

Directors' report

For the year ended 31 December 2001

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 2001.

Principal activity

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

Results and dividends

The review of operations is contained on pages 4 to 19. Group results and dividends are as follows:

	2001 £'000
Balance on profit and loss account, beginning of year	4,986
Profit for the financial year	16,104
Dividends: Interim paid of 3.4p per share	(2,229)
Final proposed of 7.0p per share	(4,606)
Amounts gifted to the Employee Share Ownership Trust (see note 19)	(349)
Foreign exchange differences	(480)
Balance on profit and loss account, end of year	13,426

The final 2001 dividend is proposed to be paid on 7 May 2002 to shareholders on the register at 2 April 2002.

The interim dividend was paid on 28 September 2001, making a total of 10.4p (2000: 9.7p) per share for the year.

Future developments

A review of the activities and future developments of the Group is contained in the Chief Executive's Operations Review on pages 4 to 19.

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 £50.1 million (2000: £47.3 million) was spent on engineering development of which £40.1 million (2000: £37.7 million) was funded by customers and £10.0 million (2000: £9.6 million) by the Group.

Directors and their interests

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

Substantial shareholdings

At 22 February 2002, the Company had been notified in accordance with Sections 198-208 of the Companies Act 1985 that the following were registered as having an interest in 3% or more of the Company's ordinary share capital:

	Percentage of ordinary share capital %	Number of 5p ordinary shares
Zurich Scudder Investments	5.10	3,349,359
The Aegon UK plc Group of Companies	3.91	2,565,326
Standard Life	3.87	2,521,314
M&G Investment Management Limited	3.82	2,505,922
The Capital Group Companies Inc	3.60	2,356,400
Fidelity International Limited	3.07	2,010,434
Legal and General	3.05	1,984,625
Scottish Widows Investment Partnership Limited	3.03	1,987,582
Morley Fund Management Limited	3.01	1,968,107
CGNU plc	3.00	1,964,480

Charitable and political contributions

The Group contributed £14,000 (2000: £12,000) 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.

During 2001 an external audit in respect of health, safety and environmental matters was carried out on all UK sites. The Board has reviewed the results of this study, which has been beneficial in highlighting areas of best practice and priorities for improvement. Similar audits are planned at the Group's North American sites during 2002.

In particular Ultra recognises the responsibility it has towards the environment. During the year the Group developed an Environmental Policy that has been issued to its businesses for implementation during 2002. It 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. Employees will be trained in procedures to support this policy.

Business ethics and employment practices

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

In complying with the Public Interest Disclosure Act 1998 in the United Kingdom, the Group has established a procedure enabling employees to bring matters to the attention of an appropriate manager outside of their own business in the event that they do not feel able to approach their local line management.

It is the policy of the Board to be an equal opportunities employer and to oppose all forms of unlawful or unfair discrimination on the grounds of sex, race, nationality, disability, sexual orientation, age, marital status, religion or political belief. Applicants and employees are treated equally and fairly in respect of recruitment, remuneration, training, promotion and career development.

Employee consultation

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

Supplier payment policy

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

Trade creditor days of the Group for the year ended 31 December 2001 were 53 days (2000: 43 days), based on the ratio of Group trade creditors at the end of the year to the amounts invoiced during the year by suppliers. The Company had no trade creditors at the year-end.

Remuneration report

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

The members of the Remuneration Committee are the non-executive Directors and Sir Frank Holroyd is the Chairman. The task of the Committee is to make recommendations to the Board on the framework of executive remuneration and to determine annually the individual salaries 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.

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

Salaries

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

Bonus scheme

The Company operates an annual bonus scheme for executive Directors. Bonus payments are based upon achievement of operating profit and cash flow targets. The maximum bonus for 2001 was 40% of basic annual salary.

Long-Term Incentive Plan

The Company operates a Long-Term Incentive Plan ('LTIP') for executive Directors and certain senior executives. Ordinary shares worth up to 100% of gross basic salary at the start of the LTIP can be awarded each year, depending on the Group's performance over a three year period. The performance criteria for the 2001 award are based on the growth in the Group's earnings per share over a three year period from 1 January 2002, compared to improvements in the earnings per share of selected companies in the Engineering and Aerospace and Defence sectors over this period.

Long-Term Incentive Plan (continued)

Details of the LTIP awards for executive Directors are given below:

	2001		2000		1999		1998	
	Potential award (No of shares)	Potential award value*	Potential award (No of shares)	Potential award value*	Potential award (No of shares)	Potential award value*	Potential award (No of shares)	Potential award value*
		£		£		£		£
J. Blogh	52,170	196,941	45,455	171,593	43,839	165,492	21,456	80,996
D. Caster	31,302	118,165	28,671	108,233	27,743	104,730	13,793	52,069
A. Hamment	24,662	93,099	23,310	87,995	-	-	-	-
F. Hope	29,879	112,793	26,340	99,434	23,605	89,109	-	-
D. Jeffcoat	32,013	120,850	30,303	114,394	-	-	-	-

*This is based on a mid-market price of 377.5 pence per share on 31 December 2001. During the year, the Group purchased 200,761 shares (nominal value of £10,038) for a net £802,000 relating to the 2000 awards (see note 12). This includes £676,000 worth of Ultra shares for the Directors (2000: £365,000).

The following LTIP awards and Save As You Earn ('SAYE') options were exercised during the year:

	2001		2000	
	Number of shares	Value £'000	Number of shares	Value £'000
J. Blogh	18,469	77	28,000	108
D. Caster	11,873	49	18,000	69
A. Hamment	10,734	41	-	-
F. Hope	11,394	44	13,200	51
R. Lane	-	-	18,000	69
I. Yeoman	-	-	18,000	69

Andrew Hamment and Frank Hope received shares in relation to LTIP awards prior to them becoming directors.

Directors' remuneration

Directors' emoluments are detailed below:

	Basic salary	Fees	Annual performance bonus	Benefits	2001 Total	2000 Total
	£'000	£'000	£'000	£'000	£'000	£'000
P. Macfarlane	-	59	-	-	59	55
J. Blogh	220	-	72	13	305	240
D. Caster	132	-	43	11	186	154
A. Hamment	104	-	34	9	147	46
F. Holroyd	-	23	-	-	23	21
F. Hope	126	-	41	9	176	145
D. Jeffcoat	135	-	44	11	190	79
A. Walker	-	23	-	-	23	21
R. Lane (retired 17 August 2000)	-	-	-	-	-	80
I. Yeoman (retired 24 July 2000)	-	-	-	-	-	78
Total	717	105	234	53	1,109	919

Pension contributions to Directors of £78,000 (2000: £69,000) were paid by the Company, including £22,000 (2000: £19,500) in respect of the highest paid Director.

