A large, glowing orange circle with a soft, ethereal glow, centered on a solid black background. The circle's light fades out towards the edges, creating a halo effect.

The smart people
behind the smart
people.

Ultra Annual Report
and Accounts 2021

ULTRA.

Every day, all over the globe, people are working to make the world safer and more secure. **Ultra is supporting those people and what they do.**

Our Company purpose to 'Innovate today for a safer tomorrow' lies at the heart of Ultra's value proposition and everything we do. Innovation is what enables us to develop outstanding solutions to the complex problems our customers share with us, and deliver the technologies that help create a safer tomorrow.

We deliver this purpose through innovation in our technologies and our openness to searching for new ways to deliver outstanding solutions to our customers' most complex problems in defence, security, critical detection and control environments. It's by providing them with the insight, technology and services they need to perform at their best that we help them make the world a safer place, tackling some of the biggest challenges our society faces.

Our vision

A leading partner delivering outstanding solutions to customers' most complex problems in defence, security, critical detection and control.

What we do

Ultra is a trusted partner in the key elements of mission-critical and intelligent systems.

We **design** high-integrity sensors that operate in harsh environments to **detect** discrete data points in a sea of noise. Our cutting-edge processing capabilities will then **distil** these data points into relevant, often mission-critical parcels of information. We use secure, encrypted forms of proprietary communication to **direct** the parcels of information between the data source to users at central locations and operators at the tactical edge where our suite of competencies will help identify the most appropriate response to **deploy**.

Revenue by market

	2021	2020
Defence (five-eyes*)	70%	68%
Defence (Non five-eyes*)	9%	8%
Commercial & other	21%	24%

* USA, UK, Canada, Australia and New Zealand.

Who we work with – our top 10 customers

We work directly with the US Department of Defense and UK Ministry of Defence and with the world's major prime contractors. Direct defence sales to the US DoD and UK MoD accounted for 35% of our revenue in 2021 (2020: 30%).

Indirect sales to the DoD and MoD accounted for an additional 25%. We have high visibility of future revenues with 78% opening order cover (2020: 71%). Typically, our defence contracts will progress through a development stage, then low-rate initial production, sometimes followed by full-rate production and aftermarket sales.

Our top 10 contracts accounted for 22% (2020: 21%) of our 2021 revenue and our top 10 platforms accounted for 17% of revenue (2020: 18%).

Customer	% of total 2021 sales
DoD	28%
MoD	7%
Lockheed Martin	6%
BAE Systems	4%
Northrop Grumman	3%
Pratt & Whitney	3%
Boeing	2%
Australian DoD	2%
US Bureau of Alcohol, Tobacco, Firearms and Explosives	2%
General Dynamics	2%
Thales	2%
Raytheon	1%
Indian MoD	1%
Airbus	1%

DELIVERING FOR ALL OUR STAKEHOLDERS

Our 2024 goals

As part of our Focus; Fix; Grow transformation to become ONE Ultra, we identified five key stakeholder groups.

We sought feedback from each group before we embarked on our transformation. This feedback formed the basis of our strategy and 2024 stakeholder goals:

+ See more on **p12-14**



Employees

Create a dynamic, inclusive and inspiring work environment that attracts, develops and retains the best diverse talent pool.



Customers

Partner with customers, delivering innovative solutions that create 'win-win' outcomes for all parties.



Suppliers

Develop Group-wide partners with like-minded values that provide best-value solutions, technical innovation and support mutual success, fairness and respect.



Communities

Conduct business in an ethical, safe and sustainable way, acting as a positive force and making an active contribution to our communities.



Investors

Deliver outstanding through-cycle value for shareholders, through effective execution of Ultra's strategy.

Where we operate

+ Ultra's core markets are the 'five-eyes' defence in maritime, communications and intelligence domains. This gives us access to the largest addressable defence budgets in the world.

+ We also supply into other defence markets where we can apply modular solutions and into other selected, highly regulated and harsh environment detection and control markets.

Revenue by geography

	2021	2020
North America	63%	64%
UK	19%	18%
Mainland Europe	7%	8%
Australia and NZ	4%	4%
Rest of the World	7%	6%

Our markets

Ultra operates mainly as a Tier 3 (sub-system) and occasionally a Tier 2 systems provider, in the Maritime, C4ISR/EW (Command, Control, Communications, Computers (C4) Intelligence, Surveillance and Reconnaissance (ISR)/Electronic Warfare (EW), military and commercial aerospace, nuclear and industrial sensors markets.

We use both research and development to provide innovative, mission-specific bespoke technological solutions to our customers' most complex problems.

Revenue by market

	2021	2020
Maritime	46%	46%
C4ISR-EW	28%	28%
Critical detection and control markets	26%	26%

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+ * to present the performance of the Group on a consistent year-on-year basis, additional non-statutory performance indicators are quoted throughout the strategic report. These adjusted measures are referred to as 'underlying' and 'organic' and are reconciled to statutory measures in **note 2** (pages 106-107) and defined on pages 145-146. Also see glossary on p157.

Another year of progress and delivery

ONE ULTRA, DELIVERING

Agile player in growing markets

- + Market growth driven by reality of near-peer activity and threats
- + Fourth year of organic revenue growth, despite Covid-19

Focus driving order book and pipeline

- + ONE Ultra strategy delivering increased confidence
- + Strong technology base driving record order book and sales pipeline
- + Improved research and development alignment in support of strategy

Growth and transformation driving improving stakeholder outcomes

- + Transformation delivering ahead of plan
- + Continuous improvement driving additional benefits
- + Operational and financial improvement being delivered

Continuing ONE Ultra momentum

- + Accelerated technology investment aligned with long-term customer priorities
- + Additional growth accelerators supporting innovation
- + Excellent future visibility and strong balance sheet to accelerate strategy

Forward-looking statement

This Annual Report contains certain forward-looking statements with respect to the operations, strategy, performance, financial condition and growth opportunities of the Group. By their nature, these statements involve uncertainty and are based on assumptions and involve risks, uncertainties and other factors that could cause actual results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Annual Report and, other than in accordance with its legal and regulatory obligations, the Company undertakes no obligation to update these forward-looking statements. Nothing in this Annual Report should be construed as a profit forecast.

Acquisition of Ultra

RECOMMENDED OFFER FROM ADVENT / COBHAM

In July 2021, Ultra received an unsolicited approach and a number of subsequent offers from Cobham Ultra Acquisitions Limited (a wholly owned indirect subsidiary of Cobham Group Holdings Limited, ultimately owned by Advent International). On 16 August 2021, the Board of Directors of Ultra and Cobham Ultra Acquisitions Limited announced that they had reached agreement on the terms and conditions of a recommended all-cash acquisition of the entire issued, and to be issued, ordinary share capital of Ultra. Under the terms of the proposed acquisition, each Ultra shareholder will be entitled to receive £35.00, plus entitlement to an interim cash dividend of 16.2 pence per share which was paid in September 2021.

In October 2021, 99.86% of Ultra's voting shareholders voted in favour of the transaction. Completion of the acquisition is conditional on, among other things, certain foreign investment and antitrust approvals, including approval by HM Government. All such approvals, other than HM Government's, have now been received.

On 13 January 2022, the Competition and Markets Authority delivered its Phase 1 Report to the Secretary of State for Business, Energy and Industrial Strategy. Since then, both Ultra and Advent/Cobham have been engaging constructively with HM Government, including the Ministry of Defence, with a view to ensuring that the UK's national interests are appropriately protected as part of the recommended transaction.

The Board no longer expects completion of the transaction in Q1 2022. Ultra will update the market on any news as soon as possible. The Ultra Board remains committed to working with Advent/Cobham and other relevant stakeholders to deliver a successful closing of the acquisition.

DIVIDEND STATUS

^ The Board has a progressive dividend policy with a through-cycle target of circa two times normalised cash and earnings cover. However, in view of the terms and conditions set out in the announcement dated 16 August 2021 (relating to the recommended cash acquisition of Ultra by Advent/Cobham), the interim dividend of 16.2p per share, paid on 17 September 2021, will be the only 2021 dividend, and no final dividend will be paid to shareholders while the acquisition remains pending.

Financial highlights

Order book

£1.3bn +22.2%
(2020: £1.1bn) Organic: +22.0%

Revenue

£850.7m -1.1%
(2020: £859.8m) Organic: +4.2%

Statutory operating profit

£105.9m -0.4%
(2020: £106.3m)

Underlying operating profit*

£129.6m +2.8%
(2020: £126.1m) Organic: +8.0%

Statutory basic earnings per share

93.8p -20.5%
(2020: 118.0p)

Underlying earnings per share*

135.7p +3.9%
(2020: 130.6p)

Statutory cash generated by operations

£134.2m -6.0%
(2020: £142.6m)

Underlying operating cash flow*

£111.5m -4.0%
(2020: £116.1m)

Underlying operating cash conversion*

86%
(2020: 92%)

Total dividend per share^

16.2p -71.5%
(2020: 56.9p)



"2021 was another year of strategic, operational and financial progress for Ultra and was our fourth year of robust organic revenue growth. This was achieved despite pandemic-driven operational and supply challenges and significant translational currency headwinds.

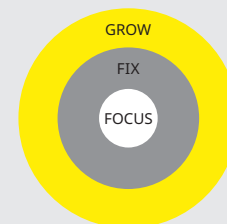
Effective execution of our ONE Ultra strategy is creating new opportunities, and we enter 2022 with another record £1.3bn order book. We continue to deliver organic growth ahead of our core markets and our Focus; Fix; Grow transformation is driving sustainable operational and financial improvement and delivering better outcomes for all of our stakeholders. Our continuous improvement focus is uncovering additional improvement opportunities.

As a result, the Board remains very confident of Ultra's ability to deliver excellent value for all its stakeholders. This is recognised and is part of the rationale behind Advent/Cobham's interest in Ultra.

The Board remains committed to working with Advent/Cobham and HM Government to deliver a successful closing of the acquisition."

Simon Pryce
Chief Executive

ONE ULTRA



Ultra at a glance

Our Business Units

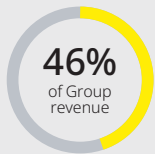
Maritime

What we do

We deliver leading multi-mission solutions to protect our 'five-eyes' navies.

Our market-leading mission systems deliver dominance in the maritime domain. Our broad portfolio of capabilities is operational on fleets across the allied navies worldwide.

We develop advanced specialist systems to deliver warfighting edge in the modern maritime and underwater battlespace. These provide critical operational advantages to our defence customers across surface, sub-surface and unmanned platforms.



2022 addressable market

2022 total addressable market

£1.35bn

5-year market CAGR (2021–2026)

+2–4% p.a.

2021 Key performance figures

Revenue

£395.4m

(2020: £391.8m)

Organic revenue growth

+6.3%

Statutory operating profit

£58.3m

(2020: £55.9m)

Underlying operating profit

£59.4m

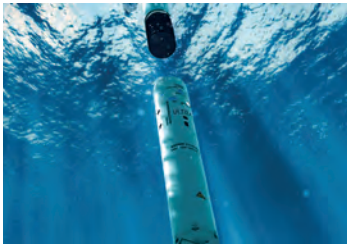
(2020: £58.6m)

Underlying operating margin*

15.0%

(2020: 15.0%)

Core capabilities



Sonobuoy Systems

We are world leaders in the manufacture and supply of sonobuoys and anti-submarine warfare (ASW) processing. Our range of multi-static active (MSA) acoustics use patterns of active source and passive receive sonobuoys and advanced signal processing techniques to enhance submarine detection probability and increase area coverage.



Sonar Systems

Our underwater warfare systems overcome the unique challenges of the undersea environment. Our solutions span: integrated hull and variable depth sonar systems for manned and unmanned platforms; torpedo defence systems; deployable underwater sensors; and electronic warfare systems.



Naval Systems and Sensors

Our systems and sub-systems are designed to protect allied navies from emerging threats and ensure a critical operational advantage. We provide acoustic and sonar systems, torpedo defence and radar sensor solutions.



Signature Management and Power

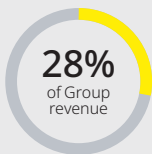
We are proven turnkey system developers of traditional degaussing, advanced degaussing and high temperature degaussing systems and power conversion solutions for naval applications. Degaussing is the neutralisation of the magnetic field of a ship by encircling it with a conductor carrying electric currents. We provide a range of proven, high-performance solutions for surface and sub-surface applications including field support that ensures a mission-critical advantage for our warfighters.

Intelligence & Communications

What we do

We deliver the intelligence that informs decision-making in the most challenging environments through mission-critical, multi-domain communications, command and control, cyber security and electronic warfare.

Our innovative solutions provide information advantage through the intelligent application of integrated technologies, combined with through-life support service, ensuring that those operating in high-threat environments have the intelligence they need to carry out their missions safely and effectively.



2022 addressable market

2022 total addressable market

£3.5bn

5-year market CAGR (2021–2026)

+3–5% p.a.

2021 Key performance figures

Revenue

£241.3m

(2020: £241.0m)

Organic revenue growth

+5.5%

Statutory operating profit

£30.9m

(2020: £23.7m)

Underlying operating profit

£37.9m

(2020: £33.5m)

Underlying operating margin*

15.7%

(2020: 13.9%)

Core capabilities



Communications

Our tactical communications include multi-domain solutions that are protected from the threat of data compromise or jamming. High-capacity tactical radio and advanced waveforms enable accurate timeline exchange of voice, video and data for military and government customers worldwide.



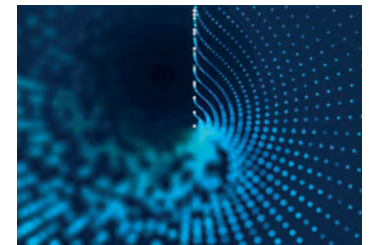
Command, Control and Intelligence (C2I)

Proven Command and Control (C2) technologies deliver information advantage in near real-time, allowing quick and informed decisions based on an accurate picture of the situation on the ground. Ultra delivers information advantage across the operating environment, enhanced by the application of leading-edge artificial intelligence (AI), machine learning (ML) and cross-domain intelligence capabilities.



Cyber

We deliver advanced, high-grade cryptography, key management and security solutions that provide the highest level of protection against intrusion. Ultra's capabilities deliver information assurance with ground-breaking technological solutions.



Specialist Radio Frequency

We support improved threat detection and identification, as well as improved enemy engagement through the execution of complex and critical operations at all levels of the command structure. Our products are key enablers for a variety of advanced systems, including radar warning, surface ship situational awareness and digital electronics warfare systems.

* See page 156 for definition.

Ultra at a glanceOur Business Units
continued

Critical Detection & Control

2021 Key performance figures

Revenue

£214.0m

(2020: £227.0m)

Organic revenue growth

-0.8%

Statutory operating profit

£29.7m

(2020: £30.0m)

Underlying operating profit

£32.3m

(2020: £34.0m)

Underlying operating margin

15.1%

(2020: 15.0%)

2022 addressable markets

PCS:

Serviceable addressable market*

£604m

(2020: £579m)

Forensic Technology:

Total obtainable market**

£252m

(2020: £219m)

Energy:

Serviceable addressable market*

£870m

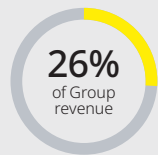
(2020: £1,188m)

5-year market CAGR (2021–2026)

2–4% p.a.

* Total value of Ultra product lines in accessible countries.

** Total value of all possible opportunities for Ultra product lines globally.



Precision Control Systems (PCS)



We design and supply high-integrity mission- and safety-critical products and systems for the most challenging situations, mainly in military and commercial aerospace.

Our manned and unmanned vehicle systems and equipment improve vehicle reliability and performance, while reducing the burden on operators and maintainers.

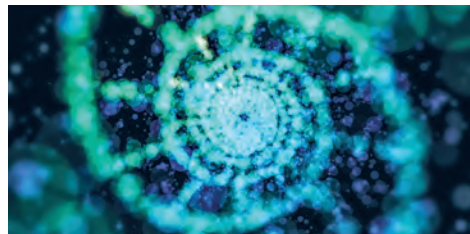
Core capabilities

A trusted supplier for mission- and safety-critical hardware and software solutions in highly regulated markets, providing systems and products for use in harsh environments and where high reliability is crucial.

Application-engineered mission and safety-critical electronic systems in:

- + Data and power management
- + Position sensing and control
- + Stores ejection and management
- + Highly regulated industries
- + Harsh environments requiring flawless reliability

Forensic Technology



We are the world leader in the design and supply of highly sophisticated optical imagery systems, together with database management and data analytics software with our core focus on preventing and solving gun crime for enforcement agencies around the world.

Core capabilities

- + Intellectual property in specialised algorithms that digitally compare the microscopic markings left behind on fired bullets and cartridge cases
- + Experts in big data comparison and machine learning algorithms
- + Subject matter experts in the field of firearms identification
- + Almost 30 years of automated ballistic identification provides credibility and an installed base of systems
- + Global leaders in the provision of innovative technology that generates timely and quantifiable Crime Gun Intelligence (CGI) to law enforcement agencies
- + Capable of delivering full turnkey solutions
- + A trusted and strategic partner for criminal justice agencies around the world in helping with the prevention and solving of gun crime

Energy



We design, manufacture, supply and support safety sensors and systems in nuclear and selected industrial applications worldwide.

As a global leader in highly regulated markets, including nuclear, oil and gas and space, we develop sensors, instrumentation and control systems for harsh environments and mission-critical applications.

Core capabilities

- + Safety-critical, nuclear qualified instrumentation and control technologies
- + Sensors qualified to operate in regulated nuclear plants
- + Experts in safety-critical design, reactor physics and materials science
- + Installed base in the UK Advanced Gas-cooled Reactor (AGR) fleet as well as all other reactor types in 17 countries across five continents
- + Strategic instrumentation and control partner of NuScale for their small modular reactor (SMR)

Strategic review

Performance update

Another year of progress and delivery

Our order book grew 22.2% year on year to over £1.3bn (2020: £1.1bn), reflecting the benefits of the ONE Ultra strategy and excellent demand for Ultra's technology, capability and innovative solutions.

We saw strong order intake on existing programmes including:

- + ORION radio orders worth \$140m from the US Marines, US Army and US Navy
- + US Sonobuoy orders of \$118m under the ERAPSCO 5-year Indefinite-delivery/ indefinite-quantity (IDIQ) contract
- + £31m UK MoD Sonobuoy order; and
- + \$23m award for MK54 lightweight torpedo array kits.

We also delivered good new programme wins including:

- + £65m Cyber award for the UK MoD
- + £60m order from the Indian Navy for Integrated Anti-Submarine Warfare Defence Systems
- + A CAD \$24m Forensic Technology contract covering multiple states in Brazil, and very strong order intake from existing customers renewing or extending service contracts
- + Production award of over \$30m on the Next Generation Surface Search Radar programme
- + Contracts to provide integrated Command and Control systems for Tunisia and Romania collectively worth \$14m



Revenue declined 1.1% as a result of stronger Pound Sterling against the US Dollar, but on an organic basis revenue grew 4.2% to £850.7m (2020: £859.8m). Both the Maritime and Intelligence & Communications Strategic Business Units delivered organic revenue growth significantly above their markets, at 6.3% and 5.5% growth respectively, despite pandemic-related productivity and supply chain disruption which led to some sales slipping out of the last quarter into 2022, with chip shortages particularly impacting our sonobuoy Business Unit. In Critical Detection & Control, solid sales into military aerospace, excellent sales into the ballistic identification markets and some recovery in business jets largely offset the continued pandemic-related weakness in commercial aerospace, and revenue remained largely flat organically for the year at £214.0m (2020: £227.0m).

Underlying operating profit increased organically by 8.0% to £129.6m (2020: £126.1m) with underlying operating margins improving to 15.2% (2020: 14.7%), supported by improved delivery of transformation benefits, good operational performance particularly in Intelligence & Communications and Critical Detection & Control, a favourable product mix and a £4m one-off licence of non-core IP. These were partly offset by operational challenges on some Maritime contracts, inefficiency caused by tight supply chains, increased investment into research and development (R&D), and £1.5m of expensed cloud-based system implementation costs which would have been capitalised under our previous accounting policy. Underlying earnings per share (EPS) increased 3.9% to 135.7p per share.

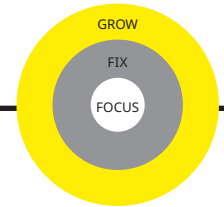
Group statutory operating profit decreased by 0.4% to £105.9m against a backdrop of a strengthening Pound Sterling. Statutory profit before tax decreased by 20.3% to £82.7m (2020: £103.7m), due to a one-off loss on disposal of two small loss-making non-core businesses, the professional fees incurred in relation to the proposed acquisition of the Group, a provision reflecting progress towards resolving a legacy legal matter and the net loss relating to the mark to market of foreign exchange hedges. Statutory EPS decreased by 20.5% to 93.8p per share.



Ultra again delivered excellent cash generation with underlying operating cash conversion at 86% (2020: 92%), ahead of our expectations, driven by good collection and advance payments. Cash conversion was lower than at the middle of 2021 due to the expected unwind of a large early customer payment, as flagged in our interim update. Statutory cash generated by operations was £134.2m (2020: £142.6m). We ended the year with net debt* of £40.0m, net cash of £0.7m when excluding lease liabilities. Since the year end, Ultra completed the sale of some legacy, niche, safety-critical product lines realising net cash proceeds of £35m.

Ultra's long-term return on invested capital (ROIC) increased to 21.2% (2020: 20.0%). Excluding the impact of goodwill and acquired intangibles, ROIC was 66.1% (2020: 62.3%), reflecting the ability of Ultra's business model to generate good returns on capital while growing organically.

* See note 27.

Strategic review
continued

Strategic update

1 An agile player in growing markets

Market growth driven by reality of near-peer activity and threats

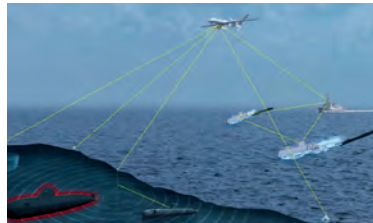
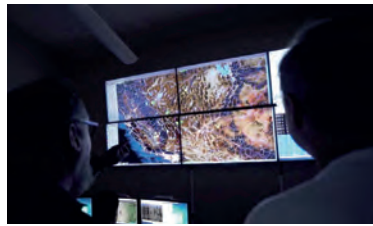
The tragedy unfolding in Ukraine demonstrates the vital role that the defence industry plays in maintaining stability and sustainability in society. At Ultra we believe that the solutions we provide are key to protecting the environmental, social and governance standards that those societies demand and we are increasingly focused on providing them in as sustainable a way as possible.

The increase in the size and sophistication of near-peer capabilities is evident, and amplifies the need for allied defence investments in the 'five-eyes' nations, and across NATO. For example, as Russia and China deploy advanced submarines, investment into anti-submarine warfare by the 'five-eyes' nations is expected to increase at over 5% per annum over the next five years.

Near-peer activity is also driving greater cooperation and alignment across the 'five-eyes' nations, of which the recent AUKUS security pact between the United States, the United Kingdom and Australia is a prominent example. Ultra is very well placed to take advantage of the opportunities from the increased threat environment and increased collaboration it creates, which is likely to further enhance Ultra's opportunities for growth in the medium to long term.

Multi-domain operations with increased connectivity, interoperability and interchangeability are of primary importance to the battlespace of tomorrow, with investment expected to grow more than 7% per annum in the USA and UK over the next five years. Critical programmes, such as the US Joint All-Domain Command and Control (JADC2) initiative and the UK's Multi-Domain Integration (MDI) programme, seek to formalise this future common operating picture as well as integrate allied capabilities across the 'five-eyes' nations and NATO.

From land, sea and air to cyber and electromagnetic domains, Ultra's technology and capability is well situated to support key elements of many of these vital programmes. Ultra's leading command and control, cyber and communications technologies, as well as our investments in artificial intelligence and machine learning solutions, in particular position Ultra to meet growing demand for secure interconnectivity and multi-domain cognitive solutions.



Outside of defence, the drive for low-carbon energy and domestic energy security provides a supportive market for Ultra's nuclear business, while rising gun crime increases the need for ballistic identification solutions. The outlook for military aerospace and recovery of commercial aerospace also both remain strong given expected procurements in new aircraft, upgrading ageing fleets and the development of indigenous platforms.

Outperforming: fourth consecutive year of robust organic revenue growth, despite Covid-19

2021 marks the fourth year of robust organic revenue growth for Ultra, having grown organically by 18% since 2018.

The total Maritime market grew by 3% and Intelligence & Communications market by 3.5% in 2021. Over the next five years, we expect a favourable market backdrop with compound annual growth rates of 2–5% in our core markets of Maritime, Intelligence & Communications and Critical Detection & Control. Increasing spend is forecast to be directed towards core Ultra segments; anti-submarine products and intelligent networking communications which enhance capabilities of existing defence assets.

2 Focus driving orderbook and pipeline

ONE Ultra strategy delivering

As our industry trends towards modular, scalable and interoperable solutions, our ONE Ultra focus and collaboration is already driving increased opportunity, our record and growing order book and accelerated top line growth. Combining our capabilities at the point of design to become a multi-domain integrated sub-systems provider gives us the potential to provide significantly greater content on many more platforms.

We possess significant multi-mission, multi-platform and multi-domain integration expertise across a range of scalable solutions, including ADSI, ORION, REAP communication pods, RAIN, Athena and interoperable crypto. Our targeted investment strategy has already seen Maritime radars connected to I&C Situational Awareness Platforms, and Air Defense Systems Integrator (ADSI) connected to our tactical optical and infrared sensors.

Our improved collaboration and focus is enabling us to bid more effectively into the next-generation radar and Anti-Submarine Warfare (ASW) spaces, by combining capabilities from a number of our Operating Business Units to provide technology-leading and cost-effective solutions. This is already leading to new business – for example, our recent £60m Indian Integrated Anti-Submarine Warfare Defence System contract award. We are also partnering more effectively with third parties and government research agencies to provide leading-edge solutions, such as developing a multi-static capability to support the future needs of unmanned ASW operations.

Focus is also driving more effective and targeted technology investment. For example, we are developing common Ultra solutions to interrogate the big and complex data that our sensors and sub-systems produce to generate actionable, operationally relevant information. By applying a standard approach to technologies, such as artificial intelligence and machine learning, we are developing solutions to give operators exactly the insights they need, when they need them, in a much-reduced timeframe and at substantially lower cost.

3

Growth and transformation driving improving stakeholder outcomes

Strong technology base driving record order book and sales pipeline

The strength of our technology base is driving our record order book of £1.3bn, up 22.2% vs 2020. Our total sales pipeline has also grown significantly to £13.5bn (2020: £11.4bn), based on all identified opportunities which we anticipate bidding on and have greater than 50% confidence of winning over the next nine years. In addition, our total IDIQ contract value is £1.1bn, which measures the expected 'call-off' and exercise of existing IDIQ contracts.

Many of our capabilities are core to military modernisation efforts. An example is our ORION radio system. Ultra has been the primary US defence upper-tier radio supplier for over 50 years, providing the backbone of tactical communications, a critical area for the move to greater battlespace connectivity. We are now supplying our fifth-generation high-capacity line of sight radio system to the US Army, US Marines Corps, Missile Defence agencies, US Navy and Special Forces and we are already developing the next-generation capability. Ultra is also well positioned to provide both improved intelligence to existing platforms and additional connectivity across the battlespace to the air defence tier as the developer of the Air Defence Systems Integrator (ADSI).

Improved research and development strategy alignment in support of strategy

We are increasingly acting as a strategic adviser on the specification and design of mission-led solutions and increasing our engagement with research customers such as DARPA and DSTL.

The ongoing execution of our transformation agenda continues to free up capacity to support increased investment in R&D. During 2021 we invested an additional £3.1m in internally funded R&D, an organic increase of 10.3% over 2020. This takes our total customer and internally funded R&D to c.£900m since 2016.

Our key strategic investments into R&D during 2021 were:

- + Development of artificial intelligence and machine learning capabilities to target key strategic developments e.g. embedding edge processing and intelligence in our deployed sensors, building 'Course of Action' generators in our battlespace management offerings and providing enhanced AI/ML algorithms for our submarine detection systems

- + Investment in next-generation radio and satellite communication technologies and cognitive networking capabilities, incorporating adaptive techniques, such as autonomous waveform orchestration and adaption, to support resilience in contested and congested environments
- + Next-generation of Ultra sonobuoys, enabling Ultra to meet its customers' needs once the ERPASCO joint venture ends
- + Small SWaP microwave assembly building blocks to support future electronic warfare and radar applications
- + Design of an automated and modular containerised ASW deployment solution for manned and unmanned vessels, including future Unmanned Surface Vehicles (USVs)
- + Wearable soldier technology with enhanced communications and sensor capability to provide live real-time feedback of biometric and situational data, rotocraft health monitoring and advanced controllers
- + Key upgrades to the IBIS (Integrated Ballistic Identification System) platform, including improved 3D resolution, traceable calibration, speed and weight improvements, and development of an automated triage solution for crime scene deployment

Transformation delivering ahead of plan, increased confidence

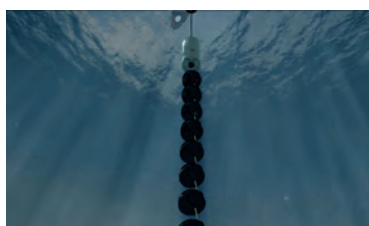
We continued to invest in our Focus; Fix; Grow transformation programme improving Ultra's core processes to drive improved outcomes for stakeholders. Our 2021 actions delivered marginally ahead of our plans and contributed to margin improvements across the Group.

In 2021 Ultra incurred £8.1m of operational expenditure and spent £5.1m of capital expenditure on transformation-related activities. Key investments included implementing new best of breed financial consolidation, HR and customer relationship management processes and tools, consolidating four manufacturing sites to two and developing standard enterprise support processes. We have continued to improve programme governance and financial modelling and continue to have confidence in delivering the medium-term benefits and the investment cost as set out in our interim results announcement. A brief summary of progress during the year is shown overleaf.

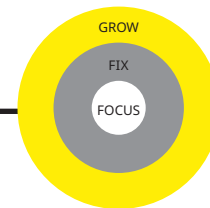
Continuous improvement driving additional benefits

Our focus on embedding 'The Ultra Way' (Ultra's approach to continuous improvement) across our business continues at pace and has delivered new benefits during 2021. In the first half of the year, we launched the Ultra Improvement Group, a dedicated team to deliver Ultra Way activities and train colleagues in the skills required to run continuous improvement processes independently.

The Ultra Improvement Group has driven a strong cadence of continuous improvement activity, running 19 major sprints during 2021. The Ultra Way approaches developed by the Ultra Improvement Group are increasingly well embedded across the Group, with numerous teams also holding local continuous improvement activities during the year. Benefits from continuous improvement in 2021 were £3.3m, driven primarily by Ultra PCS through inventory optimisation.



Strategic review continued



3 Growth and transformation driving improving stakeholder outcomes

WORKSTREAM	GOALS	PROGRESS IN 2021
Operating Model	<ul style="list-style-type: none"> + Improved customer alignment + Better functional support 	We embedded the new Strategic Business Unit (SBU) and Operating Business Unit (OBU) structure on 1 January 2021, centralised IT along functional lines and moved to a category-led procurement model.
Site Excellence	<ul style="list-style-type: none"> + Improved and optimised working environment + Increased sustainability + Better working practices 	<p>We successfully consolidated two operations activities in Naval Systems in North America and made excellent progress upgrading our Cheltenham facility in the UK, which will enable the consolidation of two of our PCS facilities into Cheltenham.</p> <p>In addition, our Forensic Technology business moved into a much improved facility in Montreal and both our Communications and Sonar businesses in Canada started projects to upgrade their facilities in preparation for anticipated growth. Finally, we have now agreed the lease for our new I&C UK site in Maidenhead, with an expected move completion date of Q4 2023.</p>
Operational and Functional Excellence	<ul style="list-style-type: none"> + Improved utilisation, efficiency, productivity and delivery + Better collaboration to improve customer outcomes 	We made excellent progress standardising our HR, financial consolidation and sales processes with a view to both improving their effectiveness and productivity. As a result, 2021 saw the launch of our new 'MyHR', Finance and Customer Relationship Management platforms. Our approach to project management is increasingly mature, and our Business Units are now supported by a harmonised global process template with coverage across the majority of our main functions.
Procurement	<ul style="list-style-type: none"> + More reliable supply chain + Better scale benefits + Transparent data and standard procurement processes 	<p>The Procurement team made good progress developing a new operating model that enables Ultra to leverage its procurement spend, improving capability to drive savings across key procurement categories, with 2021 cost savings and avoidance targets exceeded.</p> <p>We have appointed a team of Global Category Managers in line with the updated operating model, and a new procurement leadership team has been formed, consisting of senior members from each SBU, to help accelerate procurement benefits in 2022.</p>
ONE Ultra Culture	<ul style="list-style-type: none"> + Investing in people + Leadership and talent to support ONE Ultra strategy 	<p>We increased investment in Group-wide leadership training and diversity and inclusion initiatives for our people, to help them develop more robust and ambitious strategies while leading change and creating a continuous improvement culture and capability.</p> <p>This is already having tangible benefits, with more robust strategies and execution plans, improved change management, factory and functional processes. We have also launched improved systems and a culture to support the rich funnel of improvement ideas coming from our teams and a programme to build continuous improvement capability and expertise in the organisation.</p>
Technology Enablement	<ul style="list-style-type: none"> + More efficient IT infrastructure + Improved collaboration + Standard processes supported by standard applications 	<p>Our Microsoft 365 suite of products is now well embedded across the organisation and the rollout of our 'UNet' continues to progress well, providing our sites with efficient and best-practice networking solutions that allow secure information exchange.</p> <p>We have also finalised the design and implementation of a new innovation management platform designed to provide a space to propose, collaborate on and track new product improvement and R&D concepts.</p> <p>The Transformation Project Management Office completed the redesign of our ChangePoint portfolio management system, which is used to oversee, manage and execute delivery of our transformation projects. The new implementation provides our transformation community with real-time monitoring of project status, alongside robust stakeholder reporting capabilities.</p>

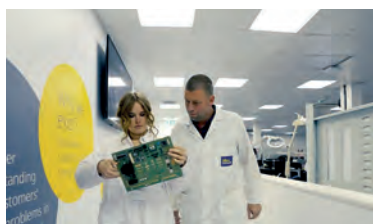
4 Continuing ONE Ultra momentum

Operational and financial improvement delivered

Our Focus; Fix; Grow transformation plan is not only delivering financial benefits. In 2020, we consulted our stakeholder groups and defined what extraordinary performance through our ONE Ultra strategy would look like. As a result, we created key performance indicators with specific targets that we use to manage our business and ensure delivery.

Despite the pandemic-related challenges we have faced in the last couple of years, we continue to work towards our 2024 stakeholder goals with key 2021 measures showing good improvements including:

- + On-time delivery increased to 85.2% (2020: 82.8%)
- + Labour productivity increased in 8 out of 11 of our Business Units
- + Average Net Promoter Score across the Group marked as 'Great' or 'Excellent'
- + Reduced carbon emissions by per £m of revenue by 24% vs 2019
- + Number of open roles filled by internal candidates up 107%
- + Reduced our single-use plastic consumption by more than 75,000 items
- + Increased our Group community support fund to more than £500,000 in the past two years



Accelerated technology investment aligned to long-term customer priorities

With Ultra solutions already playing a key role in the gathering and dissemination of information across multiple domains, and with an increasingly interconnected ecosystem of solutions, we are well positioned to help customers better leverage this abundance of data to make faster, smarter decisions in mission-critical scenarios. Today, our technology investments are focused on ensuring that Ultra is an increasingly vital partner in the shift to a cognitive and integrated battlespace.

2021 marked the first full year of operation for Ultra Labs, our advanced concepts and emerging technologies group. Ultra Labs' mission is to accelerate innovation and development in areas of key strategic growth by leveraging disruptive and advanced technologies. It provides a rapid insertion capability to Ultra's considerable engineering portfolio by nurturing a culture of innovation and driving development through demonstration. Ultra Labs complements and extends our OBU's key offerings by providing specialist AI/ML, software and materials science personnel and by providing support for entrepreneurship and the acquisition of customer R&D from strategic sources. Ultra Labs activities focus around three major initiatives:

- + *Cognitive Integrated Battlespace*: Integrating and augmenting our market-leading solutions with hybrid, cloud native, advanced AI/ML to develop enhanced solutions that reduce operator cognitive burden, process big and complex multi-domain data to gain operationally relevant insights, and prevent tactical surprise.
- + *Cognitive Integrated ASW*: Integrating Ultra's existing ASW systems to deliver a single multi-sensor, multi-domain and multi-platform ASW force demonstrator, enabling manned and unmanned systems to work in concert to provide our customers with a mosaic of deployable ASW capability.
- + *Modularised development platform: Rapid development of multi-application modular solutions*: a shared environment for collaborative software development, creating modular, interoperable and reusable IP. Leverages a common Ultra UI/UX and integrating a multitude of internal and external data sources to underpin applications such as advanced geospatial anomaly detection, correlation and fusion engines, and next-generation analytics platforms.

Additional growth accelerators supporting innovation

2021 also saw the launch of a number of new growth accelerators, designed to enhance Ultra's ability to respond quickly and efficiently to

emerging customer needs, and to proactively identify future needs.

Our new Ultra Fellows programme was launched in Q4 2021 and has brought together eight of our most experienced and respected technical leaders to form a strategic working group operating across the whole of Ultra. As renowned experts in their respective fields, the Ultra Fellows are now working together to provide new, holistic perspectives on all levels of our technology strategy. They will offer mentorship and guidance to our internal technical community, while cementing Ultra as a thought leader in multi-mission, multi-domain solutions externally.

Our Ultra Software Factory was also launched during the year and is a dedicated software engineering function designed to help our Business Units deliver secure, best-in-class software for our most mission-critical solutions. It will improve our ability to deliver quality software on a favourable cost basis by deploying a centrally managed team of developers working virtually across our home markets. The initiative will also facilitate offshoring for development, testing and evaluation that will improve cost competitiveness and free up expert internal resources for high-priority work.

Excellent visibility and strong balance sheet to accelerate strategy

In 2021 Ultra's order cover is 78% (2020: 71%) demonstrating our confidence of good growth in 2022.

Ultra's defence platform lifecycles provide further long-term visibility as programmes move from design, manufacturing, production and aftermarket which can last anywhere between 5 and 30 years. Once a programme is won, this typically results in strong revenue generation for the whole platform life due to the custom-designed solutions and Ultra's long-term reputation for excellence.

In addition to this excellent visibility, our positive transformation progress increases our ability to add value to potential future acquisitions. We take a disciplined and robust value-based approach to any potential acquisitions. Opportunities are only considered where we can accelerate strategy delivery and create additional value for stakeholders through enhanced growth and operational synergies. We now have the right base and the value discipline together with significant financial capacity from our unlevered balance sheet to supplement our organic growth and a good pipeline of opportunity.

Working with our stakeholders (s172)

Stakeholder engagement

In accordance with the reporting requirements of the UK Corporate Governance Code 2018 and the Companies (Miscellaneous Reporting) Regulations 2018 for a separately identifiable section 172 (s172) statement, this section shows how the Directors have performed their duty under s172 of the Companies Act 2006 to promote the success of the Company, having regard to the long-term consequences and the interests of all Ultra's stakeholders when making their decisions. Details of how we have engaged with our stakeholders, addressing our long-term goals for each, are set out on pages 12 to 14. On pages 14 and 15 we set out the principal decisions taken by the Board in 2021, show how these contribute to the success of Ultra and describe how stakeholders were considered, as well as the likely consequences of those decisions over the longer term.

Further information on how s172 has been applied by the Board can be found as follows:

The likely consequences of any decision in the long term

- + ONE Ultra strategy: **pages 7-11**
- Transformation investment: **pages 9-10**

The interests of the Company's employees

- + Supporting our people: **pages 32-37**
- Workforce engagement: **page 64**

The need to foster the Company's business relationships with suppliers, customers and others

- + Stakeholder goals: **pages 12-14**

The impact of the Company's operations on the community and environment

- + Protecting our planet: **pages 26-31**

The desirability of the Company maintaining a reputation for high standards of business conduct

- + Transform our business: **pages 9-10**
- Ethics Committee: **page 60**
- Audit Committee report: **pages 67-71**

The need to act fairly between members of the Company

- + Stakeholder goals: **pages 12-14**



Employees

2024 Goal: Create a dynamic, inclusive and inspiring work environment that attracts, develops and retains the best diverse talent pool.

Key performance measures

- + 68% engagement score – a good result taking account of Covid-19 pressures and the Advent transaction causing uncertainty (2020: 75.5%)
- + 170 roles filled by internal candidates (2020: 82)
- + 16.6% Group voluntary turnover (2020: below 10%)

Stakeholder feedback

Employee feedback from our engagement survey focused on:

- + Improved manager relationships, teamwork and collaboration and understanding of Ultra's strategy
- + Increased pride of working for Ultra and feeling that we make a difference
- + Decline in number of employees intending to stay with Ultra in the next 12 months

2021 progress

- + Improving our succession planning and talent pipeline with leadership, middle manager and women in leadership training and development courses
- + Building on our compelling reward and recognition programme for all employees, with our new Reward book and relaunch of our employee share schemes
- + New Diversity, Equity and Inclusion Policy launched and Uniquely Ultra diversity employee focus group
- + New working from home and wellbeing policies and programmes plus new culture recognition awards
- + Transforming our business with new global HR systems launched
- + Held 19 major Ultra Way continuous improvement 'sprints'

How Ultra engaged / responded to feedback

- + UltraView engagement survey including action plan follow-up feedback sessions offered to all employees
- + Leadership conferences
- + Weekly newsletter, Ultranet sharing platform, Ultra TV, monthly town hall meetings and packs
- + Leadership training programmes
- + Board and Executive Team site visits
- + Ethics Committee site visits
- + Strategic Business Unit roadshows
- + Ultra Way continuous improvement sprints
- + Annual Anti-Bribery and Corruption training

Board engagement

Direct

- + The Board review all 'speak up' whistleblowing reports made and follow up actions
- + Board members met with employees at various site visits throughout 2021
- + Our CEO and CFO held several townhall visits with Q&A
- + 'Ask the CEO' emails
- + Geeta Gopalan and Victoria Hull joined multiple diversity initiatives throughout the year

Indirect

- + Received and discussed results of Ultra's employee engagement survey and in particular employee retention during the proposed acquisition of Ultra
- + Received and discussed feedback from our independent Ethics Committee
- + Our Board of Directors oversees our programme to prevent bribery and corruption and receives regular updates on compliance with annual training

- + See **page 64** for more information on workforce engagement



Customers

2024 Goal: To partner with customers, delivering innovative solutions that create ‘win-win’ outcomes for all parties.

Key performance measures

- + Average Net Promoter Score (NPS) of 52 across Ultra, marked as ‘Great’ or ‘Excellent’ (2020: not measured); benchmarking data shows that we are well above the 75th percentile in our markets
- + Total Group market share (based on organic revenue and 2021 total addressable market in each SBU) remained flat at 14% (2020: 14%)
- + On-time delivery increased to 85.2% (2020: 82.8%)
- + Solutions Vitality Index (the percentage of revenue driven by solutions developed in the last five years): 15.0% (2020: not measured)
- + Labour productivity improved in 8 out of 11 OBU’s versus 2020

Stakeholder feedback

- + Good communications and customer service
- + Room for improvement on lead times of solutions

2021 progress

- + Launched our new customer feedback tool to monitor customer satisfaction with two customer surveys during the year

How Ultra engages

- + Ongoing customer relationship management to ensure our customers’ needs are met
- + Central SBU engagement with key influencer relationships
- + Standardised customer feedback process undertaken twice per year

Board engagement

Direct

- + Our CEO engages with key customers directly and returns feedback to the Board

Indirect

- + Received feedback from Ultra’s first customer survey and discussed how to improve lead times across Ultra
- + Received customer feedback during presentation by SBU/OBU senior management teams



Suppliers

2024 Goal: Develop Group-wide partners with like-minded values that provide best-value solutions, technical innovation and support mutual success, fairness and respect.

Key performance measures

- + First year of procurement savings through ONE Ultra strategy
- + Total cost of procurement (direct and indirect procurement costs) reduced versus 2020

2021 progress

- + Through our ONE Ultra strategy and joined up approach to suppliers we have reduced procurement costs over the year
- + Late supplier deliveries were also reduced due to this joined up approach to supplier relationships

How Ultra engages

- + Ongoing supplier relationship management through our procurement teams, including roll-out of Group-wide Supplier Code of Conduct
- + Creating a dialogue with our key suppliers – sharing our vision for procurement transformation and listening to our suppliers’ feedback
- + Taking a global view of strategic categories which allows us to collaborate with suppliers across businesses and countries

Board engagement

Indirect

- + Reviewed supplier practices, including the approval of a revised Modern Slavery and Human Trafficking Global Policy and approval of Ultra’s first Supplier Code of Conduct
- + Continued review of supplier needs in response to Covid-19, and the Ultra risk profile monitored by the CRO

Direct

- + Continued review of procurement transformation business case as Group-wide approach to category management and supplier, and their supply chain partnerships



Communities

2024 Goal: To conduct business in an ethical, safe and sustainable way, acting as a positive force and making an active contribution to our communities.

