



Power Magnetics and Electronic Systems Limited

Financial statements for the year ended 31 December 2001
together with directors' and auditors' reports

Registered number: 2984371



Directors' report

For the year ended 31 December 2001

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report for the year ended 31 December 2001.

Principal activities and business review

The principal activities of the company are the manufacture and provision of high-performance electronic products and systems to defence and industrial markets worldwide. Particular competencies are in power electronics and real-time data processing.

The results of the company for the year are set out in the profit and loss account and accompanying notes.

Directors and their interests

The directors who served during the year are shown below:

J Blogh
D L Sammons
R Sharma
D J Jeffcoat

The directors who held office at the end of the financial year had no disclosable interests in the shares of the company requiring disclosure under Schedule 7 of the Companies Act 1985.

The interests of J Blogh and D Jeffcoat in the shares of the company's ultimate parent company, Ultra Electronics Holdings plc, are disclosed in the financial statements of that company.

Health, safety and the environment

The Company'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 Company's Board has reviewed the results of this study, which has been beneficial in highlighting areas of best practice and priorities for improvement.

In particular Ultra recognises the responsibility it has towards the environment. During the year the Ultra Electronics 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.

Directors' report (continued)

Business ethics and employment practices

The Company'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 Company 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 Company's 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 Company's 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 Ultra Electronics Group, through formal and informal meetings and an Ultra Electronics Group magazine. An employee survey, 'YOURviews', provides management teams with feedback and an opportunity to benchmark across the Ultra Electronics Group.

Political and charitable contributions

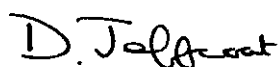
The company made charitable contributions of £852 (2000: £437) during the year.

Auditors

The directors will place a resolution before the Annual General Meeting to reappoint Arthur Andersen as auditors for the ensuing year.

Armitage Road
Rugeley
Staffordshire
WS15 1DR

By order of the Board,



D Jeffcoat
Director

25 February 2002

Statement of directors' responsibilities

31 December 2001

Financial statements, including adoption of going concern basis

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

After making enquiries, the directors have a reasonable expectation that the company has 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 financial statements.

In preparing the financial statements, the directors are required to: select suitable accounting policies and then 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 financial statements.

Other matters

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

Independent Auditors' Report to the Shareholders of Power Magnetics and Electronic Systems Limited:

We have audited the financial statements of Power Magnetics and Electronic Systems Limited for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheet and the related notes numbered 1 to 19. These financial statements 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 financial statements 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 financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements 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 financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

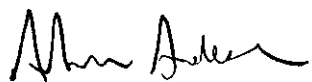
Basis of opinion

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 financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements and of whether the accounting policies are appropriate to the circumstances of the company, 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 financial statements 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 financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen
Chartered Accountants and Registered Auditors

Abbots House
Abbey Street
Reading
Berkshire
RG1 3BD

25 February 2002

Profit and loss account

For the year ended 31 December 2001

	Note	2001 £'000	2000 £'000
Turnover	1	16,522	16,681
Cost of sales		(12,915)	(12,752)
Gross profit		3,607	3,929
Administrative expenses		(1,646)	(1,985)
Operating profit		1,961	1,944
Interest payable and similar charges	5	(7)	(11)
Interest receivable		3	6
Profit on ordinary activities before taxation	2	1,957	1,939
Tax on profit on ordinary activities	6	(340)	811
Profit for the financial year		1,617	2,750

A statement of movements on reserves is given in note 14.

There were no recognised gains and losses other than the profit for each year as shown above.

All results derive from continuing operations.

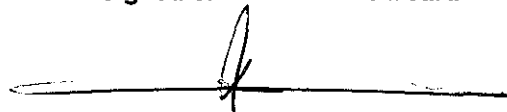
The accompanying notes are an integral part of this profit and loss account.

