of his extensive relevant international manufacturing experience to the Group.

Remuneration Committee

The Remuneration Committee met three times during the year. It consists of Andrew Walker (Chairman), Peter Macfarlane and Ian Griffiths. Sir Frank Holroyd was Committee Chairman until his retirement from the Group in July 2003. The Committee is principally responsible for evaluating the performance of the executive Directors, including the Chief Executive, and for setting their levels of remuneration. The Chief Executive attends meetings as required and provides feedback to the Committee on the other executive Directors' performance. A Directors' Remuneration report is included on page 30, together with details of the Directors' pension entitlements, long-term incentive share awards and shareholdings.

Directors' re-election

As a newly appointed non-executive Director, Mr Griffiths is standing for re-election at the Annual General Meeting. In addition David Jeffcoat, Group Finance Director, and Andrew Walker, senior non-executive Director, are both retiring by rotation in accordance with the Articles of Association and standing for re-election. Mr Walker has served as a Director for more than seven years since he was appointed to the Board in June 1996. He has made an excellent contribution as a Board member since then and acts as a challenging but constructive non-executive Director. Although not standing for re-election this year, Peter Macfarlane has also served as a Director for more than six years. Given the complexity of the Group's activities, the previous experience of both Mr Walker and Mr Macfarlane as executives of major engineering groups and Mr Macfarlane's accounting background make them well qualified for their current positions on the Board of Ultra. The Board is convinced that Mr Walker and Mr Macfarlane remain effective in their roles as senior non-executive Director and Group Chairman respectively and that it is in the best interests of the shareholders for them to continue.

Directors' re-election (continued)

Meeting attendance

	Main Board	Audit Committee	Nominations Committee	Remuneration Committee
Number of meetings	10	4	3	3
J. Blogh	10	-	3	-
D. Caster	9	-	-	-
I. Griffiths[1]	5	2	1	1
A. Hamment	8	-	-	-
F. Hope	10	-	-	-
F. Holroyd[2]	5	3	-	2
D. Jeffcoat[3]	10	-	-	-
P. Macfarlane	10	3	3	3
A. Walker	9	4	3	3

[1] Mr Griffiths was appointed as a Director on 22 April 2003.

[2] Sir Frank Holroyd retired from the Board on 28 July 2003.

[3] Mr Jeffcoat is secretary to the Board and all three sub-committees.

Internal controls

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

Ultra's internal controls are designed to meet the Group's particular needs and the risks to which it is exposed. In this context the controls can provide only reasonable, not absolute, assurance against material errors, losses or fraud. The key features of the internal control system that operated during the year and up to the date of approval of the annual report and accounts 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 that are consistent with the control principles and policies that are set out in the Ultra Group Finance Manual. Acquisitions, major capital investments and bids above a defined value require Board approval, with smaller investment decisions delegated to the Chief Executive.

Risk management

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

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

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

Risk management (continued)

The Board has established an Internal Audit process, carried out by Ernst & Young LLP, to review financial and information systems control procedures throughout the Group following a two-year cycle. Major business units or those judged to represent a higher risk are reviewed annually, with the remaining businesses being audited 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. In addition, the executive Directors take an active role in identifying and assessing potential risks in all areas of the business. This is achieved both through the normal monthly business review programme and also through day-to-day management contact.

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 strategic plan. The actual results for each business and variances against budget are reported monthly to the Board, normally during the third week of the following month. Revised forecasts for the year are prepared each month for each business unit, and for the Group as a whole, and are also presented to the Board.

Shareholder communication

The Group encourages two-way communication with both institutional and private investors and endeavours to respond promptly to queries received. Ultra's website provides detailed financial and business information about the Group. Meetings between Directors, institutional shareholders and other market professionals are held regularly as a part of Ultra's investor relations programme. Shareholders are invited to attend the Annual General Meeting, to ask questions during the meeting and to meet individual Directors after the formal proceedings have ended.

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 established that the Group's forward order book provides satisfactory cover for trading in the year to come and have a reasonable expectation that the Company and Group have adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt a going concern basis in preparing the accounts.

Statement of responsibilities

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

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

The Directors are responsible for keeping proper accounting records that 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.

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 Directors' Remuneration Report Regulations 2002.

The members of the Committee are the non-executive Directors (Peter Macfarlane and Ian Griffiths) and Andrew Walker is the Chairman. Mr Walker was appointed Chairman of the Remuneration Committee following the retirement of Sir Frank Holroyd in July 2003. Mr Griffiths was appointed to the Remuneration Committee on joining the Board.

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 New Bridge Street Consultants who were appointed by the Company and who provided no other services to the Company during the year, save for ongoing advice in connection with the operation of the Company's share schemes.

Remuneration policy

The policy of the Committee is to reward senior management competitively, enabling the Company to recruit, motivate and retain executives of high calibre, whilst avoiding paying excessive remuneration. Further details of the remuneration policy followed by the Committee are set out below. The remuneration practices adopted by a group of like companies that, in the opinion of the Committee, face similar remuneration issues to the Company are considered, with guidance from the remuneration consultants who advise the Committee. The size and nature of each key element of the remuneration package of 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 2003 was 50% 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 2004 bonus.

Long-Term Incentive Plan

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 and under which awards over shares worth up to 100% of salary could be made each year. 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 earnings per share ('EPS') based 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 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.

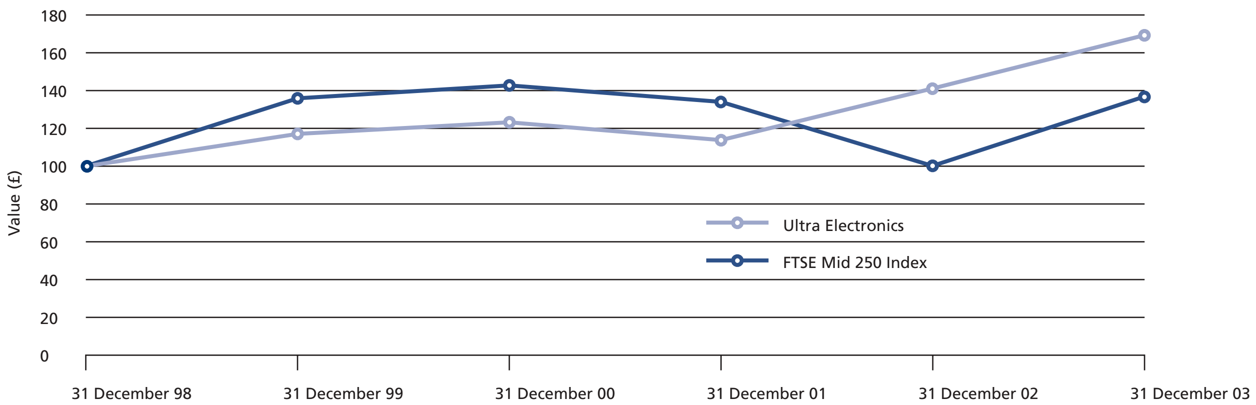
Total Shareholder Return performance graph

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 at the end of 2003 of £100 invested at the end of 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 have 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.

Remuneration report (continued)

AUDITED INFORMATION

Directors' pension entitlements

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

The table below sets out the pension benefits earned by executive Directors for the year ended 31 December 2003:

	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	60	127	**19**	**257**	**147**	1,448	**2,152**	**691**
D. Caster	50	48	**7**	**56**	**56**	313	**521**	**200**
A. Hamment	49	36	**5**	**40**	**43**	219	**366**	**140**
F. Hope	49	23	**3**	**20**	**27**	140	**228**	**82**
D. Jeffcoat	53	8	**3**	**31**	**11**	59	**122**	**58**

*The transfer value at the end of the period has been calculated on a cash equivalent basis. This is considered to be a more appropriate method of calculation. The opening transfer value was calculated using a minimum funding requirement basis.