Key performance measures

- + Reduced 2021 carbon emissions by 21.7% vs 2019 (Scope 1 and 2 only)
- + Increased our Group community fund to over £500,000 in the past two years
- + More than 2,000 hours of community giving in 2021
- + Reduced our use of single-use plastic by more than 75,000 items

Stakeholder feedback

- + Ultra support for local communities through our ‘Giving back fund’ and ‘Giving back days’ and community impact

2021 progress

- + Improved our reporting of near-miss health and safety reports to increase four times so we have better data and information on areas we need to improve
- + ONE Ultra Packaging Policy alongside Single Use Plastics Policy launched in 2020 and expanded on in 2021
- + ONE Ultra Forces Charter was recognised by the Ministry of Defence in 2021 when Ultra was awarded a gold award for being an Armed Forces employer

How Ultra engages

- + £200,000 annual Matched funding scheme
- + Two ‘Giving back days’ per employee each year to volunteer in their local community
- + Group CSR Committee – with 17 members across all our businesses and locations who manage central funds and allocations
- + Significant veterans’ and Armed Forces charities engagement – for example, we became a corporate sponsor of Pups4Patriots who rescue qualified shelter dogs and train them to offer the best possible assistance to veterans with Post-Traumatic Stress (PTS) and Traumatic Brain Injury (TBI)

Board engagement

Direct

- + Received a presentation from our CSR Committee Chair on progress of CSR initiatives, and discussed and approved sustainability measures and goals for 2022 and 2024

Working with our stakeholders (s172)

continued

**Investors**

2024 Goal: Deliver outstanding through-cycle value for shareholders, through effective execution of Ultra's strategy.

Key performance measures

- + Improved ROIC to 21.2% (2020: 20.0%)
- + Improved order book growth to +22% (2020: +5.9%)
- + Organic sales growth was 4.2%
- + Improved working capital turns to 12.3x

Stakeholder feedback

- + Proposed acquisition of Ultra which 99.86% of shareholders voted for
- + Feedback regarding Ultra's progress towards meeting the Hampton-Alexander target of 33% of women on the Board

2021 progress

- + Core markets continuing to grow, driven by increasing near-peer threats
- + Fourth consecutive year of robust organic revenue growth
- + Operational and financial improvement delivered for all stakeholders

How Ultra engages

- + Significant shareholder engagement around the acquisition of Ultra in addition to normal practice IR activities including:
 - + Results roadshows and investor meetings with CEO, CFO and Investor Relations
 - + Annual General Meeting
 - + Investor calls and briefings

Board engagement**Direct**

- + Private and institutional investor meetings organised with Directors as requested
- + Investor presentations by the CEO and CFO following annual results, with meetings organised upon request after the recommended offer from Advent was announced
- + Engagement with shareholders regarding Ultra's commitment to meeting the Hampton-Alexander targets (put on hold during the acquisition related offer period)

Principal board decisions**Offer from Advent**

On 16 August 2021, we announced that we had reached agreement with the Board of Cobham Ultra Acquisitions Limited, a wholly owned indirect subsidiary of Cobham Group Holdings Limited ("Cobham") on the terms and conditions of a recommended all-cash acquisition of the entire issued, and to be issued, ordinary share capital of Ultra by Cobham (the "Acquisition"). Under the terms of the proposed Acquisition, each Ultra shareholder will be entitled to receive £35.00 per share ("Offer Price"). The Offer Price represented a 63.1% uplift to the mid-market closing share price of £21.56 as at 24 June 2021, being the last business day before the commencement of the offer period.

In reaching this decision, the Board considered the implications of the Acquisition for each stakeholder group, in particular our employees, customers, suppliers, communities and our investors. The Board took into account Advent/Cobham's statements and commitments to Ultra's workforce – for example, commitments around no site closures – and only recommended the offer once consultation with the pension trustees was complete. The Board also agreed non-financial terms and commitments in a Cooperation Agreement which provides undertakings to protect the interests of Ultra's key stakeholders, including the UK Government, that would apply immediately following completion of the Acquisition.

Having been advised by the Company's financial advisers that the terms of the Acquisition were considered to be fair and reasonable, the Board recommended the Acquisition to shareholders via a court-sanctioned scheme of arrangement (the "Scheme"). The Scheme was overwhelmingly approved by the Company's shareholders in October 2021 and now awaits final Government approval. The Ultra Board is committed to working with Advent/Cobham and other relevant stakeholders towards satisfaction of the outstanding conditions of the acquisition.

Further information regarding the terms of the Acquisition can be found in the Rule 2.7 Announcement and Cooperation Agreement, both dated 16 August 2021, and in the Scheme Document dated 8 September 2021, which are available to download on our website www.ultra.group.

Sustainability plan



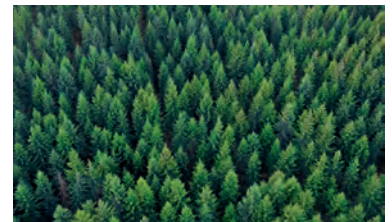
The Board recognises that the way we do business is as important as what we do. Sustainability is embedded in our core business goals which are measured through our KPIs and therefore are directly linked with targets for remuneration and reward across our leadership teams. We have made substantial progress across all our four Positive Force pillars in 2021:

- + Protecting our planet and society
- + Supporting our people
- + Giving back
- + Doing the right thing

The Board has played a particularly active role in supporting our Diversity, Equity and Inclusion agenda with Board members taking part in Employee round-table discussions on gender balance, personal experiences of being in a leadership role from a minority background and women's leadership.

The Board also supported and endorsed the extra work which has been completed during the year to establish a journey for Ultra to become net zero and increased environmental disclosure in our annual Sustainability Report, they received regular updates on progress from Ultra's CSR Committee Chair and provided input and guidance at each stage.

Long-term implications: The Board is aware that Ultra's CSR goals are key to our future success and has placed significant emphasis on how Ultra can continually improve our impact on our local communities, environment and employees. Through our sustainability plan explained on pages 24-41 and in our separate Sustainability Report which can be found on www.ultra.group, employees now have the ability to give back to their local communities through Ultra's giving back framework, support the environment through Ultra Health, Safety and Environment initiatives, and take part in regular health, wellbeing and diversity improvements through employee resource groups.



Our business model

How we create value for our stakeholders

What we do

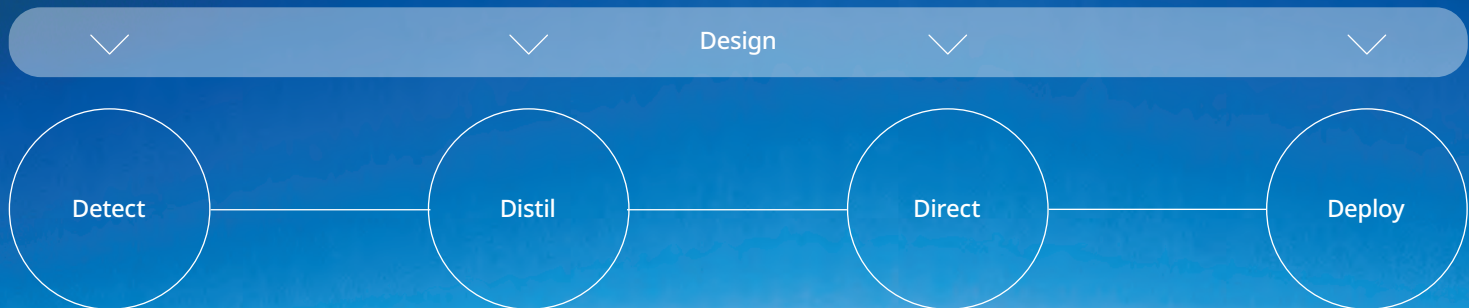
We are a trusted partner in the key elements of mission-critical and intelligent systems.

We design high-integrity sensors that operate in harsh environments to detect discrete data points in a sea of noise. Our cutting-edge processing capabilities will then distil these data points into relevant, often mission-critical parcels of information. We use secure, encrypted forms of proprietary communication to direct the parcels of information between the data source to users at central locations and operators at the tactical edge where our suite of competencies will help identify the most appropriate response to deploy.

Our purpose

Our Company purpose of 'Innovate today for a safer tomorrow' lies at the heart of Ultra's value proposition and everything we do. Innovation is what enables us to develop outstanding solutions to the complex problems our customers share with us, and deliver the technologies that help create a safer tomorrow.

We deliver this purpose through innovation in our technologies and our openness to searching for new ways to deliver outstanding solutions to our customers' most complex problems in defence, security, critical detection and control environments. By providing them with the insight, technology and services they need to perform at their best, we help them make the world a safer place, tackling some of the biggest challenges the world is facing.



Who we work with

We work directly with the US DoD and UK MoD and with the world's major prime contractors.

Direct defence sales to the US DoD and UK MoD accounted for 35% of our revenue in 2021.

Indirect sales to the DoD and MoD accounted for an additional 25%. We have high visibility of future revenues with 78% opening order cover for 2022. Typically, our defence contracts will progress through a development stage, then low-rate initial production, sometimes followed by full-rate production and aftermarket sales.

What makes us different

- + An agile player in growing markets with opportunities for share gain
- + Sustainable technology and cost advantage
- + We work in the priority growth areas of defence spend
- + Capabilities to address areas of future customer focus:
 - Maritime, near-peer threats, particularly ASW
 - Multi-domain, real-time, on-demand, secure information delivery in a contested environment
 - Delivering greater functionality and capability in a continually reducing size, weight and power envelope
 - Leading software, data processing and algorithm capability
 - Robust business model with good visibility from long-term contracts and a lag to US defence outlays
- + Asset-light and well diversified

Where we operate

- + 'Five-eyes' defence (USA, UK, Canada, Australia and New Zealand) in maritime, communications and intelligence domains
- + Other defence markets where we can apply modular solutions
- + Other selected, highly regulated and harsh environment detection and control markets

Our value proposition

Ultra's strategy and goals are based around our five stakeholder groups:

 **Employees**

 **Customers**

 **Suppliers**

 **Communities**

 **Investors**

For each group Ultra has a value-creation goal and yearly targets to align the organisation behind our multi-stakeholder value-generation goals.

 Working with our stakeholders **pages 12-14**

Key performance indicators

How we measure our success

+ We are actively overseeing performance of our Operating Business Units, with improving operational oversight driving operational performance.

+ Each Strategic Business Unit reports a monthly balanced scorecard to the Executive Team for review. These include KPIs against our 2024 goals, aimed at improving performance for employees, customers, suppliers, communities and investors.

+ Our first resource allocation priority is reinvestment into innovation through technology, people and capabilities to ensure that we meet our purpose of innovating for a safer tomorrow.

Organic and underlying measures are defined on pages 145 and 146. See note 2 for reconciliations to equivalent statutory measures.

FINANCIAL

KPI	What is it and how are we doing?	Associated risks (Principal risks in bold)	Associated stakeholder goal	Relevance to Executive Remuneration												
Organic order book growth	<p>Organic order book growth compared with the prior year was +22.0%.</p> <table border="1"> <tr><th>Year</th><th>Growth</th></tr> <tr><td>21</td><td>22.0%</td></tr> <tr><td>20</td><td>5.8%</td></tr> <tr><td>19</td><td>10.7%</td></tr> <tr><td>18</td><td>5.2%</td></tr> <tr><td>17</td><td>16.8%</td></tr> </table>	Year	Growth	21	22.0%	20	5.8%	19	10.7%	18	5.2%	17	16.8%	<ul style="list-style-type: none"> Defence Sector Cycle Risk Geo-political Risk 	<p> Investors</p> <p>Deliver outstanding, through-cycle value for shareholders through effective execution of Ultra's strategy.</p>	Strategic objectives criteria
Year	Growth															
21	22.0%															
20	5.8%															
19	10.7%															
18	5.2%															
17	16.8%															
Organic revenue growth	<p>Organic revenue growth compared with the prior year was +4.2% (2020: +5.2%).</p> <table border="1"> <tr><th>Year</th><th>Growth</th></tr> <tr><td>21</td><td>4.2%</td></tr> <tr><td>20</td><td>5.2%</td></tr> <tr><td>19</td><td>6.8%</td></tr> <tr><td>18</td><td>2.2%</td></tr> <tr><td>17</td><td>-3.3%</td></tr> </table>	Year	Growth	21	4.2%	20	5.2%	19	6.8%	18	2.2%	17	-3.3%	<ul style="list-style-type: none"> Programme Risk Recruitment and Retention Risk Supply Chain Risk 	<p> Investors</p> <p>Deliver outstanding, through-cycle value for shareholders through effective execution of Ultra's strategy.</p>	Long-Term Incentive Plan criteria
Year	Growth															
21	4.2%															
20	5.2%															
19	6.8%															
18	2.2%															
17	-3.3%															
Through-cycle cash conversion	<p>Underlying operating cash conversion is a simple yet reliable measure of cash generation, which represents the major element of the Group's short-term incentive bonus scheme.</p> <table border="1"> <tr><th>Year</th><th>Conversion</th></tr> <tr><td>21</td><td>86%</td></tr> <tr><td>20</td><td>93%</td></tr> <tr><td>19</td><td>73%</td></tr> <tr><td>18</td><td>79%</td></tr> <tr><td>17</td><td>97%</td></tr> </table>	Year	Conversion	21	86%	20	93%	19	73%	18	79%	17	97%	<ul style="list-style-type: none"> Programme Risk Governance, Compliance & Controls 	<p> Investors</p> <p>Deliver outstanding, through-cycle value for shareholders through effective execution of Ultra's strategy.</p>	Average working capital Turn in annual bonus
Year	Conversion															
21	86%															
20	93%															
19	73%															
18	79%															
17	97%															
ROIC	<p>A revised and simplified ROIC measure was established in 2019. This is calculated as underlying operating profit as a percentage of invested capital (average of opening and closing balance sheets). Invested capital is defined as net assets of the Group, excluding net debt and lease liability, pension obligations, tax and derivatives. This allows ROIC to be calculated on the operating assets of the business within the control of management.</p> <table border="1"> <tr><th>Year</th><th>ROIC</th></tr> <tr><td>21</td><td>21.2%</td></tr> <tr><td>20</td><td>20.0%</td></tr> <tr><td>19</td><td>17.8%</td></tr> <tr><td>18</td><td>16.2%</td></tr> </table>	Year	ROIC	21	21.2%	20	20.0%	19	17.8%	18	16.2%	<ul style="list-style-type: none"> Bid and Contract Risk Programme Risk Governance, Compliance & Controls Supply Chain Risk 	<p> Investors</p> <p>Deliver outstanding, through-cycle value for shareholders through effective execution of Ultra's strategy.</p>	Long-Term Incentive Plan criteria		
Year	ROIC															
21	21.2%															
20	20.0%															
19	17.8%															
18	16.2%															
Organic underlying operating profit growth	<table border="1"> <tr><th>Year</th><th>Growth</th></tr> <tr><td>21</td><td>8.0%</td></tr> <tr><td>20</td><td>6.2%</td></tr> <tr><td>19</td><td>2.9%</td></tr> <tr><td>18</td><td>-4.3%</td></tr> <tr><td>17</td><td>-7.2%</td></tr> </table>	Year	Growth	21	8.0%	20	6.2%	19	2.9%	18	-4.3%	17	-7.2%	<ul style="list-style-type: none"> Bid and Contract Risk Programme Risk Governance, Compliance & Controls Supply Chain Risk Recruitment and Retention Risk 	<p> Investors</p> <p>Deliver outstanding, through-cycle value for shareholders through effective execution of Ultra's strategy.</p>	Long-Term Incentive Plan and annual bonus criteria
Year	Growth															
21	8.0%															
20	6.2%															
19	2.9%															
18	-4.3%															
17	-7.2%															

OPERATIONAL

KPI	What is it and how are we doing?	Associated risks (Principal risks in bold)	Associated stakeholder goal	Relevance to Executive Remuneration
Employee Engagement	<p>The results of our employee engagement survey</p> <p>21 67.7%</p> <p>20 75.5%</p> <p>19 70.0%</p>	<p> Recruitment and Retention Risk</p>	<p> Employees</p> <p>Create a dynamic, inclusive and inspiring work environment that attracts, develops and retains the best</p>	Strategic objectives criteria
On-time delivery	<p>Percentage of production contracts delivered on time from the Group</p> <p>21 85.2%</p> <p>20 82.8%</p> <p>19 76.2%</p>	<p> Programme Risk</p> <p> Supply Chain Risk</p> <p> Recruitment and Retention Risk</p>	<p> Customers</p> <p>Partner with customers as preferred suppliers delivering innovative solutions that create 'win-win' outcomes for all parties</p>	Strategic objectives criteria
Health and Safety/near miss reports	<p>The number of reportable accidents per 1,000 employees</p> <p>21 0.4%</p> <p>20 0.5%</p> <p>19 0.7%</p> <p>18 0.6%</p>	<p> Health and Safety Risk</p>	<p> Communities</p> <p>To conduct business in an ethical, safe and sustainable way, acting as a positive force and making an active contribution to our communities</p>	Strategic objectives criteria
Solution vitality index	<p>Total revenue of new solutions over the last five years versus overall Group revenue. This is a measure of our ability to deliver new solutions and invest in the right places which deliver growth. This replaces our Internal R&D KPI</p> <p>21 15%</p> <p>Not previously measured</p>	<p> Programme Risk</p>	<p> Customers</p> <p>Partner with customers as preferred suppliers delivering innovative solutions that create 'win-win' outcomes for all parties</p>	Strategic objectives criteria
Market share	<p>Market share of our addressable markets. Our core focus is on the Maritime and Intelligence & Communications markets. Our addressable market share (measured using organic revenue in the year)</p> <p>+ Maritime: 30.4% (2020: 31.1%)</p> <p>+ Intelligence & Communications 7.3% (2020: 7.5%)</p> <p>+ Critical Detection & Control: 13.1% (2020:14.0%)</p>	<p> Bid and Contract Risk</p> <p> Programme Risk</p> <p> Recruitment and Retention Risk</p>	<p> Customers</p> <p>Partner with customers as preferred suppliers delivering innovative solutions that create 'win-win' outcomes for all parties</p>	Strategic objectives criteria
Reducing emissions	<p>Reducing Scope 1 to 3 greenhouse gas (GHG) emissions relative to 2019 baseline (Scope 1 and 2 only) for tCO₂e/£m of revenue.</p> <p>Our target for 2021 was to reduce tCO₂e/£m by 10% vs 2019, and we delivered a reduction of 24% vs 2019.</p> <p>21 13.80</p> <p>20 15.60</p> <p>19 18.19</p>	<p> Governance, Compliance & Controls</p> <p> Environmental Risk</p>	<p> Communities</p> <p>To conduct business in an ethical, safe and sustainable way, acting as a positive force and making an active contribution to our communities</p>	Strategic objectives criteria

Our target markets

Maritime

Five-year expected market CAGR 2–4%

Anti-submarine warfare is adapting to meet the challenges of increased near-peer threats and their sophisticated kinetic weapons that are capable of being launched from sea. This is driving demand from allied forces for anti-submarine expendables, warfare systems and surface/sub-surface system infrastructure. This relates both to new and existing capability where Ultra is well represented. For example, submarine hunting patrol aircraft like the P-8 where an additional 100+ aircraft are likely to be procured over the next ten years. This is driving significant growth in Ultra's core market with US DoD sonar outlays likely to exceed 6% CAGR to 2025.

As Ultra's customers seek to develop and adopt a more integrated and distributed sensor framework approach to undersea surveillance and ASW, Ultra also has a unique position as a leader in underwater expendables, sonar systems, sub-systems, surface radar markets and supportive mission technology, all of which will be needed to provide this architecture of tomorrow.

Finally, the recent establishment of the AUKUS treaty and development of a multi-domain architecture under 'Project Overmatch' (the US Navy's contribution to the Pentagon's Joint All Domain Command and Control effort) demonstrate the increasing importance of both joint interoperability and interchangeability within and across allied forces. Ultra is well positioned to support this as a provider of multi-sensor, multi-platform anti-submarine warfare capability connecting all underwater sensors in development of a common operating picture. From adaptive, unmanned platforms to hull mounted and expendable sensors, Ultra is creating the infrastructure to optimise size, weight and power while supporting sensing, connectivity and decision support applications.

Intelligence & Communications

Five-year expected market CAGR 3–5%

Across the 'five-eyes' nations, national security forces are moving to counter threats from near-peer adversaries by reshaping defence architectures to support multi-domain operations. Ultra's customers are focused on joint, all domain operations which will largely refresh command and control infrastructures to create a single common operating picture that enables real-time decision-making across forces and domains. As the future battlespace shifts to a more contested environment, solutions that provide near-instantaneous situational awareness and secure, resilient communications to the war fighter are more critical. This change will drive solutions that work across land, sea and air platforms as well as new intelligence aids that support rapid decision-making.

As the next generation of the integrated battlespace is constructed, decision support mechanisms will be required to enable the war fighter from the command centre to the tactical edge. Ultra's core competencies and investments in communications systems such as tactical radios, command and control systems and encryption capabilities give it a highly competitive position to integrate solutions across platforms and forces. In addition, Ultra's investments in advanced analytics and AI/ML applications for intelligence processing provide innovative decision support capabilities for the integrated battlespace.



Critical Detection & Control

Five-year expected market CAGR 2–4%

Aerospace market trends

Despite the impact of Covid-19, which significantly impacted the commercial aerospace industry, PCS's positions on military platforms such as the F-35 and the Eurofighter Typhoon have helped mitigate the current trough in the commercial aerospace market, which is expected to recover with a 14.5% CAGR over the next five years. The outlook for commercial and military aerospace remains strong given expected procurements in new aircraft, upgrading ageing fleets and the development of indigenous platforms. Ultra's innovative and high-integrity control technologies are ideally suited to the growing need for highly reliable, mission- and safety-critical sensing and aircraft control systems in an increasingly electric and data-driven operating environment.

Forensic Technology market trends

Solving gun crime and providing investigative leads spanning local, municipal, national and international networks requires effective and fast solutions. The latest innovations in 3D, quantum microscopy are unlocking the potential for objective methods to assist expert conclusions in court on the potential match between firearms and bullets. Ultra's Forensic Technology business remains the market leader in helping its customers develop preventative gun crime strategies which not only enable them to respond more quickly to incidents but also increase their lead generation abilities. The provision of forensic technology intelligence remains at the forefront of building these strategies. In conjunction, Ultra is developing artificial intelligence, machine learning and cloud-based technologies which are expected to be gradually introduced to the market to improve reliability, speed and results.

Energy market trends

Although Covid-19 has negatively impacted the nuclear energy sector in 2020 and early 2021, global demand is expected to recover and continue to increase in the medium and long term. Coupled with a growing need to decarbonise power generation and ensure domestic energy security, this is creating increased investment need in the civil nuclear power market. Ultra provides critical safety systems and sensor capabilities to nuclear facilities around the world to support that investment, safeguarding nuclear workers and the public. Ultra is also positioned at the forefront of emerging technologies being developed for increased efficiency and decreased cost of nuclear power generation, such as advanced reactor technologies.

Strategic Business Unit review

Maritime



Our market-leading mission systems and application engineering solutions deliver dominance in the maritime domain. Our broad portfolio of capabilities is operational on naval fleets across the USA, UK and allied navies worldwide. We continue to develop advanced specialist systems to deliver defensive warfighting edge in the modern maritime and underwater battlespace. These provide critical operational advantages to our ‘five-eyes’ defence customers across surface, sub-surface and unmanned platforms.

Performance summary

Maritime’s order book grew organically 26.3% to £683.6m (2020: £539.6m), growing significantly faster than our addressable maritime market which grew c.3% between 2020 and 2021. We saw strong order intake for torpedo defence systems from India, sonar technology for the Canadian Surface Combatant, torpedo nose arrays and orders for Next Generation Surface Search Radar (NGSSR) for the US Navy.

Revenue grew 6.3% organically, with increasing sales particularly of Next Generation Surface Search Radar and torpedo nose arrays. Demand throughout the year was strong, but sales growth was negatively impacted by supply chain interruption and extending lead times, which were particularly disruptive in the last quarter.

Underlying operating profit grew 8.6% organically to £59.4m (2020: £58.6m). Maritime’s underlying operating margin improved to 15.0%, supported by improved operational gearing in our growing Naval Systems business, transformation benefits and £4m of profit from a one-off IP licence, all partly offset by H1 programme issues, a recurrence of pandemic-related supply chain interruptions in Q4 and £2.7m of extra organic investment into internal R&D, primarily to support development of the next generation of Ultra sonobuoys. Statutory operating profit grew by 4.3% to £58.3m (2020: £55.9m) and statutory operating margin improved to 14.7% (2020: 14.3%).

ORDER BOOK

- + **Sonar Systems** continues to see strong demand with key strategic orders won in 2021, including the Indian Navy Integrated Anti-Submarine Warfare Defence Suite worth c.£60m and continued orders under the Canadian Surface Combatant programme.
- + **Sonobuoy Systems** was awarded c.£90m of orders under the ERAPSCO 5-year Sonobuoy IDIQ as well as an important continuation contract worth c.£30m for sonobuoys to the UK MoD.
- + **Naval Systems and Sensors** saw strong orders on the Next Generation Surface Search Radar production programme for the US Navy, important new orders under the US Navy NIXIE programme to deliver electro-acoustic towed torpedo countermeasure systems and continued strong orders for countermeasure arrays.
- + **Signature Management and Power** saw continued demand for replacement SMAP products on the UK Vanguard and US Virginia class nuclear powered submarines in addition to the key strategic award on the UK Submersible Ship Nuclear (Maritime Underwater Future Capability). Strong demand continues for our Human Machine Interface (HMI) capabilities, including a major award on US Army Bradley IFV, which enables control interface systems for the next-generation platforms.



FINANCIAL RESULTS

£m	2021	2020	2020 for organic measure	Growth	Organic growth %
Order book	683.6	539.6	541.1	+26.7	+26.3
Revenue	395.4	391.8	372.0	+0.9	+6.3
Underlying operating profit	59.4	58.6	54.7	+1.4	+8.6
Underlying operating margin	15.0%	15.0%	14.7%		
Statutory operating profit	58.3	55.9		+4.3	
Statutory operating margin	14.7%	14.3%			

Strategic Business Unit review continued

Intelligence & Communications



We are experts in mission-critical, multi-domain intelligence, communications, command and control, cyber security and electronic warfare solutions. Our innovative solutions deliver information advantage globally through the intelligent application of integrated technology.

Performance summary

Intelligence & Communications order book grew organically 35.4% to £323.0m (2020: £238.6m) primarily due to strong orders for ORION radios, our UK cyber and command and control solutions. The larger orders won in the year include:

- + ORION radio orders worth \$140m from the US Marines, US Army and US Navy
- + Ongoing sustainment awards for ADSI from the USAF and other key international customers
- + Contracts to provide integrated Command and Control systems for Tunisia and Romania collectively worth \$14m and \$9.1m for development of Marine Air Defence Integrated System (MADIS) for Ground Based Air Defence (GBAD) future weapons system
- + Our Cyber business won £83m in orders with major contract wins including with the UK MoD

Revenue grew organically by 5.5% to £241.3m (2020: £241.0m), largely driven by excellent sales of ORION radios and improved demand for our Cyber solutions.

Underlying operating profit grew organically by 20.7% in the year to £37.9m (2020: £33.5m) as a result of revenue growth and a much-improved underlying operating margin of 15.7%, an organic increase of 2.0 percentage points. Operating margin improved as a result of favourable product mix and operational gearing with excellent operational performance across the Business Unit, particularly in our Cyber business. Statutory operating profit grew by 30.4% to £30.9m (2020: £23.7m) and statutory operating margin improved to 12.8% (2020: 9.8%).

ORDER BOOK

The division won a number of key contracts during the year, and the order book grew organically by 35.4%. The larger orders won in the year include:

+ Communications

Orders in 2021 were £140m with major contract wins including key orders from the US Marines Core, US Army Net Mod and US Navy ATCS contract. The OBU significantly diversified its customer base in 2021.

+ C2 & intelligence

Continues to expand its presence in the situational awareness space with ongoing sustainment awards for its ADSI from the USAF and other key customers internationally with a number of awards including an award from the Taiwan Navy. We were also awarded multiple contracts to provide integrated command and control systems for Tunisia and Romania collectively worth \$14m and \$9m for development of Marine Air Defence Integrated System (MADIS) for Ground Based Air Defence (GBAD) future weapons system.

+ Specialist RF

Continues to have a strong position on key US DoD programmes providing key telemetry, tactical and electronic warfare components to our prime partners with ongoing awards for programme of record. In addition, we were awarded a contract for EWST (Electronic Warfare Simulation Technology) with Airbus for Germany Defence forces in the amount of £5m.

+ Cyber

Won £83m in orders with major contract wins including the UK MoD contract.



FINANCIAL RESULTS

£m	2021	2020	2020 for organic measure	Growth	Organic growth %
Order book	323.0	237.1	238.6	+36.2	+35.4
Revenue	241.3	241.0	228.7	+0.1	+5.5
Underlying operating profit	37.9	33.5	31.4	+13.1	+20.7
Underlying operating margin	15.7%	13.9%	13.7%		
Statutory operating profit	30.9	23.7		+30.4	
Statutory operating margin	12.8%	9.8%			

Critical Detection & Control



Precision Control Systems (PCS) designs and supplies market-leading safety and mission-critical solutions, primarily to the military and commercial aerospace markets.

Forensic Technology is the world leader in ballistic identification and forensic analysis solutions.

Energy designs and supplies safety-critical sensors and systems, and selected products for nuclear and industrial applications.

Performance summary

The order book in Critical Detection & Control grew organically by 2.5%, with strong orders in our Precision Controls business for military aircraft, particularly the F-35, and for ballistic identification products. Key orders in Forensic Technology included a new contract win in Brazil and continued good orders from the US Bureau of Alcohol, Tobacco, Firearms and Explosives.

Organic revenue declined slightly by 0.8% to £214.0m (2020: £227.0m), a good performance in light of the full year's impact of weak commercial aerospace demand, particularly given PCS's position on 787 aircraft. This decline was mostly offset by Forensic Technology growing organically 18.2% and improved sales in our Energy business from a low 2020 base.

Underlying operating profit decreased organically by 4.7% to £32.3m (2020: £34.0m). Underlying operating margins decreased to 15.1% vs 15.7% in 2020, mainly due to:

- + Adverse mix and a one-off increase in inventory provision, both primarily relating to the decline in commercial aerospace sales compared to the prior year; and
- + Partially offset by improved gross and net margins in Forensic Technology due to improved operational gearing on higher revenue and good progress in PCS improving productivity through continuous improvement.

Statutory operating profit declined by 1.0% to £29.7m (2020: £30.0m) and statutory operating margin improved to 13.9% (2020: 13.2%).

The programme to consolidate our two UK PCS facilities into one state-of-the-art location in Cheltenham is progressing well, with the building works complete and the transfer of product expected to complete in the first half of 2022.

ORDER BOOK

PCS

Saw continued good top-up orders for the F-35 programme across HiPPAG, Engine Ice Protection System (EIPS), EIPS Harnesses and newly introduced high pressure dynamic interconnects. In addition, strong Typhoon platform orders driven by the Quadriga programme (Germany) and initial funding for new development activities on the A330 and A400M platforms.

Forensic Technology

Received an order from the US Bureau of Alcohol, Tobacco, Firearms and Explosives for additional IBIS products and SafeGuard services to be delivered in 2021 and 2022, as well as multiple new orders from customers in Thailand, the Netherlands, Chile and Uganda for IBIS products and SafeGuard services. In particular, Ultra FT won a \$24m order from Brazil to deliver 37 new IBIS sites. Contract extensions were also received from the South African Police Service (SAPS) and customers in Canada, UK, Australia and Hong Kong.

Energy

Won a substantial new programme with Costain supporting Atomic Weapons Establishment for project MENSA Health Physics System. Ultra Energy also won initial contracts for design consultancy with Kairos Power and USNC (Ultra Safe Nuclear Corporation) positioning us in the emerging Advanced Reactor market. Work has also started with Blue Origin further establishing Ultra in the rocket engines market.



FINANCIAL RESULTS

£m	2021	2020	2020 for organic measure	Growth	Organic growth %
Order book	294.3	287.5	287.0	+2.4	+2.5
Revenue	214.0	227.0	215.8	-5.7	-0.8
Underlying operating profit	32.3	34.0	33.9	-5.0	-4.7
Underlying operating margin	15.1%	15.0%	15.7%		
Statutory operating profit	29.7	30.0		-1.0	
Statutory operating margin	13.9%	13.2%			

A Positive Force

Our commitment to a sustainable future

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OUR VISION

Our commitment to a sustainable future – enabling us to conduct our business in an ethical, safe and sustainable way. Ensuring we: protect our planet and society, support our people and contribute positively to the communities in which we operate.

WHAT DOES 'A POSITIVE FORCE' MEAN TO OUR ULTRA STAKEHOLDERS?



Employees

A Positive Force inspires and supports our employees allowing them to engage in CSR initiatives and increase Ultra's social responsibility.



Customers

A Positive Force helps demonstrate to our customers that we aim to deliver products and services in an ethical, safe and sustainable way.



Communities

A Positive Force engages with our communities, striving to operate in a sustainable manner, minimising our environmental impact, and shows that we are an active positive contributor to our communities.



Suppliers

A Positive Force represents what it means to work with us, our expectations regarding social responsibility, and that we want to source from a responsible and sustainable supply chain.



Investors

A Positive Force communicates Ultra's commitment to being a sustainable business to deliver value to shareholders long term.

A POSITIVE FORCE

The below commentary provides a summary of Ultra's ESG activities in 2021. For more detail please read our 2021 Sustainability Report on www.ultra.group

At Ultra we partner with our customers, applying technology and innovation, to allow them to solve mission-critical problems that protect the societies in which we live, and make the world a safer place. This is why we exist – to innovate today for a safer tomorrow.

Despite the global challenges of the past few years, we have not lost sight or pace in our ESG ambitions which focus on four key pillars.

This year we have incorporated Governance, 'Doing the right thing' as our fourth critical pillar. An important step in affirming that the way in which we do business is as important as what we do.

Sustainability is embedded in our core business goals which are measured through our KPIs – and therefore are directly linked with targets for remuneration and reward across our leadership teams.

WE MADE SUBSTANTIAL PROGRESS ACROSS ALL OUR FOUR POSITIVE FORCE PILLARS IN 2021

Protecting our planet and society
(Environment + defence)

Protecting our planet includes both reducing our environmental footprint but also protecting the societies and world that we live in. The increase of near-peer threats is amplifying the need for allied defence investments in the 'five-eyes' nations and Ultra is a key part in creating the technologies that keep us all safe. Within the environmental space we have focused on our global alignment to ISO 14001 Environment and ISO 50001 Energy Management Systems, waste reduction and carbon reduction plans, with Ultra's commitment to and upcoming signature of the United Nations 'Race to Zero' underpinning this.

+ p26

Supporting our people
(Employees, customers, supply chain)

As part of our Supporting our people pillar, Ultra was awarded the highest level of employer recognition, the UK Armed Forces Covenant Employer Recognition Scheme Gold Award. Together with continued engagement with veterans' charities we have established a Veterans Committee. This further connects Veterans and Reservists across the Group, creating a global community and aligns well with our 'Uniquely Ultra' diversity equity and inclusion workstream. To strengthen these activities, we are exploring opportunities to further engage with our customers' navies through two-way secondment opportunities.

+ p32

Giving back
(Charity and community)

In 2021, considerable progress has been made through our Giving back activities. Community volunteering applications have grown despite Covid-19 being prevalent in most of our regions, with a total of more than 2,000 hours contributed across all territories in 2021. Where possible, the team orientated events centred around our four pillars and included environmental clean-ups, local charity fundraising and education outreach. In 2021, Ultra contributed £312,000 via a combination of employee fundraising, Match Funding, and local business donations. In the last two years this amounts to more than £500,000 to charitable causes (including the Ultra 2020 Covid-19 fund).

+ p38

Doing the right thing
(Governance)

Corporate Governance is at the heart of everything we do – so in 2021 we included our Positive Force fourth pillar – Doing the right thing.

Our additional focus in this area demonstrates that it is not only important what we do, but also how we do it, in line with our ASPIRE values. We actively welcome advancements in governance and recognise its increasing importance in meeting with our obligations. We receive regular corporate governance updates from our Company Secretarial team so to ensure adherence to, and active promotion of, all aspects of our Code of Conduct, throughout our workforce and supply chain.

We are actively promoting our fourth pillar as an integral part of our Positive Force framework.

+ p39

A Positive Force

continued

Protecting our planet and society

(Environment
+ defence)

Protecting our society

We live in an ever-changing, unpredictable, interconnected and risky world. Unfortunately, this can be seen by recent geo-political events such as Russia's invasion of Ukraine which demonstrates defence technologies are needed to preserve peace and democracy.

To protect our society in a sustainable way, our customers are seeking solutions to a constantly increasing range of problems that the rapidly expanding and evolving threat environment is creating.

These defence technologies help governments:

- + Protect their societies from violent invasion and loss of freedom
- + Preserve democracy, tolerance and peace
- + Create, sustain and protect critical infrastructures
- + Create and protect systems which support societies and protect culture
- + Secure space and protect national borders for people and places to evolve
- + Protect society by finding and prosecuting perpetrators of gun crime.

At Ultra, we believe that this is the very definition of sustainability and what we partner with customers to deliver. Together with strong ethics, values and high levels of oversight and regulation, defence is therefore a key element in enabling the free world.



Carbon reduction (Race to Zero)

Ultra has made an internal commitment to become a net-zero organisation. We are now working to define the detailed ONE Ultra carbon reduction plan to achieve this. Once outlined, we will become a signatory to the 'Race to Zero' during 2022.

Since 2020 we have made progress on:

- + Measurement and reporting of carbon emissions Scope 3, see page 27
- + Quarterly environmental news bulletins across the Group reporting plans, and progress
- + Embedding the ONE Ultra approach of Avoid, Reduce, Reuse, Recycle and Offset
- + Meeting all reduction targets for waste and single-use plastics
- + Alignment and certification to ISO 14001 and ISO 50001
- + Reducing our site footprint across our regions – by 21,000 sq ft since 2019

Encouraging employees in the workplace to reduce carbon emissions

Initiatives include but are not limited to:

- + Switching off lights when not needed and/or installing light activating motion sensors
- + Switching off equipment, including PCs and laptops, when not in use
- + Print only when necessary
- + Elimination of paper copies of documentation on our shop floors
- + Avoid, Reduce, Reuse and Recycle wherever possible to eliminate waste
- + Working with our customers and suppliers to identify ways to reduce the environmental impact
- + Selecting sustainable materials as part of our product and building design and build process
- + Environmentally friendly transportation: car shares, electric cars, public transport, biking
- + Sustainable equipment refurbishment or replacement, look for energy-efficient and clean energy options

Climate Change, Energy and Emissions

Our Environmental Strategy

During our second full year of our ONE Ultra approach, we have focused on limiting the adverse impact of our business on the environment by:

- + Introducing common measures across Ultra to start to certify all our businesses

to global Environmental and Energy Management Standards

- + Updating and implementing our Environmental Policies which aim to reduce our impact on the environment – continuing with a ONE Ultra Packaging Policy
- + Reducing our waste and carbon emissions through sharing and implementing ongoing environmental initiatives across our businesses

Our environmental policy

Ultra's established environmental policy addresses compliance with environmental legislation, conformity with standards for waste disposal and noise, the economical use of materials and the establishment of appropriate environmental performance standards. Progress is monitored through annual reporting. Each site plans and manages compliance with environmental requirements and the processes for the storage, handling and disposal of hazardous or pollutant materials are reviewed on a continuous basis. Ultra is moving towards a global ISO 14001 certification unifying our environmental management system across our businesses.

In 2021, Ultra has continued the process of aligning our businesses worldwide to the ISO 50001 Energy Management standard, an international standard recognising organisations that enhance their energy performance by implementing an energy management system (EnMS) based on a model of continuous improvement. This activity will further support the reduction of Ultra's energy use, ability to identify new ways to reduce emissions through our whole supply chain and associated cost. The organisation will advance to global certification across every business in 2023.

2021 emissions

Greenhouse Gas Emissions

In 2021 Ultra's measured GHG emissions totalled 12,974 tonnes of CO₂ (tCO₂e) which, relative to revenue, equates to 15.3 tCO₂e per £m of revenue:

- + Scope 1 (direct fuel consumption and business vehicles) – 1,855 tCO₂e (14.3%)
- + Scope 2 (electrical power consumption) – 9,901 tCO₂e (76.3%)
- + Scope 3 (grey fleet business miles and business air travel elements) – 1,217 tCO₂e (9.4%)

This has resulted in a reduction to 11,756 tCO₂e in 2021 vs 15,010 tCO₂e in 2019 on a comparable basis, i.e. Scope 1 and 2 only; Scope 3 not measured in 2019 (2020 not comparable due

SECR AND ESOS COMPLIANCE

The Group falls into the Streamlined Energy and Carbon Reporting (SECR) framework, as well as the Energy Savings Opportunity Scheme (ESOS). ESOS phase 2 was completed in 2019 with phase 3 due by December 2023.

We have reported all emission sources under the Companies Act 2006 (Strategic Report and Director's Reports) Regulations 2013 as required. The Group can report figures below, calculated based on the GHG Protocol Corporate Standard using emissions factors from UK government-produced conversion 2021 factor guidance. Reporting corresponds with our financial year and reflects emissions from the leased, owned and controlled assets for which the Group is responsible.

The Group maintain Scope one (1), two (2) and three (3) emissions, which are generated from our offices, manufacturing sites and business owned or controlled vehicles, respectively. We also generate Scope 3 emissions from vehicles covered under "grey fleet" (personal cars used for business purposes), and for the first time, we have now included air travel.

We have calculated and reported our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition).

The reporting period is the financial year 2021, the same as that covered by the Annual Report and Financial Statements. The boundaries of the GHG inventory are defined using the operational control approach. In general, the emissions reported are the same as those which would be reported based on a financial control boundary. Emissions for previous years are retrospectively adjusted as and when more accurate data is provided.

Recorded energy consumption during the financial year was 43,479,318 kWh (43,479.3 MWh), equating to 12,974 tCO₂e, with a geographical consumption split of 26% UK, 65% USA and 9% in the rest of the world.

The following table provides 2021 and prior year comparative data, noting that Scope 3 emissions, which in 2020 only included grey fleet, were expanded in 2021 to also include air travel:

Year	Scope 1 tCO ₂ e	Scope 2 tCO ₂ e	Scope 3 tCO ₂ e	Total emissions tCO ₂ e	tCO ₂ e per £m revenue
2020	1,922	11,389	98	13,409	15.6
2021	1,855	9,901	1,217	12,974	15.3

to Covid-19). Relative to revenue, this resulted in 13.8tCO₂e/£m revenue in 2021 vs 18.2tCO₂e/£m revenue in 2019, a reduction of 24% against the target of 10%.

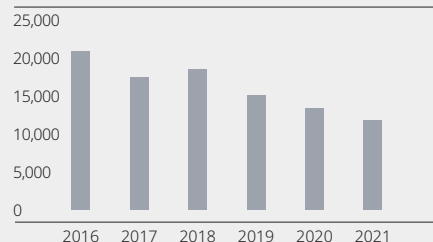
Figure 3 shows measured GHG emissions by Scope for 2021. GHG Figures 1 and 2 show combined Scope 1 and 2 emissions compared with prior years for tCO₂e and emissions relative to revenue (Scope 3 data not available for prior years). The declining trend in emissions from 2018 onwards reflects action to reduce emissions and activity changes resulting from Covid-19 in 2020 (and to a lesser degree 2021).

Safety, Health, Environment specific standards
Ultra has developed a global single environmental

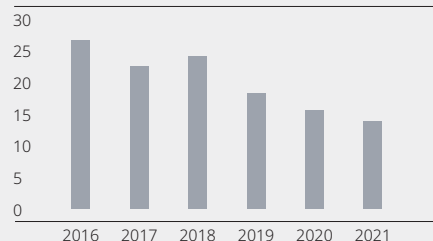
management system (EnMS). Ultra UK sites have achieved ISO 14001 certification. Alignment across our North America and Australia regions has been completed with certification planned for 2022. We recognise that most of the GHG Scope 1 and 2 is contributed by energy usage. Real-time data will enable us to realise efficiencies in reduction of energy consumption.

An environmental management system (EnMS) toolkit has been developed and will be launched across the organisation in 2022. This will allow all Ultra's UK businesses to align with ISO 50001 as a first step, with certification undertaken by year end. Implementation and alignment across our North America and Australian regions will be ongoing during 2022.

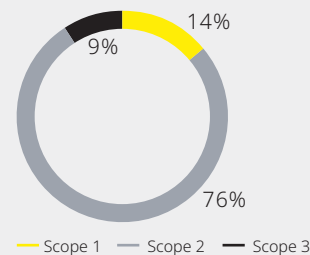
**FIGURE 1
COMBINED SCOPE 1 AND 2 EMISSIONS FROM ALL ULTRA BUSINESSES**



**FIGURE 2
COMBINED SCOPE 1 AND SCOPE 2 INTENSITY METRIC: tCO₂e/£M REVENUE**



**FIGURE 3
TOTAL EMISSIONS BY SCOPE tCO₂e**



A Positive Force Protecting our planet

continued

Energy efficiency measures undertaken 2021

The Group has been actively engaged in measures to reduce its energy and emissions, throughout 2020 and the current reporting period, as follows:

- + Moving our facilities to energy agreements sourced from clean energy when they expire
- + Replacing old halogen, T8 and inefficient lamps with low-energy LEDs
- + Investing in PIR (Passive Infrared) detectors connected to office lighting
- + Replacing ageing office equipment with energy-efficient products
- + Expanding video conferencing and online meetings (as opposed to face-to-face meetings)
- + Replacing older, inefficient boilers, along with older electricity water heaters
- + Revising our remote-working policies to enable employees to have a more flexible approach to their working day, while meeting our business needs
- + Investing in improvements to our employee connectivity and facilities which has demonstrably improved our teams' effectiveness
- + A new company car policy to encourage lowering emissions
- + Encouraging the move to hybrid and electric vehicles by instigating the associated infrastructure
- + Revised travel policies to refocus our team on essential travel only
- + Formalised guidelines addressing environment and sustainability in building refurbishments/ relocations

Ultra is committed to the Science Based Targets Initiative framework and has summarised our progress towards the Taskforce on Climate-related Financial Disclosures, as shown in the sustainability governance section on page 29 of this report.