Balance sheet

31 December 2001

	Note	2001 £'000	2000 £'000
Fixed assets			
Tangible assets	7	1,623	1,610
Current assets			
Stocks	8	519	490
Debtors	9	9,052	9,930
Cash at bank and in hand		3,957	3,259
		13,528	13,679
Creditors: amounts falling due within one year	10	(8,549)	(10,396)
Net current assets		4,979	3,283
Total assets less current liabilities		6,602	4,893
Creditors: amounts falling due after more than one year	11	(23)	(68)
Provisions for liabilities and charges	12	(943)	(806)
Net assets		5,636	4,019
Capital and reserves			
Called-up share capital	13	1,835	1,835
Share premium account	14	5,979	5,979
Dividend accumulation reserve	14	1,096	1,096
Profit and loss account	14	(3,274)	(4,891)
Equity shareholders' funds		5,636	4,019

Signed on behalf of the Board



D L Sammons
Director

25 February 2002

The accompanying notes are an integral part of this balance sheet.

Reconciliation of movements in shareholders' funds

For the year ended 31 December 2001

	2001 £'000	2000 £'000
Profit for the financial year, being net addition to shareholders' funds	1,617	2,750
Opening shareholders' funds	4,019	1,269
Closing shareholders' funds	<u>5,636</u>	<u>4,019</u>

Statement of accounting policies

For the year ended 31 December 2001

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

Basis of accounting

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

Cash flow statement

The company has taken advantage of the exemptions available in Financial Reporting Standard No 1 (Revised) – Cash Flow Statements – and has not presented a cash flow statement as the consolidated financial statements of the ultimate parent company in which the results of the company are included, are available to the public.

Fixed assets and depreciation

Depreciation is provided by the company to write-off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold buildings	40 years
Plant, machinery, equipment and vehicles	3 – 10 years

No depreciation is provided on freehold land.

Goodwill

Goodwill arising on acquisitions in the year ended 31 December 1997 and earlier periods amounted to £600,000 and was written off to reserves in accordance with the accounting standard then in force. As permitted by Financial Reporting Standard 10 ("FRS 10"), the goodwill previously written off to reserves has not been reinstated in the balance sheet. 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. Goodwill arising on future acquisitions will be accounted for in line with FRS 10.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. 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 the exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Statement of accounting policies (continued)

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as operating leases and the rental charges are charged to the profit and loss account on a straight-line basis over the life of the lease.

Pension and other post-retirement benefits

The company provides pensions to its employees and directors through a defined benefit scheme. The scheme is funded and its assets are held independently of the company by trustees.

The amount charged to the profit and loss account is the estimated regular cost of providing 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 remaining working life of scheme members.

Research and development expenditure

Expenditure on research and development is written off in the period in which it is incurred.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. For work in progress and finished goods manufactured by the company, cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

Long-term contracts

The amount of profit attributable to the stage of completion of a long-term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses which are foreseen.

Contract work-in-progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not included within turnover.

Amounts recoverable on contracts are included in debtors and represent turnover recognised in excess of payments on account.

Statement of accounting policies (continued)

Taxation

UK corporation 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 only to the extent that timing differences are expected to reverse in the future without being replaced, except that the deferred tax effects of timing differences arising from pensions are always provided in full, if material.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the period.

Notes to the financial statements

For the year ended 31 December 2001

1 Analysis of turnover by geographical market

	2001 £'000	2000 £'000
United Kingdom	14,193	12,031
Europe	1,102	2,582
North America	543	3
Asia	680	2,062
Rest of World	4	3
	<u>16,522</u>	<u>16,681</u>

In accordance with Schedule 4, paragraph 55(5) of the Companies Act 1985 the directors have chosen not to disclose an analysis of turnover and profit on ordinary activities before taxation by activity since they believe that the disclosure of such information would not be in the interests of the company.

2 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging

	2001 £'000	2000 £'000
Depreciation and other amounts written off tangible fixed assets – owned	185	208
Research and development expenditure	305	346
Hire of plant and machinery – rentals payable under operating leases	190	208
Auditors' remuneration – for audit services	<u>12</u>	<u>15</u>

Notes to the financial statements (continued)

3 Remuneration of directors

	2001 £'000	2000 £'000
Directors' emoluments	222	210
Other emoluments (including pension contributions)	14	14
	<u>236</u>	<u>224</u>

Amounts receivable under the emoluments of the highest paid Director were £115,000 (2000: £106,000) and his accrued pension entitlement under the company's defined benefit scheme was £18,000 (2000: £15,000).