**Less Director's contributions.

Directors' remuneration

Directors' emoluments are detailed below:

	Basic salary	**Fees**	**Annual performance bonus**	**Benefits**	**2003 Total**	2002 Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	£'000
P. Macfarlane	**-**	**66**	**-**	**-**	**66**	62
J. Blogh	**255**	**-**	**128**	**18**	**401**	334
D. Caster	**150**	**-**	**75**	**19**	**244**	205
I. Griffiths *(appointed 22 April 2003)*	**-**	**19**	**-**	**-**	**19**	-
A. Hamment	**120**	**-**	**60**	**17**	**197**	164
F. Holroyd *(retired 28 July 2003)*	**-**	**14**	**-**	**-**	**14**	24
F. Hope	**143**	**-**	**72**	**18**	**233**	195
D. Jeffcoat	**151**	**-**	**76**	**15**	**242**	209
A. Walker	**-**	**26**	**-**	**-**	**26**	24
	819	**125**	**411**	**87**	**1,442**	1,217

Pension contributions to Directors of £104,500 (2002: £87,000) were paid by the Company, including £34,400 (2002: £28,000) in respect of the highest paid Director. Other benefits of executive Directors comprise a car (or allowance), provision of fuel and insurances for life, personal accident and family medical cover. 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')

Award periods	No. of shares J. Blogh	D. Caster	A. Hamment	F. Hope	D. Jeffcoat	Market price of shares granted	Crystallising dates of outstanding awards
2000	43,839	27,743	20,233*	23,605	-	£4.00	n/a
2001	45,455	28,671	23,310	26,340	30,303	£4.29	April 2004
2002	52,170	31,302	24,662	29,879	32,013	£4.22	April 2005
Interests at 1 January 2003	141,464	87,716	68,205	79,824	62,316		
2000 award crystallised during the year	(43,839)	(27,743)	(20,233)*	(23,605)	-		
Interests at 31 December 2003	**97,625**	**59,973**	**47,972**	**56,219**	**62,316**		

*This award relates to the period prior to Andrew Hamment becoming a Director.

The 2000 award crystallised during the year as detailed above. This award was granted under the Old LTIP that was subject to the same performance conditions disclosed above in relation to the New LTIP. The actual date of the award was March 2000. The market price of the shares when granted was £4.00: the market price of the shares on vesting was £4.675. The aggregate gain made by the executive Directors under the Old LTIP during the year was £539,589.

No awards were made under the Old LTIP in 2003, nor shall be made in the future.

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

The first awards made under the New LTIP occurred in 2003.

	No. of shares J. Blogh	D. Caster	A. Hamment	F. Hope	D. Jeffcoat	Market price of shares granted	Crystallising dates of outstanding awards
Interests at 1 January 2003	-	-	-	-	-	-	-
2003 award	50,864	30,386	24,221	29,065	31,047	£4.54	April 2006
Interests at 31 December 2003	**50,864**	**30,386**	**24,221**	**29,065**	**31,047**		

These awards are subject to the comparative EPS-based performance conditions described above. During the year, the Group purchased 205,506 shares (nominal value of £10,275) for a net £859,000 relating to the 2003 awards. This includes £771,000 worth of Ultra shares for the Directors (2002: £771,000). The Group's purchase of 205,506 shares for the 2003 awards includes 63,039 shares purchased at the then mid-market price from Directors who sold shares on crystallisation of the 2000 awards as noted above. The mid-market price was £4.675 on the date of purchase. Shares were sold by J. Blogh (17,648), D. Caster (27,743), A. Hamment (8,145) and F. Hope (9,503).

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**

No awards were made under this Scheme in 2003, none became exercisable and none expired unexercised.

Remuneration report (continued)

All of the options were granted at £3.79 per share. The market price of ordinary shares at 31 December 2003 was £5.29 and the range during the year was £4.24 to £5.45.

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 30,484 newly allotted Ultra Electronics Holdings plc shares (nominal value £1,524) for £138,000.

Directors' interests under the All-Employee Share Ownership Plan

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

Name of Director	Interests as at 1 January 2003	Partnership shares acquired during year	Interests as at 31 December 2003	Partnership shares acquired from 1 January 2004 to 20 February 2004	Interests at 20 February 2004
D. Caster	582	**327**	**909**	**48**	**957**
A. Hamment	582	**327**	**909**	**48**	**957**
F. Hope	582	**327**	**909**	**48**	**957**
D. Jeffcoat	495	**324**	**819**	**48**	**867**
Total	2,241	**1,305**	**3,546**	**192**	**3,738**

During the year, the Share Ownership Plan Trust established and operated in connection with the AESOP purchased 69,936 Ultra Electronics Holdings plc shares (nominal value £3,497) for £343,760. 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 Direct ownership	At start of year Indirect beneficial ownership	At end of year Direct ownership	At end of year Indirect beneficial ownership	At 20 February 2004 Direct ownership
P. Macfarlane	192,653	194,300	**192,653**	**194,300**	**192,653**
J. Blogh	183,883	884,921	**210,074**	**884,921**	**210,074**
D. Caster	799,954	486,783	**506,488**	**500,576**	**506,536**
I. Griffiths *(appointed 22 April 2003)*	-	-	**-**	**-**	**-**
A. Hamment	31,223	43,535	**43,638**	**43,535**	**43,686**
F. Holroyd *(retired 28 July 2003)*	6,000	-	**-**	**-**	**-**
F. Hope	35,092	-	**49,521**	**-**	**49,569**
D. Jeffcoat	495	13,500	**819**	**13,500**	**867**
A. Walker	300	-	**300**	**-**	**300**

There were no changes in indirect beneficial ownership between 1 January and 20 February 2004.

Andrew Walker
Chairman of the Remuneration Committee
23 February 2004

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 2003 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 26 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 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 Remuneration report. Our responsibility is to audit the accounts and the part of the 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 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 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 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 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 Remuneration report described as having been audited.

Deloitte & Touche

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 2003 and of the profit of the Group for the year then ended and the accounts and part of the Remuneration report described as having been audited have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Reading
23 February 2004

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 2003

	Note	2003 £'000	2002 £'000
Turnover			
– existing operations		**277,886**	260,352
– acquisitions		**6,464**	-
Continuing operations	*1*	**284,350**	260,352
Cost of sales			
– existing operations		**(206,307)**	(195,718)
– acquisitions		**(4,381)**	-
Continuing operations		**(210,688)**	(195,718)
Gross profit			
– existing operations		**71,579**	64,634
– acquisitions		**2,083**	-
Continuing operations		**73,662**	64,634
Other operating expenses (net)	*2*	**(40,997)**	(35,056)
Operating profit			
– existing operations		**32,447**	29,578
– acquisitions		**218**	-
Continuing operations		**32,665**	29,578
Finance charges (net)	*3*	**(3,173)**	(3,533)
Profit on ordinary activities before taxation	*4*	**29,492**	26,045
Tax on profit on ordinary activities	*6*	**(9,086)**	(8,099)
Profit on ordinary activities after taxation, being the profit for the financial year		**20,406**	17,946
Dividends paid and proposed on equity shares	*7*	**(8,173)**	(7,385)
Retained profit for the year		**12,233**	10,561

		Note	2003	2002
Earnings per ordinary share (pence):				
After goodwill amortisation				
	Basic	*8*	**30.8**	27.3
	Diluted	*8*	**30.7**	27.3
Before goodwill amortisation				
	Basic	*8*	**38.2**	33.2