Pollution, waste, biodiversity and habitat**Prevention of pollution**

The markets in which we operate are increasingly focused on sustainability and reduction of pollution. This is particularly evident in our Energy business which makes critical sensors and systems for nuclear power generation. We make every effort, where possible, to reduce adverse environmental impacts. Prevention of pollution at Ultra includes using resources and materials more efficiently, material and energy substitution, as well as reusing, recovering and recycling as much scrap and waste material as we can. We set ourselves measurable targets for the focus areas of decarbonisation, circular economy and transformation of the workforce. This ensures an effective operationalisation of sustainability, with clear responsibilities and processes. These activities are further reinforced by initiatives such as our single-use plastics reduction initiative and the creation of a ONE Ultra Packaging Policy.

Protection of the environment, biodiversity and restoration of natural habitats

Ultra recognises the importance of protection of the environment, of biodiversity, and the need for conservation and restoration of natural habitats. Ultra strives to not only limit our business impact on the environment but also support maintaining biodiversity.

In 2021, Ultra actively supported maintaining biodiversity by:

- + Continuing our Avoid, Reduce, Reuse, Recycle initiative across all our sites to reduce the amount of waste we contribute to landfill sites
- + Supporting local animal organisations to help preserve endangered species in our community spaces through protection and development of protected habitats – for example, the Kangaroo Pouch Animal Orphanage
- + Supporting biodiversity partnerships local to our businesses – for example, employee volunteering at local Wildlife Trust parklands

Ultra launched our ONE Ultra Single Use Plastics Policy in 2020.

Single-use plastic 2021 progress

- + 21 single-use plastic initiatives and improvements made globally
- + More than 36,000 face masks recycled
- + Ultra has committed to eliminating single-use plastic cutlery, plates, straws and cups by the end of 2022
- + Reduced our plastic consumption by over 75,000 items
- + More than £10,000 saved on purchasing plastic cups, cutlery and bottles every year going forward
- + Several Ultra sites have moved vending machines over to biodegradable cups, resulting in a reduction of 46,000 single-use plastic cups being used

Our technology and products**Our technology, products and the environment**

We are immensely proud of the work we do to protect military personnel, who risk their lives to protect us. Through our technology we keep societies safe, make the jobs that our military personnel do less risky and ensure that we are protecting our nations. Technology is at the heart of Ultra's mission to 'innovate today for a safer tomorrow'.

In every market where we operate, Ultra's work is about using our know-how and ingenuity to protect and defend what matters. We know that technology and harnessing technological innovation is key to supporting sustainable development. We are investing in our engineering teams across the Group, providing targeted training in sustainability in design, and we are always looking for new projects that support sustainable development. From a sustainability perspective, often, our projects require us to

upgrade systems or keep existing complex systems operational for decades without having a significant impact on our customers' operations. This approach typically saves time and money, and has a lesser impact on the use of the world's raw materials and production of waste.

Sustainable resources – our products

Opportunities to improve product differentiation through improved energy efficiency outcomes are a key part of our systems design partnering with customers and end users. Our 'A Positive Force' sustainability plan will seek to crystallise a wider opportunity to differentiate ourselves more widely within our sector, through living our values and embedding environment and sustainability factors into how we do business to meet the needs of our communities as one of our five key stakeholder groups.

Environmental considerations are made throughout a product's lifecycle, from concept through to disposal. All Ultra businesses ensure that their practices and processes consider the environment – but we recognise that there is more to do in our industry. Ultra expects all suppliers to fully comply with applicable laws and adhere to internationally recognised environmental, social and corporate governance standards. Adopting procedures and practices to minimise any negative impacts on the environment, we work with suppliers to reduce the impact of our products and to take account of environmental factors in the materials and components used. Controls are in place at sites to drive efficiency and minimise waste, which is disposed of appropriately using specialist contractors where necessary.

Those of our businesses that require use of hazardous substances, e.g. radioactive sources, as part of standard operations do so in line with local and government legislation and security aspects, which is monitored closely by compliance audits, executed by regulatory bodies.

TCFD COMPLIANCE

Compliance with TCFD requirements

We comply with the FCA's Listing Rule 9.8.6R(8) and with the TCFD's Recommendations and Recommended Disclosures as outlined in the narrative below, with the exception of the following specific disclosures:

Strategy 2b: *The organisations' disclosures should reflect a holistic picture of the interdependencies among the factors that affect their ability to create value over time. Organisations should describe the impact of climate-related issues on their financial performance (e.g. revenues, costs) and financial position (e.g. assets, liabilities). If climate-related scenarios were used to inform the organisation's strategy and financial planning, such scenarios should be described.*

Our climate risk assessment in 2021 ratified our recognition and assessment of five core climate risks for Ultra as identified below. Further work is now needed with expert advice and widened scenario testing to fully assess and disclose the financial implications, especially in relation to power and utilities costs, and the potential costs of implementing our climate strategy and net-zero plan. These pieces of work are planned to start in H1 2022.

Strategy 2c: *Organisations should describe how resilient their strategies are to climate-related risks and opportunities, taking into consideration a transition to a low-carbon economy consistent with a 2°C or lower scenario and, where relevant to the organisation, scenarios consistent with increased physical climate-related risks.*

In 2021 risk assessment work was undertaken which identified a potential exposure in the medium term of some of our operational sites to increased and more extreme weather events. In order to finalise our site resilience strategies for this risk, we will work with our site risk engineering and insurance partner in 2022 and 2023 to develop a site-by-site exposure and control requirement plan based on a range of climate change consequence scenarios. This will enable full assessment and disclosure of the resilience of our strategy in relation to this risk.

Metrics and Targets 4b: *Organisations should provide their Scope 1 and Scope 2 GHG emissions independent of a materiality assessment, and, if appropriate, Scope 3 GHG emissions and the related risks.*

While Ultra fully discloses Scope 1 and 2 emissions, we are in the process of expanding our capability to fully disclose Scope 3 emissions. Building on our Scope 3 disclosure of grey fleet and air travel emissions for 2021, work is being undertaken through 2022 to fully define Scope 3 metrics appropriate to Ultra and to implement mechanisms necessary to monitor and disclose them.

Metrics and Targets 4c: *Organisations should describe their key climate-related targets such as those related to GHG emissions, water usage, energy usage, etc. Organisations disclosing medium-term or long-term targets should also disclose associated interim targets in aggregate or by business line, where available.*

In 2021 Ultra made an internal commitment to become a net-zero organisation and is now working to define the detailed ONE Ultra carbon reduction plan to achieve this. We will not be able to set hard long-term GHG emissions targets, or the associated interim targets, until this work and work to expand our Scope 3 metrics coverage completes during 2022. In the meantime, we have set a year-on-year 10% GHG reduction-relative-to-revenue target for 2022, for Scope 1 and 2 and the elements of Scope 3 we are currently able to measure.

Governance

Progress to date: The Ultra Board has overall responsibility for how we identify and manage climate-related risks, delegated to the CSR (Corporate Social Responsibility) Committee which oversees our climate change strategy, programme and goals. The Board considers climate-related risks as part of its wider strategic risk review which is also taken into account in determination of risk appetite. In addition the Chair of our CSR Committee presented on CSR strategy, programme and goals during the year, with a cadence of future presentations twice a year.

The risk framework is linked to the financial statements testing with scenario and sensitivity testing of relevant principal risks in support of the viability and going concern statements approved by the Audit Committee. While climate risks are assessed as increasing, they do not yet feature as a principal risk for the Group; however, they will be included in this analysis if they are assessed as a principal risk in the future.

The Group Executive Committee manages our climate ambition and reduction targets and has oversight of compliance and performance against Ultra's climate objectives through the business performance reporting process and reports from the CSR Committee (three times in 2021).

The Group Chief Risk Officer and central Health Safety and Environment team work closely with the CSR Committee and support the businesses in identifying and managing climate-related risks and opportunities at Business Unit level.

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A Positive Force Protecting our planet

continued

TCFD COMPLIANCE continued

Strategy

Assessment of climate change risk has been undertaken looking at the short term (1–2 years), medium term (3–5 years) and long term (6 years plus), with the timeframes identified in each of the risks outlined below. The process of risk identification is summarised under the risk management section below.

Progress to date: Although recognised as an emergent and increasing risk in the medium to long term, our risk assessments indicate that climate change is not yet a principal risk due to the nature of our sector, markets and operational footprint, but an area of opportunity to mature our climate and CSR agenda against a backdrop of a low emissions/intensity business. The following key climate change risks/opportunities, specific to Ultra have been identified:

- + **Risk:** Stakeholder climate change and ESG strategies have a reduced business and investment appetite for businesses perceived as immature in management of impacts of climate change or insufficiently committed to stopping/reversing global warming (Medium level risk for the short to long term). Mitigating factors/strategies:
 - + Development of CSR and ESG strategy under recently established CSR Committee including a net zero emissions aim to be launched in 2022
 - + Customer climate and ESG focus currently low but expected to increase progressively post COP26
 - + Supply chain – currently ESG immature – new Code of Conduct for suppliers launched Q1 2022
 - + Employees/Communities adopting a high ESG and climate focus, which aligns with launch of Ultra's new values and CSR strategy
- + **Risk:** Extreme weather events due to climate change threaten business continuity at our operating sites (Low risk in the short term rising to Medium in the medium term if we fail to invest in resilience). Mitigating factors/strategies:
 - + Expert risk engineering analysis indicates only three minor sites in potential flood risk areas (taking into account an estimated 1–2 metre sea level rise from up to 2 degrees of global warming); no sites in earthquake zones; but some sites subject to potential storm exposure midwest and eastern USA
 - + Low business interruption impact due to low intensity of core ops and long-term business model
 - + Effective business continuity planning proven in operations through Covid-19

- + Networks/ infrastructure – Ultra has lower risk profile due to operations' geography, long-term business model and proven remote working capability
- + Supply chain – low volume business model with limited logistics challenges with proven business interruption management through Covid-19
- + **Risk:** Costs of power/utility supplies increase due to climate change regulatory actions (Low risk for medium to long term). Mitigating factors/strategies:
 - + Low intensity operations with light electronics assembly profile for power and utilities consumption
 - + ONE Ultra strategy to crystallise efficiencies in footprint and operations/power usage
- + **Risk:** Increased costs of implementing Ultra's climate strategy or new "taxation" on Ultra own residual emissions/activities (Low risk for the medium to long term). Mitigating factors/strategies:
 - + Low emission profile – low intensity operations
 - + Ultra currently early in our CSR/ESG strategic focus, but new emergent strategies under CSR Committee will embed from 2022
 - + Climate positive business in Energy nuclear contribution
 - + Opportunity to mandate climate/CSR factors for supply chain in new Supplier Code of Conduct
- + **Risk:** Climate change consequences increase Geo-political disruption/uncertainty (Low risk/potential opportunity in the long term). Mitigating factors/strategies:
 - + Ultra footprint and business model mitigates potential protectionism risks
 - + Risk of general economic downturn offset by prioritisation of deterrence and defence in geo-politically unstable times
- + **Opportunity:** One of Ultra's five Strategic Business Units sensors and controls used in the safe operation of nuclear power generation. This is recognised as an opportunity for possible future market growth as nuclear energy plays a part in the transition away from fossil fuel generation, as well as a factor that may contribute positively to offset unavoidable residual CO₂ emissions as part of Ultra's net zero aspiration.

The work we have undertaken on climate change strategy represents partial compliance with TCFD, having identified that we will need further review with expert advice to fully articulate and implement our plans for achieving net zero, and to widen our scenario testing. These pieces of work are planned to start in H1 2022.

Risk management

Risk assessment approach:

- Ultra's general risk management framework, embedded into the strategic planning process as outlined in the risk management section of the Annual Report and Accounts, requires our Business Units to assess risk in relation to the delivery of their proposed strategy and objectives. Consideration of climate risks forms part of the risk considerations for this process. From the outputs of this process, businesses' perceptions of climate risk were focused on this as one of several drivers of business interruption risk through natural catastrophe impact on sites.
- + At corporate/functional level, Ultra refreshed its climate-focused risk review, taking into account the recognition of business interruption risk from Business Units. In 2021 this review included consideration of direct impacts from a sea level rise of 1 to 2 metres generated by global warming of up to 2 degrees. None of our major sites would be at direct risk from sea level rise, with three minor sites potentially at risk of flooding from other extreme weather factors. This process generated the full list of climate-related risks identified above and substantiated the overall assessment of climate change as an increasing emergent risk, but not a principal risk for Ultra in the short term.
 - + As reported in the risk section on pages 42-46, the Executive Team and the Board undertake an annual exercise to set the risk appetite against our principal risks. While climate change is not yet a principal risk, the Board and Executive Team's appetite for all regulatory and stakeholder compliance risks in 2021 (which would include climate change) has been set at "Low". Low Risk Appetite is defined as "The company takes caution and often accepts as little risk as possible", with the risk management criteria being "Risk response actions are taken even though prevention costs are greater than expected incident costs".

Risk management and assurance approach:

- + Businesses report progress against in-year objectives (this would include reports by the Energy SBU against future climate-related business opportunities), incidents and changes in their risk environment as an embedded element of their business performance review process. No climate-related incidents or issues were emergent for 2021 from Business Units.

- + Among other environmental targets, a key performance indicator for a 10% reduction in like-for-like greenhouse gas emissions for 2021 (compared with 2019 as a pre-Covid-19 comparator). While businesses responded to this objective and report on actions to the CSR Committee, current manual processes only allow for annual monitoring of the full GHG performance indicator. Ultra is implementing a new Health, Safety and Environment software solution in H1 2022 which will enable a degree of automation and in-year monitoring from the end of 2022.
- + The CRO has worked closely with CSR Committee and team in developing our CSR strategy and frameworks for its delivery, which incorporates climate change and emissions considerations and which is reported in full in our ESG report.
- + The approach to management of the external stakeholder climate risk identified above is addressed at corporate level through collaboration between the CRO, CSR, Customer and Investor Relations teams. Recognition of this as a Medium level risk, together with the opportunities for improvement and competitive differentiation in the future led to the establishment of the CSR Committee and the businesses commitment to a CSR strategy incorporating climate objectives.
- + Focusing on business interruption from extreme natural and weather events related to climate change, our near-term increasing risk, Ultra engaged in 2021 with a new site insurance partner across our global footprint on a two-year basis, where risk engineering expertise to address business interruption risks was a key selection criteria. Having had a review of business interruption risk resilience in 2021, recognising increased. As part of the site survey process undertaken by our risk engineering partner, we will specifically incorporate climate change impact factors into assessment of site resilience. Where risk engineering reports recommend investment to manage climate-related risks such as flooding and extreme weather, a business case will be prepared for allocation of capital funds as part of our capital expenditure approval processes.

While complying with the baseline TCFD requirements on risk management, we will be improving our risk information year on year through use of risk engineering partners as identified above as part of a process of continuous improvement in this area.

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Metrics and targets

Metrics

Recognising Ultra's current climate risk profile, metrics are focused on near-term risks/opportunities:

- + Measurement of CO₂ emissions (stakeholder/compliance risks). For 2021 and before, Ultra has at minimum complied with regulatory emissions reporting requirements, including SECR, UK ESOS and TCFD, which includes all Scope 1 and 2 emissions and, from 2020, defined elements of Scope 3 emissions. In 2021 Scope 3 emissions in relation to business air travel have been added to 'grey fleet' (personal cars used for business purposes) in our coverage of Scope 3. We will continue to expand our Scope 3 emissions reporting coverage in line with regulatory requirements and to support our monitoring of progress against the aspiration to achieve net zero.
- + We monitor delivery of management actions against site risk engineering reports which may in the future include actions to mitigate climate-driven business interruption risks including investment in site protections.
- + We support and monitor ESG assessments/ratings of Ultra by specialist ESG index rankings as an indicator of stakeholder climate risk perceptions.
- + We use standard business metrics relating to cost, revenue, profit etc, to assess and monitor business opportunities including future opportunities in our energy business driven by the transition away from fossil fuels in power generation.

Targets

- + For 2021, we set a GHG emissions reduction target of 10% relative to revenue against reported emissions in 2019 (2020 was discounted as unrepresentative due to Covid-19). The actual reduction of like-for-like emissions reductions achieved in 2021 was 4.4 tCO₂e, delivering a reduction relative to revenue from 18.2 tCO₂e/£m revenue in 2019 to 13.8 tCO₂e/£m revenue in 2021, or a reduction of 24% against the 10% target (Scope 1 and 2 only as Scope 3 was not reported in 2019). 2021 represented a year of full operations at sites but with some residual home working due to Covid-19. For 2022, we have set a further 10% reduction target relative to revenue against 2021 emissions.

- + During 2021, Ultra has set an aspirational goal of achieving net zero emissions. In support of this, Ultra has engaged specialists ERM to conduct an independent gap analysis and climate strategy review in H1 2022, which is the first step to preparing a detailed milestone plan for achievement of net zero, with a broader target framework and KPIs to replace our current relative annual 10% reduction targets.

We consider we are currently partially compliant with the metrics and targets requirements of TCFD, with further work identified for 2022 to 2023, to enable us to expand our monitoring and reporting coverage of Scope 3 emissions (beyond the grey fleet and air travel implemented so far), and to develop hard targets to replace our current year-on-year reduction targets.

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A Positive Force
continued



Build the talent pipeline

Having the right talent at Ultra is critical to our success. We have continued to invest in our internal talent acquisition (TA) team and expanded globally in the USA, Canada and UK regions to support additional recruitment needs, which has led to excellent outcomes in 2021:

- + 776 offers accepted
- + 82% of offers extended are accepted
- + Reduced UK agency spend by £431,922
- + Added our Forensic Technology and Communications Operating Business Units into our TA model

The TA team created and facilitated a Manager Fundamental training called 'The War for Hiring and Retaining Talent: What You Need to Know to Compete' for all managers at Ultra, as well as trainings for interviewing and partnering with the TA team.

We also invested in a recruitment campaign which encourages employees to promote our open positions on social media to attract the right talent. This resulted in additional Glassdoor reviews, an improved presence on LinkedIn and additional referrals for our open positions.

Additionally, we launched a new Global Referral Programme that rewards our employees for successfully referring people to Ultra and allows them the option to donate their referral payment to a local charity.



Developing our people

Within Ultra, we have superb leaders who are technically and operationally excellent. However, we also understand the challenging environment that all global companies are now operating in post the global pandemic. Couple this with the transformation agenda that we have over the next few years, and the ask of our leaders going forward will be much greater. For this reason, we have spent the past year focusing on developing our leaders across the organisation, as well as seeking out talented colleagues who we believe are our future.

In 2021, we continued our investment in and further developed several key initiatives to develop our diverse leadership team, which include:

- + Improving our operating model, which launched in January 2021. Specifically, within the Maritime and Intelligence & Communications Strategic Business Units (SBUs), we created four Operating Business Units (OBUs) in each SBU. 40% of leadership roles within these new OBUs were filled with individuals who were new. This has strengthened our leadership and created more bench strength for Ultra.
- + Launching our Ultra 'STAR' leadership model, which focuses on four key areas: Self, Thought, Achieving through others, and Delivering Results, which are underpinned by leadership competencies. This framework has been used in designing a leadership development programme but has also been used in:
 1. Assessing our current leaders
 2. Competency-based interviews for all leadership roles
 3. Internal promotion and hiring into leadership roles
 4. Our 360-feedback process which has been designed and will be launched in 2022

+ In 2021, we partnered with Duke Corporate Education to design an 18-month leadership development programme for four different cohorts. Approximately 120 leaders, from top executives to new and emerging leaders, have taken part in the Duke/Ultra Star programme to date. In 2021, the four cohorts have completed several modules covering topics such as leadership purpose, coaching, strategy, innovation, presence, art of perception and resilience. The programme is expected to complete for these first 120 participants in April 2022.

+ In 2020, we created the Manager Fundamentals programme, and a community on our Group intranet. Based on feedback gathered through focus groups, we improved the programme in 2021 by introducing live virtual sessions led by leaders across Ultra. Our kick-off sessions were co-led by our Chief Executive, Simon Pryce, and our Chief Financial Officer, Jos Sclater. Our focus in 2021 was on our transformation and the critical role our managers play in supporting that work, recruiting and retention, and change management. A total of 17 sessions were offered in 2021 with an average attendance of 74 managers per session.

+ Creating a mentor programme with a comprehensive toolkit. This is currently being trialled with our Strategies for Success development programme and our Programme Management group. It will be launched to the wider organisation in 2022.

+ In October 2020, we launched LinkedIn Learning across the organisation, enabling us to deliver more e-learning content to our employees, leaders and development groups. To date we have had nearly 60% of our employees activate their licences and they have completed approximately 3,000 courses.

+ To help build a stronger pipeline of diverse talent, and to unlock the potential of women in Ultra, we partnered with an external organisation to create a programme called Strategies for Success (S4S). Our core focus is to shift the diversity in our senior leadership and meet our 2024 stakeholder goal of having "40% of all leadership roles filled with a diverse candidate".

Compelling reward and recognition

In Q2 2021, we relaunched the Ultra Sharesave schemes, this time including our Australia group, which resulted in more participation from employees. We were pleased to see that participation doubled in the UK and Canada. We were able to smoothly transition all employees to this new platform and assisted them with getting adjusted to using a new administrator.

In 2021 we continued to improve our performance management process. To help drive the cultural change desired across the organisation all senior leaders' and managers' performance was assessed against both strategic objectives (the 'WHAT') as well as the degree to which they have worked in line with our ASPIRE values (the 'HOW'). We have run our mid year and end of year processes through the myHR platform enabling greater analytics and governance.

With increased mobility across Ultra due to the OneUltra focus, we appointed a new global mobility provider which will support our ability to recruit and relocate prospective and current employees, and for potential graduate rotation programmes.

We also improved reward and recognition communications through our many internal communication channels and various training courses which were held to inform employees of our new annual pay review process and bonus processes. We also held senior leader reward workshops to improve education and awareness for end of year discussions and the myHR launch. We also successfully delivered our recruitment and retention award programme for critical employees.

Finally, we created and launched a reward book to explain our reward philosophy and provide more information on reward at Ultra, helping with understanding and sharing the different components of what we do, why we do it and how we do it.



Be Open – We want Ultra to be famous as a place where diverse talent thrives. We are not there yet, but we will be if we are open and respectful with each other and if we keep measuring and improving what we do.

Be Ultra – We believe the most successful teams are the ones that combine as many different strengths, ideas and perspectives as possible – all working towards the same goal.

Our Diversity strategy is split into three strategic pillars:

Having a conversation (human moments):

Creating an environment where people can speak up with ideas, questions, concerns and even mistakes is vital to leveraging the benefits of diversity, because it can help make inclusion a reality. Promoting awareness and understanding through open dialogue in safe spaces will be a continuous building block of our strategy.

Adapting our business around our people (human applications):

Ultra has begun a journey of critically examining and improving our culture, norms and approaches with a Diversity, Equity and Inclusion lens.

OUR REWARD PHILOSOPHY



Drives **high performance behaviours** and reinforces our company values



Delivers **consistent & fair** reward, supported by robust policies and practices



Competitive to attract, retain and recognise the talent we need to drive business performance



Career orientated supporting breadth and depth of experiences



Transparent, simple to understand and in compliance with all applicable laws and regulations



Incentivises and rewards **short- and long-term** performance that generates value for our stakeholders

Succeed through Diversity and Inclusion

For more information on our progress with Diversity, Equity and Inclusion in 2021, please visit our 2021 Diversity, Equity & Inclusion report on www.ultra.group

Uniquely Ultra:

In January 2020, we expanded upon our Diversity, Equity and Inclusion (DEI) plan. This was created by the Uniquely Ultra team and underpins all that we do.

Uniquely Ultra is guided in three core beliefs: 'Be You. Be Open. Be Ultra.' Our approach is grounded in evidence-based design of recruitment, opportunity and progression. New systems, processes, people and measures have enabled us to gather more knowledge in order to make data informed, smart interventions that will help us move the dial on a number of aspects of this agenda including pay equity.

Be You – We believe you get better ideas and better outcomes when people can be themselves at work. When they feel able to act and speak naturally, knowing their colleagues have got their back.

A Positive Force Supporting our people
continued

- Our new Diversity, Equity and Inclusion Policy commits Ultra to:
- + Encourage equity, diversity and inclusion in the workplace
 - + Create a working environment free of bullying, harassment, victimisation and unlawful discrimination, protect the dignity and respect for all, and where individual differences and the contributions of all staff are recognised and valued
 - + Train managers and all other employees about their rights and responsibilities under the Equity, Diversity and Inclusion Policy
 - + Take seriously complaints of bullying, harassment, victimisation and unlawful discrimination made by fellow employees, customers, suppliers, visitors, the public and any others during the organisation's work activities
 - + Take decisions concerning staff based on merit
 - + Review employment practices and procedures when necessary to ensure fairness and update them to consider changes in the law
 - + Monitor the make-up of the workforce with information such as age, ethnic background, and sexual orientation. Assess how the Equity, Diversity and Inclusion Policy, and any supporting action plans, are working in practice, reviewing them annually, and considering and taking action to address any issues.

Who we are and how we're doing (individual humans):

We selected the Global Diversity and Inclusion Benchmark (GDIB) as a powerful enabler of strategic conversations and an effective planning tool to help us deliver our diversity, equity and inclusion objectives. You can find this information in Figure 4.

EXECUTIVE TEAM GENDER BALANCE



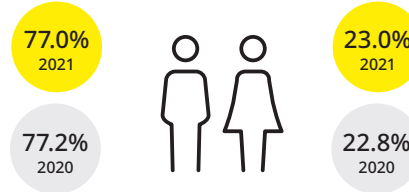
SENIOR MANAGEMENT GENDER BALANCE*



* Taken from Hampton-Alexander submission Oct 2020

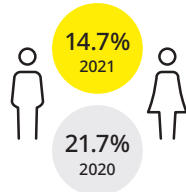
GENDER PAY GAP 2021 DATA (TO APRIL 2021)

Gender representation (% male/female)

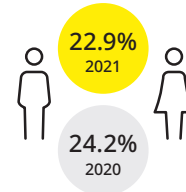


Results

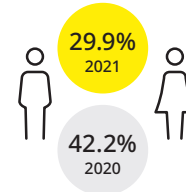
Gender pay gap Mean



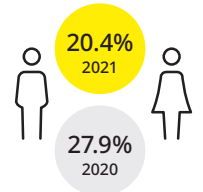
Median



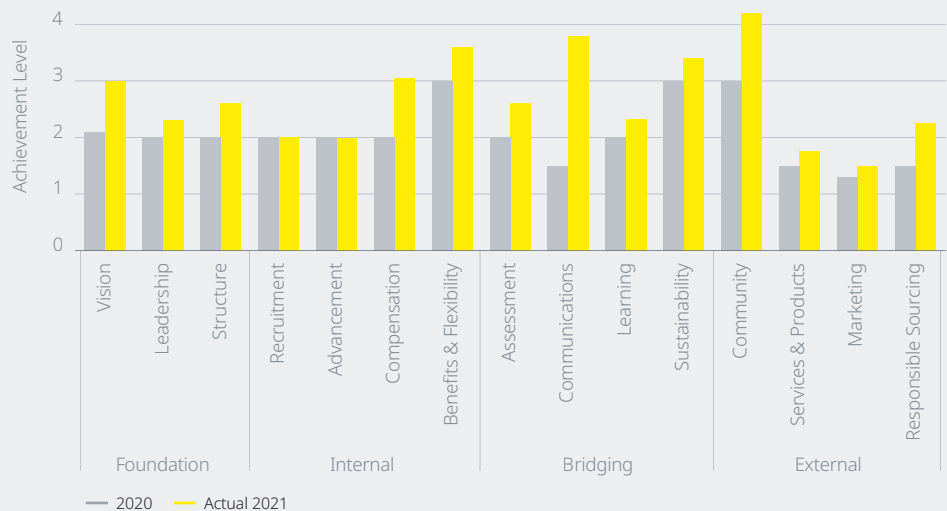
Gender bonus gap Mean



Median



**FIGURE 4
ULTRA DEI INDEX SCORE**



Gender analysis

Ultra employed 4,253 people at the end of December 2021. In the UK, our female representation remains steady at around 23%. Globally, we are improving with 28.6% of our colleagues women. In comparison with the UK defence industry and engineering sector as a whole, Ultra has a slightly better proportion of women working with us.

We have seen further small improvements in the gender balance across the lower and upper quartiles of our UK business. This reflects more women joining or being promoted into our leadership teams and an increase in female talent in the early career phase. Ultra's middle quartiles are very similar to last year. We believe the root causes are:

- + Reflecting the deep expertise some of our work requires, Ultra has a 10% higher proportion of over 50s employees than the national average. Again, in line with UK trends* people over 50 tend to have a larger pay gap.
- + Caring for dependents is disproportionately undertaken by women and this has increased due to Covid-19. Consequently, employment changes are also likely to have an effect as households move towards having greater caring responsibilities, often from the mid-30s upwards. As a result, this has historically had an impact on the number of women progressing into higher paid jobs to the upper quartile.
- + Ultra is an engineering business. The number of women in engineering careers is slowly rising but at 14.5%** it remains low.
- + A major proportion (~45%) of the women in Ultra have operations (manufacturing related) roles. We recognise that transferring to higher paid roles available within the business often requires additional qualifications (normally a degree). Balancing a full-time job, dependent care and adding qualification study is a significant undertaking. We are committed to identifying actions to enable progression from these roles into other roles in the organisation.

Our ONE Ultra business transformation began in 2018. In that time, we have seen an encouraging decline in the Ultra gender pay gap.

- + Our mean gender pay gap for 2021 is 14.7%. A positive improvement of 7 percentage points on 2020 and a 10.8 percentage points reduction on our 2018 baseline.
- + Our median gender pay gap is 7.8 percentage points lower than our baseline year and a 1.3 percentage point improvement on 2020.
- + Our mean gender bonus pay gap has closed significantly from 2018 by 14.4 percentage points. Year on year the gap has reduced 12.3 percentage points.
- + Similarly, the Ultra median bonus pay gap has dropped from 48.8% to 20.4% since our benchmark in 2018.
- + In 2020, this gap was 27.9%; in 2021 this gap fell by 7.5 percentage points to 20.4%.

Create a winning culture

Employee engagement

We received participation from 74% of our employee population (3,296) in our 2021 engagement survey. We are pleased to see that our overall company favourability has increased from 59.2% in 2019 to 61.6%. The highest favourability was shown in the categories of 'Manager Relationships', 'Teamwork and Collaboration', and 'Understanding the strategy of my business'.

The overall engagement index for Ultra was 67.7%; this was a 2.3 percentage point decrease on the 2019 survey and a 7.8 percentage point decrease on the 2020 pulse survey.

This was driven by:

- + Progress in employees feeling proud to work for Ultra with a +1.3pts score versus the main survey in 2019
- + A small decline in work giving our employees a feeling of personal accomplishment (-0.9pts) and employees recommending Ultra as a good place to work (-0.2pts)

A large decline of -10.1 pts in employees intending to stay with Ultra for the next 12 months. This is clearly disappointing, although it reflects global trends post the pandemic and uncertainty around the acquisition of Ultra.



Flexible working

We are committed to creating a culture that allows our colleagues to reach their potential, within an inclusive and supportive environment. In the particularly challenging environment of Covid-19, our focus on providing a Covid-19-safe work environment for our people has been a vital pre-requisite to continuing operations throughout 2020 as a critical defence and energy industries supplier. Beyond the basic principles of following the advice and regulatory requirements in the local jurisdictions of our sites, we have modified shop floor workplaces, shared areas, catering arrangements and shift patterns to implement effective social distancing at sites and have optimised remote homeworking for our people wherever appropriate. Experience from managing Covid-19 in health and safety terms will be taken forward to underpin the health and wellbeing of people through the tail end of the pandemic, and in terms of health and safety support for a more flexible approach to balance between home and site working, where that has benefits for our business and people

Living our values

Throughout the year we encourage our employees to recognise those who are living our values and celebrate each other. We received an incredible 926 employee nominations from peers for great work done across Ultra in 2021. In December 2021, we held our first ever ASPIRE recognition awards designed to elevate the awareness of our values and celebrate employees who go the extra mile for our customers, embed continuous improvement practices, create a great culture within Ultra, and achieve outstanding results for our projects and communities. Of the 26 finalists, 7 winners were selected to win a business grant, personal cash reward and an Ultra trophy.

* UK national mean: Office for National Statistics 2021.
** Engineering UK.

A Positive Force Supporting our people

continued

Recognising technical talent

We now recognise the deep technical talent within Ultra with the launch of the Ultra Fellows at the end of 2021. Eight Ultra Fellows were selected globally across the business. These Ultra Fellows will support and inspire the development of technical talent and skill within the business and our communities and will share their knowledge and expertise both internally and externally through work such as mentoring and STEM engagement activities.

Health and wellbeing

Mental health and wellbeing

Across many of our sites, we have mental health first aiders or Health, Security and Wellness committees which are there to encourage people to talk more freely about mental health. We also offer employee assistance programmes to all employees, which provide access to advice and counselling 24/7. We aim to promote early intervention to enable quicker recovery, reduce stigma and create a positive culture.

Initiatives such as wellbeing biscuit briefings, activities aligned to calendar events (World Mental Health Day), and charitable team events have all contributed to raising the importance of wellbeing and mental health. Weekly newsletters provide additional support with efforts made to link to the science behind our physiological responses.

We moved quickly in the first few months of 2020 to protect the health of our employees, including requiring or encouraging office-based staff to work from home, depending on the advice of local authorities. Our information technology (IT) teams ensured that thousands of people could work from home each day. Employees working from home took a health-based risk assessment as part of our home-working ergonomics programme. This gave them advice and, where appropriate, support in the provision of office and IT equipment.

Ultra updated business continuity plans and supporting guidance to ensure that the safety and health of our workers at facilities remained a priority. These plans included robust cleaning programmes, health screening, social distancing, and providing additional personal protective equipment in accordance with local guidelines.

We also strengthened our approach to mental health. We provided resources to address the challenges of remote working and to support employees. We set up local Health and Wellbeing programmes and awareness campaigns to encourage employees to pay attention to their physical and mental wellbeing, and to support them as they did so.

Throughout the Covid-19 pandemic, communication with all employees has been more important than ever before. We increased communication through multiple channels to stay connected with colleagues at home and in our facilities by regularly communicating changes through TVs located on our production floors, in weekly newsletters, and on our intranet (UltraNet), and providing support during unclear times. For example, communicating the changes of the US Covid-19 Vaccination Mandate which impacted a substantial portion of our employees and Business Units. As we learned of government updates, we turned them into practical workable solutions and guided our leadership teams through them.

Risk assessments were required to be submitted for approval for all business travel to ensure the safety of all employees.

We adapted to operating through online meetings and trainings to continue development of leaders, managers and high-potential employees.

Continuous improvement

A new Ultra Improvement Group was launched and is rolling out our 'Ultra Way' methodology across Ultra.

The Ultra Way utilises a special set of tools and skills from decades of international best practices, as well as the wealth of expertise and experience across Ultra. At its core is a focus on our customers, a belief in everyone's ideas, teamwork and the support of leadership, and how everyone at Ultra can think about improving everything we do, every day.

ONE Safety initiative; Think Safe, Act Safe, Be Ultra Safe

Safety is central to the responsible delivery of our systems and products. We are committed to maintaining the highest standards. To strengthen this, Ultra's Safety Committee was established in 2020 and comprises a diverse group of representatives from across the business, demonstrating our commitment to uphold safety above all else, improve collaboration, share ideas and best practice and embed safety throughout the Group.

The Committee made great progress in 2021, establishing a cohesive approach to continuous improvement, safer workplaces and to align globally under Ultra's ONE Safety initiatives. Local HSE representatives have been operating at business level to improve alignment, communication and engagement with greater employee involvement, supporting positive change and enabling us to meet our safety goals

and targets. All joiners now attend health and safety training during the onboarding process and employees attend training at least every two years, or more frequently depending on their role. We expect the Ultra workforce to only start work when all required safety measures are in place and to intervene when anything appears unsafe, or conditions change. We investigate incidents and aim to learn from them, sharing findings to improve safety performance across our organisation and our industry.

Ultra seeks to continually improve on employee engagement in this area, empowering the workforce to speak up about hazards in our workplace, encouraging safety suggestions and input via improved interventions delivered through monthly safety talks and:

- + Toolbox talks
- + Intranet and UTV (Ultra TV)
- + Guide packs
- + ONE Ultra Safety resources
- + Safety walls

A ONE Ultra Safety Culture initiative was launched by the Committee in January 2021. In support of our ASPIRE values, the mission is to develop a culture of safety within Ultra that is inclusive, innovative, accountable, engaged and drives its people, systems and product.

Ultra's goal is to be the safest workplace possible:

- + Create a strong safety culture
- + A responsibility for us all
- + Everyone is involved
- + Focus on environmental and energy initiatives

Currently all UK businesses have adopted and are operating to a single global safety management system proved compliant with ISO 45001. The management system has been modified for global compliance purposes and North America and Australian businesses will adopt and operate to it through 2022 for ISO certifications in 2022 to 23.

In response to the Covid-19 pandemic, we took additional steps to make workplaces safe for our workforce and contractors. Ultra embedded Covid-19 guiding principles to facilitate greater social distancing, cleaning of workstations and working from home where possible. Structural changes included replacing door release buttons with sensors, installing Perspex screens and repurposing meeting rooms to accommodate breaks and lunches aligned with social distancing requirements. Continuous improvement of sites at a local level has been established through risk assessments and employee engagement.

Personal Safety Performance – 2021 accident data

In 2021, Ultra had 19 externally reportable incidents compared with 21 in 2020. Figure 5 shows our number of reportable incidents per 1,000 employees has reduced to 0.4% in 2021 (2020: 0.5%).

As a result of our management of the Covid-19 pandemic, we had fewer employees on site compared with other years. However, those able to work from home were typically from the more benign office environments compared with operations workstations. In addition to overseeing our Covid-19 controls, our HSE teams also progressed the roll-out of our ONE Ultra HSE programmes and this is reflected in the downward trend in accidents.

Transform our business

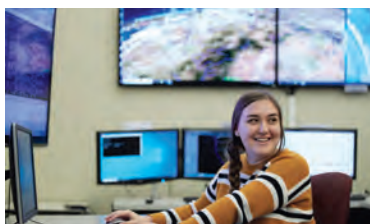
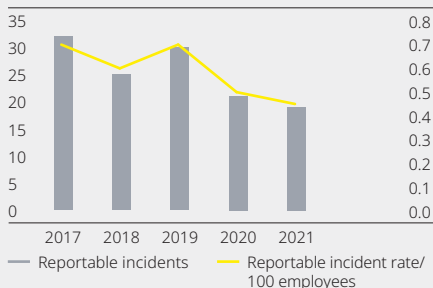
In 2021, our first ever global Human Resources Information System (HRIS), Workday, internally branded as ‘myHR’, went live within our HR function in February and the rest of the business in April. Since we launched the system, there have been over 20,000 successful transactions completed. We successfully launched our annual performance review and compensation process in the system which will be completed during Q1 of 2022.

We implemented a new HR Governance structure overseeing all our processes and the myHR platform to ensure that we are maintaining consistency with our processes and have the right people owning the processes. We have four global process owners who cover the four major functions within HR (Talent Management, Talent Acquisition, Reward, and core HR) and manage the processes within the system and outside of the system. We held several training sessions for employees, managers and HR teams to prepare them to effectively utilise this new system and improve the efficiency of these new processes.

An HR Shared Service team was created with a team focusing on the maintenance and development of myHR and two teams providing HR transactional support to the Operating Business Units who utilise the system.

We also ran our first global HR Continuous Improvement ‘sprint’ on Ultra’s onboarding process in Q4 2021, which identified several new opportunities to improve how we onboard new employees across our Group. We are confident this will improve the onboarding experience for our new hires and hiring managers and improve employee engagement and retention.

FIGURE 5 EXTERNALLY REPORTABLE INCIDENTS



A Positive Force
continued

Giving back
(Charity and community)

Giving back framework

In 2021, Ultra launched our first ever 'Giving back' framework. Every employee now has available up to two days per year to support activities within their local communities.

Team applications have continued to grow in Q4 2021 despite Covid-19 being prevalent in most of our regions with more than 2,000 hours contributed across the globe.

Donations and funding

Our matched fund of £200,000 was launched in June 2021. The aim of the fund was for Ultra to match the local fundraising and/or support local business teams worldwide to encourage local activity.

Ultra's fundraising activities were slower in the first half of the year due to Covid-19 lockdowns but picked up strongly in H2. The full £200,000 fund was donated to worthy causes that were important to our people in 2021.

In addition to this, £70,000 was raised by teams and more than £30,000 was donated by our businesses locally.

Our Covid-19 fund from 2020 contributed £130,000 and further donations/support in STEM has resulted in Ultra donating over £500,000 to charitable activities in the last two years.

Corporate charity partnership

Ultra's charitable coverage is aligned with Ultra ASPIRE values and key initiatives including but not limited to: Diversity and Inclusion, Armed Forces levelling up and wellbeing.

STEM framework

In 2021, a STEM working group was formed which includes representatives from across our businesses' including the technical community, HR, CSR Committee and Uniquely Ultra. The goal of our ONE Ultra STEM framework has been to develop a consistent global standard to be leveraged for shared resources, materials, best practice and collaborative working. The framework can also be flexed for use in any local Business Unit to meet local needs and better align with business campaigns.

The new ONE Ultra STEM framework is due to be launched in 2022 with ambassadors trained across Ultra.



ONE Ultra Forces Charter

Significant veterans' charities engagement has continued throughout 2021.

A highlight of our work in this area was Ultra being formally awarded the UK Armed Forces Covenant Employer Recognition Scheme Gold Award, the highest level of employer recognition.

Progress has been made with our Veterans Committee network which is growing in membership with more than 20 volunteers across the business offering their support to help drive our Forces Charter initiatives. To read our Forces Charter, please visit www.ultra.group.

Ultra is also a corporate supporter for American Humane's Pups4Patriots programme through donation of funds previously planned for trade show 'giveaways'. Following a pilot, this model of donations will be rolled out across all businesses for major defence shows.



Doing the right thing
(Governance)

Employee training

We have a zero-tolerance approach to bribery and corruption anywhere in the world. We will walk away from any business that we can't win fairly or legally. Our success is built on the trust of our customers, employees, investors and the general public. We know the best way to gain and maintain this trust is to demonstrate that we act ethically and with integrity in all of our business practices.

We updated our anti-bribery and corruption manual and policy in 2020, which is consistent with the UK Bribery Act, and the US Foreign Corrupt Practices Act, and any breaches can lead to dismissal or termination of contract. The policy guides our employees about what constitutes a bribe and prohibits giving or receiving any excessive or improper gifts and hospitality.

Our Board of Directors oversees our programme to prevent bribery. They are supported by our Group Company Secretary, who has primary and day-to-day responsibility for implementing the policy and for monitoring its use and effectiveness. Every year we launch Group-wide anti-corruption and bribery training. In the training we provide several challenging scenarios to help our people know what to do if they were to come across issues such as bribery, fraud and conflict of interest. We strive to create an environment in which our people feel included and confident to 'speak up' and so provide a number of routes for them to seek help or raise concerns.

The training included a clear stance on non-retaliation against someone who raises a concern in good faith.

To date, this training and refresher training has been completed by 99% of our organisation, with refresher training due to complete within the whole organisation by March 2022. New employees are required to complete the training as part of their induction process.

Every two years we undertake global employee training on our Ultra Code of Conduct, which sets the standards we expect all our employees and everyone who represents Ultra to adhere to. It also sets the standards everyone dealing with Ultra can expect us to demonstrate. It is a guide to doing the right thing, helping us to operate our business responsibly, make ethical decisions and maintain our reputation. Alongside the Code of Conduct, Ultra provided mandatory training and certification for employees through our Learning Management System.

We are pleased to report that there have been no incidents of unethical behaviour or failure to comply with regulations by Ultra employees in 2021.

We are also pleased to see an increase in support, awareness and feedback about our new Speak Up whistleblower channel for employees to ask questions or report concerns they think may be a violation of our ASPIRE values and Code of Conduct. Speak Up is an entirely independent, anonymous and confidential reporting channel that is available 24 hours a day, seven days a week.

Data privacy

2021 has been a pivotal year for data privacy with the launch of Global Data Privacy training. Supporting key transformation initiatives, including the implementation of the HRIS, changes to Covid-19 workplace protocols, and updating key internal policies, ensure that Ultra continues to fulfil obligations set out in data privacy law. All joiners now attend data privacy training during the onboarding process and employees attend training every two years, or more frequently depending on their role.

We believe that privacy can only be sustainable when it is intentionally woven into everyday operations and Ultra's Group Data Protection Officer oversees data privacy activity across Ultra working with business teams to promote this privacy by design ethos. A network of Privacy Champions in Operating Business Units provides daily support.

