



Ultra Electronics Holdings plc
ANNUAL REPORT & ACCOUNTS **2000**



Ultra Electronics is a group of specialist businesses designing, manufacturing and supporting electronic and electromechanical systems, sub-systems and products for international defence and aerospace markets.

The group, which employs 2,500 people in the UK and North America, focuses on high integrity sensing, control, communication and display systems with an increasing emphasis on integrated Information Technology solutions.

The Group concentrates on obtaining a technological edge in niche markets, with many of its products and technologies being market leaders in their field.

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THE QUEEN'S AWARD
FOR TECHNOLOGICAL
ACHIEVEMENT
FOR NOISE AND
VIBRATION SYSTEMS



HIPSS
IN THE HUB,
POWER GENERATION
FOR PROPELLER
DE-ICING



ULTRAQUIET
CABIN
AIRCRAFT CABIN
NOISE REDUCTION
SYSTEM



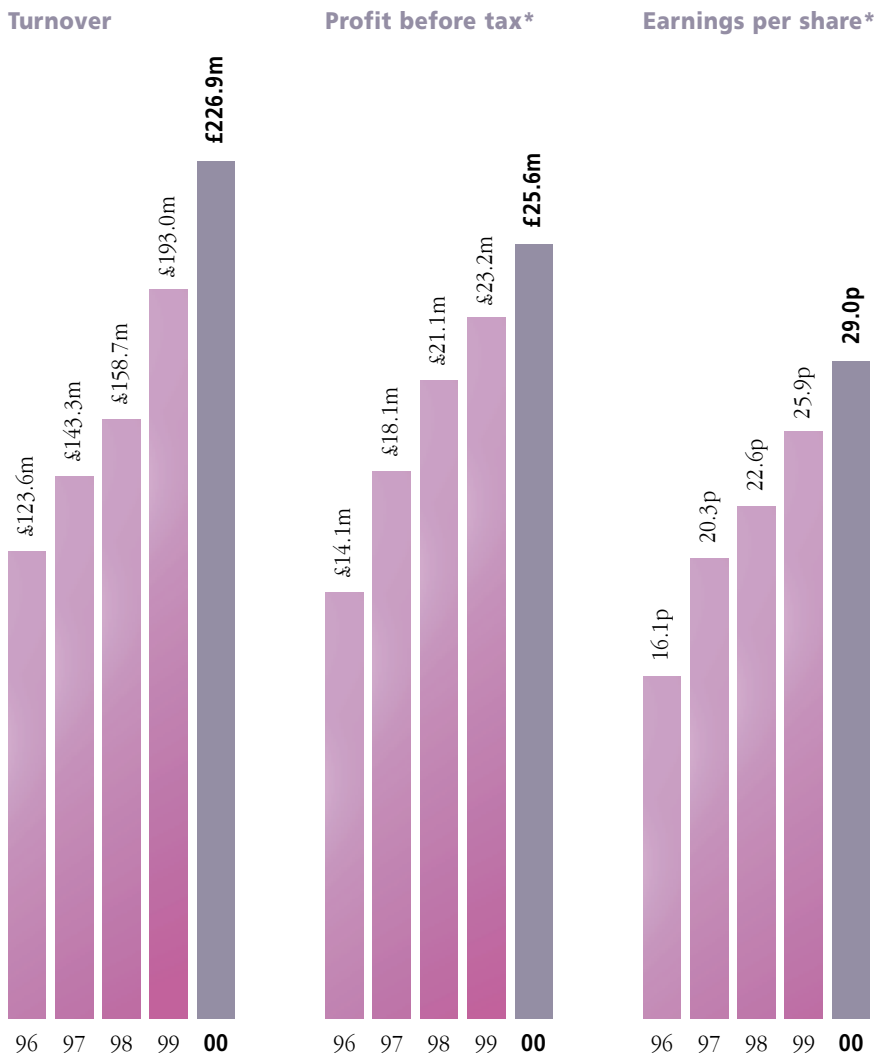
THE QUEEN'S AWARD
FOR ENTERPRISE 2000
FOR THE
MAGICARD PRINTER
AT OCEAN SYSTEMS

highlights

Financial Highlights

	2000 £m	1999 £m	Growth
Turnover	226.9	193.0	+18%
Profit before taxation*	25.6	23.2	+10%
Earnings per share*	29.0p	25.9p	+12%
Equity shareholders' funds	33.0	23.4	
Operating profit margin*	13.4%	12.7%	
Employees (average number)	2,303	2,079	

“The Group has delivered average earnings per share growth of more than 15% per annum since flotation in 1996.”



*Pre-amortisation of goodwill

at a glance

Ultra Electronics at a glance

Ultra Electronics specialises in the design, manufacture and support of electronic and electromechanical systems, sub-systems and products for aircraft, ships, submarines, fighting vehicles and airports. The businesses are classified into two Divisions:

Air and Land Systems

Designs and manufactures a range of advanced technology products primarily for civil and military aircraft.

Controls Division

Landing gear computers, electronic flight controls, propeller electronic controls, engine accessories, electrical generators for propeller de-icing.

Datel Defence Ltd

High integrity systems including safety critical software, Internet-based shared data environments and secure communication networks.

Electrics Division

Specialised control handles, high integrity switches and indicators, lighting systems, conduit cable harnesses, terminal blocks. Data bus systems for armoured vehicles.

Flightline Electronics Inc

Sonobuoy telemetry receivers for maritime patrol aircraft and helicopters. Mechanical gyroscopes.

Hermes Electronics Inc

Passive sonobuoys and bathythermal buoys. Towed array sonars. High power sonar transducers.

Measurement Systems Inc

Displacement and force joysticks, hand grip controls, trackballs, encoders and simulation equipment.

Noise and Vibration Systems

Aircraft cabin quieting systems using active noise and active vibration control technology.

Sonar and Communication Systems

Active and passive sonobuoys. Receivers and acoustic processors for maritime patrol aircraft and helicopters. Torpedo countermeasures. Data link communication systems.

UnderSea Sensor Systems Inc

Active and passive sonobuoys, advanced sensors, hydrophones.

Weapon Systems

High pressure pure air generators (HiPPAG) for cooling thermal imagers and infra red sensors, and for pneumatic ejection of aircraft munitions. Sidewinder missile overhaul and repair.

Information and Sea Systems

Provides IT solutions for military and civil use. Designs and manufactures a range of advanced technology products primarily for ships, submarines and other naval applications.

Advanced Programming Concepts Inc

Software based data fusion systems for applications in military command, control, communications, computers, intelligence, surveillance and reconnaissance (C⁴ISR) systems.