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 2003

	Note	Group 2003 £'000	Group Restated *Note 21* 2002 £'000	Company 2003 £'000	Company Restated *Note 21* 2002 £'000
Fixed assets					
Tangible assets	*9*	**19,170**	15,180	**21**	30
Intangible assets – Patents and trademarks	*10*	**560**	605	**-**	-
Intangible assets – Goodwill	*11*	**90,287**	80,871	**-**	-
Investments	*12*	**-**	-	**118,159**	117,676
		110,017	96,656	**118,180**	117,706
Current assets					
Stocks	*13*	**17,364**	23,834	**-**	-
Debtors: Amounts falling due within one year	*14*	**63,761**	57,579	**21,464**	11,337
Debtors: Amounts falling due after more than one year	*14*	**-**	-	**5,644**	8,100
Cash at bank and in hand		**19,047**	8,132	**2**	2
		100,172	89,545	**27,110**	19,439
Creditors: Amounts falling due within one year	*15*	**(87,516)**	(80,622)	**(41,164)**	(37,663)
Net current assets/(liabilities)		**12,656**	8,923	**(14,054)**	(18,224)
Total assets less current liabilities		**122,673**	105,579	**104,126**	99,482
Creditors: Amounts falling due after more than one year	*16*	**(50,186)**	(46,126)	**(63,305)**	(61,869)
Provisions for liabilities and charges	*18*	**(7,813)**	(4,822)	**-**	-
Net assets		**64,674**	54,631	**40,821**	37,613
Capital and reserves					
Called-up share capital	*19*	**3,318**	3,302	**3,318**	3,302
Share premium account	*20*	**28,096**	26,891	**28,096**	26,891
Profit and loss account	*20*	**34,366**	25,488	**10,513**	8,470
Treasury shares	*21*	**(1,106)**	(1,050)	**(1,106)**	(1,050)
Equity shareholders' funds	*22*	**64,674**	54,631	**40,821**	37,613

Signed on behalf of the Board

J. Blogh, *Chief Executive*

D. Jeffcoat, *Finance Director*

23 February 2004

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

Consolidated cash flow statement

For the year ended 31 December 2003

	Note	2003 £'000	Restated 2002 £'000
Net cash inflow from operating activities	*23*	**55,986**	42,765
Returns on investments and servicing of finance	*23*	**(3,125)**	(3,414)
Taxation – UK		**(7,810)**	(6,440)
– Overseas		**(1,642)**	(839)
Capital expenditure	*23*	**(6,806)**	(3,252)
Acquisitions	*23*	**(18,258)**	(21,996)
Equity dividends paid		**(7,676)**	(7,045)
Cash inflow/(outflow) before financing		**10,669**	(221)
Financing	*23*	**(66)**	(7,205)
Increase/(decrease) in cash in the year		**10,603**	(7,426)

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 2003

	2003 £'000	2002 £'000
Group profit for the financial year	**20,406**	17,946
(Loss)/gain on foreign currency translation	**(3,355)**	474
Total recognised gains and losses relating to the year	**17,051**	18,420

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

Notes to accounts

31 December 2003

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:

	2003 £'000	2002 £'000
United Kingdom	**122,074**	110,547
Continental Europe	**36,799**	33,700
North America	**99,532**	100,549
Rest of the World	**25,945**	15,556
	284,350	260,352

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

	United Kingdom		North America		Group	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000	2003 £'000	Restated 2002 £'000
Turnover	**186,278**	167,061	**98,072**	93,291	**284,350**	260,352
Trading profit	**26,606**	23,940	**10,937**	9,513	**37,543**	33,453
Goodwill amortisation					**(4,878)**	(3,875)
Operating profit					**32,665**	29,578
Interest (net)					**(3,173)**	(3,533)
Profit before tax					**29,492**	26,045
Net operating assets	**8,269**	12,534	**5,790**	11,150	**14,059**	23,684
Net non operating assets					**50,615**	30,947
Net assets					**64,674**	54,631

Turnover and trading profit by division were as follows:

	Turnover		Profit	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Division				
Aircraft & Vehicle Systems	**79,890**	76,427	**13,901**	12,495
Information & Power Systems	**95,474**	82,859	**10,972**	10,989
Tactical & Sonar Systems	**108,986**	101,066	**12,670**	9,969
	284,350	260,352	**37,543**	33,453
Goodwill amortisation			**(4,878)**	(3,875)
Operating profit			**32,665**	29,578

2 Other operating expenses (net)

	2003			2002
	Existing Operations £'000	Acquisitions £'000	Total £'000	Total £'000
Selling and distribution costs	**12,212**	**201**	**12,413**	10,848
Administrative expenses	**27,127**	**1,660**	**28,787**	24,997
Other operating (income)/charges	**(207)**	**4**	**(203)**	(789)
	39,132	**1,865**	**40,997**	35,056

3 Finance charges (net)

	2003 £'000	2002 £'000
Interest receivable and similar income	**77**	144
Amortisation of finance costs of debt	**(143)**	(196)
Interest payable on bank loans and overdraft	**(3,091)**	(3,466)
Interest payable on finance leases	**(6)**	(15)
Other finance charges	**(10)**	-
	(3,173)	(3,533)

4 Profit on ordinary activities before taxation

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

	2003 £'000	2002 £'000
Depreciation and amounts written off tangible fixed assets		
– owned	**4,197**	3,698
– held under finance leases and hire purchase contracts	**52**	73
Amortisation of LTIP awards	**774**	604
Amortisation of goodwill	**4,878**	3,875
Amortisation of patents and trademarks	**45**	45
Operating lease rentals		
– plant and machinery	**1,250**	1,163
– other	**3,683**	3,546
Research and development		
– current year expenditure *(see also Directors' report)*	**12,667**	10,687
Auditors' remuneration		
– audit fees and expenses	**238**	195
– other fees and expenses *(see below)*	**20**	21
Government grants received	**(31)**	(63)

Non audit fees paid to Deloitte & Touche LLP represent £4,000 for audit related regulatory reporting (2002: £3,000) and £16,000 in respect of acquisition due diligence that did not complete in the period (2002: £18,000). In addition to the above, Deloitte & Touche LLP received fees of £42,000 for further due diligence work connected with acquisitions completed by the Group in the period (2002: £18,000). These have been included within the cost of the relevant investment.

5 Staff costs

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

Employee costs during the year amounted to:

	2003 £'000	2002 £'000
Wages and salaries	**78,284**	69,591
Social security costs	**7,654**	6,182
Other pension costs *(see also note 25)*	**4,668**	3,956
	90,606	79,729

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

	2003 Number	2002 Number
Production	**1,002**	1,026
Engineering	**995**	904
Selling	**143**	132
Support services	**365**	333
	2,505	2,395

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

6 Tax on profit on ordinary activities

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

	2003 £'000	2002 £'000
UK taxes		
Corporation tax	**6,876**	7,139
Adjustment in respect of prior years	**(550)**	(477)
	6,326	6,662
Overseas taxes		
Current taxation	**1,673**	917
Adjustment in respect of prior years	**346**	(22)
	2,019	895
Total current tax	**8,345**	7,557
Deferred tax		
Origination and reversal of timing differences		
UK deferred tax	**794**	482
Overseas deferred tax	**(53)**	60
Total deferred tax *(see note 18)*	**741**	542
Total tax on profit on ordinary activities	**9,086**	8,099

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

	2003 £'000	2002 £'000
Group profit on ordinary activities before tax	**29,492**	26,045
Tax on Group profit on ordinary activities at standard UK corporation tax rate of 30% (2002: 30%)	**8,848**	7,813
Effects of:		
Expenses not deductible for tax purposes	**964**	837
Capital allowances less depreciation	**(157)**	(56)
Other timing differences	**(15)**	547
Utilisation of UK tax losses	**(614)**	-
Utilisation of US tax losses	**(839)**	(1,353)
Higher tax rates on overseas earnings	**362**	268
Adjustments to tax charge in respect of previous periods	**(204)**	(499)
Group current tax charge for the year	**8,345**	7,557

7 Dividends paid and proposed on equity shares

	2003 £'000	2002 £'000
Interim ordinary dividend paid of 4.1p per share (2002: 3.7p)	**2,730**	2,439
Final ordinary dividend proposed of 8.2p per share (2002: 7.5p)	**5,443**	4,946
	8,173	7,385