Internal policy documents applying to Ultra operations globally are reviewed annually with recent updates to the Data Protection Policy and Employee Privacy Notices. As a National Cybersecurity Alliance Data Privacy Day Champion, Ultra is proud to publicise its commitment to privacy sustainability and empowering employees to respect privacy, safeguard data and enable trust.

Ultra takes a proactive approach to building secure data management systems, operating information security policies designed to prevent pollution of our digital solutions. As technology continues to improve, Ultra seeks to implement energy-saving initiatives such as centralising key IT services, extending the life of IT equipment and investing in cloud computing to reduce power consumption.

Adopting uncompromising access control, multiple layers of security, clear roles and responsibilities, transparent data privacy regimes, and routine risk assessment and mitigation, Ultra holds ISO 27001 accreditation for identified information security management systems operated within our Business Units in accordance with scope requirements.

Regular security audits and assessments take place across Ultra's IT networks led by information security and data privacy subject matter experts to ensure Ultra practices are not just compliant but are responsible and sustainable.

Ultra's current Privacy Notice can be found by accessing www.ultra.group.

Information security

Ultra has its own in-house developed Cyber security business called CORVID. As a unified Ultra team, Corporate Security, Group Data Protection Officer, Information Technology (IT) and CORVID work together to ensure that all Ultra information is protected to the highest standards. Compliance with the diverse security and regulatory data protection requirements from around the world default to the most stringent requirements and standards.

CORVID was developed in 2013 to safeguard Ultra's military, aerospace and critical infrastructure data, as well as that of its customers and supply chain. Ultra identified that traditional cyber defences were unable to combat the evolving complexity of cyber threats – CORVID was created to provide a more comprehensive solution to the cyber problem.



A Positive Force Doing the right thing continued

The protection CORVID offered to solve Ultra's cyber challenges was so successful that the decision was taken to make the services available commercially. We've been leveraging our technologies, capabilities and people to deliver industry-leading cyber protection for ourselves and our customers from the start.

We're based in Cheltenham and that's not a coincidence. As a fast-growing hub for cyber security in the UK, the talent and opportunities here are unrivalled.

Ultra's Cybersecurity team continuously works on network hardening, auditing, patch management and access control across diverse networks to meet National Institute of Standards and Technology (NIST) 800-171 standards.

Vulnerability scanning is performed on a routine basis and then reviewed jointly with Security, IT and CORVID. The reviews identify gaps and vulnerabilities requiring mitigation reducing our attack surface. Internal audits are also performed routinely for compliance and insider threat monitoring.

All joiners are provided security training during the onboarding process and all employees attend training annually. Privileged users on the network are provided a more in-depth training focused on their specific role in the protection of Ultra information.

Information assurance

Ultra operates in both public and private sector markets globally. We understand these markets and the comprehensive legislative and regulatory security conditions and requirements that they demand.

Our security subject matter experts work closely with government agencies, the defence sector and industry clients carrying out risk assessment, treatment, and residual risk management activities to ensure that the information systems and technology we operate and supply, have the appropriate security controls.

We ensure that the systems and technology we deliver are secure by default and are protected in accordance with the relevant policy. In addition to this, where required, we ensure that they are accredited to national standards by the appropriate accreditation body.

Ultra holds ISO 27001 accreditation for identified information security management systems operated within our Business Units, demonstrating compliance with scope requirements. Ultra has a comprehensive Group information security governance framework in place. This framework is based around comprehensive, and ongoing, risk assessment. Two key inputs, threat, and vulnerability, are discussed in the section below.



Ultra has its own in-house security team that delivers preventative and detective security controls across all Ultra businesses. The team has developed a comprehensive threat-hunting framework, designed to keep pace with the techniques used by malicious cyber actors. When the system raises alerts, Incident Response Analysts follow precise play books to ensure business impact is kept to a minimum. This system and the procedures are subject to annual review and accreditation by the internationally recognised CREST organisation.

The team also carries out monthly vulnerability scans of the Ultra internal and external IT estate. The results of those scans are made available to the individual businesses through a dedicated portal. The team also has regular meetings with all businesses to discuss their cyber posture. Ultra has also developed a sophisticated and intelligence-fuelled system to provide email protection service. All emails that reach the user's inbox are clearly colour-coded alerting of any potential issues.

Our CSR Committee

The CSR Committee is chaired by Rikki Douglas, VP Business Development, Ultra Sonar Systems, and is supported by Ultra's newly appointed Director of Corporate Social Responsibility. The Committee comprises representatives from across the business and develops strategy recommendations on sustainability for the Executive Team to review and incorporate into Group strategy. For example, our CSR Committee is leading Ultra's journey to net zero and how this can be achieved, in addition to our global Giving back days and STEM frameworks.

Our Executive Team is responsible for assessing our environmental and social risks and opportunities, including those relating to climate change, prior to sending it to the Board for review and monitoring progress through our risk management process, overseen by our Chief Risk Officer.

Ethics Committee

An entirely independent Committee currently made up of two independent individuals, Major General (Retired) Tim Cross CBE and Simon Lowe, who have vast combined experience within the fields of ethics, culture and governance.

We were looking for a third member of the Committee, to be based in North America, to join the Committee in 2021, but have delayed this recruitment due to the recommended acquisition of Ultra.

The Committee aims to visit Ultra sites on a rotating schedule at least four times a year and has a formal remit to:

- + Get an independent view of how ethically we are behaving across our businesses
- + Monitor alignment with best practice in our business ethics and compliance procedures
- + Assess how our culture and values are embedded throughout Ultra
- + Review Speak Up reports and challenge the integrity and independence of our Speak up platform

The Ethics Committee meets with a diverse group of employees at each site visit, without management present, and meets with management separately. Following the visits, an independent, unbiased and unedited report on the perceived ethics and culture within the business is provided to management. The Committee challenges management where necessary and, where applicable, provides impartial advice on how ethical and cultural matters could be improved.

The Committee then provides honest, objective feedback to the full Executive Team twice a year, and annually to the Board.

Supplier Code of Conduct

Our suppliers are critical to our ability to run our businesses. They are involved in almost every step of our operations – and are often key to having a positive impact on local communities and achieving successful business outcomes.

We are pleased to report that Ultra's new Supplier Code of Conduct was launched in Q1 2022. This Global Supplier Code of Conduct applies to all suppliers to Ultra and other partners who supply products and services using contracts or purchasing terms. Ultra expects all suppliers to fully comply with applicable laws and adhere to internationally recognised environmental, social and corporate governance standards. We also expect our suppliers to implement the high standards which Ultra lives by, which cover:

- + Anti-bribery and corruption
- + Collective bargaining
- + Competitive behaviour and anti-trust
- + Conflicts of interest
- + Diversity, equity and inclusion
- + Export and import controls, sanctions and obligations
- + Fair pay and benefits
- + Health, safety and environment
- + Lobbying and political support
- + Preventing facilitation of tax evasion
- + Responsibly sourced materials
- + Safeguarding confidential information
- + Slavery, human trafficking and labour exploitation
- + Working with stakeholders

In support of the implementation, awareness training will be provided to our top suppliers.

A full copy of our new Supplier Code of Conduct can be found on www.ultra.group.

Working with our people and suppliers

Human rights

We believe in our obligation to respect core human rights, protect individuals against abuse of human rights and take positive action to facilitate enjoyment of basic human rights. This means respecting and observing equality and human rights legislation and introducing policies that promote rights and freedoms for all. We value and encourage diversity within our workforce and our talent acquisition pipelines support increased representation and inclusion.

Ultra has zero-tolerance of bullying, harassment and discrimination towards workers, including all forms of physical, verbal or psychological abuse, and we expect our suppliers to adopt the same stance. We work collaboratively with our suppliers to ensure that, like our own employees and contingent workers, theirs are protected from bullying, harassment and discrimination and they and their supply chain can compete fairly and have an equal chance of success.

Modern slavery

Modern slavery is a crime and a violation of fundamental human rights. We believe that all employment should be freely chosen and oppose all forms of slavery, human trafficking and labour exploitation. Ultra has a zero-tolerance approach to modern slavery and we comply with applicable labour, employment and modern slavery laws.

We are committed to:

- + Acting ethically and with integrity in all business dealings and relationships
- + Implementing and enforcing effective controls to ensure modern slavery does not take place anywhere in our business or our supply chains

We expect our suppliers to adopt the same stance and set out Ultra's expectations for compliance in our Supplier Code of Conduct.

During 2021, we relaunched our Modern Slavery and Human Trafficking Policy and adopted the changes in the UK to comply with the Modern Slavery (Amendment) Bill.

Conflict minerals

Ultra is committed to working with suppliers who ensure the responsible sourcing of materials. This means our suppliers must only providing products made from materials, including constituent minerals, that are sourced responsibly and verified as 'conflict free' in accordance with OECD guidelines. We work with suppliers who can provide Ultra with supporting data of their supply chain of minerals. We require all suppliers and their supply chain to be compliant with prevailing legislation in respect of conflict minerals as set out in our Supplier Code of Conduct and supplier management and qualification processes.

Collective bargaining

Ultra believes that individuals should be free to decide whether to join a trade union or other equivalent organisation of their choice and to bargain collectively in support of their mutual interests. This means we respect the individual choice of the worker and the relevant processes and laws for collective representation and consultation where applicable.



Principal risks and uncertainties

We manage risk to support our ONE Ultra strategy

Principal risks and risk management

The identification and management of risk is embedded into our ONE Ultra day-job processes from the development of our strategic plan and business objectives, through assessment and pricing of business opportunities and management of delivery programmes to the management of our ONE Ultra transformation and continuous improvement projects.

The Board has overall responsibility for ensuring an effective system of risk management, governance and internal controls. The Board reviews risk as part of its strategy review process and, as part of standard cadence in year, reviews the Group's key and emerging risks, and the controls and indicators relied on to manage them.

The risk management framework underpins Ultra's approach to managing risk effectively. The heart of the risk review and assessment process is embedded into Ultra's strategic planning framework, which takes a 10-year horizon for the formulation of our strategy and the identification and assessment of associated risks, in the form of changes to currently recognised risks and the proactive identification of emergent risks. The process involves facilitated risk reviews with Business Units and functions, based on their plan assumptions and scenarios. Emergent risks are identified both through testing the plans, with a focus on new factors such as new operations or markets, and also from analysis of wider changes to the risk horizon and environment, such as the anticipated impacts of climate change. The overall risk framework then enables the consistent measurement, control and reporting of risks that can undermine the business model, future performance, solvency or liquidity of the Group and identifies:

- + The causes and drivers of a risk and accountability for its management
- + Its potential consequences for Ultra through analysis of the likelihood and consequences, before and after the impact of specific controls
- + Analysis of the speed to impact of risks to aid prioritisation, recognising that it is often the pace with which a risk crystallises that impairs a business's ability to mitigate and control it
- + Articulation of the specific controls and warning indicators in place or being funded and implemented to manage and mitigate a risk

Day-to-day ownership of risk sits with business and function management, under the monthly review of the Executive Team to whom the Board has delegated principal responsibility for risk oversight. The Board reviews the Group's key risks as an integral part of the annual strategic planning process and also undertakes a structured risk appetite review each year facilitated by the Chief Risk Officer.

Risk assurance

Ultra's management, Audit Committee and Board receive independent assurance on our key risks and controls through Internal Audit reviews which are conducted by PWC as our Internal Audit service provider. The outputs of the risk review process are a key driver in determining the Internal Audit plan, alongside the wider critical control frameworks we rely upon, with the plan approved by the Audit Committee for the coming year. Any changes to the plan in year require approval by the Audit Committee. Twice yearly controls reviews are conducted across all five SBUs and global shared services, chaired by the CFO with Internal Audit represented, to provide additional assurance, oversight and accountability for the management of risk and controls. Completion of management actions from Internal Audits and from the Control Reviews are monitored centrally with progress reported to the Audit Committee.

Additionally, as referenced in the Audit Committee Report on page 67, in 2021 a programme of control framework reviews was presented to the Executive Team and Audit Committee for specific key risk and controls areas, based on the 'three lines of defence' principles, including programme management and bid and contract controls and key compliance area controls. This process is now embedded and a prioritised programme will also be undertaken in 2022.

Risk appetite statement

The Group's objective to generate long-term sustainable value for all stakeholders is reflected in Ultra's appetite for risk, which is set by the Board taking into account the balance between risk and reward and our ability to manage and control risks through our people and processes. Ultra has a low risk appetite in situations where its culture, reputation or financial standing may be adversely affected, including all key compliance areas. Where the safety of our people may be compromised, Ultra has zero tolerance. However, the Group does consider taking higher risks where the opportunity is seen to outweigh the potential risks, provided appropriate levels of mitigating controls are in place. The Executive Team and Board assessed the specific risk appetite in relation to Ultra's key and principal risks in 2021, assessing appetite as risk tolerant (where greater risk can be effectively managed to deliver high return with established confidence), risk balanced (where additional investment in control is supported by the business case) or risk averse (where Ultra invests to minimise the risk threat, in areas such as compliance risks). Risk appetite assessments are reflected against our principal risks.

Principal risks

In line with guidance on risk reporting, we have focused our statement on principal risks to those that are current and/or particular to Ultra, either through the nature of our sector or business model, or because factors or circumstances have elevated more generic risks in Ultra's current business environment. Environmental and climate change risks have been assessed and are growing risk areas for Ultra, but as reported in more detail in the TCFD table on page 29, are not yet principal risks due to market, operations and geographical footprint. In addition to the principal risks identified below, Ultra also actively manages risks assessed as at lower, but not to say insignificant, levels. These potential risks are often common to listed businesses and include business interruption risks, fraud and financial control risks, HSE risks (which are seen as a priority for excellence) and risks associated with our legacy defined benefit pension scheme which have been reported on as principal risks in previous years.

Current uncertainty around British Government approval of the recommended bid for Ultra by Cobham is exacerbating short-term challenges in recruitment and retention as identified in the principal risks below. If the deal does not proceed because consent is withheld, this could have a negative impact across several risks, through prolonged uncertainty for stakeholders in the short term, before strong business fundamentals reassert themselves.

Key changes to principal risks from 2020 are:

- + Risks associated with the legacy defined benefit pension scheme have diminished from being a principal risk, with ageing and proactive management such as increased hedging.
- + In common with many businesses as the world moves to a post Covid-19 environment and witnesses the start of major armed conflict in Ukraine, rapidly increasing supply chain inflation and disruption/ shortages has emerged as a principal risk for Ultra.
- + Challenges in retention and recruitment, especially of specialist engineers in local areas of our operations has also escalated, reflecting a changing labour market post Covid-19 and uncertainty for Ultra while a decision on clearances for the recommended offer for Ultra is awaited.

No significant change 



Defence Sector Cycle Risk

Defence spending by governments can fluctuate cyclically depending on economic conditions, change of government policy or political considerations, budgetary constraints, and changes to national and global threats.

Risk appetite: Tolerant

Potential impact

Lower defence spending by the Group's major customers in a down cycle could have a material impact on the Group's future results and financial conditions.

Mitigation commentary/examples

- + The Group is geographically spread across the USA, UK and international defence markets.
- + We invest in technology to help us access high growth segments of the market.
- + Many of our programmes are very long term, which helps mitigate against short-term changes in the defence cycle.

Comment, changes and outlook

Our focus is the defence markets, where we believe we can grow at good returns on capital in the medium and long term. We have a degree of tolerance to defence cycle risk and are not seeking to diversify away from the defence market. However, we do seek to have a diverse customer and programme base, which provides resilience.

As mentioned above, we see growth in our markets over the medium term, driven by the increasing threat of near peers.

Reducing risk 



Bid and Contract Risk

Across Ultra's businesses, a major proportion of revenues are generated through contracts which are long term in nature and subject to complex terms and conditions. Contracts include commitments relating to pricing, quality and safety, technical and customer requirements and product servicing.

Risk appetite: Balanced

Potential impact

A failure to fully recognise contract risks or to anticipate technical challenges and estimate costs accurately at the outset of a contract can lead to unexpected liabilities, increased outturn costs and reduced profitability.

Mitigation commentary/examples

- + New and improved business bid and contract management processes
- + Legal reviews of contract terms and conditions
- + Contract-specific risk assessments
- + Clear delegation of authority/escalation criteria for approvals
- + Reviews of contract performance

Comment, changes and outlook

Balanced risk appetite, with additional controls investment where justified.

We have continued to invest in specialist resources in commercial and legal spheres, improving our bid competency and ability to align new contracts with Ultra's risk appetite. This complements the implementation of standardised bid and contract policies processes and the pooling of capability and the alignment of similar businesses under the ONE Ultra banner.

Reducing risk 



Programme Risk

Many of the programmes entered into by Ultra are complex, long term and subject to various performance conditions which must be adhered to throughout the programme. Poor management of such programmes brings risks related to:

- + Delays in product development or launch schedules
- + Failure to meet customer specifications or predict technical problems
- + Inability to deliver to contract terms
- + Inability to manage programme costs or forecast accurately

Risk appetite: Risk averse

Potential impact

Ineffective programme management could result in damage to customer relationships or cancellation of a contract, resulting in claims for loss and reputational damage. Poor performance against a contract could also undermine the Group's ability to win future contracts and could result in cost overruns and significantly lower returns than expected.

Mitigation commentary/examples

- + Embedded programme management in businesses
- + ONE Ultra programme management policy and procedures implemented through 2021, replacing local diverse business approaches
- + Formal review and escalation framework
- + Review and approval of key programmes by the Executive Team
- + 'Lessons learned' and best practice sharing
- + Inspection of programmes by customers

Comment, changes and outlook

Risk averse appetite for failures on programme management drives investment in strong controls for a key business process. Controls improvements are impacting to reduce this risk, but this is in the context of short-term challenges for programmes over retention and recruitment of specialist resources.

The standardisation of programme management policies and tools was further enhanced in 2021 with a focus on controls and oversight. Reorganisation effective from the start of 2021 brought alignment of specialist resource and simplified management structures.

Principal risks and uncertainties

continued

Geo-political Risk Reducing risk

With our focus on the defence sector, geo-political factors could lead to an unfavourable business climate for defence spending or restrict the access of overseas suppliers to national markets.

Risk appetite: Balanced

Potential impact

Political change in a major end customer country such as the USA could impact revenue flows from cancellation of defence programmes or reduction in future programmes for political reasons, or a change of supplier selection conditions on defence contracts.

Mitigation commentary/examples

- + The Group proactively monitors the political environments affecting our key markets.
- + We develop and maintain strong relationships with customers, governments and stakeholders differentiating through our domain expertise.
- + Diversified operations with local manufacturing in our target market countries.
- + Diversification of end customers in multiple countries.
- + Long-term nature of defence contracts and domain expertise.

Comment, changes and outlook

Balanced risk appetite, with additional controls investment where justified.

Risk is mitigated in the short to medium term with increasing political prioritisation of defence capability by multiple governments in the current period of global political instability and events, including the Russian invasion of Ukraine.

Delivering Change Level risk (short term)

The ability to continuously improve and transform our business to deliver objectives in complex technology markets is vital for business success. Effective delivery of major or concurrent change programmes with minimal effect on business as usual is a key component of Ultra's drive to deliver our strategy and supporting operational improvement.

Risk appetite: Balanced

Potential impact

Transformation programmes may not be delivered on time or costs may increase. The expected benefits of change from programmes may not be realised. Under-resourcing may lead to management distraction from business as usual. Structural change may impact employee morale.

Mitigation commentary/examples

- + Change programme management procedures and controls
- + Robust governance around all programmes, including strong steering committees, standard reporting and executive level sponsorship
- + Investment in dedicated professional transformation resource and leadership

Comment, changes and outlook

Balanced risk appetite, with additional controls investment where justified; increased current investment reflects scale and scope of current change activity.

Programme risk decreased during 2021, as a result of more mature programmes and investment into the financial modelling, which was signed off by KPMG as part of the Qualified Financial Benefits Statement which was published with the mid year results.

Security and Cyber Risks Increased risk

As a key partner to our customers and end customers, Ultra has custody of classified information and customer and its own intellectual property. In circumstances where the incidence and sophistication of cyber security crime continues to rise, the effective management and protection of information and Ultra's security and IT systems is necessary to prevent the compromise of secure information, intellectual property or our people's personal data.

Risk appetite: Risk averse

Potential impact

Reputational damage to Ultra as a highly regarded partner in the event of compromise of classified information or IP. This could lead to loss of business opportunities with removal of government approval to work on classified programmes. Regulatory action or civil/contractual penalties could result from loss of personal data, a partner's IP or classified information.

Mitigation commentary/examples

- + Investment into Corvid Protect, Ultra's in-house specialist cyber security resource
- + Intellectual property is addressed in the bid and contract management process and protected through information security policies, procedures and systems
- + Security clearance processes are in place for all employees
- + Established physical security processes are implemented at all sites
- + US defence business governance framework in place using SSA and Proxy Board vehicles
- + Independent security reviews by defence departments and customers

Comment, changes and outlook

Focus on investment in strong controls for a key enabling capability; risk averse.

The focus of CORVID Protect as an internal professional specialist cyber resource was instrumental in enabling secure, effective remote working capabilities throughout Covid-19, enabling 60% or more of staff to work securely from home at peak lockdown periods, despite an increased general business cyber risk environment. Investment in and implementation of improved, standardised secure systems, continuing through 2022, is a key enabler of the ONE Ultra strategy. This will drive mitigation of the increasing levels of risk in the global cyber environment.



Governance, Compliance & Internal Controls

Reducing risk

In common with other businesses in our sector, the Group operates in a highly regulated environment across multiple jurisdictions and is subject to a range of regulatory, governance compliance requirements. New or retrospective compliance changes (for example in Tax) or a failure in the framework of internal controls could result in penalties, liabilities or reputational damage.

Risk appetite: Risk averse

Potential impact

Key impacts from specific relevant controls/ events, all of which carry the potential for reputational damage are:

- + Financial rules and standards compliance – failure to comply in key areas such as revenue recognition could result in adjustments that undermine results.
- + Breach of defence contractor financial compliance rules in a key market, such as the USA or UK, could lead to financial/participation penalties and or reputational damage.
- + Trade compliance – failure to comply with export controls or defence specific requirements, such as US ITAR controls, could result in regulatory action and penalties.
- + Bid and contract requirements for some government and defence contracts introduce “Offset” compliance obligations requiring special national investment or operations constraints. While typically very long term by nature, failure to comply could lead eventually to regulatory action or penalties.
- + Anti-bribery and corruption (ABC) – failure to comply with multiple jurisdiction rules in relation to public sector contracts directly or through intermediaries could result in regulatory action and penalties.
- + Tax compliance – retrospective regulatory changes could lead to significant unforeseen liabilities.

Mitigation commentary/examples

- + Corporate and business level controls policies, procedures, training and systems
- + Internal expert corporate teams in key functional areas
- + Built-in IT system controls
- + Controls and compliance reviews by management and internal audit
- + Specialist advisers

Comment, changes and outlook

As an international defence supplier, investment in strong compliance controls is key to our standing as a responsible and reputable supplier to governments; risk averse.

Through 2021 we have continued to invest in professional expertise and capabilities for guidance and oversight in our key industry compliance areas, including trade compliance, defence contractor compliance, offset management and ABC. New ONE Ultra process and systems in finance and key compliance areas, with strengthened and hard-wired controls, continued to roll out in 2021 as part of our transformation programmes.

2021 has seen continued investment in professional roles and capabilities for guidance and oversight in our key industry compliance areas, including trade compliance, defence contractor compliance and ABC. While recognising the increasing demands of the compliance environment, the assessment of the net risk as reducing reflects the marked improvements in our compliance controls framework. New ONE Ultra processes and systems in finance and key compliance areas, with strengthened and hard-wired controls, will continue to roll out in 2022 as part of our transformation programmes.



Supply Chain

Increased risk

Specialist materials, components and power and utilities costs increase materially and/or shortages or outages are triggered by post Covid-19 supply chain issues and logistics movement capacity challenges to meet demand as global economies recover.

Risk appetite: Risk averse

Potential impact

Increased costs from supply chain and energy cost inflation, some of which may not be able to be passed on under contractual terms, could impact profits. Shortages or logistic delays for materials and components post Covid-19 or from emergent sanctions in response to the invasion of Ukraine may impair delivery timeframes, leading to penalties.

Mitigation commentary/examples

- + Introduction of aligned ONE Ultra procurement processes and organisation, increasing negotiating power and improving procurement expertise
- + Proactive management of sourcing and stock levels of critical materials and components
- + Use of contractual terms or renegotiation to reflect increasing cost base in pricing by agreement with customers
- + Supply chain analysis following events in Ukraine indicate no direct supply chain implications

Comment, changes and outlook

Risk-averse stance supports investment in standardisation, controls and tools to proactively manage supply chain risks.

As for many businesses, these supply chain risks are increasing currently as global economies and demand rapidly recover as the challenges of two years of Covid-19 pandemic subside. Supply chain risks are exacerbated by the Russian attack on Ukraine and consequent global sanctions, contributing to our assessment of this as an increasing risk.

Principal risks and uncertainties

continued

Increased risk **Specialist Recruitment and Retention**

With our focus on the defence sector, geo-political factors could lead to an unfavourable business climate for defence spending or restrict the access of overseas suppliers to national markets.

Risk appetite: Risk averse

Potential impact

The combination of highly competitive labour markets as economies recover from Covid-19 and uncertainty for Ultra while a decision on clearances for the recommended acquisition of Ultra is awaited, is driving specialist resourcing gaps in our operations which, if enduring, could start to impact customer programme delivery.

Mitigation commentary/examples

- + Use of the newly developed ONE Ultra culture and values as recruiting asset
- + Embedding of specialist HR talent acquisition function to directly address Ultra's recruitment priorities
- + Proactive strategies to retain critical specialist employees targeted for individual locations and circumstances

Comment, changes and outlook

The quality of our people is a key asset and differentiator for Ultra and, recognising the increasingly challenging labour market conditions, we are investing in our recruitment capabilities and retention measures to protect and enhance our specialist capabilities for customer delivery.

STATEMENT OF GOING CONCERN

The Directors have a reasonable expectation that the Group has adequate resources for a period of at least 12 months from the date of approval of the financial statements and have therefore assessed that the going concern basis of accounting is appropriate in preparing the financial statements and that there are no material uncertainties to disclose.

As referred to on page 14, the shareholders of Ultra have approved the acquisition of the Group by way of Scheme of Arrangement by Cobham Ultra Acquisitions Limited, which is indirectly controlled by Advent. The acquisition is conditional on approval by Her Majesty's Government, so the Directors have considered going concern under two scenarios: on an ordinary course basis and on the assumption that the acquisition completes within the going concern period.

No acquisition by Cobham

The Directors have considered the Group's strong liquidity position, available facilities and cash flow forecasts and have a reasonable expectation that the Group has adequate resources for a period of at least 12 months from the date of approval of the financial statements.

Ultra's cash and cash equivalents as at 31 December 2021 were £138.8m and net debt was £40.0m (net cash of £0.7m when excluding finance lease liabilities). Since then, Ultra's net cash has increased further with the receipt of £34.8m on 24 January 2022 relating to the sale of non-core aerospace assets, further strengthening the Group's liquidity.

The Group's committed lending facilities amount to £401.7m in total and comprise loan notes in issue to Pricoa of £50m and \$70m, and a revolving credit facility (RCF) of £300m that is denominated in Sterling, US Dollars, Canadian Dollars, Australian Dollars or Euros. The RCF is provided by a group of eight international banks and, in certain acquisition scenarios, permits an additional £150m "accordion" which is uncommitted and subject to lender consent. The Group also has access to a £5.0m and \$2.5m overdraft. The financing facilities are used for balance sheet and operational needs, including the funding of day-to-day working capital requirements. The maturity profile for the Group's committed lending facilities is as follows:

Facility	Expiry
RCF £50m	November 2023
RCF £250m	November 2024
Pricoa £50m	October 2025
Pricoa \$40m	January 2026
Pricoa \$30m	January 2029

The Group's net debt as at 31 December 2021 also includes £17.3m of borrowings (fair value) from the Canadian Government under the Strategic Aerospace and Defence Initiative (SADI), which are repayable over the period to 2039 (see note 23).

The Group's financial covenants are that the ratio of net consolidated total borrowings to adjusted EBITDA* is less than three (x0.0 at 31 December 2021) and that the net interest payable on borrowings is covered at least three times by underlying operating profit (x12.2 at 31 December 2021). Stress testing has been undertaken to identify the level of cash outflow and reduction in profitability that would be required over the going concern period to breach the covenants; both an unbudgeted cash outflow of £230m and an unbudgeted reduction of £230m in adjusted EBITDA would be required.

Though global macro-economic conditions remain uncertain with continued uncertainty arising from impacts of the Covid-19 pandemic, stressed supply chains and inflation (detail on the potential risks to the Group associated with this are set out on page 45), the Group's strong liquidity, the long-term nature of Ultra's business and its positioning in attractive sectors of its markets, taken together with the Group's forward order book, provide a strong level of confidence in respect of trading in the year to come.

Completion of the acquisition of Ultra

On the assumption that the acquisition of Ultra completes during the going concern period, noting the analysis above regarding the Group's forward order book and stable nature of the business, the Directors have also considered the following:

- + Advent have stated in the Scheme of Arrangement that they intend Ultra to thrive, that they have no plans to undertake any material restructurings, that they will not redeploy Ultra's fixed assets (save for some limited exceptions) and that they will increase investment in research and development.
- + Advent has secured long-term financing which extends beyond the going concern and long-term viability assessment period and provides sufficient liquidity to complete the Scheme of Arrangement, and repay the Group's existing debt facilities if debt repayment obligations are triggered by the change of control provisions described on page 50.
- + The financing arranged by Advent, the terms of which are available on Ultra's website, does not include any leverage or coverage covenants.

* See note 2 and definition on page 156.

+ The Group's cash flows modelled by management support the ability of the Group to pay its debt service costs post acquisition in both the operation of its existing strategy and in stress-tested scenarios of flat revenue in 2023 onwards and 50% cash conversion, and a 15% decline in revenues in 2023 onwards and 70% cash conversion during the going concern and viability periods.

The Directors note that they do not have full visibility of the strategy, financing and organisational structure of the Group under the ownership of Cobham and any material changes by the acquirer could, without mitigation, impact the ability of the Group to cover interest payments. Notwithstanding this uncertainty, the Directors have a reasonable expectation that the Group has adequate resources for a period of at least 12 months from the date of approval of the financial statements should the transaction complete, given the strength of the Group's order book, forecast profitability and cash generation for 2022 and onwards, and knowledge of the loan facilities put in place by Advent to support the acquisition.

Going concern

Having assessed the Group's strong liquidity and cash generation, risks, financing and performance, the Directors have a reasonable expectation that the Group will continue in operation and meet its commitments as they fall due over the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing these financial statements.

LONG-TERM VIABILITY STATEMENT

Ultra's prospects and viability

When reviewing the long-term prospects of the Group, we consider:

i) The market

- + Long-cycle defence markets with stable through-cycle growth
- + Short and medium-term growth expected in our core markets of Maritime, Intelligence and Communications, Forensic Technology, Energy and Military Aerospace
- + A strong order book and order pipeline, providing forward visibility
- + Capabilities in Ultra that position us to grow above the markets

ii) Strategy and business model

- + Focus; Fix; Grow transformation improving efficiency
- + Parenting advantage accelerating growth
- + Rigorous resource allocation supporting strong returns on capital
- + Asset light business model delivering strong cash flow
- + Diversified customer base providing resilience

Assessing Ultra's viability

The Board conducted the viability review for a period of three years to December 2024, to coincide with its review of its medium-term forecasts from Ultra's strategic plan and giving consideration to the liquidation profile of the existing order book, the significant majority of which is within three years, and the maturity profile of the committed loan facilities.

The Directors have considered the potential impact of the principal risks set out on pages 43 to 46 and have modelled scenarios to illustrate the impact of the principal risks on the business in a scenario where the Cobham acquisition does not complete. The long-term viability modelling took into account: Ultra's financial projections and prospects; its robust balance sheet, including available cash and committed borrowings; key financial covenants and headroom; its ability to raise new finance in different financial market conditions; the strength of the order book; the diversified nature of the key markets and programmes on which the Group operates; and the long-term nature of many of these programmes. The Board has considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, the likelihood of their occurrence and the likely effectiveness of mitigating actions that the Directors would consider undertaking.

In particular, we have modelled the following scenarios:

- i) A very prolonged and deep downturn across a large proportion of the Operating Business Units (e.g. Defence Sector Cycle Risk, Geo-political Risk), resulting in a 15% year-on-year decline in revenues after 2022, with underlying operating cash conversion of 70%
- ii) Significant execution issues on one or more contracts or programmes, including supply chain disruption, or growth constraints arising from staff recruitment and retention challenges (e.g. Bid and Contract Risk, Programme Risk, Supply Chain Risk, Specialist Recruitment and Retention Risk), resulting in no revenue growth beyond 2022 and underlying operating cash conversion reducing to 50%

In addition, we have modelled the impact of significant one-off cash outflows to show the effect of simultaneous settlement of contingent liabilities, contract liabilities or outflows arising from the Group's other principal risks such as Security and Cyber Risks, and Governance, Compliance and Internal Controls risks.

There are a number of mitigating actions that could be taken, if necessary, such as a reduction in dividend payments, and reductions in non-essential capital expenditure, reductions in discretionary spend, and renegotiation of lending agreements and associated covenants.

If the acquisition by Cobham completes during the viability period, the Directors have less certainty about Ultra's strategy, financing and organisational structure during the viability period, but based on their knowledge of the financing arranged by Advent, the cash-generating potential of the Group, liquidity modelling and Cobham's intention statements, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2024 whether or not the acquisition by Cobham completes.

Financial review



“During 2021, we delivered our fourth year of organic revenue growth, grew our order book to a record £1.3bn and at the same time improved underlying operating margins and investment in transformation and R&D. This is all despite the ongoing impact of Covid.

Our statutory results were, however, impacted by the strengthening of Pound Sterling against the US Dollar.

We enter 2022 with 78% order cover and when combined with our positive transformation progress and strong balance sheet we are confident of further good growth in 2022.”

Jos Sclater
Chief Financial Officer

Ultra’s 2021 results

Order book and revenue

Ultra’s order book grew by 22.2% to £1,300.9m (2020: £1,064.2m); this represents organic growth of 22.0%.

Revenue declined by 1.1% to £850.7m (2020: £859.8m) with organic growth of 4.2%, reflecting continued strong growth rates in Maritime and Intelligence & Communications, partially offset by organic decline in Critical Detection & Control and a currency translation headwind due to the weaker US Dollar year on year.

REVENUE

	£m	% impact
2020	859.8	
Currency translation	(37.7)	-4.4
Disposals	(5.6)	-0.6
2020 (for organic measure)	816.5	-5.0
Organic growth	34.2	+4.2
2021	850.7	-1.1

STATUTORY OPERATING PROFIT AND MARGINS

£m	2021	2020
Statutory operating profit	105.9	106.3
Amortisation of intangibles arising on acquisition	9.8	12.6
Acquisition and disposal-related costs	7.8	1.1
Significant legal charges and expenses	6.1	3.3
Restructuring costs related to disposal	-	2.8
Underlying operating profit	129.6	126.1

Statutory operating profit decreased by 0.4% to £105.9m (2020: £106.3m) and statutory operating margin remained at 12.4% (2020: 12.4%). This reflects the underlying operating performance, as described below, as well as lower amortisation costs as assets created by historical acquisitions become fully amortised, partially offset by higher acquisition and disposal costs and legal charges and expenses, as described in the Profit before tax section below.

UNDERLYING OPERATING PROFIT AND MARGINS

Underlying operating profit	£m	% impact
2020	126.1	
Currency translation	(4.8)	-3.8
Disposals	(1.3)	-1.0
2020 (for organic measure)	120.0	-4.8
Organic growth	9.6	+8.0
2021	129.6	+2.8

Underlying operating profit was £129.6m (2020: £126.1m), an increase of 2.8% on the prior year. Organic underlying profit growth was 8.0%, driven largely by the strong sales in Maritime and Intelligence & Communications and some margin expansion.

Ultra continued its programme of R&D, with total spend (from customers and internal investment) in the year of £150.0m (2020: £144.2m). Company-funded investment increased organically by £3.1m to £33.5m (2020: £31.8m) which represents 3.9% of revenue (2020: 3.7%), while customer funding increased to £116.5m (2020: £112.4m). The overall level of R&D investment in the year was 17.6% of revenue (2020: 16.8%). The company-funded spend was lower than originally envisaged due to more active and return-based oversight of IR&D investment and our engineers having to focus more than anticipated on delivering programmes in a resource-constrained and supply chain challenged environment.

† See definition on page 146.

* See note 2 and definition on page 146.

Finance charges

Net financing charges increased by £1.4m to £13.0m (2020: £11.6m). This was driven by the £1.8m change in fair value on loans from the Canadian Government into the Comms business, which are structured such that repayments are linked to revenue growth; the strong revenue growth in the Communications business has therefore led to an increase in the fair value of the loan. The interest payable on borrowings was covered† 12.2 times (2020: 14.7 times) by underlying operating profit.

Profit before tax

Statutory profit before tax decreased 20.3% to £82.7m (2020: £103.7m). Underlying profit before tax was £116.6m (2020: £114.5m), as set out below:

£m	2021	2020
Statutory profit before tax	82.7	103.7
Amortisation of intangibles arising on acquisition	9.8	12.6
Acquisition and disposal related costs	7.8	1.1
Loss/(gain) on disposals net of related restructuring costs	2.4	(2.8)
Loss/(gain) on derivatives	7.8	(3.4)
Significant legal charges and expenses	6.1	3.3
Underlying profit before tax	116.6	114.5

Amortisation costs declined from £12.6m to £9.8m as the customer relationship and technology assets created by historical acquisitions became fully amortised. Acquisition and disposal-related costs in the year were £7.8m (2020: £1.1m); the bulk of this cost was incurred in relation to the previously announced recommended offer for the Group by Cobham Ultra Acquisitions Limited. A net loss of £2.4m arose from the divestment of two non-core loss-making businesses within the Critical Detection & Control SBU (see note 30). The net loss on forward foreign exchange contracts was £7.8m (2020: £3.4m gain), mainly driven by the movement in the year's opening and closing USD/GBP spot rate. Significant legal charges and expenses of £6.1m (2020: £3.3m) primarily relate to progress being made towards resolving a legacy legal matter.

As in 2020, transformation costs are included in underlying profit.

Tax, EPS and dividends

The Group's underlying tax† rate in the year decreased to 17.1% (2020: 19.0%). The statutory tax rate applicable to profit before tax is 19.0% (2020: 19.0%).

Underlying EPS increased 3.9% to 135.7p (2020: 130.6p), reflecting the increase in underlying profit and reduced underlying tax rate. The weighted average number of shares in issue was 71.2m (2020: 71.0m). Basic EPS decreased to 93.8p (2020:

118.0p) reflecting the decrease in statutory profit before tax. At 31 December 2021, the number of shares in issue was 71.4m (2020: 71.1m).

Ultra's dividend policy has a through-cycle target of circa two times normalised cash and earnings cover. However, in view of the terms of the proposed acquisition by Cobham Acquisitions Limited, the interim dividend of 16.2p per share, paid on 17 September 2021, will be the only 2021 dividend and the proposed 2021 final dividend is therefore nil (2020: 41.5p) per share. Consequently, the final full 2021 year dividend is 16.2p (2020: 56.9p), which is covered 8.4 times by underlying EPS.

Operating cash flow and working capital

Statutory cash generated by operations was £134.2m (2020: £142.6m). Underlying operating cash flow was £111.5m (2020: £116.1m) resulting in underlying operating cash conversion of 86% (2020: 92%). Cash conversion was lower than at the middle of 2021 due to the expected unwind of a large early customer payment, as flagged in our interim update. We ended the year with net debt of £40.0m, net cash of £0.7m when excluding leases liabilities.

Our focus on improving working capital turn has continued to be successful with the average working capital turn for the Group improving to 12.3x (December 2020: 10.1x). There was a small working capital increase of £2.8m, with reduced inventories and increased payables being offset by increased receivables. Capital expenditure increased in the year to £24.7m due to facility upgrades and transformation initiatives (2020: £22.1m).

Non-operating cash flow

The main non-operating and non-underlying cash items as set out in note 2 and in the statutory cash flow statement were:

- + Net cash inflow of £1.2m relating to disposals (see note 30)
- + Dividend payments of £41.1m (2020: £38.7m)
- + Tax paid of £5.7m (2020: £5.4m)
- + A £6.8m (2020: £1.3m) outflow on acquisition and disposal related payments, predominantly relating to costs incurred due to the proposed acquisition of Ultra by Advent/Cobham

Conduct of business investigations

As previously announced, investigations associated with conduct of business issues in Algeria and the Philippines are ongoing, and Ultra continues to cooperate with the relevant authorities. A provision has been recognised with respect to one of these matters.

Capital allocation

Our capital allocation approach remains unchanged. We aim to maintain our asset light, high capital return business model which will, in turn, drive strong free cash flow.* Our priorities for capital discipline are listed in order below:

1. Organic investment for operational improvement and to deliver value-creative growth
2. Inorganic mergers and acquisition investment to accelerate strategy delivery, if it is value creative on a risk-adjusted basis
3. Sustainable through-cycle dividend growth: our policy remains around 2x through-cycle cash/earnings cover ratio
4. Any excess, through-cycle capital to be returned to shareholders if it can't be deployed within Ultra in the medium term to generate strong returns

We aim to support these priorities by maintaining through-cycle gearing between 1.5 and 2.5x net debt (including pension and lease liabilities) to adjusted EBITDA.

ROIC

ROIC increased to 21.2% (2020: 20.0%). The calculation is set out in note 2.

Funding and liquidity

The Group's committed banking facilities amount to £401.7m (2020: £401.2m) in total. These comprise the £300m revolving credit facility (RCF) and £50m and \$70m of Pricoa loan notes. £250m of the RCF has a maturity to November 2024 and £50m has a maturity to November 2023. The facility is denominated in Sterling, US Dollars, Canadian Dollars, Australian Dollars or Euros. The facility permits an additional £150m 'accordion' which is uncommitted and subject to lender consent and can be used in certain acquisition scenarios. The £50m of Pricoa notes have an expiry date of October 2025, \$40m of notes expire in January 2026 and \$30m in January 2029.

The Group's borrowings at 31 December 2021 also include £17.3m (fair value) from the Canadian Government under the Strategic Aerospace and Defence Initiative (SADI), which are repayable over the period to 2039 (see note 23).

The liquidity of the Group is strong; as at 31 December 2021, the total borrowings drawn from the RCF were £20.0m (2020: £20.0m), giving committed facility headroom of £280.0m (2020: £280.0m) in addition to £5.0m and \$2.5m of uncommitted overdrafts. The Group also held £138.7m (2020: £84.1m) of cash for working capital purposes. The facilities are used for balance sheet and operational needs, including the funding of day-to-day working capital requirements.

The Group's main financial covenants are that the ratio of net consolidated total borrowings/adjusted EBITDA is less than three, and that the net interest payable on borrowings is covered at least three times by underlying operating profit. In certain acquisition scenarios, the ratio of net consolidated total borrowings/adjusted EBITDA is permitted to be up to 3.5x for two consecutive six-month periods. The covenants are under a

Financial review

continued

frozen Generally Accepted Accounting Practice (GAAP) basis i.e. excluding the impact of IFRS 16 lease liabilities.

Ultra's net debt at the end of the year reduced to £40.0m (2020: £85.8m) including £40.7m (2020: £37.7m) of lease liability. 'Net debt to adjusted EBITDA'* when including pension liabilities and lease liabilities was 0.48x (2020: 1.05x). On a covenant basis, which excludes pension liabilities and lease liabilities, the figure is 0.0x (2020: 0.34x). Net interest payable on borrowings was covered 12.2x (2020: 14.7x) by underlying operating profit.

The US Dollar borrowings represent natural hedges against assets denominated in that currency. Details of how Ultra manages its liquidity risk can be found in note 22 – Financial instruments and financial risk management.

Change of control

The RCF and Pricoa agreements both include change of control clauses that may result in early repayment of the outstanding loan balances in the event of the takeover of the Group. The RCF was utilised by £20m as at 31 December 2021 but this has subsequently been reduced to £nil, so the amounts that may need to be repaid following change of control are the £101.7m of Pricoa loans. The SADI agreements require consent of the Canadian Minister of Innovation, Science and Economic Development prior to change of control; if consent is not granted the Minster could potentially seek repayment in full of the outstanding loan balances (March 2022) of C\$36.0m (£21.0m) and C\$5.4m (£3.2m).

Interest rate management

To reduce the risks associated with interest rate fluctuations and the associated volatility in reported earnings, Ultra holds a mix of fixed rate and floating rate debt. The majority of debt is currently at fixed rates of interest.

Foreign exchange

Ultra's results are affected by both the translation and transaction effects of foreign currency movements. The average US Dollar translation rate in 2021 was \$1.38 (2020: \$1.28). By their nature, currency translation risks cannot be mitigated, but the transaction position is actively managed.

The majority of sales made by Ultra's businesses are made in local currency, thus avoiding transaction risk. However, this risk does arise when businesses make sales and purchases which are denominated in foreign currencies, most often when UK businesses transact in US Dollars. To reduce the potential volatility, Ultra attempts to source in US Dollars a high proportion of the products sold in US Dollars. For the remaining net expense, the Group's policy is to hedge forward the foreign currency trading exposure in order to increase certainty. The expected flows are reviewed on a regular basis and additional layers of cover are taken out so that, for 2022, 100% of the expected

exposure is covered, reducing to 70% of the exposure for 2023 and around 50% of the exposure for 2024. Exposure to other currencies is hedged as it arises on specific contracts.