Command and Control Systems

Battlespace Information Technology solutions. Multifunction console systems with integrated application software and flat panel displays for command and control. Weapon interface electronics. Geographical information systems.

EMS Development Corporation Inc

Specialised power supplies and de-magnetising systems for the electromagnetic silencing of naval vessels. Magnetic measurement ranges.

Ferranti Air Systems Ltd

IT based systems for airport and airline operators, Airport Operational Data Base (AODB), Airport Management and Information Display System (AMIDS), Flight Information and Display System (FIDS), Baggage Reconciliation System (BRS) and Radio Frequency Identification (RFID) baggage tracking systems.

Magnetics Division

Multi-influence measurement ranges for measuring the complex signatures of naval vessels. Magnetic sensors, instruments and ship demagnetising systems.

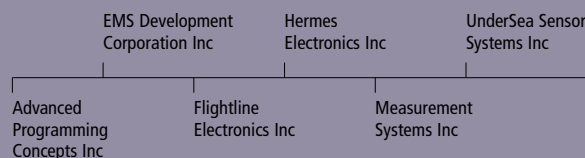
Ocean Systems

Multi-beam sidescan sonars and sonar performance measurement. Contract manufacturing. The Magicard range of identity card printers.

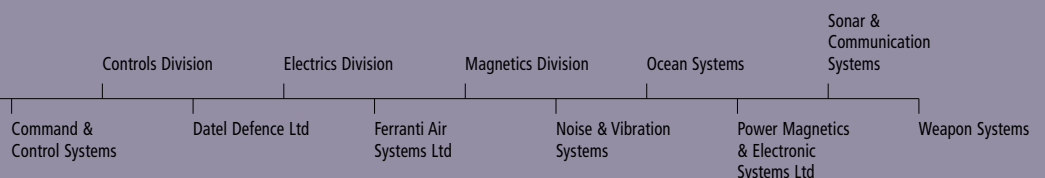
Power Magnetics and Electronic Systems Ltd

Power conversion systems, rectifiers, naval data distribution systems, sonar and acoustic systems.

Businesses in North America



Businesses in the United Kingdom



Chairman's Statement

Ultra Electronics has enjoyed another year of good growth in both sales and profits confirming the continued success of our policy of concentrating on niche areas in Aerospace and Defence. Total sales have grown by 18% and, before the amortisation of goodwill, profit before tax has grown by 10% and EPS by 12%. The Directors are recommending an increase in dividends of 8% to 9.7p per share.

Sales for 2001 and subsequent years are supported by an order book of approximately £275 million. This, together with other important business under negotiation, gives the Board confidence that Ultra can continue its growth performance. Our emphasis on, and past investment in, battlespace information technology and military vehicle electronics is beginning to be rewarded with new contracts. In general, defence spending on electronics continues to grow and represents an increasing percentage of total defence budgets.

Long-term passenger growth in civil airlines shows no sign of slackening. This is reflected in higher production rates for Airbus and the recent decision to launch the A380. Ultra is a significant supplier to Airbus, providing computers to control the operation of the landing gear, and other equipment.

At the year-end Ultra's debt had increased from £11.7 million to £55.9 million, which can largely be attributed to £44.7 million spent in acquiring the DF Group businesses in the early part of the year. Both components of the DF Group are trading as anticipated. Ferranti Air Systems is now integrated with Ultra's existing Airport Information Systems business, while Datel Defence greatly enhances our software capability in many fields.

Two of the original group of directors who founded Ultra in 1993, Ian Yeoman and Richard Lane, retired in 2000, and I would like to thank them for their contributions. Andrew Hamment, from within Ultra, has joined the Board as Marketing Director, and David Jeffcoat has become Finance Director. David was previously with the Smiths Group.

I am delighted by the award of the CBE to Julian Blogh, Chief Executive, in recognition of his service to the Defence and Aerospace Industry.

Finally, as always, Ultra employees have contributed a great deal to the success of the company this year and I thank them for their efforts.



Peter Macfarlane, Chairman

*“...defence spending
on electronics
continues to grow
and represents
an increasing
percentage of total
defence budgets”*

PETER MACFARLANE Chairman

growth

Chief Executive's Operations Review

In 2000, the Group made important progress in strengthening its strategic position through successes in new markets, investment in new products and the acquisition of complementary businesses. Through continuing investment, Ultra constantly enhances its portfolio of products covering all stages of a product's life cycle, from feasibility through development and production to in-service support and associated performance upgrades.

In an environment of industry consolidation, Ultra will continue to pursue its strategy of focusing on the development and supply of technically advanced products and sub-systems to the major prime contractors. Ultra is also evolving to be able to supply sophisticated products and integrated systems directly to the end customer and increasingly to be the prime contractor for these systems. Ultra now is of a size and has the financial strength for customers to feel comfortable in awarding contracts of an ever-increasing value to the Group.

In our major market, electronic equipment for defence applications, expenditure is now rising in real terms. In our single biggest market niche of sonobuoys, Ultra's market share worldwide has exceeded 50% and includes some notable export successes. In civil aerospace, demand from Ultra's largest customer, Airbus, continues to grow strongly.

The financial results of the Group showed encouraging progress in the period with increased sales and profits. While there was some delay in the commencement of production at our new US sonobuoy facility, with an associated build-up of inventory, this is now in full operation and delivering to its major customer, the US Navy.

Strategic Development

With the change in warfare operations over the last decade from larger to smaller engagements, there is a significant move in the focus of defence procurement towards fast reaction and mobile systems. Ultra has responded to these changes by enhancing its capability to provide these new types of system. I am therefore delighted that during the year these efforts have been rewarded with the receipt of a number of contracts of strategic importance. These included a development contract for a major part of the electrical and electronic systems for the Anglo-German-Dutch MRAV vehicle or 'battlefield taxi'; a demonstration contract for MINDER, a land mine detection system and further contracts to enhance our battlespace information technology systems. Each of these could play a major role in the growth of the Group in the medium term.

To reflect the shift in Ultra's activities, its two divisions have been renamed 'Air and Land Systems' and 'Information and Sea Systems' and the organisation adapted to ensure continuing focus on growth areas. Ultra's traditional business continues to prosper and an important success was achieved when our only competitor for the next generation UK sonobuoy system withdrew from the programme.

"Through continuing investment, Ultra constantly enhances its portfolio of products covering all stages of a product's life cycle..."