8 Earnings per share

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

	2003 No. of shares	2002 No. of shares
Number of shares used for basic earnings per share	**66,204,198**	65,647,904
Number of shares deemed to be issued at nil consideration following exercise of share options	**290,515**	174,036
Number of shares used for diluted earnings per share	**66,494,713**	65,821,940

Earnings attributable to ordinary shareholders:

	2003 £'000	2002 £'000
After goodwill amortisation	**20,406**	17,946
Before goodwill amortisation*	**25,284**	21,821

*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	5,129	3,842	36,161	45,132
Foreign exchange differences	156	3	(141)	18
Acquisition of subsidiary undertakings	376	147	896	1,419
Additions	565	37	6,261	6,863
Disposals	(3)	-	(1,914)	(1,917)
Transfers	-	(17)	17	-
End of year	**6,223**	**4,012**	**41,280**	**51,515**
Depreciation				
Beginning of year	954	2,123	26,875	29,952
Foreign exchange differences	55	(6)	(37)	12
Charge	161	244	3,844	4,249
Disposals	-	-	(1,868)	(1,868)
End of year	**1,170**	**2,361**	**28,814**	**32,345**
Net book value				
Beginning of year	4,175	1,719	9,286	15,180
End of year	**5,053**	**1,651**	**12,466**	**19,170**

Freehold land amounting to £1,373,300 (2002: £999,772) 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 £17,000 (2002: £48,000).

COMPANY

	Plant and machinery £'000
Cost	
Beginning of year	230
Additions	7
End of year	**237**
Depreciation	
Beginning of year	200
Charge	16
End of year	**216**
Net book value	
Beginning of year	30
End of year	**21**

10 Intangible assets – Patents and trademarks

	Group £'000
Cost	
Beginning and end of year	717
Amortisation	
Beginning of year	112
Charge	45
End of year	**157**
Net book value	
Beginning of year	605
End of year	**560**

The Company held no patents or trademarks at either year-end.

11 Intangible assets – Goodwill

	Group £'000
Cost	
Beginning of year	92,723
Additions *(see below)*	14,294
End of year	**107,017**
Amortisation	
Beginning of year	11,852
Charge	4,878
End of year	**16,730**
Net book value	
Beginning of year	80,871
End of year	**90,287**

a) Acquisitions during the year

SML Technologies Limited

On 1 July 2003, the Group purchased all of the share capital of SML Technologies Limited ('SML') a private company based in Southampton, England for a cash consideration before expenses of £6.5 million. This represents the fair value of the consideration payable. The aggregate net assets acquired and their provisional fair values, based on the Directors' initial assessment of net realisable value, were as follows:

11 Intangible assets – Goodwill (continued)

	Book value £'000	Accounting policy alignment £'000	Revaluations £'000	Fair value £'000
Intangible fixed assets – development costs	598	(598)	-	-
Tangible fixed assets	202	-	-	202
Current assets:				
Stocks	820	-	(272)	548
Debtors	1,706	-	(54)	1,652
Cash	194	-	-	194
Creditors falling due within one year	(842)	-	(101)	(943)
Provisions:				
Deferred tax	-	382	-	382
Net assets acquired	2,678	(216)	(427)	2,035
Goodwill capitalised				4,630
Purchase consideration, including certain costs				6,665

SML's results for the period 1 April 2003 to 30 June 2003, based on accounting policies followed prior to acquisition, were turnover £730,000, gross profit £238,000 and other operating expenses £532,000, resulting in an operating loss of £294,000. Net finance charges payable were £26,000 and taxation recoverable was £109,000, giving a loss after tax of £211,000. SML had a profit after tax of £510,000 in the year ended 31 March 2003.

In the period from the date of acquisition to 31 December 2003, SML incurred an operating cash outflow of £835,000, with capital expenditure of £27,000 and tax payments of £208,000.

Radamec Defence Systems Limited

On 30 July 2003, the Group purchased all of the share capital of Radamec Defence Systems Limited ('Radamec'), a subsidiary of Radamec Group PLC, based in Chertsey, England for a cash consideration before expenses of £6.0 million. The aggregate net assets acquired and their provisional fair values, based on the Directors' initial assessment of net realisable value, were as follows:

	Book value £'000	Accounting policy alignment £'000	Revaluations £'000	Fair value £'000
Intangible fixed assets – development costs	922	(922)	-	-
Tangible fixed assets	350	-	(201)	149
Current assets:				
Stocks	1,244	-	(697)	547
Debtors	2,825	-	(616)	2,209
Cash	426	-	-	426
Creditors falling due within one year	(1,407)	-	(350)	(1,757)
Provisions:				
Warranty	(46)	-	(165)	(211)
Deferred tax	-	686	-	686
Net assets acquired	4,314	(236)	(2,029)	2,049
Goodwill capitalised				4,067
Purchase consideration, including certain costs				6,116

11 Intangible assets – Goodwill (continued)

Radamec's results for the period 1 January 2003 to 29 July 2003, based on accounting policies followed prior to acquisition, were turnover £4,713,000, gross profit £1,850,000 and other operating expenses £1,421,000, resulting in an operating profit of £429,000. Net finance charges payable were £3,000, giving a profit after tax of £426,000. Radamec incurred a loss after tax of £257,000 for the year ended 31 December 2002. An amount of £647,000 has been charged to the Group profit and loss account in respect of costs incurred in reorganising, restructuring and integrating Radamec in the period from the date of acquisition to 31 December 2003.

In the period from the date of acquisition to 31 December 2003, Radamec generated an operating cash inflow of £1,246,000.

Ocean Systems Inc.

On 21 November 2003, Ocean Systems Inc., a wholly owned subsidiary, purchased all of the trade and assets of BAE Systems Ocean Systems, a sonar products business owned by BAE Systems plc, based near Boston, USA. The cash consideration before expenses was £5.6 million (US$9.5 million).

Aggregate net assets acquired and their provisional fair values, based on the Directors' initial assessment of net realisable value, were as follows:

	Book value	Revaluations	Fair value
	£'000	£'000	£'000
Tangible fixed assets	828	240	1,068
Current assets:			
Stocks	540	(29)	511
Debtors	1,980	-	1,980
Creditors falling due within one year	(1,722)	(1,302)	(3,024)
Provisions:			
Warranty	-	(117)	(117)
Net assets acquired	1,626	(1,208)	418
Goodwill capitalised			5,340
Purchase consideration, including certain costs			5,758

Ocean Systems Inc.'s results for the year ended 31 December 2002, based on accounting policies followed prior to acquisition and information available, showed a turnover of US$14.1 million.

In the period from the date of acquisition to 31 December 2003, Ocean Systems Inc. generated an operating cash inflow of US$1,083,000 and utilised US$33,000 for capital expenditure.

11 Intangible assets – Goodwill (continued)

b) Revisions to provisional fair values – Tactical Communication Systems Inc.

Fair values on acquisition have been adjusted for Tactical Communication Systems Inc., which was purchased in September 2002. The revisions in value relate to the inclusion of a deferred tax asset and pension liabilities payable. Inventory previously written down has also been adjusted. An additional £91,000 of expenses relating to the acquisition were incurred during the year.