Directors' remuneration (continued)

Aggregate Directors' remuneration and other benefits were as follows:

	2001	2000
	£'000	£'000
Emoluments	1,109	919
Amounts receivable under SAYE and long-term incentive schemes	211	366
	1,320	1,285

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

Service contracts

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

Share schemes

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

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

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 194,135 newly allotted Ultra Electronics Holdings plc shares (nominal value £9,707) for £770,000.

In 2001 the Group introduced an Inland Revenue approved All Employee Share Ownership Plan for UK based employees. This Plan offers employees 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.

Directors' pension entitlements

The Company operates a contributory pension scheme for 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 as one thirtieth of the retirement salary for each year of service.

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

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

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

Directors' pension entitlements (continued)

Details of Directors' pension rights are given below:

	Age at 31 December 2001	Years of service at 31 December 2001	Additional pension earned in excess of inflation during the year	Contributions by Directors for the year ended 31 December 2001	Accrued entitlement at 31 December 2001	Accrued entitlement at 30 December 2000
			£'000	£'000	£'000	£'000
J. Blogh	58	18	16	11	114	95
D. Caster	48	14	5	7	43	37
A. Hamment	47	14	5	5	32	26
F. Hope	47	7	3	5	20	17
D. Jeffcoat	51	1	3	5	5	1

Directors' interests

Details of Directors' shareholdings are given below:

	At start of year		At end of year		At 22 Feb 2002
	Direct ownership	Indirect beneficial ownership	Direct ownership	Indirect beneficial ownership	Direct ownership
P. Macfarlane	394,453	10,000	194,453	208,900	194,453
J. Blogh	143,958	884,921	162,427	884,921	162,427
D. Caster	785,579	486,783	785,818	486,783	785,880
A. Hamment	18,831	43,535	20,570	43,535	20,632
F. Holroyd	6,000	-	6,000	-	6,000
F. Hope	11,831	-	23,464	-	23,526
D. Jeffcoat	-	2,500	154	2,500	215
A. Walker	300	-	300	-	300

There have been no changes in Directors' indirect beneficial interests between 1 January 2002 and 22 February 2002.

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

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

Annual general meeting

Explanations of special business resolutions are given below:

Resolution 7

This resolution authorises the Directors to allot shares in the Company up to a maximum nominal amount of £1,096,059 (33% of the allotted and fully paid up share capital of the Company).

Resolution 8

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

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

Resolution 9

This resolution authorises the Directors to purchase up to a total of 3,288,178 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.

Resolution 10

The Ultra Electronics Long-Term Incentive Plan ('LTIP') has been successful in aligning Directors' interests with those of shareholders and the vesting of awards has always been subject to the satisfaction of stringent performance conditions. The initial termination date for the LTIP was 1 January 2002, five years after its approval by shareholders.

The Company, therefore, is seeking the approval of shareholders to extend the operation of this successful LTIP by adopting the Ultra Electronics Long-Term Incentive Plan 2002-2007.

The terms of the new LTIP are substantially the same as those already approved by shareholders when adopting the original LTIP, as amended in 2000. A summary of the main points of the new LTIP is included in Appendix 1.

The Directors believe that the adoption of the new LTIP is in the best interests of the shareholders as a whole and the Company and recommend a vote in favour of the resolution.

Auditors

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

By order of the Board,

D. Jeffcoat

Company Secretary

25 February 2002

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

Registered Number: 2830397

Corporate governance

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

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

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

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

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

Internal controls

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

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

Control environment

The Group's organisational structure has clearly defined lines of responsibility and delegation of authority. Ethical values and control consciousness are communicated to managers and staff via performance appraisal and development and training programmes.

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

Risk management

Management has a responsibility for identifying the risks facing 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 going forward.

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

Remedial actions must be indicated and such situations are then monitored until a satisfactory conclusion is reached.

All significant deviations are reported to the Board by the responsible Director twice annually.

Risk management (continued)

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

Financial information systems

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

Effectiveness of controls

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

Going concern

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

Statement of Directors' 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 and explained in the accounts.

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

Independent auditors' report

Independent Auditors' Report to the Shareholders of Ultra Electronics Holdings plc

We have audited the accounts of Ultra Electronics Holdings plc for the year ended 31 December 2001 which comprise the Consolidated Profit and Loss Account, the Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the related Notes numbered 1 to 25, and the Statement of Accounting Policies. These accounts have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the accounts in accordance with applicable law and United Kingdom accounting standards are set out in the Statement of Directors' Responsibilities. Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Companies Act 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 or the Listing Rules 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, 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 other information contained in the Annual Report, including the Corporate Governance Statement, and consider whether it is consistent with the audited accounts. This other information comprises only the Directors' Report, the Chairman's Statement, the Chief Executive's Operations Review, the Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies within the accounts. Our responsibilities do not extend to any other information.

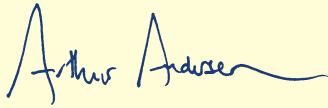
Basis of audit opinion

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. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the accounts and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group at 31 December 2001 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in blue ink that reads "Arthur Andersen".

Arthur Andersen

Chartered Accountants and Registered Auditors

Abbots House, Abbey Street, Reading RG1 3BD

25 February 2002

Consolidated profit and loss account

For the year ended 31 December 2001

	Note	2001 £'000	2000 £'000
Turnover			
– existing operations	1	239,540	226,932
Cost of sales			
– existing operations		(178,446)	(169,349)
Gross profit			
– existing operations		61,094	57,583
Other operating expenses (net)	2	(33,028)	(30,231)
Operating profit			
– existing operations		28,066	27,352
Finance charges (net)	3	(4,624)	(4,701)
Profit on ordinary activities before taxation	4	23,442	22,651
Tax on profit on ordinary activities	6	(7,338)	(6,650)
Profit on ordinary activities after taxation, being the profit for the financial year			
		16,104	16,001
Dividends paid and proposed on equity shares	7	(6,835)	(6,347)
Retained profit for the year		9,269	9,654
Earnings per ordinary share (pence):			
After goodwill amortisation			
	Basic	8	24.6
	Diluted	8	24.5
Before goodwill amortisation			
	Basic	8	30.1