A net investment hedge is in place to reduce income statement volatility arising from revaluation of US Dollar borrowings held on the UK balance sheet.

Post-employment obligations

Ultra offers Company-funded retirement benefits to all employees in its major countries of operation. In the UK, the Ultra Electronics Limited defined benefit scheme was closed to new entrants in 2003 and closed to future benefit accrual in 2016. All staff who joined Ultra in the UK since the defined benefit scheme was closed to new entrants have been invited to become members of the Ultra Electronics Group Personal Pension Plan and, since April 2011, the Ultra Electronics Group Flexible Retirement Plan. Under the terms of this defined contribution scheme, Company payments are supplemented by contributions from employees.

The Ultra Electronics Limited defined benefit scheme was a contributory scheme in which the Company made the largest element of the payments, which were topped up by employee contributions up until the 2016 closure of the scheme to future accrual. The scheme was actuarially assessed using the projected unit method at 31 December 2021 when the net scheme deficit, calculated in accordance with IAS 19, was £26.9m (2020: £56.6m). The present value of the liabilities decreased by £19.3m to £403.9m in 2021 primarily due to the 45bps increase in the discount rate. There was a £15.8m increase in scheme assets, mainly driven by increases in fund investment values.

A full actuarial assessment was carried out as of April 2019, the result of which was a funding deficit of £77.2m representing a decrease of £37.2m from the previous funding deficit of £114.4m in April 2016. Following the completion of the assessment, Ultra reached an agreement with the pension scheme trustee board to maintain the £11.0m per annum payment to eliminate the deficit over the period to March 2025. The next valuation will take place as of April 2022.

The scheme has a statement of investment principles which includes a specific declaration on socially responsible investment. This is delegated to the investment managers. Pension management and governance is undertaken by the pension trustees on behalf of the members.

The trustees include both Company-nominated and employee-elected representatives. The scheme investment strategy and the details of the risks to which the scheme is exposed are set out in note 29.

Certain employees within our Communications Business Unit in Montreal, Canada participate in a defined benefit scheme. This scheme is closed to new employees. Regular payments continue to be made, with both Company and employees making contributions, so as to maintain a satisfactory funding position. The Group's remaining Canadian employees participate in a number of defined contribution pension plans.

In the USA, Ultra offers a defined contribution 401(k) retirement benefit plan to all full-time employees. Under this plan, Ultra provides participating and contributing employees with matching contributions, subject to plan and US Internal Revenue Service limitations.

2022 Financial guidance

Supported by our strong order book and pipeline, we expect to see strong year-on-year organic revenue growth driven primarily by Maritime and Intelligence & Communications. We also expect Critical Detection & Control to grow organically, led by our Forensic Technology business.

We will continue to invest into our Focus; Fix; Grow transformation during 2022, with operating expenditure expected to be between £8m and £9m and capital expenditure expected to be broadly flat at £7m. We expect investment to continue in 2023, before falling sharply in 2024.

Since the Group is in an offer period, we are not providing profit or margin guidance for 2022.

We expect strong ROIC progression in 2022, notwithstanding the increased investments we are making into the business. Total capital expenditure is expected to be between £25m and £30m.

We continue to expect strong cash conversion between 75% and 85% and for internal R&D to be between 3.5% and 4.0% of Group revenue.

The underlying tax rate is expected to be around 19–20% (with the cash tax rate expected to be c.13%).

Jos Sclater
Chief Financial Officer
23 March 2022

Strategic Report

Our 2021 Strategic Report, from pages 1 to 50, was reviewed and approved by the Board on 23 March 2022.

Simon Pryce
Chief Executive Officer
23 March 2022

* See page 156.

Governance Report 2021

Our Executive Team



Simon Pryce



Jos Sclater



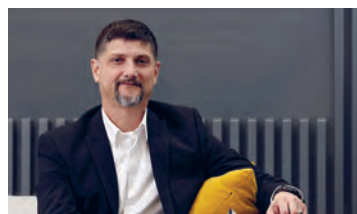
Steve Izquierdo



Louise Ruppel



Mike Baptist OBE



Thomas Link



Andrew Puryear

Simon Pryce Chief Executive

See page 52.

Jos Sclater Chief Financial Officer

See page 52.

Steve Izquierdo Chief Human Resources Officer

Steve is a commercially experienced HR leader with over 20 years' cross-industry HR experience working within three top tier global organisations before joining Ultra as Chief HR Officer. He has operated as an active member of many Executive Boards for the last seven years and has led through significant change and transformation programmes across the businesses. Prior to joining Ultra, Steve held a number of roles within PepsiCo including Head of HR for the UK business as part of the Executive Team.

Louise Ruppel Group General Counsel and Company Secretary

Louise Ruppel joined Ultra in January 2019. She trained as a solicitor at UK City firm Slaughter and May, where she qualified into the corporate department. She subsequently worked as an in-house lawyer at Merrill Lynch & Co., Ltd in London after which she was Company Secretary and Group Legal Director at First Group plc, a global transport company, and General Counsel and Company Secretary at Manchester Airports Group.

Mike Baptist OBE President, Intelligence & Communications

Mike Baptist has been at Ultra for over 30 years having joined as a development engineer in 1989. His leadership has contributed to many of Ultra's milestone achievements, driven by his passion for technology and innovation. Mike is responsible for the strategic growth and operational performance of the Intelligence & Communications Strategic Business Unit. He has been a member of the Ultra Executive Team since 2014.

Thomas Link President, Maritime

Thomas Link has worked for Ultra for over 26 years, focusing his career on anti-submarine warfare systems and maritime domain missions. He leads a diverse portfolio of operating businesses located in the USA, Canada, the UK and Australia, which deliver innovative solutions for customers around the world. Thomas holds a BS in Electrical Engineering from Purdue University and an MS in Electrical Engineering from the University of Washington.

Dr Andrew Puryear Chief Technology Officer

Andrew has a background in electrical and computer engineering as well as extensive technology leadership experience in aerospace and defence. He originally joined Ultra in 2019 as the Chief Technology Officer for the Intelligence & Communications Strategic Business Unit.

Andrew is the Chairman of the newly formed US Department of Commerce Emerging Technology Technical Advisory Committee (ETTAC). He has served in the US Navy Reserves since 2012 as a warfare qualified Engineering Duty Officer and a founding member of a specialised detachment within the Navy Cyber Warfare Group.

Andrew graduated first in his class from MIT with a PhD in electrical engineering with specialties in information theory, analytics and cryptography. He also holds an MS in electrical engineering from Stanford and a BS in electrical engineering, summa cum laude, from Texas A&M. He is also a member of Tau Beta Pi and IEEE.

Governance Report 2021

Our Board



Tony Rice N



Simon Pryce



Jos Sclater



Geeta Gopalan A R N



Victoria Hull A R N



Ken Hunzeker A R N



Daniel Shook A R N

- A Audit Committee
- R Remuneration Committee
- N Nomination Committee
- Chair

Tony Rice

Chairman

Appointed to the Board 18 December 2018

Tony Rice was CFO, and subsequently CEO, of Cable & Wireless Communications plc, CEO of Tunstall plc and prior to that held a number of senior roles in BAE Systems plc including running their Commercial Aircraft Business. More recently, Tony was Chair of Dechra Pharmaceuticals plc from 2016-2021 and is the Senior Independent Director at Halma where he has been a Board member since 2014.

Committees

Nomination (Chair)

Other key appointments

+ Senior Independent Director of Halma plc
+ Non-Executive Director of the Whittington Hospital Trust

Skills and experience

Senior business management in the aeronautical and electronics engineering sectors. Senior Non-Executive roles in UK listed companies.

Simon Pryce

Chief Executive

Appointed to the Board 18 June 2018

Prior to his appointment, Simon was Group Chief Executive of BBA Aviation plc for 10 years. Simon qualified as a Chartered Accountant before working at the global investment banking firms of Lazard & Co., Limited and JP Morgan, and then at GKN plc.

Simon is a Fellow of the Royal Aeronautical Society and a member of the Chartered Institute for Securities and Investment. He is also a member of the Council of the University of Reading.

Other key appointments

+ Non-Executive Director and Chair of the Remuneration Committee at Electrocomponents plc

Skills and experience

Extensive experience in international automotive, engineering, defence and aerospace sectors. Senior leadership and general management experience in large multinational listed companies.

Jos Sclater

Chief Financial Officer

Appointed to the Board 9 December 2019

Jos has 20 years' experience in multinational engineering, chemicals and consumer goods businesses. He has held senior financial, corporate finance, strategic, operational and legal roles in ICI, AkzoNobel, GKN and BP, both in the UK and Asia Pacific.

Skills and experience

Extensive experience in finance, strategic planning, transformation, mergers and acquisitions (M&A) and driving operational and commercial performance.

Geeta Gopalan

Independent Non-Executive Director

Appointed to the Board 28 April 2017

Geeta has worked in commercial and retail banking as well as social investment and community development in the third sector. Her executive roles included Chair Europe for Monitise plc, and Director of Payments Services at HBOS. Geeta also worked at Citigroup for 16 years, during which time she was a Managing Director for its UK retail bank and Business Development Head of EMEA. She has experience coaching and mentoring as well as in-depth knowledge of the digital economy, mobile and internet spaces.

Committees

Audit, Nomination and Remuneration (Chair)

Other key appointments

- + Non-Executive Director of Virgin Money UK plc
- + Non-Executive Director of Funding Circle Holdings plc
- + Non-Executive Director of Wizink Bank S.A.

Skills and experience

Senior management in the financial services sector digital economy and the social sector.

Victoria Hull

Senior Independent Director

Appointed to the Board 28 April 2017

Victoria is a former Executive Director and General Counsel of Invensys plc and Telewest Communications plc. She has considerable international and domestic experience of legal, commercial and governance matters, having worked in global and domestic companies operating at an Executive Committee or Board level.

Committees

Audit, Nomination and Remuneration

Other key appointments

- + Non-Executive Director of IQE plc
- + Non-Executive Director of Alphawave IP Group PLC
- + Non-Executive Director and Chair of the Remuneration Committee at Network International Holdings plc

Skills and experience

Experience across a diverse range of sectors. Legal and Board-level experience.

Ken Hunzeker

Independent Non-Executive Director

Appointed to the Board 1 July 2020

Ken is a US national, with a strong military, defence and US Government background. He retired from the US Army in 2010, after 35 years' active service. During his military service, Ken was awarded the Defence Distinguished Service Medal. After retiring from the military, Ken held the position of CEO of VECTRUS, a US Government Services Contractor which specialises in information technology and network communication services.

Committees

Audit, Nomination and Remuneration

Other key appointments

- + Non-Executive Director of TRAX International

Skills and experience

Extensive military and defence experience, including several roles within the Pentagon focused on developing and resourcing the US Defence Services. He also served on multiple tours in Iraq working with Coalition Forces.

Daniel Shook

Independent Non-Executive Director

Appointed to the Board 1 September 2019

Daniel is currently Finance Director of IMI plc, the specialist engineering company, which he joined in 2015. Prior to IMI, Daniel was Chief Financial Officer and a member of the Executive Board at Borealis AG, the international chemical and plastics producer. Prior to joining Borealis in 2007, he spent 12 years at the BOC Group plc, the former FTSE 100 industrial gases company, where he served in a number of senior finance and management roles including Finance Director of the Industrial Special Products division and Group Treasurer.

Committees

Audit (Chair), Nomination and Remuneration

Other key appointments

- + Finance Director of IMI plc

Skills and experience

Extensive financial management experience and extensive knowledge of complex process manufacturing across a range of industrial sectors.

Governance Report 2021

Chairman's governance report



“Our key focus as a Board was to ensure that, notwithstanding the proposed Acquisition, the Company continued to deliver on its strategic objectives, KPIs and transformation programmes.”

Tony Rice
Chair

Dear Shareholder,

I am pleased to present my Chairman's Report. This should be read in conjunction with the compliance report on page 55, which shows how the Company has complied with the UK Corporate Governance Code 2018.

It has certainly been an interesting year in many respects. We made good progress on our Focus; Fix; Grow transformation journey with strong Group performance, despite the distraction caused by the ongoing pandemic and the proposed acquisition by Cobham. As a Board we continued to operate within our solid corporate governance framework which underpins everything we do, with a focus on ensuring our operations kept running as business as usual despite the corporate activity.

Proposed acquisition

On 16 August 2021, we announced that we had reached agreement with the Board of Cobham Ultra Acquisitions Limited, a wholly owned indirect subsidiary of Cobham Group Holdings Limited (“Cobham”) on the terms and conditions of a recommended all-cash acquisition of the entire issued, and to be issued, ordinary share capital of Ultra by Cobham (the “Acquisition”). Under the terms of the proposed Acquisition, each Ultra shareholder will be entitled to receive £35.00 per share (“Offer Price”).

Dividend

In addition to the agreed Offer Price, under the terms of the Acquisition, an interim dividend of 16.2p per share was paid to shareholders on the register of members as at 27 August 2021. In view of the terms and conditions set out in the announcement dated 16 August 2021 (relating to

the recommended cash acquisition of Ultra by Cobham Ultra Acquisitions Limited) the interim dividend of 16.2p per share, paid on 17 September 2021, will be the only 2021 dividend. No final dividend will be paid to shareholders while the Acquisition remains conditional on obtaining UK Government approval.

Strategy

Our key focus as a Board was to ensure that, notwithstanding the proposed Acquisition, the Company continued to deliver on its strategic objectives, key performance indicators (KPIs) and transformation programmes. As we progressed through our Focus; Fix; Grow journey, the Board was impressed with the results of the transformation workstreams, with demonstrable progress across our operational capabilities and in our HR and ESG initiatives as described in our strategic report on pages 24 to 41.

Throughout the year, the Board received presentations from senior managers across the Group at Board meetings, Committee meetings and at our annual dedicated strategy day. As always, the Board actively challenged management and was impressed with the mindset, teamwork and resilience shown by our senior leadership team.

Covid-19

Covid-19 continued to provide certain challenges, but we have been fortunate that it has not materially affected Ultra businesses. The Board will continue to monitor the position, in particular, with regard to any production and supply chain issues. On behalf of the Board, I would like to express thanks to all of Ultra's workers for their hard work and continued dedication to the Company during this unprecedented time. Our great people have continued to focus on delivering solutions to our customers despite the challenges presented by the pandemic and the uncertainty caused by the Acquisition. We have demonstrated our agility as a business with continued strong performance despite adversity.

Our Board

On 1 July 2021, Martin Broadhurst stepped down from the Board following a nine-year tenure on the Board. I would like to extend the Board's thanks to Martin for his hard work, wise counsel and diligence as an Independent Non-Executive Director throughout his time at Ultra.

As I explain in more detail in the Nomination Committee report on page 66, we commenced a search for at least one further Independent Non-Executive Director in 2021, but were forced to put that on hold as a result of the Acquisition, as it would not have been appropriate to bring on a new Board member at a time when the Company is subject to a takeover offer.

Although Covid-19 did not materially affect performance, travel continued to be disrupted globally. As a Board we endeavour to visit several

business sites each year but travel restrictions meant that we were unable to visit any overseas sites in 2021. However, we were fortunate to be able to visit two of our UK business sites – PCS and SMaP – during the year when it was safe to do so. We very much value the importance of visiting sites, touring the facilities and seeing and hearing from our dedicated and talented people first-hand what we do, and how we do it. Our employees always have a great sense of pride in showing us the work they do, and we are fascinated by, and proud of, the talent and technological capabilities we have throughout the Group.

The Board continued to operate effectively utilising video-conferencing facilities when needed. Where possible, and when Covid-19 restrictions allowed, our UK-based Directors met in person for Board and Committee meetings with Ken Hunzeker, who resides in the US, joining virtually. We were delighted when Ken was able to fly over in September 2021 and join us in person for the first time for the Board and Committee meetings that month and to be present at the Court and General Meeting to approve the Scheme on 6 October 2021.

Purpose, values and culture

Our renewed purpose, vision, mission, ASPIRE values and brand, launched in January 2020, continue to be embedded throughout the Group. In December 2021, Ultra held its first ASPIRE Awards which showcased the phenomenal talent through Ultra and demonstrated that there are great people really living our ASPIRE values throughout Ultra. This is very important to us as a Board as we see our culture as a key enabler to our success, with our values running through everything we do.

Delivering for our stakeholders

2021 was another year of progress for Ultra and we continued to deliver for all our stakeholder groups.

As regards our employees, we made significant progress in our reward and recognition programmes, diversity and inclusion initiatives and wellbeing policies. Our 2021 UltraView engagement survey demonstrated a 68% favourable score, which was slightly lower than our 73.2% engagement score in May 2020. However, given the uncertainty surrounding the proposed Acquisition and ongoing Covid pressures, we felt this was a good result and hope to see an improvement in the pulse survey engagement score later this year given all the positive people and talent initiatives that are ongoing.

We completed our first ever Net Promoter Score survey with our top customers and I'm very pleased that Ultra's score was 52, the equivalent of a 'good' or 'excellent' ranking. We also delivered our first year of procurement savings through our ONE Ultra strategy for our Suppliers and launched our first Supplier Code of Conduct.

Within our local Communities I am very proud of the impact Ultra is having with over £500,000 donated to local community causes in the past two years, considerable progress with our emissions targets and increased support for our veterans and serving forces.

For our Investors we grew our organic order book by an impressive 22% to £1.3bn and increased our return on invested capital (ROIC) to 21% demonstrating Ultra's future prospects and increasing efficiency improvements from our Focus; Fix; Grow transformation.

Environmental and social governance

Sustainability is embedded in everything we do. We published our first Sustainability Report in 2021 and have continued to make progress throughout the year regarding our ESG goals and objectives, including measuring and reporting on carbon emissions and environmental initiatives. We are working towards becoming a signatory to the Race to Zero in 2022 because it is the right thing to do to protect our planet for a safer tomorrow.

Looking ahead

While we await a decision from HM Government on the Acquisition, we will continue to focus on delivering on our strategic objectives and transformation workstreams with a very much business as usual mindset, and believe the Company is well positioned to continue to deliver value for all our stakeholders.

Tony Rice
Chairman
23 March 2021

COMPLIANCE WITH THE 2018 UK CORPORATE GOVERNANCE CODE (THE "CODE")

In respect of the year ended 31 December 2021, Ultra was subject to the Code (available from www.frc.org.uk). Insofar as is practical, the Company seeks to uphold the principles of the Code in meeting its objectives to promote the long-term sustainable success of the business and to generate value for all its stakeholders, contributing to wider society.

Throughout the financial year ended 31 December 2021, the Board considers that it, and the Company, has complied with the provisions of the Code with the exception of provision 38 of the Code with respect to the fact that the Chief Executive Officer's pension contribution exceeds the prevailing level for the wider workforce. See page 77 for further information. As disclosed, should the Acquisition not complete, the Remuneration Committee intends to revisit this matter.

Further details demonstrating how the principles and relevant provisions of the Code have been applied can be found as follows:

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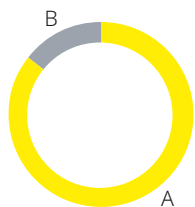
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Board composition

BOARD SKILLS, EXPERIENCE & DIVERSITY

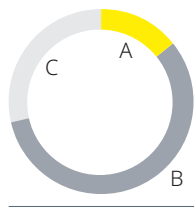
	Relevant Sectors			Geographies			Experience			Tenure		
	Defence & Aerospace	Security & Cyber	Energy Markets	UK & Europe	North America	Rest of World	Finance & Legal	Capital Markets & Public Companies	Public Sector & Procurement	Leadership in Large Organisations	Military	Length of Service
Executive Directors:												
Simon Pryce	●	●	●	●	●	●	●	●	●	●		3.5 years
Jos Sclater	●			●	●	●	●	●		●		2 years
Non-Executive Directors:												
Tony Rice	●			●	●	●	●	●	●	●		3 years
Geeta Gopalan		●		●				●	●	●		4.5 years
Victoria Hull				●	●	●	●	●		●		4.5 years
Daniel Shook			●	●	●	●	●	●		●		2.25 years
Ken Hunzeker	●	●			●	●					●	1.5 years

BOARD BAME DIVERSITY



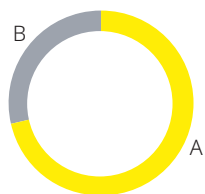
A. White Caucasian	6
B. BAME	1

BOARD TENURE DIVERSITY



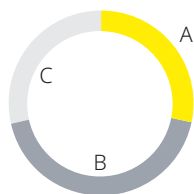
A. 0-2 years	1
B. 2-4 years	4
C. 4+ years	2

BOARD GENDER DIVERSITY



A. Male	5
B. Female	2

AGES



A. 45-54	2
B. 55-64	3
C. 65+	2

Board diversity policy

A Board comprising the right balance of skills, experience and diversity of gender and ethnicity as well as diversity of thought is best placed to support a company in delivering its strategic objectives. These factors, along with others, will be taken into consideration when seeking to appoint a new Director to the Board and all Board appointments will always be made on merit.

Information regarding our diversity policy and initiatives for the wider workforce can be found on pages 32-37.

Our Board composition and diversity

Our Board of Directors consists of an Independent Non-Executive Chairman, four further Independent Non-Executive Directors and two Executive Directors. The Board recognises the value of diversity in its broadest sense and is committed to supporting diversity and inclusion in the boardroom, and throughout the Company as a whole. All our Directors have relevant qualities and competences that leverage their different experience and attributes and collectively contribute to the proper governance of the Company and the provision of effective and constructive challenge to, and support for, its management team.

The Board is aware of the recommendation of the Parker Review Report to have at least one Director from a non-white ethnic minority by 2021 and is satisfied that the Board meets this recommendation.

In our 2020 Annual Report and Accounts we reported that we would take the Hampton-Alexander target of a minimum 33% female representation on the Board into account while searching for at least one further Non-Executive Director in 2021. As set out above, that search was paused once the Acquisition was announced. Should the Acquisition not complete by the long stop date of 5 August 2022, we will re-activate the search and will work towards meeting that target during the remainder of 2022.

Further information on our diversity initiatives to build a strong pipeline of senior leaders can be found on pages 32-37.

Board independence

The Board monitors its own independence and objectivity on an ongoing basis and is confident that all Directors act with independent judgement. Over half the Board are Independent Non-Executive Directors and all our Non-Executive Directors are considered to be independent pursuant to the UK Corporate Governance Code 2018 ("Code"). The Chairman of the Board was independent upon appointment and holds regular discussions with the other Non- Executive Directors without Executive Directors present to ensure that their views are impartial and free from bias. As such, all Non-Executive Directors will offer themselves for re-election at the Company's Annual General Meeting in 2022.

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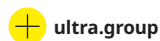
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Leadership

Led by the Chair, the Board is responsible for leading Ultra and has overall responsibility for the management and conduct of the business in order to generate long-term value for our stakeholders. The Board is also responsible for approving strategic plans, financial statements, acquisitions and disposals, major contracts, projects and capital expenditure, and considers health and safety, environmental, legislative and governance issues. The schedule of matters reserved for the Board sets out matters which are expressly reserved for the collective decision of the Board and can be downloaded from the Company's website.

There is a written statement of the division of responsibilities between Chairman and Group Chief Executive, as well as a summary of the role of Senior Independent Director, which is also available to download on the Company's website.

The appointment and removal of the Company Secretary is a matter reserved for the whole Board.

**DIVISION OF RESPONSIBILITIES**

Chair	<p>The Chair is primarily responsible for the leadership and overall effectiveness of the Board, while taking account of the interests of the Group's stakeholders, and promoting high standards of corporate governance.</p> <p>The Chair promotes a culture of openness, debate and challenge among the Board and ensures effective communication between our Executive and Non-Executive Directors and with our shareholders. In conjunction with the Company Secretary, the Chair ensures that the Board receives clear, accurate and timely information.</p>
Chief Executive	<p>The Chief Executive is responsible for the overall leadership of the Group, the effective management of the Group's businesses and day-to-day operations, and the implementation of Board strategy and policies agreed by the Board. He is also responsible for the management, development and succession planning for the senior Executive Team and leading the communication programme with shareholders.</p>
Chief Financial Officer	<p>Supports the Group Chief Executive in implementing the Group's strategy and in the financial performance of the business. The Chief Financial Officer is responsible for financial reporting and setting, and reporting on, financial goals, objectives and budgets, and for overseeing risk, internal controls and Internal Audit.</p>
Senior Independent Director	<p>The Senior Independent Director provides a sounding board for the Chair and serves as an intermediary for the Non-Executive Directors, where necessary. The Senior Independent Director leads the Non-Executive Directors' performance appraisal of the Chair and is available to meet with shareholders, if and when necessary, if they have any concerns about the business which have not been resolved through normal channels.</p>
Non-Executive Directors	<p>Non-Executive Directors exercise independent judgement and constructively challenge the Executive Directors and the senior management team, scrutinising performance against objectives. They provide strategic guidance to the Company, utilising their wealth of knowledge, insight and experience in their specialist areas and have a pivotal role in the appointment and removal of Executive Directors and the Company's corporate governance framework as a whole.</p>
Group General Counsel and Company Secretary	<p>The Group General Counsel and Company Secretary acts as secretary to the Board and facilitates effective Board meeting management in conjunction with the Chair, ensuring Board procedures are complied with and the Board has the information, time and resources it needs in order to function effectively and efficiently. The Group General Counsel and Company Secretary advises the Board on all governance matters and assists the Chair with induction programmes for new Directors and annual Board evaluations. She also provides regular legal, governance and compliance updates to the Board and facilitates Board training.</p>

Committees of the Board

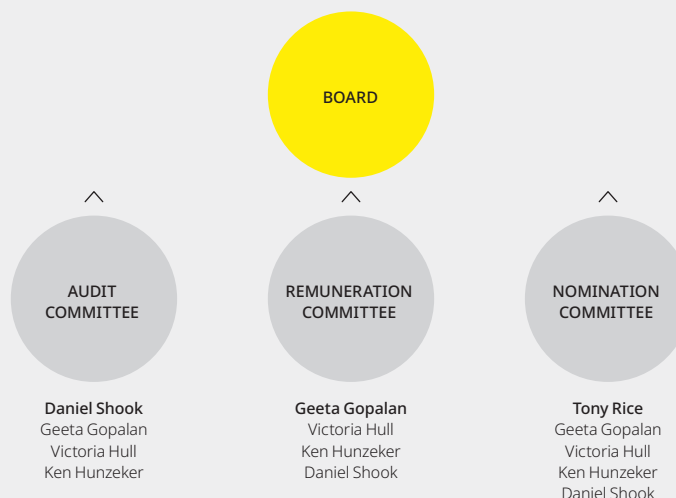
To facilitate the effective discharge of its duties, the Board has three Committees to which certain key responsibilities are delegated. The terms of reference for each Committee are available to download on the Company's website.

Only Committee members are entitled to attend each Committee meeting, although the Chair may invite additional attendees to join for all or part of a meeting to provide additional information or to bring specific expertise to the meeting to assist the Committee in decision-making and the discharge of its duties.

Committee Chairs report to the Board on the matters discussed and decisions made at the next Board meeting following any Committee meeting. Where appropriate, Committee Chairs make recommendations to the Board for certain matters which require Board approvals such as the approval of annual and half-year financial statements and Director appointments.

Read more about our Board on pages 52 to 53.

OUR BOARD AND ITS COMMITTEES



The role of the Board

The role of the Board is to provide entrepreneurial leadership and direction to Ultra in promoting its long-term sustainable success, taking into account the interests of all stakeholder groups. The Board is responsible for the approval of the Group's strategy and policies, the oversight of risk, controls and corporate governance, and for setting and monitoring a culture that encourages the Group's businesses to behave ethically and in line with our values. The Board sets the Group's risk appetite and satisfies itself that financial controls and risk management systems are robust, while ensuring the Group is adequately resourced, and actively engages with, and considers the needs of, all relevant stakeholders in Board decisions.

Audit Committee

Oversees the Group's internal financial controls and risk management systems, monitors the integrity of all formal reports and announcements relating to the Company's financial performance and maintains appropriate relationships with the internal and external auditors of the Group.

Remuneration Committee

Formulates and recommends to the Board the remuneration policy for the Executive Team and the Chair, ensuring alignment with the Company's long-term strategic goals and having regard to pay and employment conditions across the Company.

Nomination Committee

Reviews the structure, size and composition of the Board and oversees succession planning, including the development of a diverse pipeline of candidates for Directors and senior management positions. Considers nominations, and the process, for appointing new Board members.

Governance Report 2021

continued

Executive Team

The Executive Team is responsible for delivering our strategy, driving our operational and financial performance and ensuring the Company maintains a supportive culture where our people can thrive.

The Executive Team oversees the execution of the Group's strategy and defines the operating model and processes that support that delivery. The team also makes policy, prioritisation and scarce resource allocation decisions, taking into account the needs of all stakeholders and the agreed objectives and stakeholder goals.

The Executive Team meets formally at least eight times a year, and aims to hold at least three meetings each year at one of our operational sites in North America and at least one visit at an operational site in the UK when Covid-19 restrictions permit. The Executive Team uses the opportunity to have a tour of the hosting business as well as an all-employee presentation, Q&A session and meetings with the senior management and high-potential teams. This enables the Executive Team to see the production floors and meet with employees to hear their views, first-hand, as part of the Company's workforce engagement strategy, as discussed on page 64.

Due to Covid-19 travel restrictions, the Executive Team was only able to make one site visit in North America in 2021, to Ultra SMap in New York State, United States. It also visited Ultra PCS in Cheltenham, UK.

However, the Chief Executive Officer and Chief Financial Officer were able to visit a number of other sites in the US and UK in 2021. Townhall meetings were held at most sites. It is planned to resume full Executive Team site visits in 2022 if restrictions allow.

Ethics Committee

This is an entirely independent Committee currently made up of two independent individuals, Major General (Retired) Tim Cross CBE and Simon Lowe, who have vast combined experience within the fields of ethics, culture and governance.

The Committee visits Ultra sites on a rotating schedule at least four times a year and has a formal remit to:

- + Monitor alignment with best practice in our business ethics and compliance procedures
- + Assess how our culture and values are embedded throughout Ultra
- + Review Speak Up reports and challenge the integrity and independence of our Speak up platform

The Ethics Committee meets with a diverse group of employees at each site visit, without management present, and meets with management separately. Following the visits, an independent, unbiased and unedited report on

THE ROLE OF OUR EXECUTIVE TEAM

the perceived ethics and culture within the business is provided to management. The Committee challenges management where necessary and, where applicable, provides impartial advice on how ethical and cultural matters could be improved.

Two formal Committee meetings are held each year, at which the Committee members meet with at least one representative of the Executive Team present, to receive relevant updates and presentations from Ultra management. The Committee then provides honest, objective feedback to the full Executive Team twice a year, and annually to the Board.

Further information on the work carried out by our Ethics Committee can be found on page 64.

Ethics Committee biographies**Tim Cross CBE**

Major General (Retired) Tim Cross commanded everything from a small Bomb Disposal Team in Northern Ireland to a 30,000-strong division of the UK Field Army. His operational deployments included Kuwait/Iraq (1990/91), Baghdad (2003) and the Balkans three times in the 1990s. A Lay Minister in the Church of England, he now runs a broad portfolio in business, academia and the humanitarian/charity world.

Simon Lowe FCA

Simon is a fellow of the Institute of Chartered Accountants. He was a partner in a leading firm of accountants for 29 years where he led some of the firm's largest listed audits. He was a member of Grant Thornton's Oversight Board and founded and led the Grant Thornton Governance Institute providing market-leading insight into emerging trends and practices among the FTSE 350. He is a frequent presenter and commentator on all matters related to corporate governance, including company culture.

Corporate Social Responsibility (CSR) Committee

The CSR Committee is chaired by Rikki Douglas, Vice President Business Development, Sonar Systems, and comprises representatives from across the business. Our CSR Committee develops strategy recommendations on sustainability for the Executive Team to review and incorporate into Group strategy. Our Executive Team is responsible for assessing our environmental and social risks and opportunities, including those relating to climate change, prior to sending it to the Board for review and monitoring progress through our risk management process, overseen by our Chief Risk Officer.

Throughout the year Ultra appointed a Group CSR Director to focus on delivering against the Group's sustainability objectives.

CSR Committee Chair's Biography**Rikki Douglas**

Rikki Douglas was appointed Chairperson for Ultra Group's CSR Committee in late 2019 and has worked with Ultra for almost a decade.

She is currently the Vice President of Business Development in our Sonar Systems Operating Business Unit. Prior to this, Rikki specialised in nuclear instrumentation and control, leading Sales and Marketing for our Energy Strategic Business Unit, which supports nuclear power generation worldwide. She holds an MPhys in Physics from the University of Lancaster, an MSc in Radiation and Environmental Protection from the University of Surrey, and an MBA from The Open University. In early 2020, as part of her new role, Rikki studied Business Sustainability Management at the University of Cambridge. She is a strong advocate for Ultra businesses having a positive impact in the communities in which we operate.

How the Board operates

Board meetings

In 2021, there were eight scheduled Board meetings. Additional Board meetings were scheduled in relation to the proposed Acquisition (see page 2 for further information) as and when required.

The attendance at the scheduled Board and Committee meetings is depicted in the table below.

Geeta Gopalan was unable to attend one of the Board and Audit Committee meetings due to a conflict in her diary when the Board meeting dates were set. Unfortunately, the Board's diaries did not allow an alternative date on which all Board members could attend.

Ordinarily, the Board aims to meet at the Company's head office in London with two Board meetings per annum at the Company's businesses in North America and one Board meeting per annum in a UK business. To coincide with the Board meeting, each business provides a tour of their facility together with a presentation, and the Board takes time to meet with employees across a range of the business in addition to the senior management teams.

Covid-19 continued to impact travel in 2021, which meant that the Board was not able to travel to North America. When restrictions allowed, the Board held one Board meeting at Ultra SMaP in Rugeley, UK and another at Ultra PCS in Cheltenham, UK. Both meetings incorporated a tour of the facilities and offered the opportunity for the Board to meet employees from all levels of the business, first-hand as part of the Company's workforce engagement strategy. See page 64 for further information.

In conjunction with the Company Secretarial team, forward-looking agendas are prepared for the Board and its Committees to ensure that the Board discharges its duties on a timely basis throughout the year taking into account strategy, forecast and budget planning and the Company's financial reporting cycle. The Chair meets with the Chief Executive and the Company Secretary in advance of each Board meeting as part of the planning process to ensure the agenda and papers are appropriate for the meeting. High-quality Board packs are distributed well in advance of each Board meeting to ensure each Director has the requisite time to review the management information.

BOARD AND BOARD COMMITTEE MEETING ATTENDANCE 2021

	Board	Audit Committee	Remuneration Committee	Nomination Committee	AGM	Board Strategy Day
Total no. of meetings in 2021 ¹	8	5	3	2	1	1
Executive Directors:						
Simon Pryce	8/8	n/a	n/a	n/a	1/1	1/1
Jos Sclater	8/8	n/a	n/a	n/a	1/1	1/1
Non-Executive Directors:						
Tony Rice	8/8	5/5	3/3	2/2	1/1	1/1
Geeta Gopalan ²	7/8	4/5	3/3	2/2	1/1	1/1
Martin Broadhurst ³	4/4	2/2	2/2	1/1	1/1	n/a
Victoria Hull	8/8	5/5	3/3	2/2	1/1	1/1
Daniel Shook	8/8	5/5	3/3	2/2	1/1	1/1
Ken Hunzeker	8/8	5/5	3/3	2/2	n/a	1/1

¹ The total number of scheduled meetings held during the year (excluding those relating to the proposed Acquisition).

² Geeta Gopalan was unable to attend one Board and Audit Committee meeting due to a diary conflict.

³ Martin Broadhurst stepped down from the Board on 1 July 2021, prior to the Board's strategy day.

Certain Executive Team members and senior managers are invited to present at Board meetings periodically to provide the Board with more detailed insights into their business or business area. This gives management the opportunity to draw on the Board's experience and expertise, which shapes strategy development and implementation.

Minutes of meetings are circulated as soon as practicable after the Board meeting for review and are approved at the next meeting. Any concerns that a Director may have which have not been resolved would be recorded in the Board minutes, together with necessary actions to resolve the situation.

Upon resignation, if any Director has any concerns about the business, the Chair would ensure active engagement with the resigning Director and would ensure that the Board as a whole would receive feedback of those concerns in the form of a letter addressed to the Chair.

Directors' induction and development

No new Directors joined the Board throughout the year. However, a structured full and formal, tailored, induction plan is in place which would be utilised for any new incoming Director. The induction programme is led by the Chair in conjunction with the Company Secretary and includes the provision of an information pack on the Group and its businesses, meetings with the other Board members, members of the Executive Team and certain senior managers and visits to Ultra sites to facilitate a better understanding of the businesses.

The Board undertakes training in accordance with an annual training programme set out at the start of the year, when training needs are assessed as part of the Board evaluation process. The programme comprises presentations from senior management, site visits and updates on specific areas of interest, such as technology, engineering, customer focus and HR matters, as well as relevant defence markets and the political environment, to further enhance the Board's understanding of the business and our sector.

Legal, governance, risk and compliance training is also undertaken throughout the year through a combination of online training and presentations from the Group Counsel and Company Secretary and external advisers.

Time commitment

The Nomination Committee has primary responsibility for monitoring time commitments of Directors and ensuring that each Non-Executive Director has the requisite time to discharge their duties as Directors effectively. In addition, the Nomination Committee reviews requests by Directors wishing to undertake new responsibilities or directorships and considers both the time commitments involved and any potential conflicts. The Board is satisfied that the number of appointments held by each Director outside Ultra is appropriate and that all Directors, both Executive and Non-Executive, have the requisite time to fulfil their obligations to the Company.

Governance Report 2021

continued

Conflicts of interest

Directors have a duty to disclose any potential or actual conflict of interest in accordance with the Companies Act 2006. The Company has appropriate procedures in place to manage conflicts of interest to ensure that the influence of any third party does not impair judgements. All Board members are required to report any potential or actual conflict of interest that may interfere with their ability to act in the best interest of the Company. No Board member would be included in a discussion surrounding a conflict involving themselves. Any decision to approve a potential or actual conflict of interest would be minuted, together with the rationale behind the decision and a record would be kept. Any authorised conflict would be maintained in a register and reviewed periodically.

Risk management and internal controls

Effective risk management is crucial to meeting our strategic objectives. The Board has overall responsibility for ensuring the Company has a framework of prudent and effective controls, which enable risk to be assessed and managed effectively.

During the year the Board monitored and assessed the Group's risk management and internal controls systems and carried out a robust assessment of the Group's emerging and principal risks, including procedures for managing and mitigating risks. Risk appetite was also considered in conjunction with assessing the strategic risks as part of the process. Further details of the Company's emerging and principal risks can be found on pages 42 to 46.

Following the appointment of a Chief Risk Officer in 2019, risk management and internal controls was a key focus area during the year. See page 70 of the Audit Committee report for further information.

Investigations

As previously announced, investigations associated with conduct of business issues in Algeria and the Philippines are ongoing, and Ultra continues to cooperate with the relevant authorities.

Our Board in action**How the Board spent its time**

The principal matters considered by the Board during the year are summarised below:

Strategy

- + Regularly reviewed progress on the implementation of the strategic plan
- + Monitored progress on the implementation of the new organisational design
- + Reviewed how the Company's mission, vision and values are embedded throughout the business
- + Considered strategic matters at a designated strategy day
- + Received updates on M&A activity

Transformation

- + Received regular updates on, and provided strategic direction relating to, Ultra's Focus; Fix; Grow transformation journey

Financial and operational performance

- + Received detailed and transparent operational updates from the Chief Executive at each scheduled Board meeting
- + Reviewed and discussed financial performance against budget including exceptional items and any deviations from expectations
- + Reviewed and approved Group budgets
- + Reviewed KPI progress
- + Reviewed and approved the Company's tax strategy
- + Discussed and approved capital and resource allocation
- + Reviewed and approved:
 - + The Annual Report and Accounts and preliminary results announcement
 - + The interim results and press release
 - + The dividend policy
- + Received presentations from Strategic Business Unit Presidents
- + Received updates on the Group's defined benefit pension scheme and related governance

Board changes

- + Noted Martin Broadhurst resignation from the Board effective 1 July 2021 following completion of his nine-year Board tenure

Market analysis and major bids

- + Received reports on market development and industry trends
- + Reviewed significant current and future bids
- + Received customer feedback

Governance and risk

- + Discussed the ongoing impact of Covid-19 on the business including and operational risk mitigation

- + Monitored health and safety performance across the Group (at each scheduled Board meeting)
- + Reviewed the Group's internal control and risk management framework and Group risk register
- + Approved the Group's principal risks and uncertainties
- + Discussed the risk appetite of the Board
- + Received reports from the Chairs of the Audit, Remuneration and Nomination Committees
- + Received reports from the Chairs of the Ethics Committee and CSR Committee
- + Received regular updates on litigation matters, regulatory compliance and corporate governance developments from the Company Secretarial team
- + Reviewed the Company's anti-bribery and corruption policy compliance/training programme
- + Considered the Company's whistleblowing procedure processes
- + Discussed the Board evaluation and agreed actions as a result of the feedback
- + Approved the Group's modern slavery statement
- + Approved the Group's gender pay gap disclosure

Sustainability

- + Reviewed and approved Ultra's 2021 Sustainability Report and 2024 sustainability goals

People and reward

- + Approved the gender pay gap report and reviewed the Company's initiatives to promote female leadership
- + Received an update on diversity and inclusion initiatives
- + Reviewed progress relating to workforce reward and recognition
- + Monitored culture and received feedback regarding culture from the Ethics Committee
- + Considered the Company's workforce engagement procedures
- + Received feedback from the global employee engagement survey
- + Reviewed progress regarding the implementation of the new Human Resources Information System (HRIS)

Other

- + Extensive discussions regarding the offer from Cobham, including receiving advice from the Company's financial and legal advisers as regards the terms and conditions of the offer and the Board's fiduciary duties, consideration of the potential impact on all the Group's stakeholders, and the mechanics of the Offer, including holding a Court and General Meeting to approve the proposed Acquisition

BOARD EVALUATION

Board Evaluation

The Board recognises that formal Board evaluation is an important tool in assessing Directors' individual and collective performance and ensuring that the Board effectiveness continues to be effective. The Board carries out a formal review of its performance and that of its Committees and Directors every year, with an external evaluation on a three-year cycle and an internal evaluation, led by the Chair in conjunction with the Company Secretary, in the two intervening years.

As a result of the Board and Committees' externally facilitated evaluation in 2020, a summary of the key focus areas for the Board in 2021, together with actions in 2021 are as follows:

PROGRESS AGAINST 2020 BOARD EVALUATION OBJECTIVES

Focus area for 2021	Actions in 2021
Delivery of transformation plans	The Board monitored the delivery of transformation plans as a standard agenda item at each scheduled Board meeting, with presentations from senior management involved in transformation workstreams. The Board constructively challenged management and was pleased with the progress made throughout 2021.
Succession planning	Led by the Nomination Committee, in conjunction with the Chief HR Officer, succession planning for the Board and Executive Team was a key focus area. See page 66 for further information.
Leveraging experience of Non-Executive Directors	The Non-Executive Directors play an active role in supporting management and advising in their relevant areas wherever possible and the Chair has ensured that each of them has been given the opportunity to contribute to Board debate during the year.
Recruitment of a further Non-Executive Director	As set out on page 66, a search for a further Non-Executive Director was commenced in 2021 but was paused once the Acquisition was announced. Should the Acquisition not complete by the long stop date of 5 August 2022, the search will be reactivated.

Board Evaluation 2021

Following the external evaluation in 2020, an internal evaluation process was carried out for the Board and each of its Committees for the year ended 31 December 2021. Directors completed an anonymous questionnaire online, which was constructed to encourage respondents to provide honest feedback in a confidential manner online. Feedback was then collated and a report was produced and provided first to the Nomination Committee, and then to the Board as a whole for discussion.

Overall feedback was very positive. All Directors enjoy being on the Ultra Board and feel that Board meetings are open and transparent and that their contributions are valued.

The Chair received extremely positive feedback and is thought to be an excellent Chair who is inclusive and fosters an atmosphere of openness and respect in meetings. Directors commented that the Chair provides the right level of support to the CEO while also constructively challenging when appropriate. Relationships between the Board and the management team were felt to be open and transparent.

Many Directors stated their desire for more site visits, if Covid-19 restrictions allow, to see operations first-hand and meet with management and employees throughout the Group to better understand the culture.

Directors noted the improvements made within the risk management and internal controls framework and would continue to keep this as a focus area for 2022.

Succession planning would also remain a focus area for the year ahead, pending the outcome of the Acquisition.

Our Board in action
continued



Workforce engagement

Our talent is critical to our success and we believe that understanding the views of our workforce is vital. For the purpose of employee engagement, we define our workforce as employees with formal contracts of employment.

The Board reviews its means of engaging with the workforce, noting the three specific methods the 2018 Code recommends, on an annual basis. Given Ultra's geographical spread and numerous businesses, we continued to use a combination of methods to understand the views of the workforce in 2021, as described in detail below.

As detailed on page 12, our UltraView global employee engagement survey provides employees with the opportunity to give anonymous feedback and for Ultra's leaders to listen to the employee voice and act accordingly where appropriate. An in-depth analysis of each survey's results is provided to the Board, together with action plans which are discussed.