	Book value	Adjustments as at 31 December 2002	Further adjustments	Fair value
	£'000	£'000	£'000	£'000
Tangible fixed assets	547	-	-	547
Current assets:				
Stocks	5,102	(1,901)	178	3,379
Debtors	133	112	-	245
Creditors falling due within one year	(1,104)	(168)	(1,040)	(2,312)
Provisions:				
Warranty	(529)	(580)	-	(1,109)
Deferred tax	-	-	696	696
Net assets acquired	4,149	(2,537)	(166)	1,446
Goodwill capitalised				20,591
Purchase consideration, including certain costs				22,037

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
Ocean Systems Inc.	Delaware, USA
Ultra Electronics Canada Defence 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) Investment in subsidiary undertakings

	Company Total £'000
Cost	
Beginning of year	117,676
Foreign exchange differences	1,271
Additions	245
Redemption of long-term loans	(1,033)
End of year	**118,159**
Net book value	
Beginning of year	117,676
End of year	**118,159**

In accordance with UITF Abstract 37 – Purchases and sales of own shares, the Group and Company have reclassified own shares held and shares held in respect of the Long-term Incentive Plan as Treasury shares (see note 21). All acquisitions during the year were made by subsidiary undertakings. The Company incurred some of the expenses in relation to these acquisitions.

13 Stocks

	Group 2003 £'000	Group 2002 £'000
Raw materials and consumables	**13,810**	15,696
Work-in-progress	**9,188**	14,070
Finished goods and goods for resale	**1,979**	2,045
Payments on account	**(9,007)**	(8,514)
	15,970	23,297
Long-term contract balances		
– costs less foreseeable losses	**3,133**	766
– less payments on account	**(1,739)**	(229)
	1,394	537
	17,364	23,834

The Company held no stock at either year-end.

Notes to accounts (continued)

14 Debtors

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Amounts falling due within one year:				
Trade debtors	**40,798**	34,615	**-**	-
Amounts recoverable on contracts	**18,808**	17,284	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**20,676**	10,968
Deferred tax assets *(see note 18)*	**1,224**	1,036	**18**	122
Other debtors	**1,244**	2,045	**606**	95
Prepayments and accrued income	**1,687**	2,599	**164**	152
	63,761	57,579	**21,464**	11,337
Amounts falling due after more than one year:				
Amounts recoverable on contracts	**-**	-	**-**	-
Amounts owed by subsidiary undertakings	**-**	-	**5,644**	8,100
	-	-	**5,644**	8,100

15 Creditors: Amounts falling due within one year

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Obligations under finance leases	**5**	43	**-**	-
Bank loans and overdraft *(see note 16)*	**-**	1,219	**30,447**	27,842
Payments received on account	**31,686**	27,078	**-**	-
Trade creditors	**21,207**	20,161	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	**3,469**	2,559
Other creditors:				
– Corporation tax payable	**5,019**	5,930	**-**	707
– VAT	**2,084**	1,173	**116**	-
– social security and PAYE	**2,875**	2,176	**162**	119
– other creditors	**4,946**	4,278	**515**	726
Pension related liabilities	**432**	282	**-**	-
Accruals and deferred income	**13,819**	13,336	**1,012**	764
Proposed dividends	**5,443**	4,946	**5,443**	4,946
	87,516	80,622	**41,164**	37,663

16 Creditors: Amounts falling due after more than one year

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Obligations under finance leases	**7**	-	**-**	-
Bank loans	**49,370**	46,126	**49,370**	46,126
Amounts owed to subsidiary undertakings	**-**	-	**13,935**	15,743
Pension related liabilities	**809**	-	**-**	-
	50,186	46,126	**63,305**	61,869

The bank loans are unsecured and due for repayment in 2 years. Interest is charged at 0.85% above base rates.

Borrowings fall due as analysed below:

	Group 2003 £'000	Group 2002 £'000	Company 2003 £'000	Company 2002 £'000
Bank loans and overdraft				
In one year or less, or on demand	**-**	1,341	**30,447**	27,964
In more than one year but not more than two years	**49,493**	-	**49,493**	-
In more than two years but not more than five years	**-**	46,364	**-**	46,364
	49,493	47,705	**79,940**	74,328
Less: unamortised finance costs of debt	**(253)**	(360)	**(253)**	(360)
	49,240	47,345	**79,687**	73,968
Less: included in Creditors: Amounts falling due within one year	**-**	(1,219)	**(30,447)**	(27,842)
Add: included in Debtors: Amounts falling due within one year	**130**	-	**130**	-
	49,370	46,126	**49,370**	46,126

	Group 2003 £'000	Group 2002 £'000
Finance leases		
In one year or less, or on demand	**5**	43
In more than one year but not more than two years	**7**	-
	12	43
Less: included in Creditors: Amounts falling due within one year	**(5)**	(43)
	7	-

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 20. 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 2003 £'000	At floating interest rates 2002 £'000
Financial assets		
Sterling	**2,900**	246
US dollar	**12,293**	11,036
Canadian dollar	**3,336**	2,224
Korean won	**518**	296
Euro	**-**	575
Other	**-**	57
	19,047	14,434

The financial assets of the Group comprised:

	2003 £'000	2002 £'000
Cash	**19,047**	8,132
Creditors: Bank overdraft falling due within one year*	**-**	6,302
	19,047	14,434

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

	At fixed interest rates 2003 £'000	At floating interest rates 2003 £'000	Financial liabilities on which no interest is paid 2003 £'000	Total 2003 £'000	At fixed interest rates 2002 £'000	At floating interest rates 2002 £'000	Total 2002 £'000
Financial liabilities							
Sterling	**22,889**	**-**	**-**	**22,889**	16,543	7,283	23,826
US dollar	**-**	**3,641**	**-**	**3,641**	5,834	3,165	8,999
Canadian dollar	**-**	**22,852**	**809**	**23,661**	-	20,865	20,865
	22,889	**26,493**	**809**	**50,191**	22,377	31,313	53,690

There were no non interest bearing financial liabilities at 31 December 2002.

The financial liabilities of the Group comprised:

	2003 £'000	2002 £'000
Total borrowings and finance leases	**49,382**	46,169
Creditors: Pension related liabilities falling due after more than one year	**809**	-
Creditors: Bank overdraft falling due within one year	**-**	7,521
	50,191	53,690

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$6.5 million to hedge overseas net investments. An interest rate swap has been taken out to fix the interest rate on a £23 million loan at 6.7% (before margin of 0.85%). The weighted average profile is as follows:

2003

	Fixed rate financial liabilities	
	Weighted average interest rate %	**Weighted average period for which rate is fixed Years**
Currency		
Sterling	**7.5**	**2**

2002

	Fixed rate financial liabilities	
	Weighted average interest rate %	Weighted average period for which rate is fixed Years
Currency		
Sterling	7.5	3

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$ 2003 £'000	**C$ 2003 £'000**	**Korean Won 2003 £'000**	**Euro 2003 £'000**	**Total 2003 £'000**	US$ 2002 £'000	C$ 2002 £'000	Other 2002 £'000	Total 2002 £'000
Functional currency of Group operations									
Sterling	**3,208**	**350**	**517**	**429**	**4,504**	1,411	849	172	2,432
US dollar	**-**	**-**	**-**	**-**	-	-	-	-	-
Canadian dollar	**3,065**	**-**	**-**	**(162)**	**2,903**	851	-	-	851
	6,273	**350**	**517**	**267**	**7,407**	2,262	849	172	3,283

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 2003 was as follows:

	2003 £'000	2002 £'000
In one year or less, or on demand	**5**	7,564
In more than one year but not more than two years	**49,519**	-
In more than two years but not more than five years	**667**	46,126
	50,191	53,690

d) Undrawn committed borrowing facilities

The Group's undrawn committed borrowing facilities available at 31 December 2003, in respect of which all conditions precedent have been met, were as follows:

	2003 £'000	2002 £'000
Expiring in more than one year but not more than two years	**30,507**	-
Expiring in more than two years	**-**	33,636
	30,507	33,636

e) Fair value of financial instruments

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

	2003 Book value £'000	**2003 Fair value £'000**	2002 Book value £'000	2002 Fair value £'000
Derivative financial instruments held to hedge the interest rate profile and currency profile				
– Interest rate collar	**-**	**-**	-	(43)
– Interest rate swap	**-**	**(689)**	-	(1,531)
Derivative financial instruments held to hedge the currency exposure on expected future sales				
– Forward foreign exchange contracts	**-**	**1,736**	-	1,471
	-	**1,047**	-	(103)

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 swap is used to manage the interest rate profile. Gains and losses disclosed below are based on market values at 31 December 2003.