Julian Blogh, Chief Executive

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Acquisitions

In April 2000, Ultra made its largest acquisition to date when it purchased the DF Group consisting of two divisions, Datel Defence Ltd (Datel) and Ferranti Air Systems Ltd (FASL) for £44.7 million funded through its banking facilities. Datel is a software and systems company that provides integrated solutions for the defence industry. One of its principal activities is to produce software for mission computers on military aircraft. This software is constantly upgraded over time as new systems are incorporated on to the airframe. Datel's capabilities complement Ultra's Electrics business and will aid other divisions as they develop more sophisticated products. Datel also supplies the internet-based Shared Data Environment product.

FASL provides Information Technology solutions for airports and airlines worldwide from flight information displays providing passenger information to management of airport databases and the integration of specialist airport IT systems. It is an excellent fit with Ultra's original Airport Information Systems business incorporating TagTrak baggage reconciliation.

Both arms of this acquisition operate in areas of high market growth and are expected to contribute significantly to the expansion of Ultra in the future.

Results

At £226.9 million (1999: £193.0 million), sales increased by 18% of which 7% was organic. High sales of sonobuoys and sonobuoy systems again contributed to the growth of the Group. Operating margins, before the amortisation of goodwill, at 13.4% showed a satisfactory increase over those achieved in 1999. Operating profit before amortisation rose by 24% to £30.3 million, and profit before tax and amortisation was 10% higher at £25.6 million (1999: £23.2 million). The tax rate was maintained at 29% of profit after interest and goodwill amortisation. Earnings per share thus increased by 12% to 29.0p. The Group ended the year with a net debt of £55.9 million after capital expenditure and financial investments of £3.3 million, new product investment of £9.6 million and the acquisition of the DF Group for £44.7 million.

Prospects

Defence spending on electronics in our major markets is increasing with a growing requirement for capability upgrades involving electronic systems. Additionally, Ultra's expertise in battlespace information technology and in systems that support the military need for rapid reaction and mobility addresses major themes for future defence expenditure worldwide. Civil aircraft build rates are increasing, as is global investment in airport infrastructure and systems. With the Group sustaining a high level of investment in new products and underpinned by a strong order book, the Board is confident regarding the Group's future growth prospects.



FASL supply airport IT solutions

“In April 2000, Ultra made its largest acquisition to date when it purchased the DF Group consisting of two divisions, Datel Defence Ltd and Ferranti Air Systems Ltd...”

systems

Chief Executive's Operations Review

Air and Land Systems

Air and Land Systems comprises ten operating divisions in the UK and in North America supplying electronic and electromechanical components, sub-systems and products for civil aerospace and defence applications.

The division maintained its record of strong growth last year, with sales 22% higher at £158.3 million. Key contributors to this performance were a high demand for sonobuoys and on-board acoustic equipment, an excellent result at Measurement Systems Inc in the USA and the first year impact of Datel Defence Ltd, acquired in April 2000. Excluding sales from Datel, the division recorded organic sales growth of 13%. Organic profit growth was 12%, contributing to an overall profit for the division of £22.1 million, an operating margin of 14%.

The acquisition of Datel has enhanced Ultra's systems and software capabilities and broadens Ultra's offering for future aircraft. Already, Datel's world class capability in mission system management and displays has complemented Ultra's existing capability in providing ergonomic cockpit layouts, pilot stick tops, switches and lighting systems.

A major part of Datel's activity is supporting BAE Systems on sub-systems developed for the various versions of the Tornado aircraft. These include the Missile Management System, the Successor Identification Friend or Foe, the Computer Symbol Generator and Missile Control Unit. As the in-service life of Tornado is extended by continued weapon systems upgrades, Datel should benefit from a constant stream of specialist work, for which they are an integral part of BAE Systems' team. The company is also involved in the development, integration and test of the Eurofighter Typhoon ECR90 Radar and with the integration of the Defensive Aids Sub-System.

During 2000, Datel has developed and made initial sales of its highly promising Shared Data Environment (SDE) product. SDE allows multi-site working for a project team with secure exchange of project data in a controlled and configured fashion over the internet. Initial work with the UK MoD's Integrated Project Team (IPT) for the Future Offensive Air System (FOAS) was followed by the adoption by the Ships Missile System IPT of the SDE later in the year.

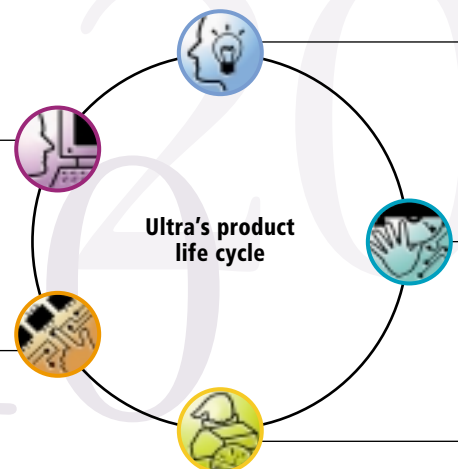
"The division maintained its record of strong growth last year, with sales 22% higher at £158.3 million."



Datel's SDE product allows secure exchange of data over the internet

Development
Designing to meet functional, cost and producibility requirements. Managing risk and ensuring schedule and budget adherence.

Production
Final productionisation and qualification to support entry into service. Series manufacture and achieving productivity improvements.



*The Eurofighter pilot's stick-top controller
from Electrics*



Feasibility

From a concept or a customer requirement, identifying possible solutions and reducing risk through demonstration and assessment.

Upgrades

Enhancing performance levels through the insertion of new technology. Extending the service life of the equipment.

In service support

Providing effective support to customers and users. Maintaining performance to agreed levels whilst minimising the cost of ownership.



Sonar and Communication Systems are upgrading the acoustic system for the existing Nimrod MR2 aircraft

Ultra products at the Feasibility stage include...



Shared Data Environment



Battlespace IT



MINDER

Air and Land Systems

The number of technically advanced conventional submarines operating in the world continues to rise. The number of countries operating submarines is also growing. This underpins a continuing emphasis on maintaining expenditure levels for Anti Submarine Warfare (ASW) equipment worldwide. Ultra is an acknowledged market leader in a number of different market niches in ASW. Most notably, Ultra is the world leader in the supply of sonobuoys, the sensors for the system that detects and tracks submarines acoustically. The Group also provides airborne receivers that interface with sonobuoys and advanced acoustic processors that interpret received signals.

At UnderSea Sensor Systems Inc, our American sonobuoy division, production started in its newly constructed facility on the three primary products, DIFAR, DICASS and ADAR. Ultra was awarded 55% by value of the US Navy's sonobuoy requirement for Fiscal Year 2000. In addition, the Group booked significant sonobuoy export orders. Through Hermes in Canada and Sonar and Communication Systems in the UK, export orders were received from Australia, Chile, France, Greece, Holland, Italy, Korea, New Zealand, Norway and Spain.