All of the Directors were members of the Ultra Electronics pension scheme at 31 December 2001. During the year two (2000: two) directors were members of the company's defined benefit scheme and the company also contributed into defined contribution schemes for these directors.

The company operates a Long Term Incentive Plan for Directors. Ordinary shares in the company's holding company, Ultra Electronics Holdings plc, worth up to 100% of basic salary can be awarded each year depending on the performance of Ultra Electronics Holdings plc over a three year period. Details of potential awards are given below:

	2001 Number	2000 Number
Number of shares awarded	<u>8,893</u>	<u>7,955</u>
	£	£
Potential award value based on Ultra Electronics Holdings plc's share price of 377.5p on 31 December 2001 .	<u>33,571</u>	<u>30,030</u>

At the end of the period the share options held by the directors in Ultra Electronics Holdings plc, which are not disclosed in the Directors' Report of the financial statements of that company, are as follows:

	At 31 December 2000 Number	Granted Number	At 31 December 2001 Number
D L Sammons	12,180	5,252	17,432
R Sharma	26,295	-	26,295

Notes to the financial statements (continued)

4 Staff numbers and costs

The average monthly number of persons employed by the company (including directors) during the year, was as follows:

	2001 Number	2000 Number
Administration	32	36
Marketing	13	17
Engineering	64	63
Manufacturing	76	81
	<u>185</u>	<u>197</u>

The aggregate payroll costs were as follows:

	2001 £'000	2000 £'000
Wages and salaries	4,658	4,576
Social security costs	369	369
Other pension costs	317	323
	<u>5,344</u>	<u>5,268</u>

5 Interest payable and similar charges

	2001 £'000	2000 £'000
On other loans	<u>7</u>	<u>11</u>

6 Taxation

The tax charge/(credit) for the year comprises:

	2001 £'000	2000 £'000
UK corporation tax	242	3
Adjustment in respect of prior years	98	-
Advance corporation tax credited	-	(4)
Utilisation of tax losses in the year	-	(810)
	<u>340</u>	<u>(811)</u>

Notes to the financial statements (continued)

7 Tangible fixed assets

	Freehold land and buildings £'000	Plant, machinery and office equipment £'000	Total £'000
Cost or valuation			
Beginning of year	1,500	1,902	3,402
Additions	-	199	199
Disposals	-	(85)	(85)
End of year	1,500	2,016	3,516
Depreciation			
Beginning of year	436	1,356	1,792
Charge	18	167	185
Disposals	-	(84)	(84)
End of year	454	1,439	1,893
Net book value			
Beginning of year	1,064	546	1,610
End of year	1,046	577	1,623

The gross book value of freehold land and buildings includes £700,000 (2000: £700,000) of depreciable assets.

Included within the net book value of fixed assets are amounts of £62,000 (2000: £99,000) held under finance leases.

8 Stocks

	2001 £'000	2000 £'000
Raw materials and consumables	143	158
Work-in-progress	371	315
Finished goods and goods for resale	5	17
	519	490

Notes to the financial statements (continued)

8 Stocks (continued)

Work in progress includes the following amounts in respect of long-term contracts:

	2001 £'000	2000 £'000
Net cost less foreseeable losses	690	343
Less applicable payments on account	(319)	(28)
	<u>371</u>	<u>315</u>

9 Debtors

	2001 £'000	2000 £'000
Trade debtors	1,854	3,449
Amounts recoverable on contracts	3,907	4,983
Amounts receivable from group undertakings	2,940	1,182
Other debtors	251	214
Prepayments and accrued income	100	102
	<u>9,052</u>	<u>9,930</u>