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 2001

		Group	Group	Company	Company
	Note	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Fixed assets					
Tangible assets	9	15,426	16,145	52	73
Intangible assets – Patents and trademarks	10	650	507	-	-
Intangible assets – Goodwill	11	64,072	67,191	-	-
Investments	12	836	364	99,228	86,159
		80,984	84,207	99,280	86,232
Current assets					
Stocks	13	22,030	19,235	-	-
Debtors: Amounts falling due within one year	14	53,904	50,792	19,502	17,776
Debtors: Amounts falling due after more than one year	14	77	548	12,113	24,026
Cash at bank and in hand		15,992	12,823	2	2,279
		92,003	83,398	31,617	44,081
Creditors: Amounts falling due within one year	15	(94,834)	(90,168)	(45,386)	(39,896)
Net current (liabilities)/assets		(2,831)	(6,770)	(13,769)	4,185
Total assets less current liabilities		78,153	77,437	85,511	90,417
Creditors: Amounts falling due after more than one year	16	(32,907)	(41,804)	(48,611)	(54,385)
Provisions for liabilities and charges	18	(2,744)	(2,646)	-	-
Net assets		42,502	32,987	36,900	36,032
Capital and reserves					
Called-up share capital	19	3,288	3,274	3,288	3,274
Share premium account	20	25,788	24,727	25,788	24,727
Profit and loss account	20	13,426	4,986	7,824	8,031
Equity shareholders' funds	21	42,502	32,987	36,900	36,032

Signed on behalf of the Board

J. Blogh, *Chief Executive*

D. Jeffcoat, *Finance Director*

25 February 2002

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

Consolidated cash flow statement

For the year ended 31 December 2001

	Note	2001 £'000	2000 £'000
Net cash inflow from operating activities	22	39,328	19,790
Returns on investments and servicing of finance	22	(4,972)	(3,923)
Taxation – UK		(6,948)	(4,450)
– Overseas		(1,435)	(608)
Capital expenditure and financial investment	22	(4,172)	(3,312)
Acquisitions and disposals	22	(130)	(44,721)
Equity dividends paid		(6,485)	(6,011)
Cash inflow/(outflow) before financing		15,186	(43,235)
Financing	22	(11,963)	42,785
Increase/(decrease) in cash in the year		3,223	(450)

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 2001

	2001 £'000	2000 £'000
Group profit for the financial year	9,269	9,654
Loss on foreign currency translation	(480)	(680)
Total recognised gains and losses relating to the year	8,789	8,974

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

Notes to accounts

31 December 2001

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:

	2001 £'000	2000 £'000
United Kingdom	110,680	113,190
Continental Europe	32,014	23,486
North America	84,144	79,719
Rest of the World	12,702	10,537
	239,540	226,932

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

	United Kingdom		North America		Group	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Turnover	167,528	165,304	72,012	61,628	239,540	226,932
Trading profit	24,303	27,166	7,382	3,159	31,685	30,325
Goodwill amortisation					(3,619)	(2,973)
Operating profit					28,066	27,352
Interest (net)					(4,624)	(4,701)
Profit before tax					23,442	22,651
Net operating assets	16,283	12,042	12,925	10,009	29,208	22,051

Turnover and operating profit by division were as follows:

Division	Turnover		Profit	
	2001 £'000	2000 £'000	2001 £'000	2000 £'000
Air and Land Systems	165,121	158,315	24,050	22,104
Information and Sea Systems	74,419	68,617	7,635	8,221
	239,540	226,932	31,685	30,325
Goodwill amortisation			(3,619)	(2,973)
Operating profit			28,066	27,352

2 Other operating expenses (net) – existing operations

	2001 £'000	2000 £'000
Selling and distribution costs	10,833	9,920
Administrative expenses	22,962	20,877
Other operating income	(767)	(566)
	33,028	30,231

3 Finance charges (net)

	2001 £'000	2000 £'000
Interest receivable and similar income	300	269
Amortisation of finance costs of debt	(57)	(38)
Interest payable on bank loans, overdrafts and other loans		
– repayable within five years	(4,846)	(4,909)
Interest payable on finance leases	(21)	(23)
	(4,624)	(4,701)

4 Profit on ordinary activities before taxation

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

	2001 £'000	2000 £'000
Depreciation and amounts written off tangible fixed assets		
– owned	3,903	4,241
– held under finance leases and hire purchase contracts	121	88
Provision against investments	372	280
Amortisation of goodwill	3,619	2,973
Amortisation of patents and trademarks	37	23
Operating lease rentals		
– plant and machinery	1,293	1,407
– land and buildings	3,090	2,948
Research and development		
– current year expenditure (<i>see also Directors' report</i>)	10,022	9,555
Auditors' remuneration		
– audit fees	166	158
– other	-	66
Government grants received	(49)	(10)

In addition to the above, in 2001 Arthur Andersen received £10,000 (2000: £49,000) in connection with the Group's acquisition of DF Group Limited, which has been included within the cost of the investment.

5 Staff costs

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

Employee costs during the year amounted to:

	2001 £'000	2000 £'000
Wages and salaries	65,983	59,453
Social security costs	6,104	5,884
Other pension costs (<i>see also note 24</i>)	3,060	2,993
	75,147	68,330

5 Staff costs (continued)

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

	2001 Number	2000 Number
Production	1,089	1,068
Engineering	809	772
Selling	132	132
Support services	346	331
	2,376	2,303

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

6 Tax on profit on ordinary activities

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

	2001 £'000	2000 £'000
UK taxes		
Corporation tax at 30%	6,138	7,151
Adjustment in respect of prior years	8	(1,185)
	6,146	5,966
Overseas taxes		
Current taxation	1,343	499
Adjustment in respect of prior years	(151)	185
	1,192	684
	7,338	6,650

7 Dividends paid and proposed on equity shares

	2001 £'000	2000 £'000
Interim ordinary dividend paid of 3.4p per share (2000: 3.2p)	2,229	2,091
Final ordinary dividend proposed of 7.0p per share (2000: 6.5p)	4,606	4,256
	6,835	6,347

8 Earnings per share

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

	2001 No. of shares	2000 No. of shares
Number of shares used for basic earnings per share	65,543,566	65,406,291
Number of shares deemed to be issued at nil consideration following exercise of share options	168,697	221,037
Number of shares used for diluted earnings per share	65,712,263	65,627,328

Earnings attributable to ordinary shareholders:

	2001 £'000	2000 £'000
After goodwill amortisation	16,104	16,001
Before goodwill amortisation	19,723	18,974