	Gains £'000	Losses £'000	Total net gains/(losses) £'000
Unrecognised gains and (losses) on hedges at 31 December 2002	**2,147**	**(2,250)**	**(103)**
(Gains) and losses arising before 31 December 2002, recognised 2003	**(1,341)**	**741**	**(600)**
Gains and (losses) arising before 31 December 2002, not recognised in 2003	**806**	**(1,509)**	**(703)**
Gains and (losses) arising in 2003, not recognised in 2003	**3,350**	**(1,600)**	**1,750**
Unrecognised gains and (losses) on hedges at 31 December 2003	**4,156**	**(3,109)**	**1,047**
Of which:			
Gains and (losses) expected to be recognised in 2004	**3,544**	**(2,154)**	**1,390**
Gains and (losses) expected to be recognised in 2005 and beyond	**612**	**(955)**	**(343)**

18 Provisions for liabilities and charges

GROUP

	Deferred taxation £'000	Warranties £'000	Contract related provisions £'000	Total £'000
Beginning of year	827	3,995	-	4,822
Exchange differences	(2)	83	-	81
Reclassifications	-	(954)	954	-
Transfers	-	392	547	939
Acquisition of subsidiary undertakings	(1,764)	328	-	(1,436)
Utilised during the year	-	(1,007)	(556)	(1,563)
Transfer to deferred tax assets	74	-	-	74
Charge to the profit and loss account	967	3,607	322	4,896
End of year	**102**	**6,444**	**1,267**	**7,813**

The Company had no provisions at either year-end. Warranty and contract related provisions will be utilised over the period as stated in the contract to which each specific provision relates. 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	**Company**
	2003 £'000	**2003 £'000**
Beginning of year	(209)	(122)
Exchange differences	110	-
Acquisition of subsidiary undertakings	(1,764)	-
Charge to the profit and loss account	741	104
End of year	**(1,122)**	**(18)**

18 Provisions for liabilities and charges (continued)

Deferred tax balances are analysed as follows:

	Group	Group	**Company**	Company
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Accelerated/(deferred) capital allowances	**713**	696	**(8)**	(8)
Other timing differences relating to current assets and liabilities	**(1,835)**	(905)	**(10)**	(114)
Deferred tax asset	**(1,122)**	(209)	**(18)**	(122)

These balances are shown as follows:

	Group	Group	**Company**	Company
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Debtors: Amounts falling due within one year *(see note 14)*	**(1,224)**	(1,036)	**(18)**	(122)
Provisions for liabilities and charges *(see above)*	**102**	827	**-**	-
	(1,122)	(209)	**(18)**	(122)

Deferred tax in respect of the Group's defined benefit pension schemes is disclosed in note 25. The Group has not recognised deferred tax assets of £1.87 million relating to tax losses, due to the uncertainty as to their recoverability.

19 Called-up share capital

		2003		2002
	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	**66,359,150**	**3,318**	66,039,930	3,302

319,220 ordinary shares having a nominal value of £15,961 were allotted during the year under the terms of the Group's various Share Option Schemes. The aggregate consideration received by the Company was £1,221,484. In 1999, the Company set up an Employee Share Ownership Trust to satisfy options granted under the Group's SAYE scheme. During the year, there were no gifts paid by employing UK Companies to the Trust (2002: £135,000).

19 Called-up share capital (continued)

Share options

At 31 December 2003 the following options granted to staff remained outstanding:

	Options granted	Number of shares 2003	2002	Option price (£)	Exercise dates
Savings Related Share	1999	**137,327**	184,539	3.79	December 2002 - May 2005
Option Scheme	2000	**1,374**	26,696	3.87	August 2003 - February 2004
	2001	**-**	33,082	3.88	September 2003 - December 2003
	2003	**97,428**	-	4.83	September 2005 - March 2006
		236,129	244,317		
Company Share Option Plan	1996	**17,856**	45,260	2.87	March 2000 - November 2006
	1998	**30,093**	40,379	4.05	March 2001 - March 2008
	1999	**60,455**	78,728	4.15 to 4.265	March 2002 - September 2009
	2000	**64,420**	113,670	3.855	May 2003 - May 2010
	2001	**85,548**	99,923	4.385	March 2004 - March 2011
	2002	**87,188**	93,757	4.485	March 2005 - March 2012
	2003	**60,741**	-	4.525	March 2006 - March 2013
		406,301	471,717		
Executive Share Option Scheme	1996	**-**	27,088	2.87	March 2000 - November 2003
	1997	**-**	8,832	2.80	March 2000 - March 2004
	1998	**16,403**	17,851	4.05	March 2001 - March 2005
	1999	**104,534**	135,903	4.15 to 4.265	March 2002 - September 2006
	2000	**156,933**	207,898	3.855 to 4.39	May 2003 - May 2007
	2001	**221,774**	241,436	4.385	March 2004 - March 2008
	2002	**250,076**	272,678	4.485	March 2005 - March 2009
	2003	**291,949**	-	4.525	March 2006 - March 2010
		1,041,669	911,686		

20 Reserves

	Group Share premium £'000	Group Profit and loss account £'000	Company Share premium £'000	Company Profit and loss account £'000
Beginning of year	26,891	25,488	26,891	8,470
Retained profit for the year	-	12,233	-	2,043
Issue of new shares	1,205	-	1,205	-
Foreign exchange differences	-	(3,355)	-	-
End of year	**28,096**	**34,366**	**28,096**	**10,513**

Cumulative goodwill written off directly to reserves is £33,294,000 (2002: £33,294,000). The Company's retained profit for the year is after dividends of £8,173,000.

21 Treasury shares

Group and Company	Own shares £'000	Long-term Incentive Plan shares £'000	Total £'000
Cost			
Beginning of year	36	1,991	2,027
Additions	-	859	859
Disposals	(29)	-	(29)
Transfer to participants	-	(365)	(365)
End of year	**7**	**2,485**	**2,492**
Amortisation			
Beginning of year	-	977	977
Charge	-	774	774
Transfer to participants	-	(365)	(365)
End of year	**-**	**1,386**	**1,386**
Net book value			
Beginning of year	36	1,014	1,050
End of year	**7**	**1,099**	**1,106**

In accordance with UITF Abstract 37 – Purchases and sales of own shares, the Group and Company have reclassified own shares held and shares held under the Long-term Incentive Plan as Treasury shares. These have been offset against equity shareholders' funds. Investments and net assets have reduced by £1,106,000 in the current year and £1,050,000 in 2002. There is no impact on the Group or Company's profit for the current or prior year.

The Group, through the Company, holds 608,836 Treasury shares (2002: 553,388 Treasury shares).

22 Reconciliation of movements in Group equity shareholders' funds

	2003 £'000	Restated 2002 £'000
Retained profit for the financial year	**12,233**	10,561
Foreign exchange differences	**(3,355)**	474
Amounts gifted to the Employee Share Ownership Trust *(see note 19)*	**-**	(135)
Movement in Treasury shares during the year	**(56)**	(214)
Issue of new shares	**1,221**	1,117
Net increase to equity shareholders' funds	**10,043**	11,803
Opening equity shareholders' funds (as restated)	**54,631**	42,828
Closing equity shareholders' funds	**64,674**	54,631

Opening equity shareholders' funds in 2002 have been reduced by £836,000, reflecting the net book value of Treasury shares at 31 December 2001 (see note 21).