10 Creditors: amounts falling due within one year

	2001 £'000	2000 £'000
Obligations under finance leases and hire purchase contracts	46	46
Payments received on account	3,024	4,924
Trade creditors	2,373	931
Amounts owed to group undertakings	1	800
UK corporation tax	254	-
Other taxes and social security	193	588
Accruals and deferred income	2,658	3,107
	<u>8,549</u>	<u>10,396</u>

11 Creditors: amounts falling due after more than one year

	2001 £'000	2000 £'000
Obligations under finance leases and hire purchase contracts	<u>23</u>	<u>68</u>

Notes to the financial statements (continued)

12 Provisions for liabilities and charges

	2001 £'000	2000 £'000
Warranty provisions	742	531
Provisions against estimated future losses on long term contracts	201	275
	<u>943</u>	<u>806</u>

Provision against estimated future losses on long-term contracts

	£'000
At beginning of year	275
Utilised during the year	(50)
Released during the year	(24)
At end of year	<u>201</u>

Warranty provisions

	£'000
At beginning of year	531
Utilised during the year	(109)
Charge for the year	320
At end of year	<u>742</u>

Deferred taxation

The amounts provided for deferred taxation (assets) and liabilities and the amounts not provided are set out below.

	2001		2000	
	Provided £'000	Unprovided £'000	Provided £'000	Unprovided £'000
Differences between accumulated depreciation and amortisation and capital allowances	-	(110)	-	60
Other timing differences	-	12	-	(199)
	<u>-</u>	<u>(98)</u>	<u>-</u>	<u>(139)</u>

Notes to the financial statements (continued)

13 Called-up share capital

	2001 £'000	2000 £'000
<i>Authorised</i>		
1,860,667 ordinary shares of £1 each	<u>1,860</u>	<u>1,860</u>
<i>Allotted, called-up and fully paid</i>		
1,835,667 ordinary shares of £1 each	<u>1,835</u>	<u>1,835</u>

14 Reserves

	Share premium account £'000	Dividend accumulation reserve £'000	Profit and loss account £'000
At beginning of year	5,979	1,096	(4,891)
Profit for the year	-	-	1,617
At end of year	<u>5,979</u>	<u>1,096</u>	<u>(3,274)</u>

15 Contingencies

The company has given bonds and guarantees to its bankers as security for advance payments and contract performance. The outstanding liabilities at 31 December 2001 amounted to £2,129,311 (2000: £1,993,988).

16 Commitments

(a) Capital commitments at the end of the financial year for which no provision has been made, are as follows:

	2001 £'000	2000 £'000
Contracted	<u>61</u>	<u>21</u>

(b) Annual commitments under non-cancellable operating leases are as follows:

	2001 £'000	2000 £'000
Operating leases which expire:		
- within one year	62	43
- between one and two years	46	61
- between two and five years	47	64
	<u>155</u>	<u>168</u>

Notes to the financial statements (continued)

17 Pension scheme

From 1 April 1999 the company has participated in the operation of the Ultra Electronics Pension Scheme (a final salary scheme operated by the company's parent company). Company contributions to this scheme for the year ended 31 December 2001 amounted to £317,000 (2000: £323,000).

Additional disclosures regarding the group defined benefit scheme are required under the transitional provisions of FRS 17 "Retirement benefits". In accordance with FRS 17, the company will account for its contributions to the scheme as if it were a defined contribution scheme because it is not possible to identify the company's share of the assets and liabilities in the scheme on a consistent and reasonable basis. The latest actuarial valuation of the scheme, prepared for the purposes of making the transitional disclosures in accordance with FRS 17 in the consolidated financial statements of the parent company, shows a deficit of £10.2m which may be offset by the deferred tax asset of £3.1m. Further details of this valuation can be found in the annual report of the parent company.

18 Related party transactions

Advantage has been taken of the exemption in FRS 8 concerning Related Party Disclosures.

19 Ultimate parent undertaking

The ultimate parent undertaking of the company is Ultra Electronics Holdings plc, which is incorporated in Great Britain, and registered in England and Wales. The largest group in which the results of the company are consolidated is that headed by Ultra Electronics Holdings plc, and copies of these financial statements are available from that company's registered address.