Board site visits are an important means of our Board engaging directly with the workforce. The Board aims to visit at least two North American sites and at least one UK site on an annual basis. The Board always schedules time to meet with employees when visiting Ultra locations to listen to their views and gauge culture on a first-hand basis. Due to Covid-19 restrictions, the Board was not able to travel to North America in 2021, although the Board was fortunate to visit SMaP in Rugeley, UK and Ultra PCS in Cheltenham, UK.

Ken Hunzeker and Dan Shook, Non-Executive Directors, were also able to visit Ultra Energy, Ultra SMaP, and Ultra Specialist RF in the UK and Ultra Naval Systems and Ultra Cyber in the US during 2021. The Directors were then able to provide feedback to the full Board following their visits.

Simon Pryce and Jos Sclater visit Ultra sites when possible and aim to meet employees as well as management at each visit. They often hold townhall meetings with question and answer sessions for direct engagement with employees. Furthermore, employees can also engage directly with Simon Pryce by using the 'Ask the CEO' email address.

Ultra is fairly unique with its own entirely independent Ethics Committee (the "Committee"). See page 60 for the formal remit of the Ethics Committee including committee members' biographies. The Committee aims to visit at least four sites every year on a rotational basis and holds two formal meetings each year. At least one representative from the Executive Team attends each meeting to provide the Committee with Group updates and progress against Ultra's many initiatives, including the roll-out of our ASPIRE

values, Code of Conduct, and Diversity and Inclusion initiatives, to enable the Committee members to engage with employees on these areas to get their feedback.

In 2021, the Ethics Committee held its first bi-annual meeting at Ultra Sonar System's site in Loudwater and was able to link up virtually to meet with Sonar management and employees based in Dartmouth, Canada on the day. The second meeting was held at Ultra PCS in Cheltenham. Holding the formal meetings at business sites enables the Committee members to visit more locations and meet more management and employees throughout the Group than they would ordinarily reach through their ordinary course site visits.

The Ethics Committee also held virtual site visits at Ultra Forensic Technology, with attendance from the business sites in Dublin (Ireland), Montreal (Canada) and Florida (US), Ultra SMaP in Yaphank (US) and Ultra Sonobuoys based in Columbia City (US).

In advance of each visit, the Committee members are provided with a copy of the engagement survey results together with any historic Committee reports for the business, and are reminded of any Speak Up reports that have been made by employees there. At each site visit the Committee first receives a presentation from senior management to get a better understanding of the facility it is visiting. The Committee then meets with a diverse selection of employees from around the business, without management present, to hear their views and insights. The sessions are an open dialogue with our independent Committee members who receive feedback regarding matters such as business ethics, culture and the ways of working. The Committee members also aim to reinforce the message that our Speak Up platform is completely independent and anonymous to encourage our workforce to Speak Up if they suspect any wrongdoing or if they have a concern.

Following visits, the Committee then compiles an honest, objective report that is forwarded to the Executive Team. Where recommendations are made by the Committee, these are reviewed and acted on where appropriate. Any cause for concern would be followed up as soon as practicable.

The Committee formally report back to the Executive Team twice a year and present their honest feedback regarding employees' views and the ethics and culture within the businesses, and report to the Board annually. This mechanism of workforce engagement allows the Board to hear the views of our people from our entirely independent Committee and the Board sees this as an effective means of employee engagement, which also assists the Board to monitor culture through the Group.





Investor engagement

HOLDERS BY GEOGRAPHY AS AT 9 FEBRUARY 2022

	9 February 2022 % invested capital
UK	62.78
North America	21.05
Western Europe (exc. UK)	14.57
Other	1.60
Total	100.00

TOP 10 HOLDERS AS AT 9 FEBRUARY 2022

Shareholder	9 February 2022		
	Shares	% invested capital	Cumulative % invested capital
Goldman Sachs collateral account	3,480,485	4.87	4.87
Aviva Investors	3,379,025	4.73	9.60
Vanguard Group	3,207,833	4.49	14.10
USB collateral account	3,173,314	4.44	18.54
Bank of New York stocklending collateral account	2,851,686	3.99	22.53
Blackrock	2,848,113	3.99	26.52
Invesco	2,587,513	3.62	30.14
Santander collateral account	2,500,000	3.50	33.64
Société Générale	2,158,791	3.02	36.67
MFS Investment Management	2,145,494	3.00	39.67

Ultra is committed to communicating openly with our shareholders and building long-term relationships with all our stakeholders to ensure that its strategy and performance are clearly understood.

Investor engagement in 2021 can be broken into two halves; before the recommended offer for Ultra and after.

Before the recommended offer (January to August) Ultra's Investor Relations programme, managed by the SVP of Investor Relations, consisted of day-to-day contact with our investors. The CEO and the CFO supplement this programme by way of regular meetings with the Company's institutional investors. The Investor Relations programme included presentations of full year and interim results, investor roadshows, quarterly updates and meetings with individual investors. Live webcasts of results presentations were provided and briefings for analysts and investors took place in conjunction with these.

The Executive Team and SVP of Investor Relations made themselves available to investors on an ongoing basis in order to maintain an open dialogue, resulting in a number of ad hoc meetings and calls taking place throughout the year. Throughout the year investor roadshows were attended by the CEO, CFO and Investor Relations team. Our Board members also make themselves available to engage with shareholders as required.

Once Ultra was in an offer period, Ultra's ability to engage with investors was constrained. Any engagement that did take place was chaperoned by the Company's financial advisers and reported to the Takeover Panel. Investor meetings thereafter were held on a reactive basis but mostly consisted of Acquisition-related questions rather than underlying business performance.

Board engagement with investors

The Board is presented with uncensored analyst and investor feedback twice a year after the full year and interim results investor roadshows. The primary means of communicating with the Company's shareholders are the Company's Annual Report and Financial Statements, Interim Report and Annual Sustainability Report. All of which are available on the Company's website and the Annual Report is sent to all shareholders who elect to receive it in hard copy.

Furthermore, in accordance with Provision 3 of the Code, all of our Committee Chairs are encouraged to seek engagement with our major shareholders. In addition, the Chairman proactively offers to attend meetings with key stakeholders.

Following the implementation of the Company's Remuneration Policy in 2020, the top ten shareholders were invited for a call with the Remuneration Committee Chair to discuss the policy, and the Remuneration Committee Chair is always available for consultation as and when

required to discuss remuneration matters with shareholders. There was no engagement with shareholders specifically on Ultra's Remuneration Policy in 2021 as the Company continued to operate in accordance with the approved Remuneration Policy. Furthermore, throughout the offer period, shareholder engagement was limited to a reactive approach rather than the preferred proactive approach, as previously explained.

The Board is kept up to date with changes in shareholdings, analyst research reports, the current short position on the stock and recent industry news by the SVP of Investor Relations at every Board meeting.

During the year our Chairman and Company Secretary had engagement with a number of investors regarding the composition of the Board. The Board has been involved in a number of Diversity, Equity and Inclusion initiatives within Ultra and our first ever Diversity, Equity and Inclusion report was recently published and can be downloaded from www.ultra.group.

Through these regular, planned contacts and engagements with investors, including anonymous feedback reports twice per year, the Board has regular opportunities and allocated time to consider all stakeholder views and discuss changes that need to be made.

Constructive use of the Annual General Meeting (AGM)

The Annual General Meeting is the formal forum to meet with all shareholders who wish to attend to hear their views and answer their questions about the Group.

At our 2021 AGM 22.3% of investors voted against the re-election of our Chairman and Chair of the Nomination Committee, Tony Rice, due to the Ultra Board comprising 25% women (vs the 33% Hampton-Alexander target). Ultra fully supports the recommendations of the Hampton-Alexander review and is committed to working towards achieving the Hampton-Alexander gender target as we continue to refresh the Board, as discussed with shareholders during H1 2021. Although a search for at least one further Non-Executive Director commenced in 2021, this was paused once the offer for the Company by Cobham was announced. As a result of the Offer for the Company, no further engagement has taken place with investors on this matter. Should the Acquisition not proceed, the search will be re-commenced.

2022 AGM

If 20% of votes are cast against a resolution that has been recommended by the Board for approval at any General Meeting, where possible, the Company will comply with Provision 4 of the Code in the consultation with shareholders and communication of shareholder views and actions as a result.

Nomination Committee report



MEMBERS

Tony Rice (Chair)

Martin Broadhurst (stepped down 1 July 2021)

Geeta Gopalan

Victoria Hull

Ken Hunzeker

Daniel Shook

Attendance at meetings is detailed in the table on page 61. The Committee's terms of reference are available at ultra.group.

MAIN RESPONSIBILITIES

- + Regularly review the structure, size and composition of the Board
- + Succession planning for Board and senior management positions, ensuring that the leadership needs of the Company are met to compete effectively in the marketplace
- + Be responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise, taking into account the balance of skills, knowledge, experience and diversity of the Board
- + Review the time commitment required from Non-Executive Directors annually, taking into account Board evaluation feedback
- + Review the independence of Non-Executive Directors and any potential conflict of interest for Board members

Dear Shareholder,

I am pleased to present the Nomination Committee ("Committee") report for the year ended 31 December 2021. This report should be read in conjunction with the compliance report on page 55, which shows how the Company has complied with the UK Corporate Governance Code 2018.

Activity during 2021

- + Assessed the balance of experience, skills, knowledge and diversity of our Board
- + Developed role descriptions for at least one new Independent Non-Executive Director.
- + Received an update from the Chief HR Officer regarding the progress on organisational design and succession planning
- + Considered succession planning for the Board and Senior Leadership Team
- + Recommended to the Board that Geeta Gopalan be appointed as Chair of the Remuneration Committee following Martin Broadhurst's departure from the Board
- + Commenced a search for at least one additional Non-Executive Director, which was later postponed pending the outcome of the proposed Acquisition
- + Considered the Non-Executive Director time commitments to ensure that they can attribute the necessary time to their roles

How the Nomination Committee operates

The Nomination Committee operates with a forward-looking agenda, prepared in conjunction with the Company Secretariat, to ensure the Committee's duties are fulfilled on a timely basis in accordance with the Group financial reporting cycle.

Last year, we announced that Martin Broadhurst would be stepping down from his role as Non-Executive Director following his nine-year tenure on the Board and I reported that we would be looking to appoint at least one new Non-Executive Director later this year.

We appointed Lygon* independent executive search consultants to assist us with our search, who provided a list of potential candidates from diverse backgrounds. However, following the activity regarding the potential acquisition in Q2 2021, we decided to postpone the appointment for any further Non-Executive Director and therefore curtailed the search process.

Board evaluation

Following an externally driven Board evaluation, led by Clare Chalmers Limited, an internal Board evaluation commenced in 2021, led by the Chair in conjunction with the Company Secretary. Directors completed an online anonymous questionnaire regarding performance of the Board, and each of its Committees. The results of the evaluation were reviewed by the Nomination Committee in Q1 2021 and are summarised on page 63.

The Nomination Committee is satisfied that the Board and Committee Evaluation process is appropriate and was pleased with the results of the evaluation process.

Leadership succession

A great deal of work was conducted over recent years on organisational design and succession planning throughout the Ultra Group, which resulted in several changes to the Executive Team in recent years. In 2021, the focus was on succession planning for those within the Executive Team, including the CEO and CFO, and ensuring that we have the right Senior Leaders within the organisation to lead Ultra through our change programme, and potentially step into Executive Team roles in the future.

The Nomination Committee received an organisational design and succession planning update from the Chief HR Officer in Q1 2021 and was pleased with the great progress in this area, noting that the talent within Ultra has improved and we are seeing more internal promotions. Moreover, identification of high potentials within the business has assisted with succession planning for the Senior Leadership Team.

Diversity

Ultra is committed to treating everyone with fairness, dignity and respect. We recognise that high-performing teams benefit from diversity. Selection, development, promotion and reward will be based on merit without regard to personal characteristics including, but not limited to, gender, race, colour, religion, sex, sexual orientation, citizen status, national origin, age, disability or genetic information.

We promote equality of opportunity across the whole business and demonstrate this in our approach to recruiting new Board members, actively seeking candidates from a diverse range of backgrounds including gender, tenure, skills, experience and backgrounds in addition to softer traits such as personality. This will always be a key focus area for us when considering Board and succession planning, notwithstanding that all appointments will be based on merit and candidates' experience and business acumen. See pages 56 for more information on our existing Board diversity.

The Nomination Committee received very encouraging feedback from the Chief HR Officer regarding diversity and inclusion initiatives and results within senior management teams and the wider workforce and was very pleased to see an improvement in our gender pay gap in 2021, as described in detail on page 34. However, we recognise that there is still some way to go and will continue to keep this under review. Further details on Ultra's initiatives to ensure that we maintain a diverse and inclusive workplace are included on pages 33 to 34.

* The external search firm engaged has no other connection with the Company or individual Directors.

Audit Committee report



MEMBERS

Daniel Shook (Chair)

Martin Broadhurst (stepped down 1 July 2021)

Geeta Gopalan

Victoria Hull

Ken Hunzeker

Attendance at meetings is detailed in the table on page 61. The Committee's terms of reference are available at ultra.group

MAIN RESPONSIBILITIES

The Audit Committee supports the Board in the following areas:

- + Oversee the Group's risk management systems, including financial controls
- + Agree the internal and external audit plans
- + Review all significant accounting judgements
- + Monitor the integrity of all formal reports and announcements relating to the Company's financial performance, and consider any significant judgements by management
- + Recommend the half and full year financial results to the Board
- + Appoint the internal auditors, oversee the appointment of the external auditors and maintain an appropriate relationship with the internal and external auditors of the Group
- + Report the findings and recommendations of the internal and external auditors to the Board
- + Review the independence and effectiveness of the internal and external auditors

Dear Shareholder,

I am pleased to present the Audit Committee report for the year ended 31 December 2021. This report should be read in conjunction with the compliance report on page 55, which shows how the Company has complied with the UK Corporate Governance Code 2018.

Throughout a year where Ultra delivered excellent performance despite the distractions of the proposed acquisition by Cobham and the ongoing pandemic, the Committee continued to focus on continuous improvements in our internal controls and risk management procedures, as explained in more detail on page 70.

Martin Broadhurst stepped down from the Audit Committee during the year and I would like to thank Martin for his contribution to the work of the Committee over the course of his tenure.

Ultra's interim results were released earlier than planned on 19 July 2021 to update the market on the stronger than anticipated performance for the half-year to 30 June 2021. In order to update our stakeholders regarding the benefits of the ongoing transformation programme, KPMG was engaged as the independent reporting accountant to prepare a Quantified Financial Benefits Statement (QFBS) in accordance with Rule 28 of the City Code on Takeovers and Mergers. The Audit Committee reviewed the QFBS in detail, including the management assumptions that supported the QFBS, prior to its inclusion in the interim results announcement 2021.

The Board considers all Audit Committee members to be Independent Non-Executive Directors. I am currently Group Finance Director of IMI plc, a FTSE 250 company, and have previously held diverse finance roles in several large multinational companies. The Board is therefore satisfied that I have the requisite recent and relevant financial experience to chair the Audit Committee. Additionally, all Audit Committee members have competence relevant to the sector in which the Company operates. The biographies of the Committee members can be found on pages 52-53.

The main responsibilities and activities of the Audit Committee are set out below and detailed throughout this report.

How the Audit Committee operates

The Audit Committee operates with a forward-looking agenda, prepared in conjunction with the Group Financial Controller and Company Secretariat team, to ensure that the Committee's duties are fulfilled on a timely basis in accordance with the Group financial reporting cycle. The agenda is reviewed and updated as necessary during the year to deal with matters as they arise which are outside of the annual agenda.

The Committee held five scheduled meetings throughout the year. The Chair of the Board, Chief Executive Officer, Chief Financial Officer, Group Financial Controller, Chief Risk Officer, the external auditor (Deloitte) and internal auditor (PwC) attended parts of these meetings by invitation.

The Committee held separate meetings with the external auditor and internal auditor without management present, and the Audit Committee Chair also met with the external auditor, internal auditor and the Chief Financial Officer and his team outside the formal Committee sessions.

External auditor

Deloitte LLP ("Deloitte") continued as the Company's external auditor in 2021 further to re-appointment at the Company's Annual General Meeting in May 2021. Jonathan Thomson took over from Alex Butterworth as Lead Partner in accordance with professional practice guidelines to rotate Lead Partners every five years. Jonathan Thomson had been heavily involved in the 2020 audit process therefore the change was a smooth transition and the Committee welcomed his fresh eyes and approach.

The Committee has primary responsibility for recommending the re-appointment of the external auditor to the Board before the resolution is put to shareholders at the Company's Annual General Meeting. The Committee believes that it is in the best interest of its members for Deloitte to remain as external auditor during 2022 to leverage their knowledge and experience of the Company while we are going through a period of change and uncertainty regarding the future shareholders of the Company. We therefore recommend that Deloitte be re-appointed as Company auditors for 2022.

As reported in last year's Annual Report, the Audit Committee will lead an auditor tender process by no later than 2023, which would be the maximum term that Deloitte could remain as auditors. Any auditor tender process led by the Committee will ensure that there is a sufficient pool of high-calibre firms to tender given the recent independence requirements.

Audit Committee report

continued

ACTIVITY DURING 2021**Financial statements and accounting policies**

- | | |
|---|---|
| <ul style="list-style-type: none"> + Reviewed management's significant issues and judgements + Reviewed the Group's financial statements and the formal announcement on the Group's financial performance + Reviewed the Group's going concern and long-term viability statement assumptions | <ul style="list-style-type: none"> + Considered and recommended to the Board for approval the Annual Report and Accounts, interim financial statements, quantified financial benefits statement and related results announcements + Discussed key accounting policies and practices adopted by the Group + Reviewed key accounting judgements and matters that required the exercise of significant management judgement (see section on Significant Judgements considered on page 69) + Reviewed underlying assumptions and the rigour of the testing underpinning the going concern statement and long-term viability statement (as set out on pages 46-47) prior to approving them |
|---|---|

Risk management and internal control framework

- | | |
|--|---|
| <ul style="list-style-type: none"> + Reviewed and provided oversight of the Group's risk management and internal controls processes + Assessed the effectiveness of the Group's system of internal control and risk management | <ul style="list-style-type: none"> + Considered reports on the risk management and internal controls environment and its effectiveness + Discussed half-yearly internal controls reports from business and Shared Service Centre reviews, together with actions arising from findings + Reviewed the principal risks, the Group's risk appetite and risk metrics and considered their alignment with the achievement of Ultra's strategic objectives + Assessed the key controls in place and agreed future management actions to mitigate risks + Considered reports on known or suspected fraud + Oversaw in-depth reviews of specific controls areas including financial controls/fraud, anti-bribery and corruption and programme management + Met with key finance leads as part of business reviews to further assess the controls environment + Considered the ongoing impact of Covid-19 on Group risk profile + Reviewed the bid controls process and considered ongoing workstreams relating to sales excellence and bid activity + Received a report from the Chief Technology Officer on the Company's cyber security solution and cyber controls framework + Further details of the approach to risk management can be found on pages 70-71 |
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External audit, engagement and policy

- | | |
|---|--|
| <ul style="list-style-type: none"> + Reviewed the scope and effectiveness of the external audit process + Negotiated the terms of the external auditor's appointment, the scope, fees and independence + Ensured an effective audit partner rotation process | <ul style="list-style-type: none"> + Considered Deloitte's external audit planning report prior to the commencement of the 2021 audit + Received reports from the external auditor on the outcomes of their audit process and the external audit plan for the year and discussed findings and improvement areas + Discussed Deloitte's letter to management and management responses to that letter + Reviewed the independence and effectiveness of the auditor, in conjunction with audit and non-audit fees, and recommended the re-appointment of Deloitte as auditor + Reviewed Lead Partner candidate options and selected new Deloitte Lead Partner + Approved a revised external auditor's engagement policy taking into account new Financial Reporting Council (FRC) standards |
|---|--|

Internal Audit

- | | |
|--|---|
| <ul style="list-style-type: none"> + Reviewed the effectiveness of the Internal Audit function + Discussed control issues identified by Internal Audit | <ul style="list-style-type: none"> + Agreed the risk-based Internal Audit plan for the year, monitored delivery of Internal Audit against the plan and reviewed the effectiveness of Internal Audit through oversight of a questionnaire-based effectiveness review with stakeholders + Considered specific Internal Audit summary reports from the reviews and progress reports on the implementation of remedial actions, noting the progress made in the control environment within the Group's businesses |
|--|---|

Other

- | | |
|--|---|
| <ul style="list-style-type: none"> + Received corporate governance reform updates | <ul style="list-style-type: none"> + Received updates relating to the BEIS UK Corporate Reporting and Audit Reform |
|--|---|

SIGNIFICANT JUDGEMENTS CONSIDERED

Judgement area	Committee assessment
Long-term contract accounting	A significant proportion of Group revenue arises from long-term contracts, where revenue and profit recognition is based on estimates. The Committee was updated on progress on key programmes. The Committee considered the key sources of estimation uncertainty with respect to forecast cost to complete estimates. The Committee considered the disclosures made in the Annual Report with respect to revenue recognition including the related accounting policies and key sources of estimation uncertainty. The Committee discussed and engaged with the external auditor when considering all these matters. See disclosure in note 3, and in the statement of accounting policies on pages 138-146.
Valuation and impairment testing of goodwill and intangible assets	Recognising the scale of the Group's goodwill and intangible fixed asset balances, the Committee discussed a report and analysis from management and considered whether, given the future prospects of the acquired businesses, the value of goodwill held on the balance sheet remains appropriate. The Committee reviewed the methodology and assumptions used to support the balance sheet carrying values of these assets, including the discount rates applied, and the future growth rate applied into perpetuity after the end of the strategic plan period. The Committee noted that the cash flows used were derived from the 2022 budget and strategic plan (which in their role as members of the Board, Committee members had previously reviewed). The Committee considered the sensitivity of the asset valuations to changes in assumptions. The Committee concluded that no disclosure of a key source of estimation uncertainty was required for this matter. The methodology for impairment testing used by the Group is set out in note 13 to the Group accounts. No impairments were identified as a result of the review. The Committee discussed and engaged with the external auditor when considering all these matters.
Taxation	The Committee considered the Group's key tax accounting judgements with respect to the assessment, measurement and recognition of uncertain tax positions, primarily related to intra-Group financing, and the associated disclosures in respect of these matters. The Committee concluded that no disclosure of a critical accounting judgement was required for this matter. The Committee discussed and engaged with the external auditor when considering all these matters. See disclosure in note 10.
Conduct of business matters	The Committee was updated on the investigations associated with conduct of business matters (see note 33 on page 135). The Committee considered the judgements relating to these matters, particularly around the requirements of IAS 37 Provisions, Contingent Liabilities and Contingent Assets with respect to providing for settlement costs, and disclosure of contingent liabilities. The Committee considered the disclosures in the Annual Report. The Committee discussed and engaged with the external auditor when considering these matters.
Defined benefit pension scheme	The Committee considered the actuarial assumptions used for the scheme valuation, the sensitivity of the valuation to changes in those assumptions, current funding level of the pension scheme and the liabilities of the defined benefit pension scheme. The Committee discussed and engaged with the external auditor when considering all these matters. See disclosure in note 29.
Proposed takeover by Cobham Ultra Acquisitions Limited	The Committee consider the treatment of costs associated with the proposed acquisition; certain costs are contingent upon the acquisition becoming effective (see note 33). The Committee considered the disclosures in the Annual Report. The Committee discussed and engaged with the external auditor when considering these matters.

Audit Committee report

continued

External auditor independence and objectivity

In its assessment of the independence of the external auditor, the Committee reviews the independence and objectivity of the Company's auditor through a combination of:

- + Open dialogue with the auditor
- + Analysis of judgements and findings
- + Review of non-audit services

It is the policy of the Group that non-audit services provided by Deloitte are restricted to reporting required by law or regulation, review of interim financial information, reporting on regulatory returns, reporting on government grants, reporting on internal financial controls when required by law or regulation, and extended audit or assurance work that is authorised by those charged with governance performed on financial or performance information or controls where this work is closely linked with the audit work. The policy prohibits due diligence assessments of potential acquisitions, consultancy services associated with financial restructuring, remuneration consultancy, tax planning, Internal Audit and actuarial services. Any non-audit fees in excess of £50,000, in aggregate, in any financial year will be referred in advance to the Chair of the Audit Committee for approval.

In 2021, Deloitte provided non-audit services fees of nil (2020: £3,000) representing 0% (2020: 0.2%) of the total audit fees. The Committee considers that certain non-audit services, in accordance with the policy above, should be provided by the external auditor, because its existing knowledge of the business makes it the most efficient and effective way for non-audit services to be carried out. Before commissioning non-audit services, the Chief Financial Officer or the Chair of the Committee, as appropriate, must ensure that there is no issue as regards to independence and objectivity and other potential providers are adequately considered.

External audit effectiveness

The audit scope, approach and areas of focus are agreed well in advance of the audit to ensure a mutual understanding of expectations and timeframes. Following the 2020 audit, key learnings were identified and fed into the 2021 audit planning process to ensure ongoing continuous improvement.

In order to review the audit effectiveness throughout the year, the Committee considered:

- + The quality of the audit reports and ancillary documents provided by the external auditor
- + Feedback from the Chief Financial Officer and his senior finance teams throughout the Group
- + The Committee's collective views from meetings held with the external auditor

Based on these collective reviews, the Committee concluded that Deloitte had applied appropriate robust and objective challenge throughout the audit process and were satisfied with the performance of the external auditor.

Deloitte's 2020 audit of Ultra was selected for the Financial Reporting Council's Annual Audit Quality Inspection, the outcome was pleasing and gives comfort to the Audit Committee that our external auditors are of a high standard.

Employment of former external auditors

Any employment of former employees of external auditors would be considered on a case-by-case basis and would take into account the Auditing Practices Board's Ethical Standards on such appointments. Such appointments require approval by a combination of the Chief Financial Officer, Audit Committee and Board, depending on the seniority of the appointment.

Risk management and internal controls

The Audit Committee conducted a deep dive into internal controls and risk management procedures in 2021. 'Three lines of defence' reviews were conducted in several areas, including ABC, Fraud, Health & Safety, Programme Management, Trade and Export Compliance, Bid Controls and Cyber Risk. Strategic risks were assessed as part of the strategy process.

Due to the increasing threat of cyber security, the Committee received a report from the Chief Technology Officer regarding the Company's cyber security solution and cyber controls framework. In addition to internal cyber penetration testing conducted by the Ultra IT team, penetration testing by an independent external firm is scheduled for H1 2022.

The risk management framework was reviewed and challenged by the Committee. Strategic risk assessments were carried out with the businesses as an embedded part of the 2021 strategy process. The risk framework and Group risk register were reviewed by the Committee and the Board. The focus on risk management will be maintained in 2022.

The Group's internal controls framework includes appropriate financial, operational and compliance controls, and risk management processes, which together ensure the appropriate oversight of financial reporting processes, including the preparation of consolidated Group accounts.

The control environment within Ultra comprises the following:

- + Group policies
- + Group delegation of authorities
- + Monthly financial control checklists
- + Six-monthly control review meetings
- + Risk reviews/register at Business Unit and Group level

- + Specific area subject risk reviews (including Anti Bribery and Corruption Risk and Environmental Risk)
- + Specific control framework reviews based on a 'three lines of defence' analysis (including key compliance areas, Health and Safety Controls Framework, Programme Management)
- + Audit Committee training – audit and governance reforms
- + Bid process reviews
- + Staff training
- + Internal Audit (provided by PwC)
- + Speak Up platform for external support of whistleblowing reporting
- + Strategic Business Unit (SBU) review of monthly Operational Business Unit (OBU) performance
- + SBU level performance reviews
- + Executive Team oversight and challenge
- + Group Board and Committee oversight and challenge
- + Other regulatory assurance activities

The arrangements include procedures to ensure the maintenance of records that accurately and fairly reflect transactions, to enable the preparation of financial statements in accordance with International Financial Reporting Standards (IFRS). They also require reported data to be reviewed and reconciled, with appropriate monitoring internally and by the Audit Committee to ensure the integrity of the financial statements.

The Managing Directors and Presidents, the Finance Directors and the Vice Presidents Finance of each business are required to give a formal written representation to the Board each year to confirm that they accept responsibility for maintaining effective internal controls and that they have disclosed full details of any fraud or suspected fraud within their business.

Every six months, each SBU Finance Director meets the Chief Financial Officer and discusses the internal controls processes and issues for each business in their SBU. This includes:

- + Self-assessment against the finance manual
- + Balance sheet and controls reviews, including reviews of reconciliations
- + Outstanding internal and external audit points
- + Segregation of duties

Summary results from these reviews are discussed in the Internal Controls Improvement Status Report, which is presented to the Audit Committee twice a year. The internal controls environment continued to be strengthened in 2021 with further standardisation of policies and processes. Emphasis continues to be placed on tracking progress of timely delivery of improvement actions arising from formal control reviews, including Internal Audit reports. In 2022, the focus will continue to be on improving the

compliance culture and on the programme management transformation roll-out of core processes and tools to enhance the consistency of approach across the Group.

The principal risks reported in this Annual Report are a prioritised distillation from a corporate level register of key risks. The Committee assessed these emerging and key risks facing the Company in October and December 2021 and reviewed the risk control and monitoring frameworks in place to effectively manage those risks.

Following a detailed review of the risk activities and risk reporting processes during the year, no significant failings or weaknesses were identified in the review process; however, this will always be an area of focus for continuous improvement. As such, the focus for 2022 will be on embedding and expanding the new process for reviewing key control areas using the 'three lines of defence' risk model, and mapping of assurance around risk controls and monitors.

Internal Audit

PwC remained as Ultra's internal auditor throughout the year. The use of an experienced external firm provides independent assurance on the effectiveness of the system of internal control. A risk-based approach is taken by the Company in determining its Internal Audit plan, ensuring that the plan is clearly linked to the Company's strategy and related risks and is flexible enough to highlight and address emerging risks as well as testing established controls frameworks. The Internal Audit plan and resources are considered and monitored by the Committee, together with all internal control findings and remedial actions.

Any newly acquired operating business would be audited within a year of its acquisition date. Where required, additional audits are identified during the year in response to changing priorities and requirements.

The Lead Partner from PwC reports directly to the Chair of the Committee and presents the findings to the Committee throughout the year. Progress reports on follow-up remedial actions are reported regularly to the Committee. PwC confirms whether appropriate action has been taken to address prior findings when it next visits the business or function concerned.

The effectiveness of Internal Audit is assessed by the review of Internal Audit reports, meetings with the Chair of the Committee without management being present, an Internal Audit effectiveness review questionnaire process with stakeholders, and views from senior management and the Chief Financial Officer.

Fraud

The Committee is responsible for the oversight of the risks of fraud and the design and implementation of internal controls to prevent and detect fraud. The Committee monitors the procedures in place to detect fraudulent activities through the risk management and internal controls framework and biannual controls reviews.

There is a fraud reporting process in place that forms part of the monthly business performance reporting cycle. Any suspected fraudulent activity is promptly reported to the Board and auditors would be informed accordingly. Route-cause analysis is undertaken, with key findings communicated to the Business Units and policy and processes improved as necessary. It is believed that the internal control framework in place, reinforced by regular audits and promotion by executive leadership as part of the new Code of Conduct, provides reasonable assurance against substantial frauds being carried out. The Committee believes there to be a low risk of significant misstatement of Ultra's financial statements as a result of fraud.

Whistleblowing

The Company has an independent, anonymous and confidential, whistleblowing hotline, externally-hosted by NAVEX Global which is branded 'Speak Up'. Importantly, there is a clear message that the Company will not accept any retaliation in any form against someone who reports any concern or violation in good faith.

Subject to any classified and/or security restrictions, all Speak Up feedback is sent to Ultra's Senior Independent Director and, ultimately, to the Board. The Ethics Committee also receives reports made via Speak Up. All reports are thoroughly investigated and corrective action is taken if necessary. The Committee is satisfied that the whistleblowing procedures and follow-up investigative processes within the Company are practical and appropriate for the Company.

Anti-bribery and corruption

The Company has a zero-tolerance approach to bribery and corruption anywhere in the world. This message is emphasised in the Company's employee Code of Conduct, which also includes practical examples of corrupt behaviour that is not tolerated, and points employees to specific policies containing more information on aspects of anti-bribery and corruption (ABC).

The Company's ABC manual, which was consolidated from multiple policies in Q3 2020, underwent its first annual continuous improvement review in 2021, with amendments published reflecting enhancements to controls and processes identified through use. ABC was an area of specific controls and assurance focus, with the controls framework reviewed by the Executive Team and the Audit Committee in 2021 and an Internal Audit review of businesses compliance with the framework in Q4 2021, building on an audit of the policy and procedures conducted by PwC in Q4 2020.

The Company's Board members, officers and other workers were required to complete interactive, tailored, online ABC training provided by NAVEX Global. Core training was mandated for all, with more advanced modules for those within the Company operating in a higher-risk environment. All of our Directors completed the advanced ABC training modules. Third-party ABC Risks training was mandated for workers responsible for managing intermediaries and associated persons.

In addition to this enhanced training, bespoke in-person and virtual ABC training was delivered by the Company's lawyers to senior management team members responsible for ABC oversight across their businesses on an ad hoc basis.

Statement of compliance

The Company confirms that it complied throughout the year with the provisions of the Competition and Markets Authority's Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Fair, balanced and understandable statement

The Audit Committee, having reviewed the documents and having been additionally advised by the external auditors, is satisfied that the disclosures, as well as the processes and controls underlying its production, were appropriate and recommended to the Board that the Annual Report and Financial Statements 2021 are fair, balanced and understandable. Furthermore, they provide the information necessary for shareholders and other stakeholders to validly assess the Company's position and performance, business model and strategy.

Directors' remuneration report

for the year ended 31 December 2021



Geeta Gopalan

Chair of the Remuneration Committee

2021 was another high-performing year for Ultra despite some significant distractions. Our KPIs show robust growth despite pandemic challenges.

MEMBERS

Geeta Gopalan (Chair)

Victoria Hull

Daniel Shook

Ken Hunzeker

Martin Broadhurst (stepped down 1 July 2021)

Attendance at meetings is detailed in the table on page 61. The Committee's terms of reference are available at ultra.group

Dear Shareholder,

I am pleased to present our Directors' remuneration report for the financial year ended 31 December 2021. This report should be read in conjunction with the compliance report on page 55, which demonstrates how the Company has complied with the UK Corporate Governance Code 2018.

During the 2021 financial year, the Remuneration Committee sought to ensure that all remuneration decisions were in line with the Directors' Remuneration Policy as approved by shareholders in May 2020 and that incentive plan outcomes were aligned with strategic goals and performance outcomes applied in accordance with their rules and appropriately reflected the interests and experience of shareholders.

Remuneration outcomes for 2021

2021 was another high-performing year for Ultra despite some significant distractions. Our KPIs show robust growth despite pandemic challenges. We are also seeing the benefits from the transformation and continuous improvement initiatives under the Fix; Focus; Grow strategy.

The year began with continued uncertainty wrought by the Covid-19 pandemic but through continued focus on strategic goals and the service of customers, half-year results were good and prospects for the full year were very positive. The acquisition of Ultra was announced on 16 August 2021, and this added to the uncertainty within which Ultra needed to maintain its high level of performance. However, despite these events, Ultra has produced a strong set of full-year results with organic revenue growth of 4.2% and organic underlying operating profit growth of 8%.

The uncertainty around the acquisition by Cobham meant that the Committee convened additional meetings to decide on the principles it would apply in the event that the recommended offer for Ultra completes, to the outcomes of the 2021 annual bonus, the targets for which had been set at the start of the year, and the vesting of the in-flight LTIP awards for 2019, 2020 and 2021. Since the offer has not completed at the time of reporting, this report is based on Ultra operating in the ordinary course. Throughout the year, the Remuneration Committee continued to operate within its normal terms of reference.

Annual bonus

The Committee considered the performance metrics holistically and determined that performance against the financial metrics of underlying operating profit and average working capital turn targets was above the maximum of the performance range. Performance against the individual strategic objectives of the Executive Directors coupled with their excellent individual contributions in maintaining performance while steering Ultra through the period from the announcement of the recommended offer, resulted in 100% payout of the 2021 annual bonus plan.

Long Term Incentive Plan (LTIP)

The 2019 LTIP award was subject to four equally weighted performance conditions:

- + Relative Total Shareholder Return (TSR)
- + Return on Invested Capital (ROIC)¹
- + Organic Operating Profit Growth²
- + Organic Revenue Growth²

The award was tested for performance at the end of 2021 and based on Ultra's financial and share price performance over the full performance period of the award, the vesting was determined to be 97.3%. In last year's report it was noted that the Committee had exercised discretion to adjust the profit and ROIC outcome on the 2018 LTIP to reflect the change in accounting convention whereby transformation costs were classified as non-underlying and did not impact the Company's reported underlying profit. As this issue also impacts the 2019 award, the Committee has again exercised discretion to adjust the profit and ROIC outcomes. The Committee reviewed the formulaic outcome and considered it reflective of overall business performance.

Implementation of policy for 2022

The Committee considered salary increases for the CEO and CFO. In so doing, it took into account the competitive positioning of current salaries, the proposed increases for the general workforce and the excellent performance of the incumbents.

The Committee decided that there should be no salary increase for the CEO. The Committee agreed that there should be a 3% increase in the base salary of the CFO in line with the budget for all employee increases, to maintain a competitive positioning of total reward and reflect his significant contribution to the Group.

The Committee has concluded that it would not be appropriate to reduce the cash payment in lieu of pension for the CEO further at this time (current cash allowance represents 14% of base salary). The additional burden on the business resulting from the potential acquisition by Cobham and the uncertainty over post-acquisition plans has meant there is a delay to the proposed review of pensions and benefits across the Group. The Committee is mindful of investor sentiment on this matter and remains committed to align contribution levels by 2023 should the proposed acquisition not proceed.

For 2022, the Committee proposes no change to the structure and metrics of both the annual bonus and LTIP nor to the bonus opportunity or LTIP grant level. Targets for the 2022 bonus plan have been set based on budgeted performance and alignment with the current strategy.

Recommended offer for Ultra by Cobham/Advent

During 2021, the Remuneration Committee discussed extensively the implications of the potential transaction on remuneration. The Committee initially considered the impact on in-flight LTIP awards made in 2019, 2020 and 2021. As time progressed, the Committee considered in detail the setting of targets for 2022 LTIP awards, and the 2022 annual bonus, in accordance with provisions in the Cooperation Agreement.

The Committee considered the targets for the 2022 bonus and has retained the same metrics and degree of stretch in the targets.

The Committee decided to retain the same targets for the 2022 LTIP as these reflect the long-term nature of the business and change at this time of uncertainty for the Group was not considered appropriate.

Workforce engagement

Senior managers take part in quarterly interactive sessions with the Chief HR Officer which include specific sessions on remuneration structures throughout the Group to promote openness and transparency. The remuneration sessions explain how remuneration is aligned throughout the workforce levels from the top down, and how performance incentive schemes are aligned with Ultra's strategy, purpose and ASPIRE values. Managers are invited to ask questions on remuneration structures before cascading the session down to their teams.

Employees are encouraged to ask any questions they have through the 'Ask the CEO' email address and may ask questions anonymously through Ultra's Speak Up platform, with any remuneration matters fed back to the Committee by the Chief HR Officer. In addition, Committee members seek direct feedback from employees at site visits. This was more limited in 2021 due to travel restrictions but two such events took place towards the end of the year.

Board Changes

Martin Broadhurst stepped down from the Board on 1 July 2021 after nine years of service. The Committee wishes to thank him for his valued stewardship.

The Committee will continue to operate within its terms of reference and in accordance with our Policy during the coming year unless or until there is a change in connection with the acquisition of Ultra by Cobham.

Geeta Gopalan

Chair of the Remuneration Committee

- 1 The ROIC measure for the 2019 awards is as defined on page 146.
- 2 See page 146 for definition of organic measures. Growth rates are averaged over the three-year performance period.

Annual Report on Directors' Remuneration

This section contains details of the remuneration paid and awarded to Executive Directors for the year ended 31 December 2021. This report has been prepared in accordance with the provisions of the Companies Act 2016 and the Regulations.

Remuneration at a glance

Performance outcomes for the year ending 31 December 2021

Name	Metric	Metric achieved		Simon Pryce	Jos Sclater
2021 Group bonus	PBT (40%)	40%	% of max	100%	100%
	AWCT (45%)	45%	% of base salary	150%	150%
	Strategic Objectives (15%)	15%	Outcome value	£1,047,960	£653,438
2019 LTIP	TSR (25%)	25%	% of max vesting	97.3%	97.3%
	ROIC (25%)	22.3%	No. of vested shares	63,601	25,020
	Organic Underlying Operating Profit Growth (25%)	25%	Estimated value ¹	2,028,876	£798,129
	Organic Revenue Growth (25%)	25%			

¹ Estimated value on vesting has been calculated using a share price of £31.90 being the average closing share price over the three months to 31 December 2021. It should be noted that the share price during this time was influenced by the confirmed offer for Ultra.

Summary of Remuneration Policy and implementation for 2022

The table below shows an overview of the Policy and implementation for 2022. The Policy was approved by shareholders at the May 2020 AGM and the full Policy is set out in our 2019 Report and Accounts which can be found on our website (ultra.group).

Plan	Purpose and how it supports strategy	Simon Pryce	Jos Sclater	
Base salary (effective 1 April 2022)	Recognise the market value of the role and individual's skills experience and performance to ensure ability to attract and retain talent	£698,640	£448,694	
Benefits & pension	Provide benefits and pension consistent with the role and competitive environment	14%	7.5%	
Group annual bonus	Drives and rewards annual performance against financial and non-financial metrics	Max. % of salary	150%	
		Performance metrics	85% financial: 15% non-financial	
		Deferral	1/3rd deferred into shares for 3 years	
LTIP	Drives and rewards main strategic objectives to deliver long-term value creation aligning Executives with shareholders' interests	Grant level (% of base salary)	200%	150%
		Performance metrics	Four metrics, equally weighted	
Share ownership requirements	Alignment of interests between Executives and shareholders	% of salary	200%	200%

Deferral

In accordance with the Policy, one-third of bonus awarded is deferred into Ultra shares for three years during which dividend equivalents are payable in cash. Executive Directors are required to retain 100% of post-tax shares received on vesting of the deferred bonus and from the LTIP until shareholding requirements are met. Malus and clawback provisions apply to both the bonus and LTIP.

Holding periods

A two-year post-vesting holding period applies to all LTIP awards, which is enforced through sale restriction in our share plans portal. This enforcement applies from 2021 onwards to all applicable vestings including prior years. A post-employment holding period is applicable to shares vesting under the LTIP and deferred bonus plans granted in 2020 and beyond equivalent to 100% of salary and applies for one-year post-departure. The Company has obtained written agreement from Executive Directors that they agree and commit to the post-employment holding requirements which are also a stated requirement in the grant documentation.

Linking pay with strategy

We aim to deliver long-term, sustainable value creation for all our stakeholders through our Focus; Fix; Grow strategy

The Committee believes that executives' reward should balance the need to be agile and having a longer-term focus, with strong alignment with the KPIs and strategic priorities of the Group. The Committee believes that the measures in the incentive plans provide the right balance between these aims.

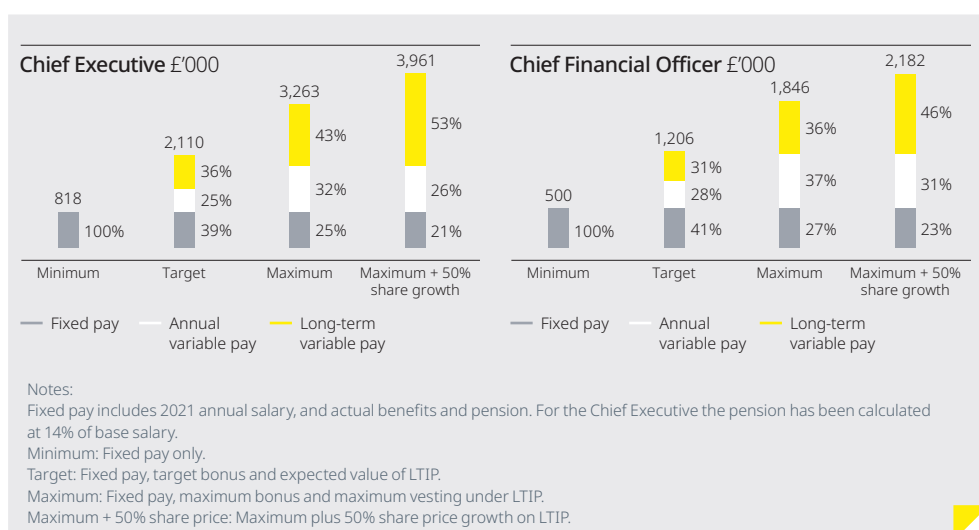
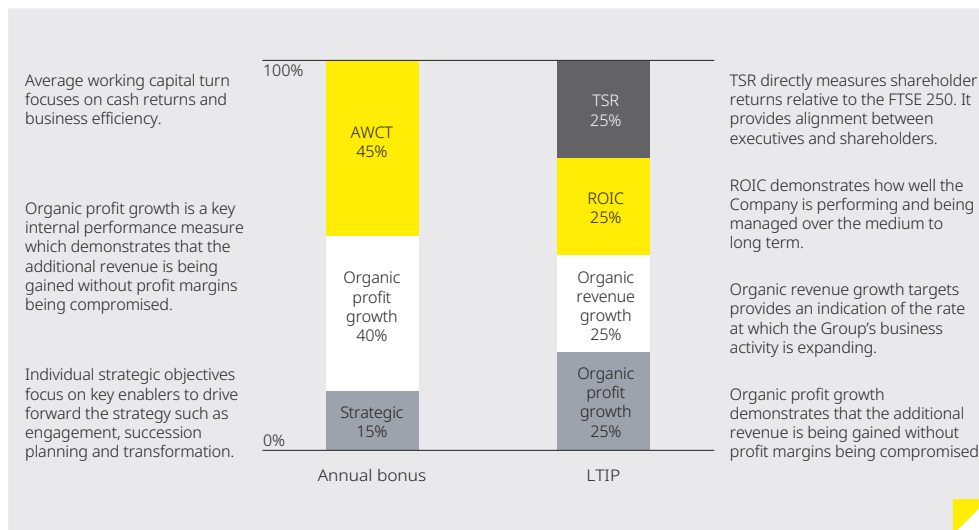
The Remuneration Policy and implementation in the context of the principles of the UK Corporate Governance Code 2018 ("Code")

The Committee believes that the current Policy and implementation are consistent with the six factors outlined in the Code.