In the UK, Ultra has worked closely with the Defence Procurement Agency (DPA) on plans for future sonobuoy developments in the absence of competition. Ultra is now the preferred contractor for a new active search sonobuoy system. This single source position reflects an excellent reputation for high quality advanced sonobuoys and the incumbent position as supplier of acoustic receivers and processors for the Nimrod MRA4 programme. In support of this programme, Ultra completed successfully in-water trials of ALFEA, the sonobuoy acoustic source demonstrator. Ultra is now in full production of HIDAR, the world's first all-digital sonobuoy.

All three of Ultra's sonobuoy businesses are involved in feasibility studies for new advanced sensor systems capable of detecting, tracking and reporting contacts of interest. This should ensure a flow of new advanced sonobuoy products for the future.

Civil aerospace is following a long-term trend of 5% per annum increases in demand for passenger travel. This underpins the demand for new aircraft. Ultra supplies equipment mainly to Airbus Industrie which continues to increase aircraft production rates year on year. This has generated an increasing demand for the landing gear computers and harnesses that are supplied by the Controls and Electrics



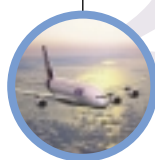
USSSI is in full production at their new facility



HIPPAG 500



Silent seat



A380 systems



Active search sonobuoy

Air and Land Systems

businesses respectively. The Controls business was confirmed within the year as the single source supplier of landing gear computers on A318, the smaller derivative of the single-aisle Airbus aircraft. Development has continued of the landing gear computer for the long-range A340-500/600 derivatives. This aircraft is scheduled to make its first flight in 2001.

The launch by Airbus in late 2000 of the A380 very high capacity aircraft programme offers the potential for further work. Ultra has worked within an international group of companies on feasibility studies for electronic systems for such an aircraft.

Ultra's market leading noise and vibration control equipment for aircraft cabins has continued to enhance the passenger appeal of the aircraft types to which it is fitted. Increasingly, the upgrade of existing airframes with this system provides value enhancement to the airline. Specifically, in 2000, UNI Air of Taiwan completed the first upgrade of a Dash 8 aircraft with the installation of active noise and vibration cancellation equipment. Golden Air of Sweden became the launch customer for the equivalent upgrade to the Saab 340 aircraft in the year.

Measurement Systems Inc in the USA achieved a significant win on the AVCATT-A helicopter tactical trainer as the supplier of choice for a significant sub-system on this multi-year programme. This award moves MSI up the supply chain from component supplier into systems design and manufacture.

The Electrics business is developing innovative electronic controls and monitoring systems for advanced land fighting vehicles. Development work continues successfully on the Anglo-German-Dutch MRV vehicle, the 'battlefield taxi'. This business is also working with Alvis and DERA to address specific issues concerning the electrical and electronic integration of various digitisation programmes, of which Bowman is one, with existing UK Army vehicles.

The Weapons Systems business was awarded during 2000 a five-year extension to its contract, with enhanced scope, for providing repair and overhaul services for the UK MoD's stock of Sidewinder missile guidance and control systems.

Supply continued of the innovative High Pressure Pure Air Generator (HiPPAG) equipment from Weapons Systems to the US Marine Corps for the upgrade of their AV-8B and AH-1 aircraft. During 2000, HiPPAG was qualified for the new US Navy F/A-18 E/F Super Hornet aircraft and the first production deliveries were made.

"This award moves MSI up the supply chain from component supplier into systems design and manufacture."



Airbus Industrie have launched the A380 programme



Electrics provides advanced power management for fighting vehicles

Ultra products at the **Development** stage include...



Naval power conversion



NH90 receivers



A340/600 landing gear computers

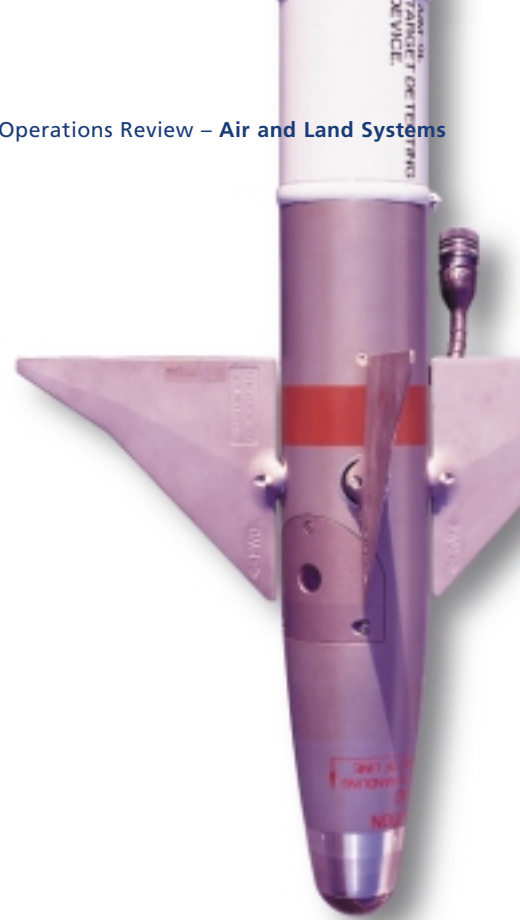
Final development and qualification testing continued for the UK Harrier GR7 and first production will occur in 2001. Progress was made in the commercial discussions regarding the supply of HiPPAG for Eurofighter and an order in early 2001 is anticipated.

Excellent progress was achieved in demonstrating the suitability of HiPPAG for pneumatic ejection of weapons from aircraft. In 2000 Boeing awarded Ultra a contract to develop HiPPAG for integration with their most advanced weapon ejection system for the F15E aircraft. Weapon Systems is also working with system integrators to address the requirement to launch increased quantities of smaller smart munitions. Both these applications of HiPPAG could be offered as future upgrades to existing air frames.

Ultra's Controls division has developed its innovative HIPSS system for providing de-icing power for aircraft propellers. This system will enter production in 2001 on the Beech 1900D aircraft made by Raytheon. The US regional airline CommutAir has also selected the system for upgrading its existing fleet of B1900Ds.