9 Tangible fixed assets

The movement in the year was as follows:

GROUP

	Land and Buildings		Plant and machinery	Total
	Freehold £'000	Short leasehold £'000	£'000	£'000
Cost				
Beginning of year	5,105	3,658	29,587	38,350
Foreign exchange differences	(57)	10	192	145
Additions	103	151	3,179	3,433
Disposals	-	(40)	(1,385)	(1,425)
End of year	5,151	3,779	31,573	40,503
Depreciation				
Beginning of year	739	1,904	19,562	22,205
Foreign exchange differences	(15)	8	161	154
Charge	141	313	3,570	4,024
Disposals	-	(40)	(1,266)	(1,306)
End of year	865	2,185	22,027	25,077
Net book value				
Beginning of year	4,366	1,754	10,025	16,145
End of year	4,286	1,594	9,546	15,426

Freehold land amounting to £1,015,000 (2000: £1,021,000) has not been depreciated. Plant and machinery includes fixtures and fittings, tooling and test rigs, computers and motor vehicles. The net book value of assets held under finance leases was £131,000 (2000: £276,000).

9 Tangible fixed assets (continued)

COMPANY

	Plant and machinery £'000
Cost	
Beginning of year	218
Additions	10
End of year	228
Depreciation	
Beginning of year	145
Charge	31
End of year	176
Net book value	
Beginning of year	73
End of year	52

10 Intangible assets – Patents and trademarks

	Group £'000
Cost	
Beginning of year	537
Additions	180
End of year	717
Amortisation	
Beginning of year	30
Charge	37
End of year	67
Net book value	
Beginning of year	507
End of year	650

11 Intangible assets – Goodwill

	Group £'000
Cost	
Beginning of year	71,516
Additions (see below)	500
End of year	72,016
Amortisation	
Beginning of year	4,325
Charge	3,619
End of year	7,944
Net book value	
Beginning of year	67,191
End of year	64,072

a) Revisions to fair values – DF Group Limited

Fair values on acquisition have been adjusted for DF Group Limited, which was purchased in April 2000. The revisions in 2001 relate principally to the final assessment of long-term contract balances and tax adjustments.

	Book value	Adjustments as at 30 December 2000	Further adjustments	Fair value
	£'000	£'000	£'000	£'000
Tangible fixed assets	2,131	-	-	2,131
Current assets:				
Stocks	-	385	-	385
Debtors	5,698	(970)	(14)	4,714
Bank overdraft	(451)	-	-	(451)
Creditors falling due within one year	(3,484)	(1,607)	(486)	(5,577)
Net assets acquired	3,894	(2,192)	(500)	1,202
Goodwill capitalised				43,070
Purchase consideration, including certain costs				44,272

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

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

b) Current year movement on fixed asset investments

	Group			Company			
	Own shares £'000	Long-Term Incentive Plan shares £'000	Total £'000	Own shares £'000	Long-Term Incentive Plan shares £'000	Investment in subsidiary undertakings £'000	Total £'000
Cost							
Beginning of year	-	967	967	-	967	85,795	86,762
Additions	42	802	844	42	802	13,078	13,922
Redemption of long-term loans	-	-	-	-	-	(481)	(481)
Transfer to participants	-	(495)	(495)	-	(495)	-	(495)
End of year	42	1,274	1,316	42	1,274	98,392	99,708
Provision							
Beginning of year	-	603	603	-	603	-	603
Charge	-	372	372	-	372	-	372
Transfer to participants	-	(495)	(495)	-	(495)	-	(495)
End of year	-	480	480	-	480	-	480
Net book value							
Beginning of year	-	364	364	-	364	85,795	86,159
End of year	42	794	836	42	794	98,392	99,228

Movements during the year of investments in subsidiary undertakings represent transfers to and from inter-company accounts.

13 Stocks

	Group	Group
	2001	2000
	£'000	£'000
Raw materials and consumables	15,457	13,889
Work-in-progress	20,315	16,976
Finished goods and goods for resale	1,235	1,264
Payments on account	(15,064)	(12,985)
	21,943	19,144
Long-term contract balances		
– costs less foreseeable losses	522	207
– less payments on account	(435)	(116)
	87	91
	22,030	19,235

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

14 Debtors

	Group	Group	Company	Company
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Trade debtors	35,933	33,578	-	-
Amounts recoverable on contracts	14,233	14,195	-	-
Amounts owed by subsidiary undertakings	-	-	19,357	17,636
Other debtors	1,867	1,152	50	91
Prepayments and accrued income	1,871	1,867	95	49
	53,904	50,792	19,502	17,776
Amounts falling due after more than one year:				
Amounts recoverable on contracts	77	548	-	-
Amounts owed by subsidiary undertakings	-	-	12,113	24,026
	77	548	12,113	24,026

15 Creditors: Amounts falling due within one year

	Group	Group	Company	Company
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Obligations under finance leases	111	122	-	-
Bank loans and overdrafts	23,536	27,127	34,954	27,127
Payments received on account	23,131	17,264	-	-
Trade creditors	19,811	15,852	-	-
Amounts owed to subsidiary undertakings	-	-	3,653	6,599
Other creditors:				
– Corporation tax payable	5,650	6,508	822	573
– VAT	1,168	2,013	21	15
– social security and PAYE	1,818	1,628	121	103
– other creditors	4,732	3,814	667	913
Pension related liabilities	331	316	34	29
Accruals and deferred income	9,940	11,268	508	281
Proposed dividends	4,606	4,256	4,606	4,256
	94,834	90,168	45,386	39,896

Bank loans totalling £23,594,000 were unsecured and matured between 7 and 17 January 2002. The interest rate charged was related to LIBOR.