- + **Clarity** – remuneration arrangements are transparent and the Committee engages regularly with shareholders.
- + **Simplicity** – the purpose, structure and strategic alignment of each element of pay is uncomplicated, and operationally easy to understand.
- + **Risk** – there is an appropriate mix of fixed and variable pay, and financial and non-financial objectives. The Committee has the discretion to override formulaic outcomes, and malus and clawback provisions are in place.
- + **Predictability** – the range of possible pay outcomes is set out in the performance scenario charts on the right.
- + **Proportionality** – executives are incentivised to achieve stretching targets over one- and three-year periods, with clear links to the delivery of the Group's strategy.
- + **Alignment with culture** – the Policy has been designed to support the delivery of the Group's long-term strategy, and the interests of its shareholders and employees. As set out above, the performance metrics used to determine variable pay outcomes directly align with our strategy with individual performance considered in the context of the Group's ASPIRE values. Malus and clawback allow for adjustment of outcomes for failure to act in accordance with company purpose, values and strategy.

Remuneration scenarios for Executive Directors

The charts on the right show the value of the package each of the Executive Directors would receive based on 2022 base salary, benefits and 2022 annual bonus and LTIP awards, assuming the scenarios noted.



Annual Report on Directors' Remuneration

continued

Single figure of total remuneration (audited)

	Basic salary/fees £'000		Benefits ¹ £'000		Pension ² £'000		Total fixed remuneration £'000		Performance bonus ³ £'000		LTIP £'000		Total variable remuneration £'000		Total £'000	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021 ⁵	2020 ⁴	2021	2020	2021	2020
S Pryce	694	677	21	20	101	114	816	811	1,048	1,017	2,029	1,408	3,077	2,425	3,893	3,236
J Sclater	433	425	17	17	32	32	483	474	653	528	798	-	1,452	528	1,934	1,002
T Rice	227	202	-	-	-	-	227	202	-	-	-	-	-	-	227	202
M Broadhurst ⁶	33	64	-	-	-	-	33	64	-	-	-	-	-	-	33	64
G Gopalan ⁷	63	56	-	-	-	-	63	56	-	-	-	-	-	-	63	56
V Hull	68	61	-	-	-	-	68	61	-	-	-	-	-	-	68	61
K Hunzeker ^{8,9}	58	28	29	-	-	-	87	28	-	-	-	-	-	-	87	28
D Shook	68	64	-	-	-	-	68	64	-	-	-	-	-	-	68	64

Notes

- Benefits: car cash allowance, life assurance, and private medical insurance. No other taxable benefits are payable.
- Pension: Simon Pryce received a cash supplement of 14% from 1 April 2021 (reduced from 16%). Jos Sclater received a cash supplement of 7.5% of base salary.
- One-third of bonus is deferred into shares for three years.
- The 2018 LTIP has been restated to reflect the actual closing share price of £23.02 on the vesting date of 2 July 2021.
- The estimated value of the 2019 LTIP award which vests on 16 April 2022. The share price used for these awards was £31.90 being the average of the closing share price for the three months prior to 31 December 2021. The proportion of the 2019 award value that is attributable to share price growth is £1,058,323 or 109% for Simon Pryce and £281,222 or 54% for Jos Sclater. The proportion of the award value that is attributable to share price growth may be higher than actual as the share price was influenced by the confirmed offer for Ultra.
- Martin Broadhurst stepped down from the Board on 1 July 2021.
- Geeta Gopalan became Remuneration Committee Chair on 1 July 2021.
- Ken Hunzeker was appointed to the Board on 1 July 2020.
- Benefits comprise the grossed up expenses for travel and accommodation to attend Board meetings in the UK.

Annual bonus for the year under review (audited)

	Measure	Weighting	Threshold ⁴	Maximum ⁴	Performance achieved ⁴	Percentage of maximum outcome	Overall bonus
Simon Pryce	PBT ¹	40%	£102.4m	£116.1m	£118.0m	100.00%	100.00%
	AWCT ²	45%	10.1	10.8	12.3	100.00%	
	Strategic ³	15%	n/a	n/a	100.00%	100.00%	
Jos Sclater	PBT ¹	40%	£102.4m	£116.1m	£118.0m	100.00%	100.00%
	AWCT ²	45%	10.1	10.8	12.3	100.00%	
	Strategic ³	15%	n/a	n/a	100.00%	100.00%	

- Underlying profit before tax.
- Average working capital turn.
- Role specific strategic objectives.
- Targets were set at constant foreign exchange rates relative to 2020.

The maximum bonus opportunity for the Chief Executive and Chief Financial Officer for 2021 was 150% of base salary. Financial measures comprise 85% of the overall bonus opportunity and due to very strong financial results have paid out at maximum.

The Executive Directors were also given challenging role-specific objectives which make up the remaining 15% of the annual bonus opportunity. The Remuneration Committee reviewed the outcomes against these strategic objectives which showed strong performance especially in terms of initiatives that progress the Fix; Focus; Grow strategy; however, they also considered the context of the overall results achieved in a challenging year when both Executive Directors had successfully steered the Group through negotiations and a premium price offered for Ultra by Cobham as well as maintaining good levels of engagement with other stakeholders such as customers and employees. Having taken all factors into consideration, the Committee determined that the outcome of the strategic objectives should be at maximum.

Strategic objectives and performance

Simon Pryce	Outcome
Drive transformation + Sponsorship and execution of key transformation initiatives driving productivity, efficiency and growth. Ensure that benefits are fully realised	Transformation costs lower and delivered ahead of plan
Technology development + Effective development and execution of the technology road map	Key milestones on track, roadmaps complete
Customer engagement + Develop senior cross SBU influence and customer relationships	Solid engagement with senior customers
Sales and bidding process + Standardise sales and bidding processes	Bid process complete. Sales process standardisation complete
Leadership succession + Improve succession in leadership/critical roles	Goal to improve 1–3-year and 3–5-year cover by 10% achieved
Drive employee engagement + Improve employee engagement across the organisation	Small decline in overall engagement index influenced by Offer uncertainty (see page 35)
ESG + Roll out and ensure delivery of A Positive Force	Roll-out well received (see report page 24)
Jos Sclater	Outcome
Drive transformation + Sponsorship and execution of key transformation initiatives driving productivity, efficiency and growth. Ensure that benefits are fully realised	Transformation governance process well embedded. Excellent progress across project portfolio with added focus on costs and benefits
Embed continuous improvement (CI) + Build the internal team, deliver SGC sprints and launch key continuous improvement tools and training	Improved bench strength of the team, SGC sprints run throughout the year. Significant CI cost savings achieved
Tax and pricing strategy + Develop and implement new tax and pricing strategy	Tax strategy developed and performing well. Transfer pricing policy agreed and implemented
Risk management + Improve organisation structure on risk management and embed into the strategy process	Risk review embedded into quarterly business reviews
Financial forecasting + Continue to improve cash and P&L forecasting internally	Process successfully changed to quarterly. Much improved cost visibility. New chart of accounts launched on time and ahead of budget
ESG + Implement new HS&E management system	Delivered to plan. All local policies implemented

Director	% of maximum	% of salary	Total bonus £'000
Simon Pryce	100%	150%	1,048
Jos Sclater	100%	150%	653

Pension

Pension contributions for each Executive Director are paid as a cash allowance in lieu of participation in Ultra's DC pension plan. Simon Pryce's cash allowance was £100,622 which equated to 14.5% of single figure base salary, the rate having been reduced from 16% to 14% as of 1 April 2021. Jos Sclater's cash allowance was £32,473 which was 7.5% of base salary.

LTIP vesting for the year under review (audited)

The 2019 LTIP vested as shown below. As outlined in the Chairman's statement and last year's report, at the point the 2019 awards were granted, transformation costs were classified as non-underlying and did not impact on the Company's reported underlying profit. Reflecting the transformation agenda, Ultra has changed the accounting convention such that transformation costs are taken above the line and therefore impact underlying profit. As in 2021, the Committee spent time considering the impact of this change, noting that the targets at the point the awards were made were set without knowing the accounting approach would change. As indicated in last year's report, the Committee determined that it would be appropriate for it to exercise its discretion to adjust for these costs in line with the approach taken for the 2018 awards.

Annual Report on Remuneration

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	Weighting	Threshold	Stretch	Outturn	% Vesting
Total Shareholder Return	25%	Median	Upper quartile	Upper quartile	25.0%
Measured against the constituents of the FTSE 250 (excluding Investment Trusts)					
ROIC	25%	15.0%	25.0%	23.6%	22.3%
Average ROIC calculated on an annual basis over the three-year performance period ¹					
Organic operating profit growth²	25%	2.0%	5.0%	8.2%	25.0%
Organic revenue growth²	25%	2.0%	5.0%	5.4%	25.0%
Total					97.3%

1 ROIC was defined as underlying operating profit expressed as a percentage of average invested capital (calculated as an average of the opening and closing balance sheets). Average invested capital was calculated as net assets after adjusting for exchange rate fluctuations) adjusted for amortisation and impairment charges arising on acquired intangible assets and goodwill, and the add-back of other non-underlying performance items impacting the balance sheet.

2 See page 146 for definition of organic measures. Growth rates are averaged over the three-year performance period. The above outturns reflect the adjustment for transformation costs and other adjustments determined by the Remuneration Committee.

As noted in the Directors' Remuneration Report, the Remuneration Committee was provided with independent advice and verification of the outcome of the performance conditions above.

Share awards granted in 2021 (audited)

Annual LTIP awards were granted to Simon Pryce and Jos Sclater in 2021. Details of the awards are shown in the table below.

	Scheme	Date of grant	Basis of award	Face value £'000 ¹	Number of shares ²	Vesting at threshold	Vesting at maximum	Performance period
Simon Pryce	LTIP	15/03/2021	200% of salary	1,397	68,160	20%	100%	3 years to 31 December 2023
Jos Sclater	LTIP	15/03/2021	150% of salary	653	31,875	20%	100%	3 years to 31 December 2023

1 Face value is calculated at the time of grant using the average of the previous five days' mid market price resulting in a grant price of £20.50.

2 All awards were granted as nil cost options.

The performance conditions applying to the awards are shown below:

Performance measures	Weighting	Targets	Vesting %
Total shareholder return (TSR)¹	25%	TSR ranking of the Group against a comparator group	
Below threshold		Below median	0%
Threshold		Median	5%
Stretch		Upper quartile or above	25%
Return on invested capital (ROIC)²	25%	Return on invested capital	
Below threshold		<15%	0%
Threshold		15%	5%
Stretch		25%	25%
Organic operating profit growth³	25%	Annual growth in organic operating profit	
Below threshold		<4%	0%
Threshold		4%	5%
Stretch		8%	25%
Organic revenue growth³	25%	Annual growth in organic revenue	
Below threshold		<2.5%	0%
Threshold		2.5%	5%
Stretch		6%	25%

1 Measured against constituents of the FTSE 250 (excluding investment trusts). Awards vest on a straight-line basis between threshold and stretch.

2 The ROIC measure will be the average ROIC calculated on an annual basis over the three-year performance period where ROIC is calculated as underlying operating profit expressed as a percentage of invested capital (average of opening and closing balance sheets). Invested capital is the net assets of the Group, excluding net debt and lease liability, pension obligations, tax and derivatives.

3 Growth targets are expressed as annual growth rates and averaged over the three-year period. See page 146 for definitions of organic measures. Awards vest in a straight-line basis between threshold and stretch.

Payments to past Directors (audited)

No payments were made to past Directors in 2021.

Executive Directors' service contracts and external appointments**External appointments**

Simon Pryce is a Non-Executive Director of Electrocomponents plc. During 2021, he earned fees of £75,025 in respect of this appointment. No other Executive Directors held external appointments in 2021.

Service contracts

Executive Directors have rolling contracts that can be terminated by either party giving appropriate notice.

Director	Effective date of contract	Notice period
Simon Pryce	18 June 2018	12 months
Jos Sclater	9 December 2019	12 months

Statement of Directors' shareholdings (audited)

Directors' interests under the Ultra Electronics discretionary share plans

Director	Date of grant	Actual share price at grant	At 31/12/20	Granted	Vested ²	Lapsed	At 31/12/21	Earliest vesting of outstanding awards
Simon Pryce								
LTIP	15/03/2021	20.50	-	68,160	-	-	68,160	15/03/2024
	04/06/2020	16.37	10,410	-	-	-	10,410	17/03/2023
	17/03/2020	16.37	72,867	-	-	-	72,867	17/03/2023
	16/04/2019	15.26	65,366	-	-	-	65,366	16/04/2022
	02/07/2018	16.17	71,978	-	61,181	10,797	-	02/07/2021
Deferred bonus	15/03/2021	20.50	-	16,529	-	-	16,529	15/03/2024
	17/03/2020	16.37	9,616	-	-	-	9,616	17/03/2023
	16/04/2019	15.26	4,151	-	-	-	4,151	16/04/2022
Jos Sclater¹								
LTIP	15/03/2021	20.50	-	31,875	-	-	31,875	15/03/2024
	17/03/2020	16.37	32,453	-	-	-	32,453	17/03/2023
	10/12/2019	20.66	25,714	-	-	-	25,714	16/04/2022
Deferred bonus	15/03/2021	20.50	-	8,588	-	-	8,588	15/03/2024
Recruitment Award	10/12/2019	20.66	2,016	-	2,016	-	-	10/12/2021
	10/12/2019	20.66	2,018	-	-	-	2,018	10/12/2022

¹ Jos Sclater joined the Group on 9 December 2019. His Recruitment Award vests in equal tranches over three years subject to continued employment at the vesting date.

² The total value of options exercised by Simon Pryce was £2,188,731 and by Jos Sclater £69,110.

Directors' beneficial shareholdings as of 31 December 2021

Director	Shareholding (number of shares beneficially held) as at 31 December 2021
Simon Pryce	62,152
Jos Sclater	5,503
Martin Broadhurst ¹	2,100
Geeta Gopalan	-
Victoria Hull	1,684
Ken Hunzeker	2,000
Tony Rice	15,000
Daniel Shook	2,500

¹ Martin Broadhurst stepped down from the Board on 1 July 2021.

Annual Report on Remuneration

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Statement on shareholding requirements

Under our Policy, Executive Directors are required to build and maintain a shareholding equivalent to 200% of their base salary. As of 31 December 2021, Simon Pryce had achieved the requirement. Jos Sclater had not achieved the requirement; however, the Committee considers this acceptable due to his relatively recent hire date meaning annual awards have not vested yet.

Director	Shareholding requirement % of base salary	Current holding % of base salary	Requirement met	Current holding % of base salary (including awards unvested and subject to continued employment)
Simon Pryce	200%	283.8%	Yes	359.9%
Jos Sclater	200%	40.3%	No	83.0%

Directors' interests under the All-Employee share plan (SIP)

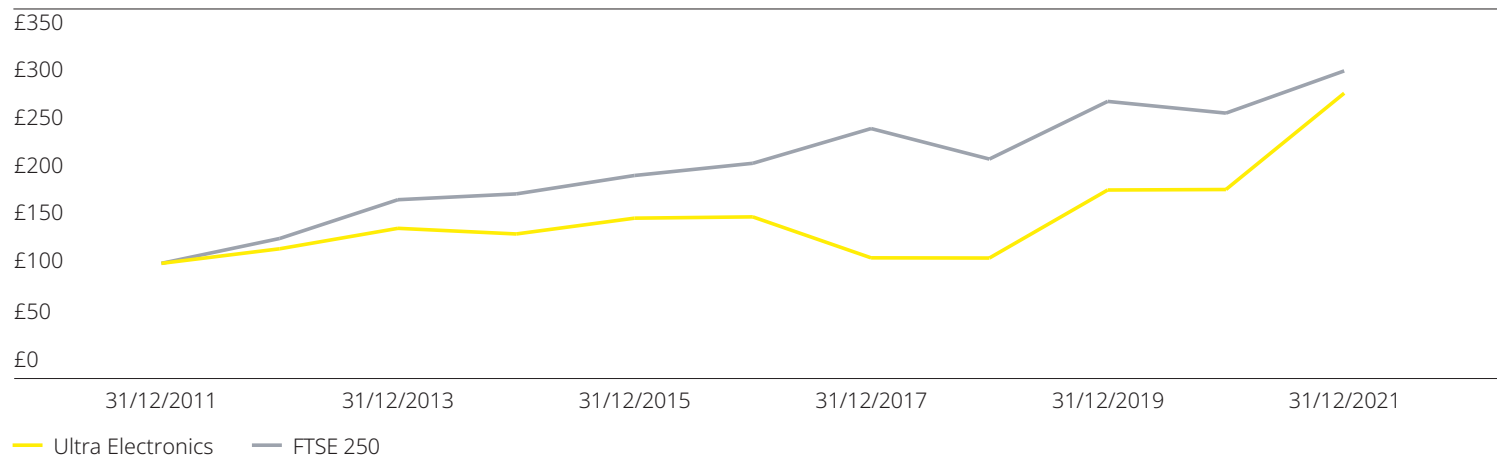
Director	Interests as at 1 January 2021	Shares acquired during the year	Interests as at 31 December 2021	Shares acquired from 1 January 2022 to 10 March 2022	Interests as at 10 March 2022
Simon Pryce	223	80	303	15	318
Jos Sclater	80	77	157	15	172

Directors' interests under the Save As You Earn share plan

Director	Interests as at 1 January 2021	Share options acquired during the year	Interests as at 31 December 2021	Share options acquired from 1 January 2022 to 10 March 2022	Interests as at 10 March 2022
Simon Pryce	830	221	1,051	–	1,051
Jos Sclater	–	1,109	1,109	–	1,109

Total shareholder return (TSR) table and CEO remuneration

The graph below shows the TSR performance of Ultra in comparison with the FTSE 250 Index over the past 10 years. The graph shows the value over the measurement period of £100 invested at the start of the period in Ultra and in the Index. The Committee considers the FTSE 250 to be the relevant Index for the TSR comparison as Ultra is a member of the Index and the membership represents a broad range of UK-quoted companies.



This graph shows the value, by 31 December 2021, of £100 invested in Ultra on 31 December 2011, compared with the value of £100 invested in the FTSE 250 Index on the same date.

The table below shows the remuneration of the CEO over this period.

Director	Year ended	Total remuneration £'000	Annual bonus % of max. payout	LTIP % of max. payout
S Pryce	31/12/2021	3,893	100%	97.3%
S Pryce	31/12/2020	3,236	99%	85%
S Pryce	31/12/2019	1,592	95%	-
S Pryce ¹	31/12/2018	750	71%	-
D Caster ²	31/12/2018	284	-	-
D Caster ³	31/12/2017	81	-	-
R Sharma ⁴	31/12/2017	765	-	-
R Sharma	31/12/2016	1,194	82%	-
R Sharma	31/12/2015	1,197	88%	-
R Sharma	31/12/2014	680	-	-
R Sharma	31/12/2013	612	-	-
R Sharma	31/12/2012	597	-	-

1 CEO from 18 June 2018.

2 Executive Chair to 18 June 2018.

3 Executive Chair from 10 November 2017.

4 CEO to 10 November 2017.

Relative importance of spend on pay

The following table shows the Group's actual spend on pay (for all employees) relative to other financial indicators:

	2021 £m	2020 £m	Change %
Staff costs ^{1,4}	296.1	286.5	+3.4
Dividends ²	11.6	40.4	-71.3
Revenue	850.7	859.8	-1.1
Statutory profit before tax ³	82.7	103.7	-20.3

1 £1.5m (2020: £1.5m) of staff costs relate to pay for the Executive Directors. Please note that 2020 has been restated to include National Insurance costs.

2 The dividends relate to amounts payable in respect of the relevant financial year. Under the terms and conditions set out in the announcement dated 16 August 2021 (relating to the recommended cash acquisition of Ultra by Cobham), no final 2021 dividend will be paid to shareholders while the acquisition remains conditional on obtaining UK Government approval.

3 Revenue and statutory profit before tax are included to add further context to the annual spend.

4 2020 staff costs have been restated following a review of the pension-related charges to the income statement in 2020.

Annual Report on Remuneration

continued

Pay comparisons

Change in remuneration of Directors and employees

The following table illustrates the change, as a percentage in elements of the Directors' remuneration from 2020 to 2021 and compares that to a comparator group of employees of the Group in the UK, excluding the Directors. This group has been selected as it best reflects the remuneration environment of the Directors.

	Base salary	Taxable benefits	Bonus	Base salary	Taxable benefits	Bonus
	2021			2020		
Executive Directors						
Simon Pryce	2%	-9%	3%	2%	-4%	29%
Jos Sclater	2%	2%	24%	0%	0%	n/a
Non-Executive Directors						
Tony Rice	12%	n/a	n/a	4%	n/a	n/a
Martin Broadhurst ¹	-47%	n/a	n/a	1%	n/a	n/a
Geeta Gopalan ²	13%	n/a	n/a	2%	n/a	n/a
Victoria Hull ³	12%	n/a	n/a	10%	n/a	n/a
Ken Hunzeker ^{4,5}	108%	100%	n/a	n/a	n/a	n/a
Daniel Shook	6%	n/a	n/a	0%	n/a	n/a
Comparator Group						
Parent company employees ⁶	n/a	n/a	n/a	n/a	n/a	n/a
UK employees ⁷	3%	3%	24%	4%	6%	42%

1 Martin Broadhurst stepped down from the Board on 1 July 2021.

2 Geeta Gopalan became Remuneration Committee Chair on 1 July 2021.

3 Victoria Hull became Senior Independent Director on 13 May 2020.

4 Ken Hunzeker joined the Board on 1 July 2020.

5 Ken Hunzeker's taxable benefits are travel and accommodation for UK Board meetings. As there was no travel in 2020 due to Covid travel restrictions, 100% is shown rather than the formulaic calculation.

6 The Regulations require disclosure of the change in remuneration of the employees of the parent company. As the parent company has only seven senior-level employees other than the Directors, it would not be representative to provide a percentage change in their pay.

7 As the parent company has few employees, the Remuneration Committee has decided to voluntarily disclose the percentage change in remuneration of all UK employees of the Group.

CEO pay ratio

Below is the outcome of the CEO pay ratio compared with representative UK employees utilising Option A in accordance with the Regulations. Option A was chosen as it is the most statistically accurate. We have also voluntarily disclosed a global ratio to reflect the fact that just over half of our employees are located outside the UK.

The calculations for the relevant representative employees have been made based on those employed at 31 December 2021. To provide the comparable figure for bonus we have used the expected 2021 bonus although this had not been paid at the time of the calculation. Additionally, we adjusted the data to reflect full-time equivalent salaries for those employed on a part-time basis and in so doing we assumed a 37-hour week. No elements of remuneration have been omitted.

Year	Method	Data set	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2021	Option A	UK	134:1	90:1	64:1
2021	Option A	Global	94:1	80:1	48:1
2020	Option A	UK	92:1	74:1	41:1
2020	Option A	Global	76:1	63:1	41:1
2019	Option A	UK	54:1	37:1	27:1
2019	Option A	Global	50:1	31:1	19:1

Our pay philosophy across the Group is based on six core principles including consistency, fairness, transparency, competitiveness and rewarding short- and long-term performance. Reward is managed by reference to consistent external market benchmarks in all of our markets and individual performance is taken account of in the individual's pay. Eligibility for short- and long-term incentives is determined by seniority. The CEO receives a larger proportion of his reward in variable pay and as such his total reward may vary significantly year by year depending on financial and individual performance. The Group has performed very well in the last couple of years which has resulted in larger incentive payments. In particular, the 2019 LTIP has vested at near maximum and the share price that has been used to estimate the value of the vested shares (£31.90) is influenced by the confirmed offer for Ultra share price which has resulted in a higher pay ratio for 2021. The employees in the sample have typically also benefitted from this improved performance in terms of short-term incentive but their total reward is proportionately more fixed than at risk. The Committee believes the median pay ratio is consistent with the Group's pay philosophy and progression policies.

The table below shows the total pay and benefits and the base salary for the employee at each quartile of the UK sample.

£	25th percentile	50th percentile	75th percentile
Total pay and benefits	29,060	43,374	60,814
Salary	27,013	39,230	55,384

Statement of shareholder voting

Votes cast at the 2021 AGM to approve the 2020 Directors' remuneration report

	Total number of votes	% of votes cast
Directors' remuneration report vote – 2021 AGM		
Votes for	56,366,605	98.49%
Votes against	861,588	1.51%
Total votes cast (for and against)	57,228,193	100.00%
Votes withheld	5,965,629	
Total votes cast	63,193,822	

	Total number of votes	% of votes cast
Directors' Remuneration Policy vote – 2020 AGM		
Votes for	50,910,945	81.51%
Votes against	11,545,822	18.49%
Total votes cast (for and against)	62,456,767	100.00%
Votes withheld	1,160,704	
Total votes cast	63,617,471	

Implementation of the Remuneration Policy for Executive Directors in 2022

Salary increases

Salary increases are effective from 1 April 2022. The increase for the Chief Financial Officer is at the level budgeted for the general workforce, which was 3.0%. Executive Director salaries effective 1 April 2022 are shown below.

	2022 salary £'000	2021 salary £'000	Increase awarded from 1 April 2022
S Pryce	698,640	698,640	0.0%
J Sclater	448,694	435,625	3.0%

Annual bonus for 2022

The maximum bonus for the Executive Directors in 2022 will be 150% of base salary. One-third of any bonus payable will be deferred into shares for three years.

The structure of the 2022 bonus is unchanged from 2021 and will include up to 40% of the maximum for achievement of an agreed profit target, up to 45% payable for the achievement of an agreed improvement in average working capital turn (AWCT) and up to 15% payable for the achievement of individual strategic targets. All targets and objectives have been developed in line with performance objectives for the Group assuming that there is no acquisition.

The Committee discussed the targets for 2022 to ensure that they remain sufficiently stretching and continue to align with strategic goals. The Committee discussed whether there should be any change to the targets, particularly to the positioning of threshold and maximum. As Ultra's business is based on long-term contracting arrangements, the level of stretch is considered appropriate in the current environment.

We have not disclosed actual targets as we consider these to be commercially sensitive. We will disclose them retrospectively in the 2022 report.

No bonus will be paid if the Committee considers the Group's financial performance to be unsatisfactory or there is a negative event which, in line with its Policy, would require the Committee to adjust the formulaic outcome.

Should the acquisition for Ultra by Cobham proceed, the portion of the 2022 bonus relating to the period from the start of 2022 until the date of the acquisition will be dealt with by the Remuneration Committee in accordance with the terms of the Cooperation Agreement and exercising the discretion afforded to it.

Annual Report on Remuneration

continued

Long-term awards to be granted in 2022

The Committee intends to grant an annual LTIP award if the acquisition of Ultra has not been Court Sanctioned by 23 March 2022, which is permissible under the terms of the Cooperation Agreement. Should the acquisition of Ultra by Cobham proceed, the Remuneration Committee will determine the extent of vesting in accordance with the terms of the Cooperation Agreement and exercising the discretion afforded to it. Awards to the CEO and CFO will be 200% and 150% of base salary respectively, which is consistent with the prior year. The measures and targets that will apply to the awards are shown in the table below. The Committee considered whether to retain the same targets and measures and concluded that with so much uncertainty over the acquisition and in external markets, this was the best course of action. Independent advice was taken as well as input on industry growth and internal modelling to support this. Share awards will be made at the appropriate time determined by the Remuneration Committee and based on the average closing share price for the five dealing days preceding the date of grant.

Performance measures	Weighting	Targets	Vesting %
Total shareholder return (TSR)¹	25%	TSR ranking of the Group against a comparator group	
Below threshold		Below median	0%
Threshold		Median	5%
Stretch		Upper quartile or above	25%
Return on invested capital (ROIC)²	25%	Return on invested capital	
Below threshold		<15%	0%
Threshold		15%	5%
Stretch		25%	25%
Organic operating profit growth³	25%	Annual growth in organic operating profit	
Below threshold		<4%	0%
Threshold		4%	5%
Stretch		8%	25%
Organic revenue growth³	25%	Annual growth in organic revenue	
Below threshold		<2.5%	0%
Threshold		2.5%	5%
Stretch		6%	25%

1 Measured against constituents of the FTSE 250 (excluding investment trusts). Awards vest on a straight-line basis between threshold and stretch.

2 The ROIC measure will be the average ROIC calculated on an annual basis over the three-year performance period where ROIC is calculated as underlying operating profit expressed as a percentage of invested capital (average of opening and closing balance sheets). Invested capital is the net assets of the Group, excluding net debt and lease liability, pension obligations, tax and derivatives.

3 Growth targets are expressed as annual growth rates and averaged over the three-year period. See page 146 for definitions of organic measures. Awards vest in a straight-line basis between threshold and stretch.

Pension

As mentioned in the Chair's statement, the Committee has decided not to reduce the CEO's annual cash allowance further in 2022. It had been the Committee's intention to reduce the current 14% of base salary by 2% in 2022 and by a further 2% in 2023; however, this has been delayed pending the outcome of the acquisition of Ultra by Cobham. The CFO has a pension contribution rate of 7.5% which is aligned with the rate currently available for the majority of the UK workforce.

Non-Executive Directors

Fee levels with effect from 1 April 2022 which are unchanged from 2021 are as follows:

	Fees £'000
Chair	235
Non-Executive Director (base fee)	59
Senior Independent Director (additional fee)	10
Committee Chair (additional fee)	10

All Non-Executive Directors were appointed under letters of appointment. All Non-Executive Directors are subject to annual re-appointment at the Company's Annual General Meeting:

	Letter of appointment end date
Tony Rice	AGM 2022
Victoria Hull	27/04/2023
Geeta Gopalan	27/04/2023
Daniel Shook	01/09/2022
Ken Hunzeker	01/07/2023

The role and composition of the Remuneration Committee

Role

The Remuneration Committee is responsible for recommending to the Board the Policy for Executive Directors and for setting the remuneration package for each Executive Director. The Committee also has input into the remuneration arrangements of the Executive Team in conjunction with the Chief Executive and has oversight of the Policy and remuneration packages for other senior leaders, in particular the variable elements. The Committee ensures that remuneration conditions for the senior team and the wider workforce are clear and consistent.

The Committee aims to align the Policy with the overall strategy of the Group, ensuring that remuneration reflects the interests of our shareholders and other stakeholders governed by the Policy and our philosophy and values.

During the year, the Committee met six times (three of which were scheduled) and covered matters including:

Principal activities of the Committee

- + Evaluated the performance conditions in all executive incentive plans
- + Reviewed the annual gender pay gap data
- + Reviewed the outcome of the CEO pay ratio and other comparison statistics
- + Considered and agreed the annual pay increase for the CEO, CFO and Executive Team
- + Reviewed the outcome of salary bonus and long-term incentives for the senior management group as well as nominations for awards
- + Considered the impact of change of control on in-flight share incentives, both discretionary and all-employee plans and how the Committee would determine vesting, including consideration as to whether or not exercise of discretion might be appropriate
- + Discussed issues around recruitment and retention and oversaw the approach and terms of retention initiatives across the Group in response to the Offer for Ultra
- + Agreed the approach and strategic objectives for the Executive Directors including specific ESG-focused objectives

Composition

Martin Broadhurst was Chair of the Committee until 1 July 2021 when the role was assumed by Geeta Gopalan. Daniel Shook, Victoria Hull and Ken Hunzeker were members throughout the year. The General Counsel and Company Secretary is the Secretary to the Committee. The Chair and Chief Executive attend meetings by invitation except where matters directly relating to their own remuneration are discussed. Additionally, the Committee may receive presentations on specific topics from the Chief Human Resources Officer, Group Reward Director, Chief Financial Officer and the Independent Adviser.

Advice

During the year, the Committee received independent advice on executive remuneration and share schemes from the executive compensation practice at Alvarez & Marsal Taxand LLP. A&M are signatories to the Code of Conduct of the Remuneration Consultants Group. A&M received fees of £72,472 (excluding VAT) for advice to the Committee. In addition, A&M provided advice on taxation matters relating to all-employee share schemes totalling £25,797 (excluding VAT), which is also considered to be independent.

2022 Annual General Meeting

The Committee encourages shareholders to vote in favour of the Directors' remuneration report at the 2022 AGM. The Directors' remuneration report was approved by the Board on 10 March 2022 and signed on its behalf by:

Geeta Gopalan
Chair of the Remuneration Committee

Directors' report

For the year ended 31 December 2021

The Directors of the Company present their report together with the audited consolidated financial statements for the year ended 31 December 2021.

Results and dividends

The Group results for the year ended 31 December 2021 are set out on page 3 of the strategic report.

An interim dividend of 16.2 pence per share (2020: 15.4 pence per share) was paid to shareholders on the register of members as at 27 August 2021. An additional interim dividend of 39.2 pence per share was also paid in 2020 (which was equivalent to the final dividend declared in 2019 which was withdrawn as a precautionary measure due to Covid-19) was paid on 17 September 2021. In view of the terms and conditions set out in the announcement dated 16 August 2021 (relating to the recommended cash acquisition of Ultra by Cobham Ultra Acquisitions Limited), no final dividend (2020: 41.5 pence per share) will be paid to shareholders while the acquisition (see page 2) remains pending.

Research and development

The Directors are committed to maintaining a significant level of research and development expenditure. During the year a total of £150.0m (2020: £144.2m) was spent, of which £116.5m (2020: £112.4m) was funded by customers and £33.5m (2020: £31.8m) by Ultra.

Political donations

Neither the Company nor any of its subsidiaries have made any political donations during the year (2020: £nil).

Directors and re-election

Details of the Directors serving during the year are set out on pages 52-53 of the corporate governance report.

If the proposed acquisition by Cobham has not then completed and the Company remains publicly listed Geeta Gopalan, Victoria Hull, Ken Hunzeker, Simon Pryce, Tony Rice, Jos Sclater and Daniel Shook will all stand for re-election at the Company's Annual General Meeting (AGM) 2022. See biographies on pages 52-53.

Directors and their interests

The Directors who served throughout the year and to the date of signing of this Report, and their interests in the shares and share options of Ultra at the end of the year and as at 10 March 2022 are shown in the Annual Report on Remuneration (see pages 79 to 80).

Post balance sheet events

The Group completed the sale of some legacy aerospace product lines from the Critical Detection & Control SBU, realising net cash proceeds of £34.8m on 24 January 2022 (see note 35).

Directors' indemnities

In accordance with our Articles of Association and to the extent permitted by law, Directors are granted an indemnity from the Company in respect of liability incurred as a result of their appointment to the Board. In addition, the Company maintains a Directors' and Officers' liability insurance policy. Neither the indemnity provided by the Company nor the insurance policy provides cover in the event that a Director is proven to have acted fraudulently or dishonestly.

Directors' conflicts of interest

The Company has in place procedures for managing conflicts and potential conflicts of interest. The Company's Articles of Association also contain provisions to allow the Directors to authorise conflicts or potential conflicts of interest so that a Director is not in breach of his or her duty under UK company law. If Directors become aware of a conflict or potential conflict of interest they should notify the Board in accordance with the Company's Articles of Association. Directors have a continuing duty to update any changes to their conflicts of interest. Directors are excluded from the quorum and vote in respect of any matters in which they have a conflict of interest. No material conflicts were reported by Directors in 2021.

Independent advice

All Directors have access to the advice of the Group General Counsel and Company Secretary and, in appropriate circumstances, may obtain independent professional advice at the Company's expense. No such requests were made in 2021.

Branches

The Company and its subsidiaries have established branches, where appropriate, in a number of countries outside the UK. Their results are, however, not material to the Group's financial results.

Contractual arrangements

The Group contracts with a large number of customers in order to sell its wide portfolio of specialist capabilities to a broad range of customers around the world. The Group's largest customers are the US Department of Defense and the UK Ministry of Defence. A wide range of separate contracts are entered into with these customers by different Ultra businesses through different project offices and project teams. The Group also contracts with numerous suppliers across the world and manages these arrangements to ensure that it is not over-dependent on a single supplier. This is normally achieved through dual sourcing of specialist components.

Purchase of own shares

During the year Ultra purchased nil ordinary shares (2020: nil). Further information regarding the Company's share capital and share schemes can be found in note 26 to the financial statements.

Annual General Meeting (AGM)

A separate circular providing the Notice of Annual General Meeting and details of the resolutions to be put to the meeting will be sent to shareholders in due course. All Directors will submit themselves for election or re-election at the AGM.

Substantial shareholdings

As at 9 February 2022, being the latest practicable date prior to the approval of this report, Ultra had been notified of the following voting rights as shareholders of Ultra:

TOP 10 HOLDERS AS AT 9 FEBRUARY 2022

Shareholder	9 February 2022		
	Shares	% Invested capital	Cum% Invested capital
Goldman Sachs collateral account	3,480,485	4.87	4.87
Aviva Investors	3,379,025	4.73	9.60
Vanguard Group	3,207,833	4.49	14.10
UBS collateral account	3,173,314	4.44	18.54
Bank of New York stocklending collateral account	2,851,686	3.99	22.53
Blackrock	2,848,113	3.99	26.52
Invesco	2,587,513	3.62	30.14
Santander collateral account	2,500,000	3.50	33.64
Société Générale collateral account	2,158,791	3.02	36.67
MFS Investment Management	2,145,494	3.00	39.67

Capital structure

Details of the authorised and issued share capital, together with details of the movements in Ultra's issued share capital during the year, are shown in note 26. Ultra has one class of ordinary shares which carry no right to fixed income and each share carries the right to one vote at general meetings of Ultra. There are no specific restrictions either on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Company's Articles of Association and prevailing legislation. No person has any special rights of control over Ultra's share capital and all issued shares are fully paid. With regard to the appointment and replacement of Directors, Ultra is governed by its Articles of Association, the UK Corporate Governance Code, the Act and related legislation. The Articles of Association themselves may be amended by special resolution of the shareholders. The Directors operate in accordance with a Schedule of Matters Reserved for the Board, which is available from the Investors' section on the Group website (ultra.group).

Additional disclosure requirements

The following information which is required to be included in the Directors' report and forms part of this report may be found elsewhere in the Annual Report as follows.

Information	Location
Business review	Strategic report: pages 21-23
Future developments	Strategic report: page 11
Corporate social responsibility	Strategic report: pages 24-41
Workforce engagement	Strategic report: page 12 and Governance report: page 64
Customer and supplier relationships	Strategic report: page 13
The environment and greenhouse gas emissions	Strategic report: pages 26-31
Principal risks and uncertainties facing the Group	Strategic report: pages 42-47

NON-FINANCIAL INFORMATION STATEMENT

The Group has complied with the requirements of section 414CB of the Companies Act 2006 by including certain non-financial information within the strategic report. This information is intended to provide an understanding of our development, performance and position on key non-financial matters. The table below sets out where information relating to non-financial matters can be located.

Reporting requirement	Our policies and standards	Our commentary
Environmental matters	+ Environmental policy	Protecting our planet – pages 26-31
Employees	+ Code of Conduct + Health and safety policy	Supporting our people – page 39 Supporting our people – pages 36-37
Human rights	+ Human rights policy + Data privacy policy* + Information security policy* + Modern slavery statement* + Anti-slavery and trafficking statement*	Doing the right thing – pages 40-41
Social responsibility	+ Corporate Social Responsibility policy* + A Positive Force: Our commitment to a sustainable future	A Positive Force – pages 24-41
Anti-corruption and bribery	+ Anti-bribery and corruption policy	Doing the right thing – page 39 Audit Committee report – page 71
Principal risks and impact on business activity		Principal risks and uncertainties – pages 42-47
Business model		Our business model – pages 16-17
Non-financial key performance indicators		Key performance indicators – pages 18-19

* Available to download on the Company's website.

Auditor

Each of the Directors at the date of approval of this report confirms that:

- (1) so far as the Director is aware, there is no relevant audit information of which Ultra's auditor is unaware, and
- (2) the Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that Ultra's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Act.

This Directors' report was approved by the Board on 23 March 2022 and signed on its behalf by:

Louise Ruppel
General Counsel and Company Secretary

Registered office:
35 Portman Square London
W1H 6LR
Registered number: 02830397



Directors' report

continued

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with IFRSs as adopted by the UK and Article 4 of the International Accounting Standards Regulation (IAS) and have elected to prepare the Company's financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law) including FRS 101. Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs and of the profit or loss of the Company, as well as the undertakings included in the consolidation for that period.

In preparing the Company's financial statements, the Directors are required to:

- + Select suitable accounting policies and then apply them consistently
- + Make judgements and accounting estimates that are reasonable and prudent
- + State whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements
- + Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will not continue in business

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- + Properly select and apply accounting policies
- + Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- + Provide additional disclosures, when compliance with the specific requirements in IFRS are insufficient, to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- + Make an assessment of the Company's ability to continue as a going concern

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website www.ultra.group. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that, to the best of our knowledge, taken as a whole:

- + The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole.
- + The strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation, together with a description of the principal risks and uncertainties that they face.
- + The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

By order of the Board

Louise Ruppel
General Counsel and Company Secretary

Independent auditor's report

To the members of Ultra Electronics Holdings plc

Report on the audit of the financial statements

1. Opinion

In our opinion:

- + the financial statements of Ultra Electronics Holdings plc (the "parent company") and its subsidiaries (the "Group") give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2021 and of the Group's profit for the year then ended;
- + The Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- + the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- + the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- + the consolidated income statement;
- + the consolidated statement of comprehensive income;
- + the consolidated and parent company balance sheets;
- + the consolidated and parent company statements of changes in equity;
- + the consolidated cash flow statement;
- + the related notes 1 to 51; and
- + the statement of accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC) Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and parent company for the year are disclosed in note 6 to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: + Revenue and profit recognition; and + Valuation of goodwill. The risk level of these key audit matters is considered to be unchanged from prior periods.
Materiality	The materiality that we used for the Group financial statements was £5.9m (2020: £5.7m) which was determined on the basis of 5% of underlying profit before tax.
Scoping	We focused our Group audit scope primarily on the audit work at 13 components. Ten of these were subject to a full scope audit, whilst the remaining three were subject to an audit of specified account balances where the extent of our testing was based on our assessment of the risks of material misstatement. These 13 components accounted for 86% of Group revenue and 82% of underlying profit before tax.
Significant changes in our approach	Having reassessed our audit risks and the focus of our procedures, we did not consider Defined Benefit Pensions Liabilities to be a key audit matter in the current year due to the relative lack of complexity and judgement in this area.