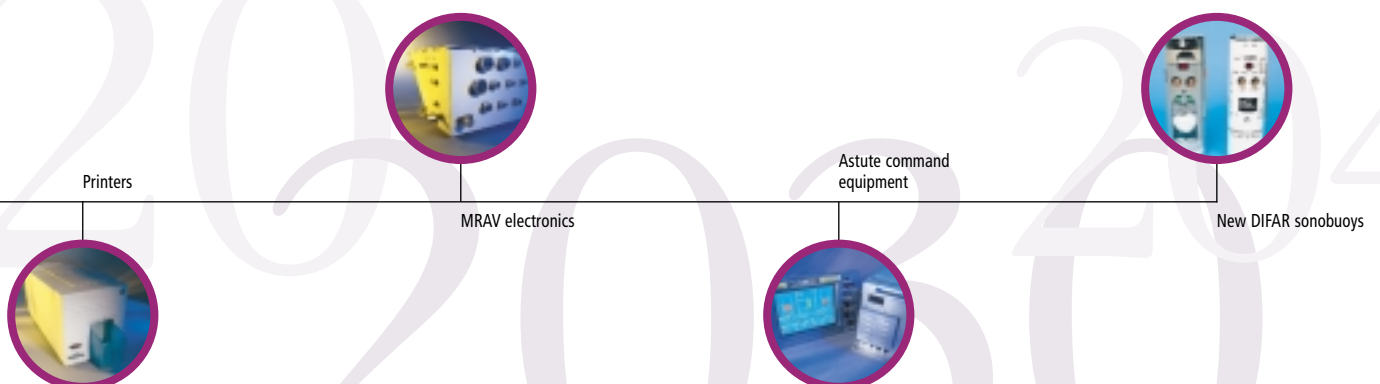
Delivery by Sonar and Communication Systems of the integrated sonar suite for the Nimrod MRA4 continued in accordance with the original delivery schedule. Production commenced of this equipment as an upgrade to the existing Nimrod MR2 aircraft.

The first production order was received to supply sonobuoy receivers for the upgraded US helicopter, the SH60R. Development started in 2000 on the Acoustic Receiver for the NH-90 ASW helicopter. This contract was increased in value to include the novel Sonobuoy Location System (SLS) – a breakthrough on to this important European helicopter programme where the space and weight saving of the Ultra SLS solution is especially important.



Weapon Systems repairs and overhauls missile guidance systems

“Weapon Systems is also working with system integrators to address the requirement to launch increased quantities of smaller smart munitions.”



Capability

Chief Executive's Operations Review

Information and Sea Systems

Information and Sea Systems comprises seven operating divisions in the UK and North America, supplying command, control and communications systems, sub-systems and products for commercial aerospace and defence applications.

Sales in 2000 were £68.6 million, an increase of 8% over the previous year. After eliminating the impact of the acquisition in April 2000 of Ferranti Air Systems Ltd and the full year effect of the 1999 acquisition of Advanced Programming Concepts Inc (APC), organic sales declined by 7%. A number of long running contracts have come to an end, notably for the supply of command systems equipment for the Type 23 frigate. The new programmes, including the UK Astute and the US Virginia classes of submarine, will reach full activity levels in 2001 for Ultra. At the year end the order book was up by 47% over the previous year, giving confidence that positive growth will be achieved in Information and Sea Systems in 2001. The result of a series of initiatives to reduce the cost base in the division was that the operating margin in 2000 increased by nearly 2% to 12%. Organic profit growth of 5% was recorded, bringing the operating profit to £8.2 million.

The acquisition of FASL enhanced Ultra's capability in Information Technology systems for airports and airlines worldwide. FASL provides a range of solutions including Flight Information Display Systems (FIDS) and Airport Operational Data Base (AODB) systems suitable for regional airports, right up to integrated management environments for large international airports. This is a growth market – independent data sources show growth projections for worldwide airport infrastructure spending of above 5% per annum.

As part of a growing product portfolio, FASL has been selected as BAA's preferred supplier for the Supervisory Control And Data Acquisition (SCADA) system for London Heathrow Airport. Given the likely level of future investment at Heathrow, this is an important opportunity.

The TagTrak baggage reconciliation and tracking product range has been installed in further airports worldwide. For San Francisco, Ultra has developed TagTrak to include an advanced Radio Frequency Identification (RFID) system, using 'smart' baggage labels to permit electronic tracking and control of baggage.

On 1st January 2001, the TagTrak business was integrated with FASL to create a broader airport information systems business. This, plus the strength gained from



'Smart' labels allow improved baggage management

"...the order book was up by 47% during the year, giving confidence that positive growth will be achieved during the coming year."

Ultra products at the Production stage include...



Cockpit equipment

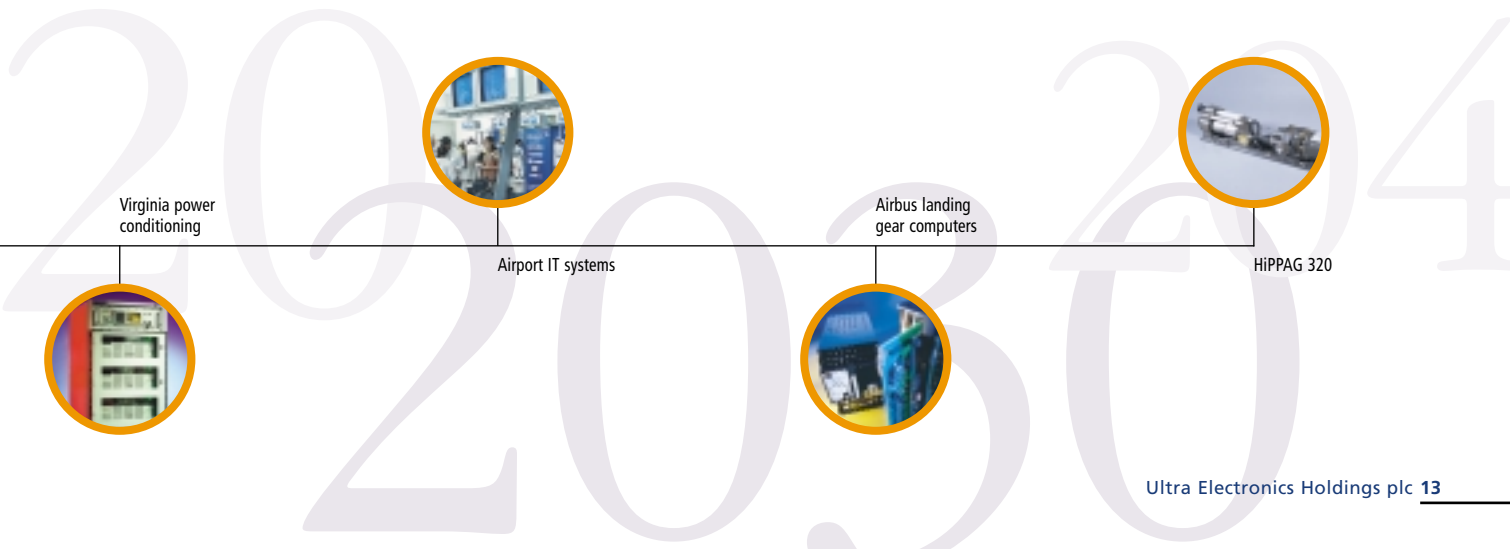


Sonobuoys



Nimrod acoustic system

*Ultra provides integrated
Information Technology systems
for airports and airlines*



Information and Sea Systems

becoming part of Ultra, positions FASL to take on larger systems integration projects in the future.