23 Cash flow information

Reconciliation of operating profit to operating cash flow

	2003 £'000	2002 £'000
Operating profit	**32,665**	29,578
Depreciation and amounts written off tangible fixed assets	**4,249**	3,771
Amortisation of goodwill	**4,878**	3,875
Amortisation of patents and trademarks	**45**	45
Amortisation of LTIP awards	**774**	604
Loss/(profit) on disposal of tangible fixed assets	**39**	(11)
Decrease in stocks	**8,313**	623
Increase in debtors	**(272)**	(3,240)
Increase in creditors	**3,492**	6,161
Increase in provisions	**1,803**	1,410
Other	**-**	(51)
Net cash inflow from operating activities	**55,986**	42,765

Analysis of cash flows

	2003 £'000	Restated 2002 £'000
Returns on investments and servicing of finance		
Interest received	**77**	144
Interest paid	**(3,196)**	(3,543)
Interest element of finance lease rentals	**(6)**	(15)
Net cash outflow from returns on investments and servicing of finance	**(3,125)**	(3,414)
Capital expenditure		
Capital expenditure	**(6,816)**	(3,293)
Sale of tangible fixed assets	**10**	41
Net cash outflow from capital expenditure	**(6,806)**	(3,252)
Acquisitions		
Purchase of subsidiary undertakings	**(18,878)**	(21,946)
Net cash acquired with subsidiary undertakings	**620**	-
Purchase of patents and trademarks	**-**	(50)
Net cash outflow from acquisitions	**(18,258)**	(21,996)
Financing		
Issue of ordinary share capital (net of expenses)	**1,220**	988
Purchase of Long-term Incentive Plan shares	**(859)**	(824)
Capital element of finance lease rental payments	**(45)**	(107)
Debt due within one year	**(1,341)**	(22,381)
Debt due after more than one year	**959**	15,119
Net cash outflow from financing	**(66)**	(7,205)

23 Cash flow information (continued)

Analysis of changes in net debt

	At start of year £'000	Cash flow £'000	Acquisitions (excluding cash & overdrafts) £'000	Other non cash £'000	Foreign exchange £'000	At end of year £'000
2003						
Cash at bank and in hand	**8,132**	**10,603**	**-**	**-**	**312**	**19,047**
Debt due within one year	**(1,219)**	**1,341**	**-**	**(122)**	**-**	**-**
Debt due after more than one year	**(46,126)**	**(959)**	**-**	**(138)**	**(2,147)**	**(49,370)**
Finance leases	**(43)**	**45**	**(14)**	**-**	**-**	**(12)**
	(39,256)	**11,030**	**(14)**	**(260)**	**(1,835)**	**(30,335)**
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)

Reconciliation of net cash flow to movement in net debt

	2003 £'000	2002 £'000
Increase/(decrease) in cash in the year	**10,603**	(7,426)
Cash outflow from decrease in debt and lease financing	**427**	7,369
Change in net debt resulting from cash flows	**11,030**	(57)
Amortisation of finance costs of debt	**(260)**	(196)
Finance leases acquired with subsidiary undertakings	**(14)**	-
Translation difference	**(1,835)**	1,559
Movement in net debt in the year	**8,921**	1,306
Net debt at start of year	**(39,256)**	(40,562)
Net debt at end of year	**(30,335)**	(39,256)

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

24 Guarantees and other financial commitments

a) Capital commitments

At the end of the year capital commitments were:

	Group	Group	Company	Company
	2003 £'000	2002 £'000	**2003 £'000**	2002 £'000
Contracted but not provided	**353**	424	**-**	-

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**
2003				
Operating lease rentals which expire				
– within one year	**276**	**263**	**-**	**25**
– within two to five years	**1,115**	**1,221**	**-**	**29**
– after five years	**2,816**	**-**	**-**	**-**
	4,207	**1,484**	**-**	**54**
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

25 Pension arrangements

Most UK employees of the Group are members of the Ultra Electronics Limited defined benefit scheme which was established on 1 March 1994. The scheme was closed to new members during the year. A new defined contribution plan has been introduced for other employees and new joiners in the UK. The Group also operates two defined contribution schemes for overseas employees.

The pension cost for the year was £4,668,000 (2002: £3,956,000) of which £3,845,000 (2002: £3,127,000) related to the regular cost of the defined benefit schemes. 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 UK defined benefit scheme in 2003 was 13.5% of pensionable earnings and the agreed contribution rate for 2004 is 15% of pensionable earnings. The cost of the overseas pension schemes was £594,000 (2002: £526,000).

The UK 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 UK 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 SSAP 24 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, based in Montreal, Canada and acquired in 2002, has three defined benefit schemes. The Canadian defined benefit schemes were actuarially assessed at 28 September 2002 using the

25 Pension arrangements (continued)

projected unit method. The principal assumptions adopted in the valuations were that the scheme's yield would be 6.75% per annum, salary increases would be 4.0% per annum for staff members, and that pensions would increase by 4.0% per annum. The market value of the schemes at 28 September 2002 were C$12.2 million. The solvency of the schemes were established at 83% using the scheme's normal funding assumptions. A FRS 17 valuation has been prepared for these schemes this year and this has been included in the disclosures below – both for the current and prior period.

FRS 17 retirement benefits

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuations: 6 April 2001 for the UK scheme and 28 September 2002 for the Canadian schemes. These have been updated by our actuaries, Entegria Limited, in order to assess the liabilities of the Ultra Electronics Pension Scheme and the Canadian defined benefit schemes (based on information provided) at 31 December 2003. 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 2003**	Projected unit 2002	Projected unit 2001
Discount rate	**5.5% pa**	5.5% pa	5.8% pa
Inflation rate	**2.5% pa**	2.25% pa	2.5% pa
Increases to pensions in payment	**2.25% pa**	2.0% pa	2.25% pa
Salary increases – Directors	**5.0% pa**	5.0% pa	4.25% pa
– Staff	**3.75% pa**	3.5% pa	3.75% pa

	Long-term rate of return expected at 31 December 2003 per annum	**UK £m**	**Canada £m**	**Value at 31 December 2003 Total £m**
Equities	**7.5%**	**54.7**	**-**	**54.7**
Bonds	**4.8%**	**4.2**	**-**	**4.2**
Other assets	**4.8%**	**3.3**	**-**	**3.3**
Other policies	**7.5%**	**1.9**	**-**	**1.9**
Corporate bonds	**5.5%**	**-**	**2.8**	**2.8**
Total market value of assets		**64.1**	**2.8**	**66.9**
Present value of scheme liabilities		**(91.8)**	**(4.3)**	**(96.1)**
Deficit in the scheme		**(27.7)**	**(1.5)**	**(29.2)**
Related deferred tax asset		**8.4**	**0.5**	**8.9**
Net pension liability		**(19.3)**	**(1.0)**	**(20.3)**

25 Pension arrangements (continued)

	Long-term rate of return expected at 31 December 2002 per annum	UK £m	Canada £m	Value at 31 December 2002 Total £m	Long-term rate of return expected at 31 December 2001 per annum	Value at 31 December 2001 Total £m
Equities	7.0%	42.9	-	42.9	7.25%	54.4
Bonds	5.5%	5.0	-	5.0	5.80%	7.0
Other assets	4.5%	4.1	-	4.1	5.80%	1.3
Corporate bonds	5.5%	-	2.2	2.2	-	-
Total market value of assets		52.0	2.2	54.2		62.7
Present value of scheme liabilities		(81.2)	(3.2)	(84.4)		(72.9)
Deficit in the scheme		(29.2)	(1.0)	(30.2)		(10.2)
Related deferred tax asset		8.8	0.4	9.2		3.1
Net pension liability		(20.4)	(0.6)	(21.0)		(7.1)

Movement in scheme deficit during the year:

	UK £m	**Canada £m**	**Year ended 31 December 2003 Total £m**	UK £m	Canada £m	Year ended 31 December 2002 Total £m
At beginning of year	**(29.2)**	**(1.0)**	**(30.2)**	(10.2)	-	(10.2)
Current service cost *(see below)*	**(4.0)**	**(0.2)**	**(4.2)**	(4.0)	-	(4.0)
Contributions	**3.5**	**0.3**	**3.8**	3.0	-	3.0
Net finance (costs)/income *(see below)*	**(1.0)**	**(0.1)**	**(1.1)**	0.2	-	0.2
Actuarial profit/(loss) *(see below)*	**3.0**	**(0.5)**	**2.5**	(18.2)	-	(18.2)
Acquisition of subsidiary undertaking	**-**	**-**	**-**	-	(1.0)	(1.0)
Deficit at end of year	**(27.7)**	**(1.5)**	**(29.2)**	(29.2)	(1.0)	(30.2)

Analysis of the amount which would be charged to operating profit under FRS 17:

	UK £m	**Canada £m**	**Year ended 31 December 2003 Total £m**	UK £m	Canada £m	Year ended 31 December 2002 Total £m
Current service cost	**(4.0)**	**(0.2)**	**(4.2)**	(4.0)	-	(4.0)

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

	UK £m	**Canada £m**	**Year ended 31 December 2003 Total £m**	UK £m	Canada £m	Year ended 31 December 2002 Total £m
Expected return on pension scheme assets	**3.5**	**0.1**	**3.6**	4.5	-	4.5
Interest on pension scheme liabilities	**(4.5)**	**(0.2)**	**(4.7)**	(4.3)	-	(4.3)
	(1.0)	**(0.1)**	**(1.1)**	0.2	-	0.2

25 Pension arrangements (continued)

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

	UK £m	**Canada £m**	**Year ended 31 December 2003 Total £m**	UK £m	Canada £m	Year ended 31 December 2002 Total £m
Actual return less expected return on pension scheme assets	**5.4**	**-**	**5.4**	(17.5)	-	(17.5)
Experience gains arising on the scheme liabilities	**1.5**	**-**	**1.5**	1.3	-	1.3
Changes in assumptions underlying the present value of the scheme liabilities	**(3.9)**	**(0.4)**	**(4.3)**	(2.0)	-	(2.0)
Foreign exchange differences	**-**	**(0.1)**	**(0.1)**	-	-	-
	3.0	**(0.5)**	**2.5**	(18.2)	-	(18.2)

History of experience gains and losses

Difference between the actual and expected return on scheme assets:

	2003	2002
Amount (£m)	**5.4**	(17.5)
Percentage of scheme assets	**8.1%**	32.3%

Experience gains on scheme liabilities:

	2003	2002
Amount (£m)	**1.5**	1.3
Percentage of the present value of scheme liabilities	**1.6%**	1.5%

Total actuarial gain/(loss) in the statement of total recognised gains and losses:

	2003	2002
Amount (£m)	**2.5**	(18.2)
Percentage of the present value of scheme liabilities	**2.6%**	21.6%

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

	2003 £m	Restated 2002 £m
Net assets excluding pension liability	**65.6**	54.6
Pension liability	**(20.3)**	(21.0)
Net assets including pension liability	**45.3**	33.6
Profit and loss reserve excluding pension liability	**35.3**	25.5
Pension liability	**(20.3)**	(21.0)
Profit and loss reserve including pension liability	**15.0**	4.5

26 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.

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 UITF Abstract 37 – Purchases and sales of own shares, is set out below:

a) Basis of accounting

The accounts are prepared under the historical cost convention and in accordance with applicable United Kingdom 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.

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.

q) Treasury shares

Shares acquired by the Ultra Electronics Qualifying Employee 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 amortised over the performance period of the award.

Shareholder analysis

31 December 2003

By category of shareholder

	Shares held Number '000	Shares held % share capital
Pension funds	**10,226**	**15**
Unit trusts	**25,230**	**38**
Insurance companies	**6,424**	**10**
Charities	**1,924**	**3**
Private investors	**2,323**	**4**
Investment trusts and other funds	**6,709**	**10**
Other	**13,523**	**20**
	66,359	**100**

By size of holding

	Holders		Shares held	
	Number	% of holders	Number '000	% share capital
1-100	**70**	**5**	**4**	**-**
101-500	**475**	**35**	**122**	**-**
501-1,000	**265**	**20**	**186**	**-**
1,001-5,000	**284**	**21**	**561**	**1**
5,001-10,000	**46**	**3**	**339**	**-**
10,001-50,000	**73**	**6**	**1,674**	**3**
50,001-100,000	**25**	**2**	**1,795**	**3**
100,000 and over	**113**	**8**	**61,678**	**93**
	1,351	**100**	**66,359**	**100**

Financial calendar

13 April 2004	Record date for 2003 final dividend
22 April 2004	Annual General Meeting
7 May 2004	2003 final dividend paid
2 August 2004	Interim results announced
September 2004	Interim dividend paid

Advisors

External Auditors
Deloitte & Touche LLP
Abbots House
Abbey Street
Reading RG1 3BD

Principal Bankers
The Royal Bank of Scotland
135 Bishopsgate
London EC2 3UR

Solicitors

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

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

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

Stockbrokers

Cazenove & Co
20 Moorgate
London EC2R 6DA

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

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 22 April 2004 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 2003 together with the Directors' report and Auditors' report on those accounts.

Resolution 2: To declare a final dividend for the year ended 31 December 2003 of 8.2p per ordinary share, payable to shareholders on the register at the close of business on 13 April 2004.

Resolution 3: To receive and adopt the Remuneration report for the financial year ended 31 December 2003.

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

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

Resolution 6: To re-elect Mr I. Griffiths as a Director, following his appointment during the year.

Resolution 7: To appoint Deloitte & Touche LLP 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 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 £1,105,986 (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 £165,898.

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 3,317,958 (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
26 March 2004
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 20th April 2004 shall be entitled to attend and vote at the above meeting. Changes to entries in the register of members after 6.00pm on Tuesday 20th April 2004 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, the Directors' service contracts and the Terms of Reference of the Board sub-committees will be available for inspection for at least 15 minutes prior to and during the meeting.

Five year review

	1999 £m	Restated 2000 £m	Restated 2001 £m	Restated 2002 £m	**2003 £m**
Turnover					
Aircraft & Vehicle Systems	61.9	73.9	78.4	76.4	**79.9**
Information & Power Systems	63.6	68.6	74.4	82.9	**95.5**
Tactical & Sonar Systems	67.5	84.4	86.7	101.1	**109.0**
Total turnover	193.0	226.9	239.5	260.4	**284.4**
Operating profit (before goodwill amortisation)					
Aircraft & Vehicle Systems	10.7	13.1	13.0	12.5	**13.9**
Information & Power Systems	6.5	8.2	7.6	11.0	**11.0**
Tactical & Sonar Systems	7.3	9.0	11.1	10.0	**12.6**
Total	24.5	30.3	31.7	33.5	**37.5**
Operating profit margin % (before goodwill amortisation)	12.7%	13.4%	13.2%	12.8%	**13.2%**
Profit before goodwill amortisation and tax	23.2	25.6	27.1	29.9	**34.4**
Profit after taxation	15.6	15.8	16.3	17.9	**20.4**
Cash inflow from operating activities *(see note 1)*	8.2	16.5	35.2	39.5	**49.2**
Free cash flow before dividends, acquisitions and financing	(0.8)	7.5	21.8	28.8	**36.6**
Net debt at year-end	(11.7)	(55.9)	(40.6)	(39.3)	**(30.3)**
Headline earnings per share (p) *(see note 2)*	25.9	28.7	30.5	33.2	**38.2**
Dividends per share (p)	9.0	9.7	10.4	11.2	**12.3**
Average employee numbers	2,079	2,303	2,376	2,395	**2,505**

Notes

1. Cash flow from operating activities is stated after capital expenditure. 2002 has been restated to reflect the reclassification of Treasury share purchases as non operating payments.
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 – Deferred tax. It has not been possible to restate earlier years with respect to this Financial Reporting Standard.