16 Creditors: Amounts falling due after more than one year

	Group	Group	Company	Company
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Obligations under finance leases	39	148	-	-
Bank loan	32,868	41,322	32,868	41,322
Payments received on account	-	334	-	-
Amounts owed to subsidiary undertakings	-	-	15,743	13,063
	32,907	41,804	48,611	54,385

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

Borrowings fall due as analysed below:

	Group	Group	Company	Company
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Bank loans and overdrafts				
In one year or less or on demand	23,594	27,181	35,012	27,181
In more than one year but not more than two years	6,000	6,000	6,000	6,000
In more than two years but not more than five years	27,000	35,500	27,000	35,500
	56,594	68,681	68,012	68,681
Less: unamortised finance costs of debt	(190)	(232)	(190)	(232)
	56,404	68,449	67,822	68,449
Less: included in Creditors: Amounts falling due within one year	(23,536)	(27,127)	(34,954)	(27,127)
	32,868	41,322	32,868	41,322

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

	Group	Group	Company	Company
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Finance leases				
In one year or less or on demand	111	122	-	-
In more than one year but not more than two years	39	110	-	-
In more than two years but not more than five years	-	38	-	-
	150	270	-	-
Less: included in Creditors: Amounts falling due within one year	(111)	(122)	-	-
	39	148	-	-

17 Financial risk management

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

a) Interest rate profile

	At floating interest rates 2001 £'000	Interest free 2001 £'000	Total 2001 £'000	At floating interest rates 2000 £'000	Interest free 2000 £'000	Total 2000 £'000
Financial assets						
Sterling	7,018	77	7,095	4,340	548	4,888
US dollar	6,631	-	6,631	6,206	-	6,206
Canadian dollar	1,970	-	1,970	1,928	-	1,928
Korean won	181	-	181	-	-	-
Euro	141	-	141	284	-	284
Other	51	-	51	65	-	65
	15,992	77	16,069	12,823	548	13,371

The financial assets of the Group comprised:

	2001 £'000	2000 £'000
Cash	15,992	12,823
Debtors: Amounts falling due after more than one year	77	548
	16,069	13,371

	At fixed interest rates 2001 £'000	At floating interest rates 2001 £'000	Total 2001 £'000
Financial liabilities			
Sterling	33,138	6,200	39,338
US dollar	12,250	5,156	17,406
	45,388	11,356	56,744

17 Financial risk management (continued)

a) Interest rate profile (continued)

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

The financial liabilities of the Group comprised:

	2001 £'000	2000 £'000
Total borrowings and finance leases	56,744	68,951
Creditors: Payments on account falling due after more than one year	-	334
	56,744	69,285

The Group has a loan of \$25.3 million to hedge overseas net investments. To hedge the inherent interest rate risk, the Group has taken out an interest rate collar with a notional amount at 31 December 2001 of \$17.8 million, with a cap set at 6.5% and a floor of 4.67%. The interest rate floor was triggered at the year-end and hence part of the US \$ borrowings have been classified as fixed. An interest rate swap has been taken out to fix the interest rate on the £33.0 million loan at 7.8%. A £6.2 million bank loan is at floating interest rates, set with reference to the prevailing LIBOR rate. The weighted average profile is as follows:

2001	Fixed rate financial liabilities		Financial liabilities on which no interest is paid
	Weighted average interest rate %	Weighted average period for which rate is fixed Years	Weighted average period until maturity Years
Currency			
Sterling	7.8	2.6	-
US dollar	9.8	1.3	-
	7.8	2.6	-

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

17 Financial risk management (continued)**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 \$ 2001 £'000	C \$ 2001 £'000	Euro 2001 £'000	Other 2001 £'000	Total 2001 £'000	US \$ 2000 £'000	Other 2000 £'000	Total 2000 £'000
Functional currency								
of Group operations								
Sterling £	259	816	404	13	1,492	1,540	(58)	1,482
US \$	-	-	-	-	-	-	-	-
Canadian \$	(29)	-	-	-	(29)	(398)	-	(398)
	230	816	404	13	1,463	1,142	(58)	1,084

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

c) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities, other than short-term creditors such as trade creditors and accruals, at 31 December 2001 was as follows:

	2001 £'000	2000 £'000
In one year or less, or on demand	23,705	27,303
In more than one year but not more than two years	6,039	6,444
In more than two years but not more than five years	27,000	35,538
	56,744	69,285

d) Undrawn committed borrowing facilities

The Group's undrawn committed borrowing facilities available at 31 December 2001, in respect of which all conditions precedent have been met, were as follows:

	2001 £'000	2000 £'000
Expiring in one year or less	13,800	3,173
Expiring in more than two years	16,717	13,101
	30,517	16,274

17 Financial risk management (continued)**e) Fair value of financial instruments**

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

	2001 Book value £'000	2001 Fair value £'000	2000 Book value £'000	2000 Fair value £'000
Derivative financial instruments held to hedge the interest rate profile and currency profile				
– Interest rate collar	-	(212)	-	11
– Interest rate swap	-	(1,441)	-	(1,182)
Derivative financial instruments held to hedge the currency exposure on expected future sales				
– Forward foreign exchange contracts	-	(1,045)	-	(537)
	-	(2,698)	-	(1,708)

The fair values of the interest rate collar and interest rate swap have been calculated using option pricing models.

The fair value of forward exchange contracts represents the unrealised gain or loss on revaluation of the contracts to year-end exchange rates.

f) Gains and losses on hedges

Forward exchange contracts are used to hedge exchange exposures arising on forecast receipts and payments in foreign currencies. Gains and losses are taken to the profit and loss account on maturity of the hedge. The interest rate collar and interest swap are used to manage the interest rate profile. Gains and losses disclosed below are based on market values at 31 December 2001.

	Gains £'000	Losses £'000	Total net gains/(losses) £'000
Unrecognised gains and (losses) on hedges at 30 December 2000	397	(2,105)	(1,708)
(Gains) and losses arising before 30 December 2000, recognised 2001	(144)	760	616
Gains and (losses) arising before 30 December 2000, not recognised in 2001	253	(1,345)	(1,092)
Losses arising in 2001, not recognised in 2001	(141)	(1,465)	(1,606)
Unrecognised gains and (losses) on hedges at 31 December 2001	112	(2,810)	(2,698)
Of which:			
Gains and (losses) expected to be recognised in 2002	87	(1,287)	(1,200)
Gains and (losses) expected to be recognised in 2003 and beyond	25	(1,523)	(1,498)

18 Provisions for liabilities and charges**Warranties**

	Group £'000
Beginning of year	2,646
Exchange difference	2
Utilised during the year	(748)
Charge to the profit and loss account	844
End of year	2,744

The Company had no warranty provisions at either year-end.