Success in future armed conflicts will increasingly depend on the ability to manage information flows effectively. Digitisation of the battlespace is becoming, therefore, a dominant theme in defence expenditure. Command and control systems must also meet the demand for interoperability, not only with other services, but also with allies and coalition partners. Ultra is extremely well placed to address both of these requirements. APC, acquired in 1999, brings a leading edge capability to fuse data from many different types of military sensors and data links and to display a real-time view of the tactical battlespace. Over 200 of its Air Defense Systems Integrator (ADSI) product have been deployed worldwide by US and Allied forces to fulfil this role.

APC also has a world leading capability for processing tactical, intelligence and radar data in a myriad of different formats. This data is translated into an unambiguous coherent, tactical picture that can be viewed by the battlespace commander or forwarded to another location for action. The ADSI product is constantly being upgraded for compatibility with new sensor types and data formats with funding for this process of performance improvement coming from the US Air Force, Navy, Army and Marine Corps. ADSI is the data fusion 'engine' of the US Army's new Tactical Airspace Integration System (TAIS) being produced by Motorola. At the end of 2000, Motorola was awarded their first production contract, with Ultra's sub-contract to follow.

Ultra's Command and Control Systems business has been awarded a £6 million MoD funded feasibility study for the MINDER land-mine detection and route proving system, for which Ultra is leading an international team. MINDER couples state-of-the-art data fusion techniques with a number of world leading sensor types. The system will detect and classify mines by type so that they may be marked or neutralised.

Command and Control Systems has developed, in collaboration with DERA, the 'Olympus' collaborative planning aid. This practical demonstration of battlefield digitisation has successfully completed field trials with the UK Army. Work with the Defence Geographic and Intelligence Agency has enhanced its capability to manage both imagery and maps and has improved the process of delivering the data to its military customers.



Ultra provides signature management to help Astute submarines stay stealthy

“APC also has a world-leading capability for processing tactical, intelligence and radar data in a myriad of different formats.”

Ultra products at the Support stage include...



Active noise systems

Airbus landing gear computers



Sidewinder



The 'Olympus' digital collaborative planning aid from Command and Control Systems



Command and control systems

Sonobuoy receivers



Engine electronics



Gyros



PMES helps power the Tyne and Wear metro system

In the field of electric power management for naval vessels, Ultra divisions in the UK and the US have been brought under single management to ensure co-ordination of marketing and product development. Ultra has successfully conducted feasibility studies relating to key technologies applicable to the ‘all electric warship’. In future, electric motors, driven by the main generators, will replace conventional gearboxes and propeller shafts. Many more functions within the warship will be powered electrically. Ultra’s power conversion technology will therefore be applicable and Ultra is well placed to exploit its capability in the US as well as in the UK.

Power Magnetics and Electronic Systems Ltd (PMES) is developing technology, with MoD funding, for use in the all electric warship. Programmes that might benefit from this technology include Type 45 destroyer and Future Attack Submarine (FASM). PMES also has a significant business providing transformer rectifier units to rail and transit systems, an example of which is its contract to supply units to Adtranz for the Tyne and Wear metro system.

Towards the end of 2000, Ultra delivered its specialist power management system for the first of the new US Virginia submarines. Orders have been confirmed for the next three ship sets of equipment.

“Ultra is well placed to support this stealth requirement”

Ultra products at the Upgrade stage include...



P3 HIPSS



Airport IT



Tornado

Information and Sea Systems

The ability to predict, manage and check signature levels is becoming a requirement on all new naval vessels. Ultra is well placed to support this stealth requirement by offering design tools to assist the vessel designers, by supplying on-board signature reduction systems and by providing a range of multi-influence ranges to verify externally the achieved signature.

Ultra successfully completed the development of an advanced TransMag multi-influence range leading to its acceptance by DERA in the UK. Ultra also received a contract to supply a similar signature measurement system in France. This was won after intense international competition.

The total value of orders won to date for the Astute class of submarines is over £40 million. In addition to signature management, these include design and manufacture of the command and control consoles together with the design and manufacture of the Submarine Weapons Interfacing Module (SWIM).

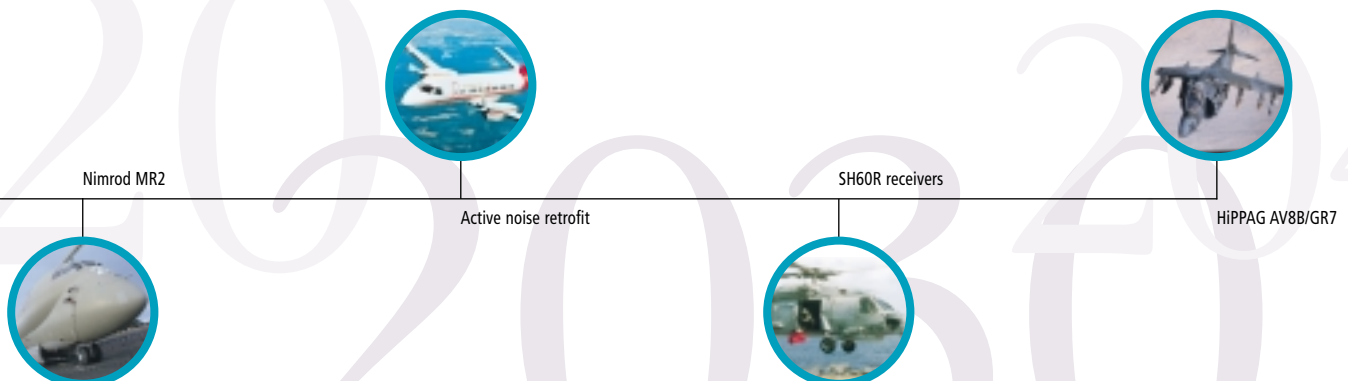
Ultra's Ocean Systems division was awarded a contract by NATO to develop and supply an advanced satellite-linked sonar system. That division's specialist Manufacturing Services activity had a very successful year, increasing sales by over 30%. This reflects its ability to deliver high quality products on time and at the right price.

The Magicard printer range had a successful year with enough printers and dyefilm sold to badge 17 million people. These printers print text, images, graphics and barcodes onto credit card sized badges. Ultra launched, in late 2000, two completely new printer models for sale commencing in early 2001. These new printers offer advanced performance and enhanced features at a competitive price. The Card Systems business won the Queen's Award for Enterprise (Innovation 2000), the second Queen's Award that Ultra has won for its printer technology.



The new Rio and Tango Magicard printers

JULIAN BLOGH Chief Executive



Strength

Financial Review

Trading results

Group turnover increased by 18% in 2000 to £226.9 million; sales have now grown on average at more than 15% per annum over the past five years. Operating profit before goodwill amortisation was 24% higher at £30.3 million and has increased at an annual rate of 21% since Ultra was first listed in 1996. The profit result reflected an improvement in operating margin to 13.4% in the year (1999: 12.7%). A feature of these results was continuing strong organic growth; underlying sales were 7% higher and underlying operating profit increased by 10% due to the higher margin.

The results benefited from a full year's trading at APC, acquired in 1999, and also from the contribution by the DF Group companies, which were acquired in April 2000. The DF Group was a net contributor to profit before goodwill amortisation and after funding costs.

The Air and Land Systems division exhibited particularly strong performance during the year, with underlying sales growth of 13%. This was caused mainly by healthy demand in the sonobuoy businesses. The operating margin in this division was up slightly at 14%. Trading in Information and Sea Systems was affected by the transition from old military programmes to new, with major orders being received for Astute and MINDER during the year for fulfilment in future years; organic sales were 7% lower as a result. However effective control of the cost base helped to improve margins by nearly 2% and underlying operating profit was 5% higher than in 1999. The division closed the year with a strong order book and is expected to reverse the downward trend in sales during 2001.

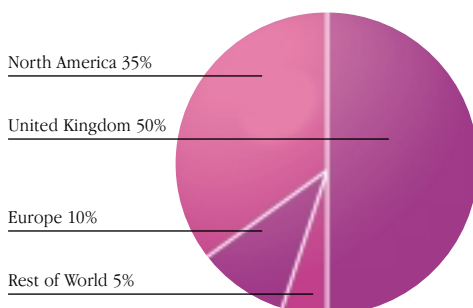
During 2000 there were significant movements in currency exchange rates, notably the US Dollar and the Euro. Ultra's main exposure is to the US Dollar with lesser exposure to the Canadian Dollar, which tends to follow the US currency. The average Sterling exchange rate against the US Dollar weakened by 9% during the year. The overall impact upon profit was less than 1%, however.

The percentage of Ultra's sales to overseas markets increased to 50%; this is the first time that they have reached this level. North America remains Ultra's largest overseas sales market, helped by strong demand for sonobuoys and good performances by our US businesses. Sales in North America represented 35% of total Group turnover during the year.

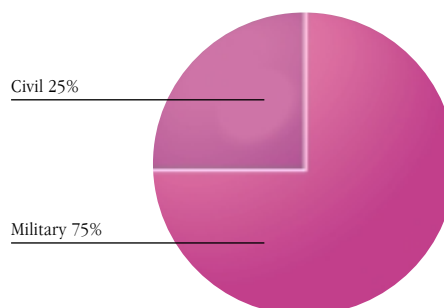


*David Jeffcoat, Finance Director
and Company Secretary*

Sales by Geographical Destination



Sales by Market Segment





The mix of military to commercial sales was approximately 75:25, with the UK Ministry of Defence and the US Department of Defense the biggest military customers.

Profit before taxation

Net debt increased by £44.2 million during the year, with the main reason for this change being the DF Group acquisition. The net interest charge rose to £4.7 million (1999: £1.3 million), which was covered more than six times by operating profit before amortisation of goodwill. The resulting profit before taxation and amortisation was £25.6 million, 10.3% more than in 1999 (£23.2 million).

Datel engineers developing updated software for the Tornado aircraft

The £42.6 million of goodwill arising from the DF Group acquisition will be amortised over a 20 year period, an annual charge to profit of £2.1 million. Including goodwill amortisation on prior years' acquisitions, the charge arising in 2000 was £3.0 million (1999: £1.3 million).

Taxation

The Group's effective tax rate on profit after goodwill amortisation was 29.4%, up from 29.1% in 1999. Ultra continues to benefit from the utilisation of tax losses in the USA.

Earnings per share and dividends

Earnings per share before goodwill amortisation increased by 12.0% to 29.0p. The Group has delivered average earnings per share growth of more than 15% per annum since flotation in 1996. The proposed final dividend is 6.5p, bringing the total dividend for the year to 9.7p. This represents an increase of 8% over last year. The dividend is covered three times by earnings per share before amortisation.

Cash flow and borrowings

Capital expenditure and financial investment in the year was £3.3 million and Group-funded revenue investment in research and development was £9.6 million. When combined with customer-funded activities, the total investment in new products was £47.3 million, over 20% of turnover.

Group operating cash flow after capital expenditure was £16.5 million in the year (1999: £8.2 million). Overall Group working capital levels increased by £14.9 million during the year, with a build-up in inventory at USSI, the US sonobuoy business, in readiness for increased production in 2001.

Net debt increased from £11.7 million at the end of 1999 to £55.9 million in December 2000. The increase was due to the acquisition of the DF Group in April 2000, for which a £45 million term loan was taken out.

Financial Risk Management

Ultra's financial instruments, other than derivatives, comprise borrowings, some cash resources and sources of funding such as trade debtors and trade creditors. These are used to raise finance for the Group's operations. Ultra uses forward currency contracts, an interest rate collar and an interest rate swap to manage the currency and interest rate risks associated with its underlying business activities and their financing.

Group policy prohibits speculative transactions and no trading activity in financial instruments is undertaken. Treasury policies are determined by the Finance Director based on forecast business requirements and are reviewed regularly.

Interest Rate Risk

The Group finances its operations through a mixture of retained profits and bank borrowings.

“...the total investment in new products was £47.3 million, over 20% of turnover.”

Ultra has £21.5 million of Sterling facilities and a US \$32.0 million facility with The Royal Bank of Scotland. The Sterling facility is used to provide working capital. The US Dollar facility provides a balance sheet hedge for foreign subsidiaries' assets. A further £5 million overdraft facility is available, also for working capital funding. These facilities are drawn down as and when required.

The Group took out a £45 million loan, repayable over five years, from The Royal Bank of Scotland during 2000 to finance the acquisition of the DF Group. The interest rate on this loan has been fixed at 7.8% using an interest rate swap. A collar is used to manage Ultra's exposure to US interest rate fluctuations.