18 Provisions for liabilities and charges (continued)**Deferred taxation**

	Group	Group	Company	Company
	2001	2000	2001	2000
	£'000	£'000	£'000	£'000
Provided:				
Excess of tax allowances over book depreciation of fixed assets	620	437	-	-
Other timing differences relating to current assets and liabilities (restricted, see below)	(620)	(437)	-	-
	-	-	-	-
Unprovided deferred tax assets:				
Excess of tax allowances over book depreciation of fixed assets	620	437	(6)	(4)
Other timing differences relating to current assets and liabilities	(2,041)	(955)	(558)	(380)
	(1,421)	(518)	(564)	(384)

19 Called-up share capital

	2001		2000	
	No.	£000	No.	£000
Authorised:				
5p ordinary shares	90,000,000	4,500	90,000,000	4,500
Allotted, called-up and fully paid:				
5p ordinary shares	65,763,560	3,288	65,474,567	3,274

288,993 ordinary shares having a nominal value of £14,450 were allotted during the year under the terms of the Group's various Savings Related Share Option Schemes. The aggregate consideration received by the Company was £1,075,403. In 1999, the Company set up an Employee Share Ownership Trust to satisfy options granted under the Group's SAYE scheme and, during the year, employing UK Companies within the Group gifted £349,000 (2000: £27,000) to the Trust.

Share options

At 31 December 2001 the following options granted to staff remained outstanding:

	Options granted	Number of shares		Option price (£)	Exercise dates
		2001	2000		
Savings Related Share Option Scheme	1996	25,050	219,060	2.30	December 2001 - May 2002
	1999	353,473	420,164	3.79	December 2002 - May 2005
	2000	45,225	61,896	3.87	August 2002 - February 2004
	2001	34,722	-	3.88	September 2003 - December 2003
		458,470	701,120		
Company Share Option Plan	1996	69,164	97,068	2.87	March 2000 - November 2006
	1997	10,715	10,715	2.80	March 2000 - March 2007
	1998	59,646	72,563	4.05	March 2001 - March 2008
	1999	102,450	105,340	4.15 to 4.265	March 2002 - September 2009
	2000	122,168	126,879	3.855	May 2003 - May 2010
	2001	105,081	-	4.385	March 2004 - March 2011
		469,224	412,565		

19 Called-up share capital (continued)

	Options granted	Number of shares		Option price (£)	Exercise dates
		2001	2000		
Executive Share Option Scheme	1996	51,550	64,545	2.87	March 2000 - November 2003
	1997	14,546	28,831	2.80	March 2000 - March 2004
	1998	25,114	27,437	4.05	March 2001 - March 2005
	1999	156,961	161,780	4.15 to 4.265	March 2002 - September 2006
	2000	213,389	226,953	3.855	May 2003 - May 2007
	2001	249,907	-	4.385	March 2004 - March 2008
		711,467	509,546		

20 Reserves

	Group		Company	
	Share premium £'000	Profit and loss account £'000	Share premium £'000	Profit and loss account £'000
Beginning of year	24,727	4,986	24,727	8,031
Retained profit/(loss) for the year	-	9,269	-	(207)
Amounts gifted to the Employee Share Ownership Trust (see note 19)	-	(349)	-	-
Issue of new shares	1,061	-	1,061	-
Foreign exchange differences	-	(480)	-	-
End of year	25,788	13,426	25,788	7,824

Cumulative goodwill written off directly to reserves is £33,294,000 (2000: £33,294,000).

21 Reconciliation of movements in Group equity shareholders' funds

	£'000
Retained profit for the financial year	9,269
Foreign exchange differences	(480)
Amounts gifted to the Employee Share Ownership Trust (see note 19)	(349)
Issue of new shares	1,075
Net increase to equity shareholders' funds	9,515
Opening equity shareholders' funds	32,987
Closing equity shareholders' funds	42,502

22 Cash flow information

Reconciliation of operating profit to operating cash flow

	2001 £'000	2000 £'000
Operating profit	28,066	27,352
Depreciation and amounts written off tangible fixed assets	4,024	4,329
Amortisation of goodwill	3,619	2,973
Amortisation of patents and trademarks	37	23
Provision against investments	372	280
Loss on disposal of tangible fixed assets	56	10
(Increase)/decrease in stocks	(2,649)	2,192
Increase in debtors	(2,520)	(7,822)
Increase/(decrease) in creditors	8,366	(7,758)
Increase/(decrease) in provisions	95	(1,982)
Other	(138)	193
Net cash inflow from operating activities	39,328	19,790

22 Cash flow information (continued)

Analysis of cash flows

	2001 £'000	2000 £'000
Returns on investments and servicing of finance		
Interest received	300	269
Interest paid	(5,251)	(4,169)
Interest element of finance lease rentals	(21)	(23)
Net cash outflow from returns on investments and servicing of finance	(4,972)	(3,923)
Capital expenditure and financial investment		
Capital expenditure	(3,370)	(2,947)
Purchase of Long-Term Incentive Plan shares	(802)	(365)
Net cash outflow from capital expenditure and financial investment	(4,172)	(3,312)
Acquisitions and disposals		
Purchase of business undertakings	-	(44,272)
Net overdraft acquired with business undertakings	-	(451)
Disposal of subsidiary undertaking	-	241
Purchase of patents and trademarks	(130)	(239)
Net cash outflow from acquisitions and disposals	(130)	(44,721)
Financing		
Issue of ordinary share capital (net of expenses)	726	417
Capital element of finance lease rental payments	(120)	(128)
Debt due within one year	(4,069)	1,174
Debt due after one year	(8,500)	41,322
Net cash (outflow)/inflow from financing	(11,963)	42,785

Analysis of changes in net funds

	At start of year £'000	Cash flow £'000	Acquisitions (excl. cash and overdrafts) £'000	Other non cash £'000	Foreign exchange £'000	At end of year £'000
2000						
Cash at bank and in hand	12,976	(450)	-	-	297	12,823
Debt due within one year	(24,502)	(1,174)	-	(38)	(1,413)	(27,127)
Debt due after one year	-	(41,322)	-	-	-	(41,322)
Finance leases	(180)	128	(41)	(177)	-	(270)
	(11,706)	(42,818)	(41)	(215)	(1,116)	(55,896)
2001						
Cash at bank and in hand	12,823	3,223	-	-	(54)	15,992
Debt due within one year	(27,127)	4,069	-	(11)	(467)	(23,536)
Debt due after one year	(41,322)	8,500	-	(46)	-	(32,868)
Finance leases	(270)	120	-	-	-	(150)
	(55,896)	15,912	-	(57)	(521)	(40,562)

22 Cash flow information (continued)

Reconciliation of net cash flow to movement in net debt

	2001 £'000	2000 £'000
Increase/(decrease) in cash in the year	3,223	(450)
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	12,689	(42,368)
Change in net debt resulting from cash flows	15,912	(42,818)
Amortisation of finance costs of debt	(57)	(38)
Debt and finance leases acquired with subsidiary undertakings	-	(41)
New finance leases	-	(177)
Translation difference	(521)	(1,116)
Movement in net debt in the year	15,334	(44,190)
Net debt at start of year	(55,896)	(11,706)
Net debt at end of year	(40,562)	(55,896)

There have been no major non-cash transactions in the year (2000: £177,000 finance leases obtained through acquisition).