At 30 December 2000, 35% of the Group's financial liabilities were at floating rates before taking account of the interest rate collar (1999: 99%). After adjusting for the collar, 90% of the Group's net borrowings were at fixed rates (1999: 68%) and the remainder were at floating rates.

Foreign Currency Risk

The Group has overseas subsidiaries whose assets and liabilities are denominated mainly in US Dollars. These investments are financed by means of the US Dollar borrowings to protect the Balance Sheet from movements in the Dollar/Sterling exchange rate.

Virtually all of Ultra's civil aerospace sales are denominated in US Dollars. As a result our principal currency translation exposure is to the US Dollar and the Group's policy is to hedge the net exposure using forward foreign exchange contracts. Exposure to the Canadian Dollar is hedged in the same way. Any remaining currency exposures are hedged as they arise.

*“Earnings per share
before goodwill
amortisation increased
by 12.0% to 29.0p”*

DAVID JEFFCOAT **Finance Director and Company Secretary**

earnings per
growth

Board of Directors

Peter Macfarlane* **FCA FCT**, *Non Executive Chairman*, age 62, qualified as a Chartered Accountant with Touche Ross and, after three years with Coopers & Lybrand joined Kimberley Clark, managing their financial affairs in Europe, Africa and the Middle East. He joined Rolls Royce in 1979 as Group Treasurer and, after a period as Director of Corporate Development, he was appointed Finance Director in 1989. Mr Macfarlane retired in February 1998 from the board of Allied Domecq plc where he had been initially Finance Director and subsequently Chairman of two divisions.



Julian Blogh **CBE BA MSc PhD CEng MIEE**, *Chief Executive*, age 57, has spent most of his working life in the electronics industry working with Ferranti Radar, Plessey Radar and Dowty Electronic Systems. He was Managing Director of Sonar and Communication Systems from 1987 to 1992, when he was appointed Managing Director of Dowty Avionics. He became Chief Executive of Ultra Electronics when it began trading in October 1993. He was awarded the CBE in the New Year Honours List in January 2001.



Douglas Caster **BSc AMIEE**, *Managing Director*, Information and Sea Systems, age 47, started as a Design Engineer with Racal in 1975, before moving to Schlumberger and then to Dowty as Engineering Director of Sonar and Communication Systems in 1988. In 1992, he became Managing Director of that division and joined the board of Ultra in October 1993. In 1999 he became Managing Director of Command and Control Systems with responsibility for Ocean Systems, PMES, and APC. In April 2000, he was appointed to his current position.



Andrew Hamment **BA**, *Marketing Director*, age 46, started his career with Hawker Siddeley before moving to Schlumberger in 1980, working in procurement and then marketing at Weston Aerospace before transferring to Solartron as Aerospace Business Manager. He joined Dowty in 1988 as Managing Director of the Controls business. He was appointed to his current position in July 2000 and joined the Board at that time.



Sir Frank Holroyd* KBE CB MSc FEng CEng FRAes FIEE CIMgt, *Non-Executive Director*, age 65, retired from the RAF in 1991 as Air Marshal after 35 years' service, latterly as Chief of Logistics and Chief Engineer. Formerly Chief Engineer of Strike Command and Director General of Procurement (MoD) for Strategic Electronic Systems, he is Chairman of Composite Technology Ltd, Deputy Chairman of Military Aircraft Spares Ltd and Deputy Chairman of Council at Cranfield University. Sir Frank was appointed to the board of Ultra in March 1995.



Frank Hope BSc PhD CPhys MInstP, *Managing Director*, Aircraft and Defence Land Systems, age 46, started his career with Tecalemit as a design engineer working on robotics. He spent 13 years with Avimo Limited latterly as Managing Director, having previously held the positions of Technical Director and Operations Director. He joined Ultra in 1994 as Managing Director of the Electrics division and was appointed to the board of Ultra in January 1999. In April 2000, he was appointed to his present position.



David Jeffcoat BA FCMA, *Finance Director*, age 50, has worked both as a management consultant for Coopers & Lybrand and as a financial manager in manufacturing industry. He gained international experience by working for a number of years in Canada and South Africa. He was Divisional Finance Director with Glaxo Holdings plc and then Group Financial Controller at Smiths Industries plc. He was appointed to the Board in July 2000.



Andrew Walker* MA CEng, *Senior Non-Executive Director*, age 49, was appointed to the board in June 1996. Joining the Dowty Group plc in 1978, he held various positions, becoming an operating board member during 1991. Following TI Group's acquisition of Dowty, he became Managing Director of John Crane Polymer Engineering. He was Chief Executive of South Wales Electricity plc (SWALEC) from 1993 to 1996, and has been Chief Executive of McKechnie plc since 1997. In 2000 he successfully led the MBO of McKechnie plc.



**Audit and Remuneration Committee members*

Executives and Advisors

EXECUTIVES

Group Management

Dr. Julian Blogh CBE *Chief Executive*

Douglas Caster *Managing Director,
Information and Sea Systems*

Andrew Hammet *Marketing Director*

Dr. Frank Hope *Managing Director,
Air and Defence Land Systems*

David Jeffcoat *Finance Director and
Company Secretary*

Jack Telfer *Human Resources Director*

Divisional Management

Harry Young *President,
Advanced Programming Concepts Inc*

Paul Summers *Managing Director,
Command and Control Systems*

Dr Colin Ross *Managing Director,
Controls Division*

Keith Morris *Managing Director,
Datel Defence Ltd*

Dr. Frank Hope *Managing Director,
Electrics Division*

Mick Drustrup *President,
EMS Development Corporation Inc*

Alan McCartney *Managing Director,
Ferranti Air Systems Ltd*

Carlos Santiago *President,
Flightline Electronics Inc*

Wayne Trowse *President,
UnderSea Sensor Systems
& Hermes Electronics Inc*

Ian Mence *Managing Director,
Magnetics Division*

Ken Tasch *President,
Measurement Systems Inc*

Keith Thomson *Managing Director,
Noise and Vibration Systems*

Ray Coles *Managing Director,
Ocean Systems*

Rakesh Sharma *Managing Director,
Power Magnetics and Electronic
Systems Ltd*

Dr. Brendan Pain *Managing Director,
Sonar and Communication Systems*

Roland Fritts *President,
UnderSea Sensor Systems Inc*

Paul Benson *Managing Director,
Weapon Systems*

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Citigroup Centre
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Stockbrokers

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The logo for Ultra Electronics, featuring the word "Ultra" in a bold, yellow, sans-serif font above the word "ELECTRONICS" in a smaller, white, sans-serif font, all contained within a blue square with a white border.

Ultra
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