23 Guarantees and other financial commitments

a) Capital commitments

At the end of the year capital commitments were:

	Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Contracted but not provided	258	297	-	-

b) Lease commitments

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

	Group Land and buildings £'000	Group Plant and machinery £'000	Company Land and buildings £'000	Company Plant and machinery £'000
2001				
Operating leases which expire				
– within one year	193	315	-	6
– within two to five years	433	735	-	27
– after five years	2,373	-	-	-
	2,999	1,050	-	33
2000	2,917	1,235	-	24

24 Pension arrangements

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

The pension cost for the year was £3,060,000 (2000: £2,993,000) of which £2,446,000 (2000: £2,418,000) related to the regular cost of the defined benefit scheme. Contribution balances prepaid or payable at the year-end are shown in the balance sheet under prepayments or accruals as appropriate. Pension contributions have been made in accordance with actuarial advice. The cost of overseas pension schemes was £324,000 (2000: £393,000).

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

The market value of the scheme at 6 April 2001 was £64.3 million. The solvency of the scheme was established at 105% using the scheme's normal funding assumptions.

FRS 17 retirement benefits

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

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

Valuation method	Projected unit	
Discount rate	5.8% pa	
Inflation rate	2.5% pa	
Increases to pensions in payment	2.25% pa	
Salary increases – Directors	4.25% pa	
– Staff	3.75% pa	
	Long term rate of return expected at 31 December 2001 per annum	Value at 31 December 2001 £m
Equities	7.25%	54.4
Bonds	5.8%	7.0
Other	5.8%	1.3
Total market value of assets		62.7
Present value of scheme liabilities		(72.9)
Deficit in the scheme		(10.2)
Related deferred tax asset		3.1
Net pension liability		(7.1)

25 Related party transactions

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

Statement of accounting policies

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

a) Basis of accounting

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

b) Basis of consolidation

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

No profit and loss account is presented for Ultra Electronics Holdings plc, as permitted by section 230 of the Companies Act 1985. The Company's retained loss for the year is disclosed in note 20.

c) Goodwill

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

For acquisitions made prior to 30 December 1997 goodwill was considered separately for each acquisition and was written off immediately to the goodwill reserve, depending on the Directors' assessment of its likely future value to the Group. That reserve has since been offset against the profit and loss account balance. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

d) Research and development

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

e) Patents and trademarks

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

f) Tangible fixed assets

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

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

Freehold buildings	50 years
Short leasehold improvements	over remaining period of lease
Plant and machinery	3 to 20 years
Freehold land is not depreciated.	

g) Investments

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

h) Stocks

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

i) Taxation

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

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

j) Pension costs

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

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

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

k) Warranty

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

l) Foreign currency

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

l) Foreign currency (continued)

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.

m) Turnover

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

n) Government grants

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

o) Leases

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

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

p) Derivative financial instruments and financing costs

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

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

Shareholder Analysis

31 December 2001

By category of shareholder

	Shares held	
	Number '000	% share capital
Pension funds	11,719	18
Unit trusts	25,575	39
Insurance companies	11,798	18
Private investors	2,703	4
Investment trusts and other funds	6,622	10
Other	7,347	11
	65,764	100

By size of holding

	Holders		Shares held	
	Number	% of holders	Number '000	% share capital
1-100	52	4	3	-
101-500	481	40	117	-
501-1,000	174	14	136	-
1,001-5,000	298	25	496	1
5,001-10,000	31	3	228	-
10,001-50,000	61	5	1,626	3
50,001-100,000	22	2	1,619	2
100,000 and over	90	7	61,539	94
	1,209	100	65,764	100

Financial calendar

2 April 2002	Record date for 2001 final dividend
26 April 2002	Annual General Meeting
7 May 2002	2001 final dividend paid
5 August 2002	Interim results announced
September 2002	Interim dividend paid

Notice of Meeting

Notice is hereby given that the annual general meeting of Ultra Electronics Holdings plc will be held at 417 Bridport Road, Greenford, Middlesex UB6 8UA on Friday 26 April 2002 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 2001 together with the Directors' report and auditors' report on those accounts.

Resolution 2: To declare a final dividend for the year ended 31 December 2001 of 7.0p per ordinary share, payable to shareholders on the register at the close of business on 2 April 2002.

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

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

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

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

Special business

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

Resolution 7:

That in substitution for all existing authorities the Directors be generally and unconditionally authorised in accordance with section 80 of the Companies Act 1985 to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £1,096,059 (approximately one third of the allotted and fully paid share capital of the Company) for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) 15 months after the passing of this resolution or at the conclusion of the next annual general meeting of the Company, whichever first occurs, but the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after expiry of this authority and the Directors may allot relevant securities in pursuance of that offer or agreement as if the authority conferred by this resolution had not expired.

Resolution 8:

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

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

Resolution 8 (continued)

(B) is limited to:

- (i) allotments of equity securities in connection with a rights issue in favour of holders of ordinary shares made in proportion (as nearly as may be) to their respective existing holdings of ordinary shares but subject to the Directors having a right to make such exclusions or other arrangements in connection with the offer as they deem necessary or expedient:
 - (a) to deal with equity securities representing fractional entitlements; and
 - (b) to deal with legal or practical problems arising in any overseas territory or by virtue of shares being represented by depository receipts, the requirements of any regulatory body or stock exchange; or any other matter whatsoever; and
- (ii) allotments of equity securities for cash otherwise than pursuant to paragraph (i) up to an aggregate nominal amount of £164,409.

Resolution 9:

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

- (i) the maximum aggregate number of ordinary shares authorised to be purchased is 3,288,178 (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.

Resolution 10:

That the Ultra Electronics Long-Term Incentive Plan 2002-2007 be adopted in the form that is described in the shareholders' circular in Appendix 1 and as more fully set out in the Rules.

By order of the Board

D. Jeffcoat

Company Secretary

15 March 2002

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

Notes

1. Only those members entered in the register of members of the Company as at 6.00pm on Wednesday 24th April 2002 shall be entitled to attend and vote at the above meeting. Changes to entries in the register of members after 6.00pm on Wednesday 24th April 2002 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 6DA** not less than 48 hours before the time fixed for the meeting. Completion of the enclosed proxy form will not preclude shareholders from attending and voting at the meeting in person.
4. Copies of the Register of Interests of Directors (and their families) in the share capital of the Company and the Directors' service contracts will be available for inspection for at least 15 minutes prior to and during the meeting. The proposed new rules of the Ultra Electronics Long-Term Incentive Plan will be available for inspection as advised in Appendix 1.

Appendix 1

Summary of the Ultra Electronics Long-Term Incentive Plan (the 'LTIP') 2002-2007

Operation

The LTIP is operated by the Directors of the Company who make recommendations to the Trustees of Ultra Electronics Employee Trust. The Remuneration Committee, the members of which are Non-Executive Directors, supervise the operation of the LTIP in respect of the Executive Directors of the Company.

Eligible Employees

Any employee of the Company and the Subsidiaries that the Directors have determined shall be Participating Companies.

Type of Award

Awards will be made as deferred and conditional grants of Shares by the Trustees on recommendation by the Directors. The Directors shall determine the performance conditions that must be satisfied for the vesting of Awards.

Calculation of Awards

The Remuneration Committee shall determine the recommended Awards for Executive Directors of the Company. The Directors shall determine the recommended Awards for all other Eligible Employees.

Timing of Awards

Awards will normally be made in March of each year provided that no Award may be made during a close period.

Conditions Attaching to Awards

Awards are normally subject to a Performance Period of three Financial Years. The vesting of Awards will be subject to the satisfaction of the performance conditions imposed and the Participant's continued employment.

For Awards granted in respect of FY 2002, the Performance Period has been set at three Financial Years and the performance condition will be comparative EPS performance against a bespoke comparator group. No Awards shall vest for below median performance.

Limits

The maximum market value of Shares comprised in any Award made to an Eligible Employee shall not exceed 100% of the gross basic salary for any Financial Year.

The Company may issue 10% of its Shares within a ten year period to satisfy Awards to Eligible Employees under the LTIP and any other share scheme operated by the Company under which Shares are issued. Where Awards are granted to executives which will be satisfied by the issue of Shares, no more than 5% of the Company's Shares will be issued under the LTIP or any other share scheme operated by the Company where Shares are issued, provided that this limit may be exceeded if the executives are required to satisfy more stretching performance conditions. The Remuneration Committee will monitor the issue of Shares during the ten year period.

Rights of Participants During the Performance Period

Participants shall have no rights to vote or receive dividends in respect of the Shares subject to the Award during the Performance Period.

Vesting of Awards

Awards will normally vest at the end of the applicable Performance Period subject to the satisfaction of any performance conditions determined at the date of grant of the relevant Award. The vesting of Awards is conditional upon the Participant paying any taxes due as a result of vesting.

Voiding of Awards

If a Participant ceases employment during the Performance Period the Award will normally be voided. Awards are not transferable and will be voided if the Participant attempts to do so.

Allotment of Shares

Shares subscribed will not rank for dividends payable by reference to a record date falling before the date on which the Shares are acquired but will otherwise rank pari passu with existing Shares.

Application will be made to the relevant exchange on which the Shares are listed for admission to trading on the relevant exchange for new Shares that are to be issued following the vesting of an Award.

Release in Exceptional Circumstances

If a Participant ceases employment during the Performance Period, the Trustees have a discretion to vest some or all of the subsisting Awards.

In the event of a takeover, reconstruction or amalgamation of the Company, the Trustees have a discretion to determine to vest some or all of the subsisting Awards depending upon performance unless in certain circumstances they are exchanged for Awards over shares in the acquiring company.

Adjustment of Awards

On a variation of the capital of the Company, the number of Shares subject to an Award may be adjusted in such manner as the Trustees determine and the Auditors of the Company confirm to be fair and reasonable.

Duration

The Trustees may not grant Awards under the LTIP more than five years after its adoption.

Amendments

Amendments to the Rules may be made at the discretion of the Directors (subject to the consent of the Trustees). However, the provisions governing eligibility requirements, equity dilution, share utilisation and individual participation limits and the adjustments that may be made following a rights issue or any other variation of capital cannot be altered to the advantage of Participants without prior shareholder approval, except for minor amendments to benefit the administration of the LTIP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for Participants or for the Company.

General

Shares acquired, Awards and any other rights granted pursuant to the LTIP are non-pensionable.

Note

This Appendix summarises the main features of the LTIP but does not form part of it and should not be taken as affecting the interpretation of the detailed terms and conditions constituting the Rules. Copies of the Rules (which are subject to any amendments to take account of any regulatory requirements) will be available for inspection at the registered office of the Company during usual office hours (Saturdays, Sundays and bank holidays excepted) from the date of despatch of the Chairman's letter up to and including the date of the AGM and at the meeting itself. The Directors reserve the right up to the time of the meeting to make such amendments and additions as they consider necessary or desirable, provided that such amendments and additions do not conflict in any material respect with the summary set out in this Appendix.

Five year review

	1997 £m	1998 £m	1999 £m	2000 £m	2001 £m
Turnover					
Air and Land Systems	94.6	110.2	129.4	158.3	165.1
Information and Sea Systems	48.7	48.5	63.6	68.6	74.4
Total turnover	143.3	158.7	193.0	226.9	239.5
Operating profit (before goodwill amortisation)					
Air and Land Systems	12.0	14.5	18.0	22.1	24.1
Information and Sea Systems	6.0	6.4	6.5	8.2	7.6
Total	18.0	20.9	24.5	30.3	31.7
Operating profit margin % (before goodwill amortisation)	12.6%	13.2%	12.7%	13.4%	13.2%
Profit before goodwill amortisation and tax	18.1	21.1	23.2	25.6	27.1
Profit after taxation	13.2	14.6	15.6	16.0	16.1
Cash inflow from operating activities (see note 1)	17.0	21.8	8.2	16.5	35.2
Free cash flow before dividends and acquisitions	13.7	15.5	(0.8)	7.5	21.8
Net funds/(debt) at year-end	9.0	(0.1)	(11.7)	(55.9)	(40.6)
Headline earnings per share (p) (see note 2)	20.3	22.6	25.9	29.0	30.1
Dividends per share (p)	7.2	8.1	9.0	9.7	10.4
Average employee numbers	1,640	1,707	2,079	2,303	2,376

Notes

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