Independent auditor's report

To the members of Ultra Electronics Holdings plc
continued

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- + Obtaining an understanding of relevant controls over management's going concern models, including the review of the inputs and assumptions used in those models;
- + Testing the accuracy of management's models, including agreement to the most recent Board approved budgets and forecasts;
- + Challenging the key assumptions of these forecasts by:
 - Reading analyst reports, industry data and other external information and comparing these with management's estimates;
 - Comparing forecast revenue with the Group's order book and historical performance;
 - Evaluating the historical accuracy of forecasts prepared by management;
 - Assessing the sensitivity of the headroom and management's forecasts;
 - Considering the impact of climate change on management's forecasts;
- + Assessing the credit facility headroom and covenant compliance through review of original agreements and evaluation against both the year-end position and forecasts; and
- + Assessing the sufficiency of the Group's disclosures regarding the going concern basis, including in relation to the proposed Advent transaction.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5. Key audit matters continued

5.1. Revenue and profit recognition

<p>Key audit matter description</p>	<p>The Group recognised revenue of £850.7m in 2021 (2020: £859.8m), with sales recognised on both an over-time (£543.5m, 2020: £503.7m) and on a point-in-time (£307.2m, 2020: £356.1m) basis in accordance with 'IFRS 15: Revenue from Contracts with Customers'.</p> <p>The estimation of both overall lifetime contract margin and the appropriate level of revenue and profit to recognise in any single accounting period requires the exercise of management judgement. Within the Group's contract portfolio there are a number of programmes where the estimates required in reaching these judgements are complex and could lead to a material error within the financial statements if reached incorrectly. Consequently, we consider that revenue and profit recognition represents a key audit matter.</p> <p>We focus a greater proportion of audit effort on a number of contracts where we consider there is the highest degree of management judgement required, and design contract specific procedures to mitigate the associated risks.</p> <p>In order to identify the key contracts where there is a significant risk of material misstatement, we undertook a contract risk assessment process across the Group, based on analysis of potential "characteristics of audit interest", such as significant changes in contractual performance, complex contractual arrangements, unusual contract terms, and those that might have higher levels of judgement associated with the risk of schedule delivery and/or technical complexity. In addition, we considered other indicators that could increase the risk of a material impact on the financial statements, including any potential climate-related risks.</p> <p>Our assessment of the Group's contract portfolio included analysis of the latest contract financial and operational information, and review of external information about the market and geo-political conditions. We also leveraged our understanding of the business, and the results of prior audits.</p> <p>As a result of our risk assessment we identified three contracts where we consider there to be the highest degree of management judgement required in estimating the outturn margin position. These are:</p> <ul style="list-style-type: none"> + US Navy Sonobuoys; + Hull Mounted Sonar 2150; and + Underwater Warfare Suite Upgrade (UWSU). <p>Refer to page 139 (key sources of estimation uncertainty – contract revenue and profit recognition); page 140 (accounting policies – revenue recognition); page 69 (Audit Committee report – significant judgements considered); and page 108 (note 3 of the Financial Statements).</p>
<p>How the scope of our audit responded to the key audit matter</p>	<p>We obtained an understanding of the relevant controls in relation to the long-term contract accounting process.</p> <p>To gain assurance over the contract judgements and estimates made, our work included:</p> <ul style="list-style-type: none"> + Testing the underlying calculations used in the contract assessments for accuracy and completeness, including the estimated costs to complete the contract alongside associated contingencies; + Confirming the costs to complete, by agreeing to evidence of committed spend, budgeted rates or actual costs incurred to date when compared to the remaining work to be performed under the contract; + Inspecting contract risk registers to provide evidence over the judgement taken when providing for the cost of mitigating technical risks and meeting future milestones; + Validating contract value and associated judgements made by management with reference to signed contract terms and latest project status reports; + Making inquiries of contract engineers and project managers with regard to contract progress, future risks and the existence of any unusual contract terms or side agreements separate to the original contract; + Testing a sample of billings and costs incurred to date to third party data; + Assessing the reliability of management estimates through consideration of the historical accuracy of prior period management estimates and understanding the reasons for movements or changes; + Considering whether there were any indicators of management override of controls or bias in arriving at the reported position; and + Considering any potential impact of climate change on the contracts.
<p>Key observations</p>	<p>We consider the costs to complete on long-term contracts and therefore the revenue and margin recognised to be appropriate.</p> <p>We consider the judgements made by management in recognising revenue and profit to be reasonable.</p>

Independent auditor's report

To the members of Ultra Electronics Holdings plc
continued

5. Key audit matters continued**5.2. Valuation of goodwill**

Key audit matter description	<p>The Group held £362.7m (2020: £363.0m) of goodwill arising on its acquisitions as at 31 December 2021. There is a risk that inappropriate judgements relating to future cash flow forecasts and discount rates are utilised, leading to an overstatement of the value in use of the associated assets.</p> <p>In planning our audit, we determined there to be a heightened level of impairment risk in relation to the carrying value of goodwill associated with the Energy cash generating unit (CGU). This was due to the high growth rate forecast in the strategic plan despite the current year negative performance against budget. This CGU had goodwill of £18m at 31 December 2021. Through our risk assessment we determined that the key assumption in the value in use assessment was the cash flow forecast adopted for the CGU.</p> <p>Refer to page 140 (accounting policies – goodwill); page 69 (Audit Committee report – significant judgements considered); and page 114 (note 13 of the Financial Statements).</p>
How the scope of our audit responded to the key audit matter	<p>We obtained an understanding of the relevant controls over the monitoring and valuation of the carrying value of goodwill. Our procedures performed included:</p> <ul style="list-style-type: none"> + Challenging the 5-year growth rate assumptions in the strategic plan period with reference to market, industry and economic data, considering any contradictory evidence; + Challenging forecast performance based on recent CGU performance and the assessment of management's historical forecasting accuracy; + Testing the long-term growth rate assumption with reference to the long-term economic outlook, current contracts, and benchmarking it against the rates used by peers; + With the involvement of our valuation specialists, benchmarking the discount rate against independently available data and performing peer group analysis; + Testing the integrity of management's model to determine whether it was both arithmetically accurate and had been prepared on a basis consistent with management's assumptions; + Challenging the appropriateness of management's sensitivities to determine the completeness of risks and opportunities modelled; + Assessing additional sensitised scenarios based on our own interpretation of reasonable worst-case scenarios, including both (i) the loss of a key customer, and (ii) a severe scenario of no growth from FY21 actuals; and + Considering the potential impact of climate change on the revenues and profit margins included in the strategic plan. <p>With regards to the disclosures within the financial statements, we assessed whether they appropriately reflect the facts and circumstances within management's assessment of impairment over goodwill.</p>
Key observations	<p>We are satisfied that headroom exists over the carrying value of the Energy CGU and therefore no impairment has been recognised.</p>

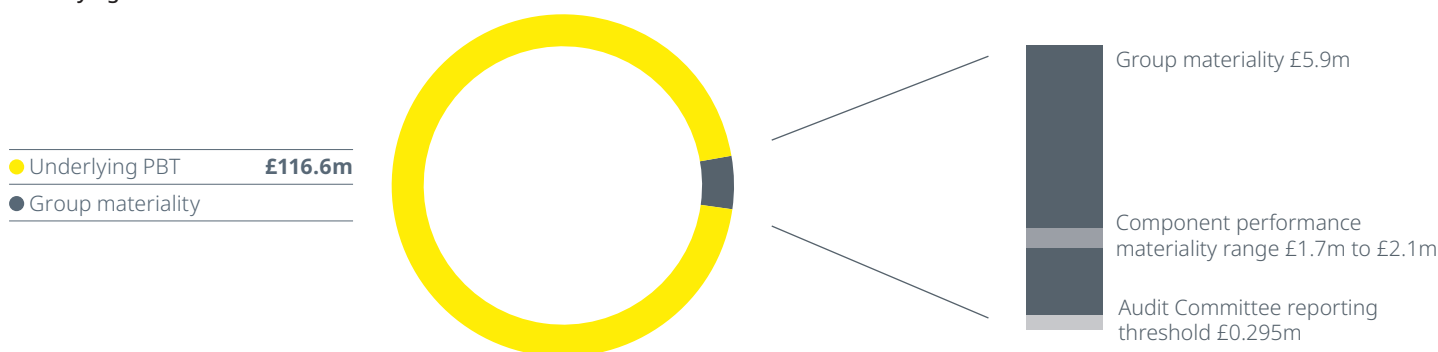
6. Our application of materiality**6.1. Materiality**

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£5.9m (2020: £5.7m)	£2.7m (2020: £2.3m)
Basis for determining materiality	5% (2020: 5%) of underlying profit before tax. Underlying profit before tax is reconciled to statutory profit before tax in note 2 of the financial statements.	Parent company materiality equates to 0.3% (2020: 0.4%) of the parent company net assets.
Rationale for the benchmark applied	Underlying profit before tax is considered to be the key performance measure for the Group and the users of the financial statements, and therefore an appropriate basis on which to determine materiality.	The parent company is non-trading, and we therefore consider that net assets is the most appropriate metric to determine materiality.

Underlying PBT



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	65% (2020: 70%) of Group materiality	65% (2020: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: + The impact of the planned acquisition of the Group on the level of risk; + Our past experience of the audit and our risk assessment, including our assessment of the Group's overall control environment; + The lack of changes to the business and macroeconomic environment in the period, and the level of stability within the Group's management team; and + The relatively low level of uncorrected and corrected misstatements in prior periods, and management's willingness to investigate and correct such misstatements identified.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £295k (2020: £285k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

Our Group scoping was performed taking account of the following considerations:

Following a restructuring, the Group is divided into 20 operating components (2020: 25) spread predominantly across four key territories – the UK, USA, Canada and Australia. Each component sits within one of three operating segments, with central oversight provided from management located in the UK and all results are consolidated at the Group level.

Scoping has remained broadly consistent with the prior year. Through our audit we have performed 10 (2020: 12) full scope audits, three audits of specified account balances (2020: four specified procedure audits), along with seven (2020: nine) components being reviewed centrally at the Group level.

Components were selected based on their contribution to the consolidated revenue and underlying profit before tax for the Group. Of the 10 full scope audits (2020: 12), three were considered to be significant components (2020: three) to the Group based on their revenue and underlying profit before tax contribution.

Independent auditor's report

To the members of Ultra Electronics Holdings plc continued

7. An overview of the scope of our audit continued

Revenue



Profit before tax



7.2. Our consideration of the control environment

The Group operates a range of IT systems which underpin the financial reporting process. These vary by business and by geography.

In the current year our controls approach was principally designed to inform our risk assessment and we did not place reliance on the controls for the purposes of our testing. As part of this work, we also assessed relevant general IT controls at component level, and in respect of the Group's consolidation system.

As part of our controls work in the prior and current year, we identified a number of improvements which could be implemented to the control environment. Management is in the process of implementing these improvements.

7.3. Our consideration of climate-related risks

As highlighted in management's Task Force on Climate-related Financial Disclosures (TCFD) on pages 29 to 31, the Group is exposed to the impacts of climate change on its business and operations. We obtained management's climate-related risk assessment to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Group's financial statements. We considered the risks associated with climate change when determining our scope and audit approach. In particular, we identified potential risks associated with climate change for revenue recognition on long-term programmes and goodwill impairment, as described in the key audit matters in sections 5.1 and 5.2 above, however the Group does not consider climate change to represent a principal risk as discussed in more detail on page 29 of the Annual Report.

Our consideration of climate-related risks also extended to our work in respect of going concern and long-term viability.

We have read the Group's disclosures on climate-related information in the strategic report and considered the consistency with the financial statements and our knowledge obtained in performing the audit.

7.4. Working with other auditors

Each component in scope was subject to an audit performance materiality level between £1.7m and £2.1m (2020: £1.6m and £2.2m). This audit work on all components was performed by Deloitte member firms under the direction and supervision of the Group audit team. At Group level we also tested the consolidation process and performed analytical procedures to assess whether there were any significant risks of material misstatement within the aggregated financial information of the remaining components, not subject to full scope audit or audit of specified account balances.

We communicated the results of our risk assessment exercise to the component auditors and instructed them on the areas of significant risk, the procedures to be performed and timing of their reporting to us. We also provided direction on enquiries made by the component auditors through online and telephone conversations. For UK and overseas components in scope for our audit, a file review was performed to verify the work performed by the teams was in line with both the scope and standard required by the Group audit team. All the findings identified were discussed with the component auditor in detail and further procedures to be performed were issued where relevant.

Travel restrictions imposed as a result of Covid-19 meant that visits to business unit sites in the UK and overseas have continued to be limited during 2021. However, we were still able to perform sufficient Group oversight, direction and supervision via regular virtual communication and remote review of component audit working papers.

We are satisfied that the level of involvement of the Group audit partner and team in the component audits has been extensive and has enabled us to conclude that sufficient appropriate audit evidence has been obtained in support of our opinion on the Group financial statements as a whole.

8. Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- + The nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- + Results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- + The latest information regarding the regulatory investigations into business conduct within the Group, as discussed by management on page 49 and note 33;
- + Any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
 - Identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - Detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - The internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- + The matters discussed among the audit engagement team, including significant component audit teams and relevant internal specialists, including tax, valuations, pensions, IT and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the level of judgement involved in estimating costs to complete on long-term contracts and the subsequent impact on revenue and profit recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pension and taxation legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty including in respect of export controls (International Trade Law and International Traffic in Arms Regulations), defence contracting and anti-bribery and corruption legislation.

Independent auditor's report

To the members of Ultra Electronics Holdings plc
continued

11. Extent to which the audit was considered capable of detecting irregularities, including fraud continued**11.2. Audit response to risks identified**

As a result of performing the above, we identified revenue and profit recognition as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- + Reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- + Enquiring of management, the Audit Committee and external legal counsel concerning actual and potential litigation and claims;
- + Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- + Reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with relevant regulatory authorities; and
- + In addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements**12. Opinions on other matters prescribed by the Companies Act 2006**

In our opinion the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- + The information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- + The strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

13. Corporate Governance Statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- + The Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified, set out on page 46;
- + The Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate, set out on page 47;
- + The Directors' statement on fair, balanced and understandable set out on page 71;
- + The Board's confirmation that it has carried out a robust assessment of the emerging and principal risks, set out on page 62;
- + The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems, set out on page 68; and
- + The section describing the work of the Audit Committee, set out on page 67.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- + We have not received all the information and explanations we require for our audit; or
- + Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- + The parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 17 April 2003 to audit the financial statements for the year ending 31 December 2003 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 19 years, covering the years ending 31 December 2003 to 31 December 2021.

15.2. Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

As required by the Financial Conduct Authority (FCA) Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard (ESEF RTS). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Jon Thomson FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, UK

23 March 2022

Consolidated income statement

For the year ended 31 December 2021

	Note	2021 £m	2020 £m
Revenue	3	850.7	859.8
Cost of sales		(597.3)	(609.0)
Gross profit		253.4	250.8
Other operating income	4	6.5	0.9
Administrative expenses		(138.9)	(139.5)
Other operating expenses	5	(1.2)	(1.5)
Acquisition and disposal related costs	2	(7.8)	(1.1)
Significant legal charges and expenses	2	(6.1)	(3.3)
Operating profit	6	105.9	106.3
(Loss)/gain on disposals	30	(2.4)	5.6
Investment income	8	0.1	3.7
Finance costs	9	(20.9)	(11.9)
Profit before tax		82.7	103.7
Tax	10	(15.8)	(19.9)
Profit for the year		66.9	83.8
Attributable to:			
Owners of the Company		66.9	83.8
Non-controlling interests		-	-
Earnings per ordinary share (pence)			
Basic	12	93.8	118.0
Diluted	12	93.5	117.7

The accompanying notes are an integral part of this consolidated income statement. All results are derived from continuing operations.

Consolidated statement of comprehensive income

For the year ended 31 December 2021

	Note	2021 £m	2020 £m
Profit for the year		66.9	83.8
Items that will not be reclassified to profit or loss:			
Actuarial gain/(loss) on defined benefit pension schemes	29	25.7	(9.3)
Tax relating to items that will not be reclassified	10	(3.5)	2.9
Total items that will not be reclassified to profit or loss		22.2	(6.4)
Items that are or may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		3.5	(11.2)
(Loss)/gain on loans used in net investment hedges		(0.3)	1.5
Total items that are or may be reclassified to profit or loss		3.2	(9.7)
Other comprehensive income/(expense) for the year		25.4	(16.1)
Total comprehensive income for the year		92.3	67.7
Attributable to:			
Owners of the Company		92.3	67.7
Non-controlling interests		-	-

The accompanying notes are an integral part of this consolidated statement of comprehensive income.

Consolidated balance sheet

As at 31 December 2021

	Note	2021 £m	2020 £m
Non-current assets			
Goodwill	13	362.7	363.0
Other intangible assets	14	68.9	82.2
Property, plant and equipment	15	73.4	66.6
Leased assets	16	35.9	33.6
Deferred tax assets	24	14.7	13.6
Derivative financial instruments	22	1.0	2.1
Trade and other receivables	19	13.5	12.9
		570.1	574.0
Current assets			
Inventories	17	92.9	103.6
Trade and other receivables	19	207.6	188.5
Current tax assets		6.6	8.8
Cash and cash equivalents	22	138.8	114.4
Derivative financial instruments	22	1.4	5.8
Assets classified as held for sale	30	6.8	-
		454.1	421.1
Total assets		1,024.2	995.1
Current liabilities			
Trade and other payables	20	(215.7)	(199.3)
Current tax liabilities		(5.3)	(5.9)
Derivative financial instruments	22	(1.1)	(0.2)
Borrowings	21	(12.1)	(38.3)
Liabilities classified as held for sale	30	(1.2)	-
Short-term provisions	25	(23.3)	(19.6)
		(258.7)	(263.3)
Non-current liabilities			
Retirement benefit obligations	29	(34.8)	(73.1)
Other payables	20	(11.4)	(12.0)
Deferred tax liabilities	24	(21.5)	(15.0)
Derivative financial instruments	22	(1.5)	(0.1)
Borrowings	21	(166.7)	(161.9)
Long-term provisions	25	(2.8)	(5.0)
		(238.7)	(267.1)
Total liabilities		(497.4)	(530.4)
Net assets		526.8	464.7
Equity			
Share capital	26	3.6	3.6
Share premium account		208.1	205.5
Capital redemption reserve		0.4	0.4
Reserve for own shares		(0.3)	(1.4)
Translation reserve		35.7	32.5
Retained earnings		279.3	224.1
Equity attributable to owners of the Company		526.8	464.7
Non-controlling interests		-	-
Total equity		526.8	464.7

The financial statements of Ultra Electronics Holdings plc, registered number 02830397, were approved by the Board of Directors and authorised for issue on 23 March 2022. The accompanying notes are an integral part of this consolidated balance sheet.

On behalf of the Board,

S. PRYCE, Chief Executive Officer
J. SCLATER, Chief Financial Officer

Consolidated cash flow statement

For the year ended 31 December 2021

	Note	2021 £m	2020 £m
Net cash flow from operating activities	27	121.5	130.0
Investing activities			
Interest received		0.1	0.3
Purchase of property, plant and equipment		(22.2)	(13.4)
Proceeds from disposal of property, plant and equipment		2.1	0.2
Expenditure on product development and other intangibles		(2.5)	(8.7)
Disposal of subsidiary undertakings	30	1.2	5.3
Net cash used in investing activities		(21.3)	(16.3)
Financing activities			
Equity-settled employee share schemes		2.6	2.3
Disposal of own shares		1.6	–
Dividends paid		(41.1)	(38.7)
Dividends paid to non-controlling interest		–	(0.1)
Repayments of borrowings		(70.0)	(76.2)
Proceeds from borrowings		70.0	11.1
Principal payment on leases		(8.3)	(9.0)
Net cash used in financing activities		(45.2)	(110.6)
Net increase in cash and cash equivalents	27	55.0	3.1
Net cash and cash equivalents and bank overdrafts at beginning of year	27	84.1	82.2
Effect of foreign exchange rate changes		(0.4)	(1.2)
Net cash and cash equivalents and bank overdrafts at end of year	27	138.7	84.1

Bank overdrafts are netted with cash and cash equivalents because they form an integral part of the Group's cash management within the cash pooling arrangements. The accompanying notes are an integral part of this consolidated cash flow statement.

Consolidated statement of changes in equity

For the year ended 31 December 2021

Equity attributable to equity holders of the parent

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Reserve for own shares £m	Translation reserve £m	Retained earnings £m	Non-controlling interest £m	Total equity £m
Balance at 1 January 2020	3.5	203.2	0.4	(1.4)	42.2	182.6	0.1	430.6
Profit for the year	-	-	-	-	-	83.8	-	83.8
Other comprehensive expense for the year	-	-	-	-	(9.7)	(6.4)	-	(16.1)
Total comprehensive income for the year	-	-	-	-	(9.7)	77.4	-	67.7
Equity-settled employee share schemes	0.1	2.3	-	-	-	2.6	-	5.0
Tax on share-based payment transactions	-	-	-	-	-	0.2	-	0.2
Non-controlling interest distribution	-	-	-	-	-	-	(0.1)	(0.1)
Dividend to shareholders	-	-	-	-	-	(38.7)	-	(38.7)
Balance at 31 December 2020	3.6	205.5	0.4	(1.4)	32.5	224.1	-	464.7
Profit for the year	-	-	-	-	-	66.9	-	66.9
Other comprehensive income for the year	-	-	-	-	3.2	22.2	-	25.4
Total comprehensive income for the year	-	-	-	-	3.2	89.1	-	92.3
Disposal of own shares	-	-	-	1.1	-	0.5	-	1.6
Equity-settled employee share schemes	-	2.6	-	-	-	5.9	-	8.5
Tax on share-based payment transactions	-	-	-	-	-	0.8	-	0.8
Dividend to shareholders	-	-	-	-	-	(41.1)	-	(41.1)
Balance at 31 December 2021	3.6	208.1	0.4	(0.3)	35.7	279.3	-	526.8

Notes to accounts – Group

For the year ended 31 December 2021

1 Segment information

For management purposes, the Group is organised into three operating segments: Maritime, Intelligence & Communications and Critical Detection & Control. The operating segments are consistent with the internal reporting as reviewed by the CEO who is deemed to be the Chief Operating Decision-Maker. See the Business Unit reviews on pages 21-23 for further information.

	2021			2020		
	External revenue £m	Inter-segment £m	Total £m	External revenue £m	Inter-segment* £m	Total £m
Revenue						
Maritime	395.4	0.3	395.7	391.8	0.8	392.6
Intelligence & Communications	241.3	0.2	241.5	241.0	0.6	241.6
Critical Detection & Control	214.0	0.3	214.3	227.0	0.9	227.9
Eliminations	-	(0.8)	(0.8)	-	(2.3)	(2.3)
Consolidated revenue	850.7	-	850.7	859.8	-	859.8

All inter-segment trading is at arm's length.

	2021				
	Maritime £m	Intelligence & Communications £m	Critical Detection & Control £m	Unallocated £m	Total £m
Underlying operating profit	59.4	37.9	32.3	-	129.6
Amortisation of intangibles arising on acquisition	(0.4)	(7.0)	(2.4)	-	(9.8)
Significant legal charges and expenses (see note 2)	-	-	-	(6.1)	(6.1)
Acquisition and disposal-related costs (see note 2)	(0.7)	-	(0.2)	(6.9)	(7.8)
Operating profit/(loss)	58.3	30.9	29.7	(13.0)	105.9
Loss on disposals					(2.4)
Investment income					0.1
Finance costs					(20.9)
Profit before tax					82.7
Tax					(15.8)
Profit after tax					66.9

Significant legal charges and expenses are the charges arising from investigations and settlements, or provisions for settlements, of litigation that are not in the normal course of business. Unallocated items are specific corporate level costs that cannot be allocated to a specific operating segment; in 2021, the unallocated acquisition related costs primarily relate to those incurred in relation to the proposed acquisition of Ultra by Cobham Ultra Acquisitions Limited.

* 2020 balances for internal revenue have been restated to only present inter-segment revenue and not internal revenue within a segment.

Notes to accounts – Group
For the year ended 31 December 2021
continued

1 Segment information continued

	2020				Total £m
	Maritime £m	Intelligence & Communications £m	Critical Detection & Control £m	Unallocated £m	
Underlying operating profit	58.6	33.5	34.0	–	126.1
Amortisation of intangibles arising on acquisition	(0.5)	(8.9)	(3.2)	–	(12.6)
Significant legal charges and expenses (see note 2)	–	–	–	(3.3)	(3.3)
Acquisition and disposal-related costs (see note 2)	(0.2)	(0.9)	–	–	(1.1)
Restructuring costs related to disposal (see note 2)	(2.0)	–	(0.8)	–	(2.8)
Operating profit/(loss)	55.9	23.7	30.0	(3.3)	106.3
Gain on disposals					5.6
Investment income					3.7
Finance costs					(11.9)
Profit before tax					103.7
Tax					(19.9)
Profit after tax					83.8

Capital expenditure, additions to intangibles and leased assets, depreciation and amortisation

	Capital expenditure and additions to leased assets and intangibles (excluding goodwill and acquired intangibles)		Depreciation and amortisation	
	2021 £m	2020 £m	2021 £m	2020 £m
Maritime	17.7	15.0	10.7	10.6
Intelligence & Communications	8.2	8.4	15.7	17.8
Critical Detection & Control	10.7	5.0	8.6	9.1
Total	36.6	28.4	35.0	37.5

The 2021 depreciation and amortisation expense includes £16.1m of amortisation charges (2020: £18.6m), £10.9m of property, plant and equipment depreciation charges (2020: £10.4m) and £8.0m of leased asset depreciation charges (2020: £8.5m).

Total assets by segment

	2021 £m	2020 £m
Maritime	299.0	260.2
Intelligence & Communications	323.1	336.2
Critical Detection & Control	239.6	254.0
	861.7	850.4
Unallocated	162.5	144.7
Consolidated total assets	1,024.2	995.1

Unallocated assets represent current and deferred tax assets, derivatives at fair value and cash and cash equivalents.

1 Segment information continued

Total liabilities by segment

	2021 £m	2020 £m
Maritime	151.8	126.8
Intelligence & Communications	97.4	92.3
Critical Detection & Control	63.2	66.9
	312.4	286.0
Unallocated	185.0	244.4
Consolidated total liabilities	497.4	530.4

Unallocated liabilities represent derivatives at fair value, current and deferred tax liabilities, retirement benefit obligations, overdrafts, bank loans and loan notes.

Revenue by destination

The following table provides an analysis of the Group's sales by geographical market:

	2021 £m	2020 £m
North America	534.7	546.5
United Kingdom	166.2	158.4
Rest of World	89.5	89.9
Mainland Europe	60.3	65.0
	850.7	859.8

During the year, there was one direct customer (2020: one) that individually accounted for greater than 10% of the Group's total turnover. Sales to this customer in 2021 were £242.1m (2020: £203.2m) across all segments.

Other information (by geographic location)

	Non-current assets		Total assets		Capital expenditure and additions to leased assets and intangibles (excluding goodwill and acquired intangibles)	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
United Kingdom	150.9	159.2	265.5	298.7	10.0	10.5
USA	310.3	309.1	445.2	412.0	9.9	14.5
Canada	85.9	84.3	140.0	131.8	15.8	3.1
Rest of World	7.3	5.7	11.0	7.9	0.9	0.3
	554.4	558.3	861.7	850.4	36.6	28.4
Unallocated	15.7	15.7	162.5	144.7	-	-
	570.1	574.0	1,024.2	995.1	36.6	28.4

Notes to accounts – Group
For the year ended 31 December 2021
continued

2 Additional non-statutory performance measures

To present the adjusted performance of the Group on a consistent basis year on year, additional non-statutory performance indicators are used. This analysis of the Group's operating results is presented to provide readers with additional performance indicators that are prepared on a non-statutory basis. It includes the key performance indicators (KPIs) for return on invested capital (ROIC) and organic growth in order book, revenue and underlying operating profit. This presentation is regularly reviewed by management to identify items that are unusual and other items relevant to an understanding of the Group's performance and long-term trends with reference to their materiality and nature. This additional information is not uniformly defined by all companies and may not be comparable with similarly titled measures and disclosures by other organisations. The non-statutory disclosures should not be viewed in isolation or as an alternative to the equivalent statutory measure. See pages 145 and 146 for further details and definitions. The non-statutory performance measures are calculated as follows:

	2021 £m	2020 £m
Operating profit	105.9	106.3
Amortisation of intangibles arising on acquisition (see note 14)	9.8	12.6
Significant legal charges and expenses*	6.1	3.3
Acquisition and disposal-related costs**	7.8	1.1
Restructuring costs related to disposal (see note 30)	–	2.8
Underlying operating profit	129.6	126.1
Depreciation of property, plant and equipment (see note 15)	10.9	10.4
Depreciation of leased assets (see note 16)	8.0	8.5
Amortisation of internally generated intangible assets (see note 14)	1.2	1.4
Amortisation of software, patents and trademarks (see note 14)	5.1	4.6
Adjusted EBITDA	154.8	151.0
Profit before tax	82.7	103.7
Amortisation of intangibles arising on acquisition (see note 14)	9.8	12.6
Acquisition and disposal related costs**	7.8	1.1
Loss/(gain) on fair value movements of derivatives (see note 22)	7.8	(3.4)
Loss/(gain) on disposals net (see note 30)	2.4	(2.8)
Significant legal charges and expenses*	6.1	3.3
Underlying profit before tax	116.6	114.5
Cash generated by operations (see note 27)	134.2	142.6
Principal payments on finance leases	(8.3)	(9.0)
Purchase of property, plant and equipment	(22.2)	(13.4)
Proceeds on disposal of property, plant and equipment	2.1	0.2
Expenditure on product development and other intangibles	(2.5)	(8.7)
Significant legal charges and expenses*	1.4	1.5
Disposal-related restructuring costs (see note 30)	–	1.6
Acquisition and disposal-related payments**	6.8	1.3
Underlying operating cash flow	111.5	116.1
Underlying operating cash conversion (KPI)	86%	92%

* Significant legal charges and expenses are the charges arising from investigations and settlements, or provisions for settlements, of litigation that are not in the normal course of business. The associated cash impact is reflected in the reconciliation to underlying operating cash flow.

** In 2021, this primarily relates to costs incurred, and related cash outflow, connected to the proposed acquisition of Ultra by Cobham Ultra Acquisitions Limited.

2 Additional non-statutory performance measures continued

	2021 £m	2020 £m
Net cash flow from operating activities (see note 27)	121.5	130.0
Interest received	0.1	0.3
Purchase of property, plant and equipment	(22.2)	(13.4)
Proceeds on disposal of property, plant and equipment	2.1	0.2
Expenditure on product development and other intangibles	(2.5)	(8.7)
Principal payments on finance leases	(8.3)	(9.0)
Free cash flow	90.7	99.4
Net assets	526.8	464.7
Net debt (see note 27)	40.0	85.8
Retirement benefit obligations (see note 29)	34.8	73.1
Net derivative financial instruments (see note 22)	0.2	(7.6)
Net tax liabilities/(assets)	5.5	(1.5)
Total invested capital	607.3	614.5
Average invested capital	610.9	630.3
Underlying operating profit	129.6	126.1
ROIC (KPI)	21.2%	20.0%

Earnings per share

The reconciliation from statutory earnings to underlying earnings, as used for the underlying earnings per share metric, is set out in note 12.

Organic measures

Organic growth for order book, revenue and underlying operating profit is calculated as follows:

	Order book		Revenue		Underlying operating profit	
	£m	% impact	£m	% impact	£m	% impact
2020	1,064.2		859.8		126.1	
Currency translation	4.9	+0.5	(37.7)	-4.4	(4.8)	-3.8
Disposals	(2.4)	-0.2	(5.6)	-0.6	(1.3)	-1.0
2020 (for organic measure)	1,066.7		816.5		120.0	
Organic growth (KPI)	234.2	+22.0	34.2	+4.2	9.6	+8.0
2021	1,300.9	+22.2	850.7	-1.1	129.6	+2.8

Notes to accounts – Group
For the year ended 31 December 2021
continued

3 Revenue

An analysis of the Group's revenue is as follows:

	2021				2020			
	Maritime £m	Intelligence & Communications £m	Critical Detection & Control £m	Total £m	Maritime £m	Intelligence & Communications £m	Critical Detection & Control £m	Total £m
Point in time	84.5	97.8	124.9	307.2	100.4	119.0	136.7	356.1
Over time	310.9	143.5	89.1	543.5	291.4	122.0	90.3	503.7
	395.4	241.3	214.0	850.7	391.8	241.0	227.0	859.8

The estimate of future costs on over-time contracts is a critical accounting estimate as set out on page 139. Across the aggregated portfolio of over-time contracts open at 31 December 2021, a 1% increase in estimated costs to complete the portfolio equates to £6.8m (2020: £5.3m). The impact on revenue would depend on the margin and percentage of completion of any given contract within the portfolio; however, when taken in aggregate, it is not likely to exceed £6.8m.

£1.8m of revenue (2020: £nil) was recognised during the year ended 31 December 2021 in respect of performance obligations satisfied or partially satisfied in previous periods.

The table below notes the revenue expected to be recognised in the future that is related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date.

	2022 £m	2023 £m	2024 and beyond £m	Total £m
Point in time revenue	252.1	84.8	34.3	371.2
Over-time revenue	460.3	230.3	239.1	929.7

4 Other operating income

Amounts included in other operating income were as follows:

	2021 £m	2020 £m
Foreign exchange gains	6.5	0.9
	6.5	0.9

Foreign exchange gains and losses are impacted by gains or losses on foreign exchange transactions and revaluation of currency assets and liabilities.

5 Other operating expenses

Amounts included in other operating expenses were as follows:

	2021 £m	2020 £m
Foreign exchange losses	1.2	1.5
	1.2	1.5

6 Operating profit

Operating profit is stated after charging/(crediting):

	2021 £m	2020 £m
Raw materials and other bought-in inventories expensed in the year	267.3	303.6
Staff costs (see note 7)*	296.1	286.5
Depreciation of property, plant and equipment (see note 15)	10.9	10.4
Depreciation of leased assets (see note 16)	8.0	8.5
Amortisation of internally generated intangible assets (see note 14)	1.2	1.4
Amortisation of software, patents and trademarks (see note 14)	5.1	4.6
Amortisation of acquired intangible assets (see note 14)	9.8	12.6
Government grant income (see note 23)	(0.5)	(0.2)
Net foreign exchange gain	(0.1)	(2.1)
Loss on disposal of property, plant and equipment	0.1	0.1
Short-term lease rentals	0.1	0.1
Low-value asset lease rentals	0.1	0.2
Income from property subletting	(0.6)	(0.7)
Research and development costs	33.5	31.5
Auditor's remuneration for statutory audit work (including expenses)	1.8	1.4

Analysis of auditor's remuneration

	2021 £m	2020 £m
Fees payable for the audit of the annual accounts	0.6	0.5
Fees payable for the audit of subsidiaries	1.2	0.9
Total for statutory Group audit services	1.8	1.4

Total non-audit services in 2021 were £nil (2020: £3,000). The Company-only audit fee included in the Group audit fee shown above was £20,000 (2020: £20,000).

7 Staff costs

Particulars of employees (including Executive Directors) are shown below. Employee costs during the year amounted to:

	2021 £m	2020 £m
Wages and salaries	256.9	250.8
Social security costs	27.8	24.6
Pension costs*	11.4	11.1
	296.1	286.5

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

	2021 Number	2020 Number
Production	1,727	1,813
Engineering	1,618	1,463
Selling	261	209
Support services	925	768
	4,531	4,253

Information on Directors' remuneration is given in the section of the Directors' Remuneration report described as having been audited and those elements required by the Companies Act 2006 and the Financial Conduct Authority form part of these accounts.

* 2020 pension costs have been restated following a review of the pension-related charges to the income statement in 2020.

Notes to accounts – Group
For the year ended 31 December 2021
continued

8 Investment income

	2021 £m	2020 £m
Bank interest	0.1	0.3
Fair value movement on derivatives (see note 22)	–	3.4
	0.1	3.7

9 Finance costs

	2021 £m	2020 £m
Amortisation of finance costs of debt	0.6	0.6
Interest on loans and overdrafts	5.4	5.4
Financial liabilities at FVTPL – net change in fair value (see note 23)	4.7	2.9
Finance charge on leases	1.4	1.7
Total borrowing costs	12.1	10.6
Retirement benefit scheme finance cost	1.0	1.3
Fair value movement on derivatives (see note 22)	7.8	–
	20.9	11.9

The Canadian Government loans are measured at fair value to profit and loss (FVTPL). Bank loans, loan notes and overdrafts are recorded at amortised cost.

10 Tax

	2021 £m	2020 £m
UK taxes		
Corporation tax	(1.3)	5.2
Adjustment in respect of prior years	0.9	(0.5)
	(0.4)	4.7
Overseas taxes		
Current taxation	14.3	11.9
Adjustment in respect of prior years	(0.6)	(5.2)
	13.7	6.7
Total current tax	13.3	11.4
Deferred tax		
Origination and reversal of temporary differences	1.9	7.5
Recognition of deferred tax liability on overseas retained earnings	–	0.8
UK tax rate change	0.6	0.2
Total deferred tax charge	2.5	8.5
Total tax charge	15.8	19.9

Corporation tax in the UK is calculated at 19% (2020: 19%) of the estimated assessable profit for the year. UK deferred tax at the balance sheet date has been calculated at 25% (2020: 19%) on those temporary differences that are expected to reverse after 1 April 2023; this has added £0.6m to the deferred tax charge for the year. In other territories current tax is calculated at the rates prevailing in the respective jurisdictions and deferred tax has been calculated at enacted tax rates that are expected to apply to the period when assets are realised or liabilities are settled. US deferred tax balances at 31 December 2021 have been calculated at 24% (2020: 24%).

10 Tax continued

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2021 £m	2020 £m
Deferred tax		
Arising on income and expenses recognised in other comprehensive income:		
Actuarial gain/(loss) on defined benefit pension schemes	4.5	(1.8)
Tax rate changes	(1.0)	(1.1)
Total deferred tax charge/(credit) recognised directly in other comprehensive income	3.5	(2.9)

In addition to the amount charged to the income statement and other comprehensive income, the following amounts relating to tax have been recognised directly in equity:

	2021 £m	2020 £m
Deferred tax		
Change in estimated excess tax deductions related to share-based payments	(0.8)	(0.2)
Total deferred tax credits recognised directly in equity	(0.8)	(0.2)

The difference between the total tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2021 £m	2020 £m
Group profit before tax	82.7	103.7
Tax on Group profit at standard UK corporation tax rate of 19.0% (2020: 19.0%)	15.7	19.7
Tax effects of:		
Expenses that are not allowable in determining taxable profits	2.0	1.6
Effect of change in tax rates	0.6	0.3
Expenses for which no deferred tax asset is recognised	(0.1)	(0.5)
Different tax rates of subsidiaries operating in other jurisdictions	4.7	3.8
CFC exemption	(4.4)	(1.8)
Current and deferred tax on intra-Group dividends	0.8	1.2
Innovation incentives	(2.2)	(0.8)
Adjustments in respect of prior years	(1.4)	(4.0)
Other	0.1	0.4
Tax expense for the year	15.8	19.9

Within the tax reconciliation the effect of the change in the UK tax rate is a non-recurring item and further deferred tax liabilities for the withholding tax that will be incurred on future dividends from our Canadian subsidiaries may not arise annually. The differences attributable to the UK and US innovation incentives and higher overseas tax rates are expected to recur in the future. The benefit of the CFC exemption is anticipated to reduce to between £2.5m and £3.5m in 2022. Several factors including the level of profits in overseas jurisdictions, changes to the UK and overseas tax rates, the possible implementation of international tax reforms in 2023–2025, and other factors not under our control will affect the size of these differences in future.

The Group is subject to enquiries and audits by tax authorities in the jurisdictions in which it operates. The Group considers material tax uncertainties on their individual merits in accordance with IFRIC 23 and, where appropriate, makes provisions in respect of the potential tax liabilities or restriction of tax benefits that may arise. As at 31 December 2021, the Group holds provisions for such potential issues of £1.1m (2020: £3.4m). These provisions relate to multiple issues, across the jurisdictions in which the Group operates. As the outcome relating to tax matters can be uncertain until a conclusion is reached with the relevant tax authority or through a legal process, the amount ultimately paid may differ materially from the amount accrued.

Notes to accounts – Group
For the year ended 31 December 2021
continued

11 Dividends

Amounts recognised as distributions to equity holders in the year:

	2021 £m	2020 £m
Final dividend for the year ended 31 December 2020 of 41.5p per share, additional interim dividend of 39.2p per share (equivalent to the postponed final dividend for the year ended 31 December 2019)	29.5	27.8
Interim dividend for the year ended 31 December 2021 of 16.2p (2020: 15.4p) per share	11.6	10.9
	41.1	38.7
Proposed final dividend for the year ended 31 December 2021 of nil (2020: 41.5p) per share	-	29.5

Under the terms and conditions set out in the announcement dated 16 August 2021 (relating to the recommended cash acquisition of Ultra by Cobham Ultra Acquisitions Limited), no final dividend will be paid to shareholders while the acquisition remains conditional on obtaining certain clearances, including UK Government approval. Consequently, the total full year dividend is unchanged from the interim dividend of 16.2p (2020: 56.9p full year).

12 Earnings per share

	2021 pence	2020 pence
Basic underlying (see below)	135.7	130.6
Diluted underlying (see below)	135.2	130.3
Basic	93.8	118.0
Diluted	93.5	117.7

The calculation of the basic, underlying and diluted earnings per share is based on the following data:

	2021 £m	2020 £m
Earnings		
Earnings for the purposes of basic earnings per share being profit for the year	66.9	83.8
Underlying earnings		
Profit for the period	66.9	83.8
Amortisation of intangibles arising on acquisition (net of tax)	7.5	9.8
Acquisition and disposal-related costs (net of tax)	7.5	0.7
Loss/(gain) on fair value movements of derivatives (net of tax)	6.3	(2.8)
Loss/(gain) on disposals, per note 30 (net of tax)	2.3	(1.7)
Significant legal charges and expenses (net of tax)	6.1	3.0
Earnings for the purposes of underlying earnings per share	96.6	92.8

Reconciliation of tax charge for the year to underlying tax charge as used in the determination of underlying earnings per share:

	2021 £m	2020 £m
Tax charge for the year (see note 10)	15.8	19.9
Amortisation of intangibles arising on acquisition	2.4	2.8
Acquisition and disposal-related costs	0.3	0.4
Loss/(gain) on fair value movements of derivatives	1.5	(0.6)
Loss/(gain) on disposals (net of restructuring costs in 2020)	-	(1.1)
Significant legal charges and expenses	-	0.3
Tax charge for the purposes of underlying earnings per share	20.0	21.7

	2021 £m	2020 £m
Underlying profit before tax (see note 2)	116.6	114.5
Tax rate applied for the purposes of underlying earnings per share	17.1%	19.0%

The adjustments to profit are explained in note 2.

12 Earnings per share continued

The weighted average number of shares is given below:

	2021 Number of shares	2020 Number of shares
Number of shares used for basic earnings per share	71,234,315	71,026,681
Effect of dilutive potential ordinary shares – share options	244,736	179,001
Number of shares used for fully diluted earnings per share	71,479,051	71,205,682

During 2021, the Company purchased and cancelled nil (2020: nil) shares. See note 26.

13 Goodwill

	2021 £m	2020 £m
Cost		
At 1 January	410.8	424.3
Exchange differences	2.5	(7.9)
Disposals	–	(8.9)
Reclassified (to)/from held for sale (see note 30)	(2.4)	3.3
At 31 December	410.9	410.8
Accumulated impairment losses		
At 1 January	(47.8)	(58.4)
Disposals	–	8.9
Exchange differences	(0.4)	1.7
At 31 December	(48.2)	(47.8)
Carrying amount at 31 December	362.7	363.0

The Group's SBUs, which represent CGU groupings, are: PCS, Energy, Forensic Technology, Intelligence & Communications and Maritime. These represent the lowest level at which the goodwill is monitored for internal management purposes. Goodwill is allocated to CGU groupings as set out below:

	2021 Pre-tax discount rate %	2020 Pre-tax discount rate %	2021 £m	2020 £m
PCS	10.6–10.7	10.2–11.2	30.2	32.5
Energy	10.6–10.7	10.2–11.2	18.0	17.9
Forensic Technology	10.7	10.7	26.1	25.6
Intelligence & Communications	10.6–10.7	10.2–11.2	179.2	178.2
Maritime	10.6–10.9	10.2–11.2	109.2	108.8
Total – Ultra Electronics			362.7	363.0

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continued**13 Goodwill** continued

Goodwill is initially allocated, in the year a business is acquired, to the CGU group expected to benefit from the acquisition. Subsequent adjustments are made to this allocation to the extent that operations, to which goodwill relates, are transferred between CGU groups. The size of a CGU group varies but is never larger than a reportable operating segment.

The recoverable amounts of CGUs are determined from value-in-use calculations. In determining the value-in-use for each CGU, the Group prepares cash flows derived from the most recent financial budgets and strategic plans, representing the best estimate of future performance. These plans, which have been approved by the Board, include detailed financial forecasts and market analysis covering the expected development of each CGU over the next five years. The cash flows into perpetuity are also included and assume a growth rate of 2.0% per annum (2020: 2.0%).

The key assumptions used in the value-in-use calculations are those regarding the discount rate, future revenues, growth rates, forecast gross margins, underlying operating profit* and underlying operating cash conversion*. Management estimates the discount rate using pre-tax rates that reflect current market assessments of the time value of money and risks specific to the Group, being the Weighted Average Cost of Capital (WACC). The WACC is then risk-adjusted to reflect risks specific to each business. The pre-tax discount rate used during 2021 was UK: 10.6% (2020: 10.2%), Canada: 10.7% (2020: 10.7%), USA: 10.7% (2020: 11.2%) and Australia: 10.9% (2020: 11.2%). Future revenues are based on orders already received, opportunities that are known and expected at the time of setting the budget and strategic plans and future growth rates. Budget and strategic plan growth rates are based on a combination of historical experience, available Government spending data, and management and industry expectations of the growth rates that are expected to apply in the major markets in which each CGU operates, and included consideration of Covid-19 impacts during the budget review cycle. Forecast gross margins reflect past experience, factor in expected efficiencies to counter inflationary pressures, and also reflect likely margins achievable in the period. Longer-term growth rates, applied into perpetuity at the end of the strategic planning period, are set at 2.0% (2020: 2.0%). Ultra considers the long-term growth rate to be appropriate for the sectors in which it operates, taking into consideration greater defence spending uncertainty and the possible impacts of climate change.

Within each of the strategic plans, a number of assumptions are made about business growth opportunities, contract wins, product development and available markets. A key assumption is that there will be continued demand for Ultra's products and expertise from a number of US Government agencies and prime contractors during the strategic plan period, and hence continued profit and cash generation.

Sensitivity analysis, which included consideration of the potential impacts of Brexit, has been performed on the value-in-use calculations to:

- (i) reduce the post-2026 growth assumption from 2.0% to nil;
- (ii) increase the discount rates by 3.0%;
- (iii) apply a 20% reduction to forecast operating profits in each year of the modelled cash inflows; and
- (iv) consider specific market factors as noted above.

The value-in-use calculations exceed the CGU carrying values after applying sensitivity analysis.

* See note 2.

14 Other intangible assets

	Acquired intangibles				Internally generated capitalised development costs £m	Software, patents and trademarks £m	Total £m
	Customer relationships £m	Intellectual property £m	Profit in order book £m	Other acquired £m			
Cost							
At 1 January 2020	202.4	101.2	29.4	7.6	29.9	43.6	414.1
Foreign exchange differences	(3.4)	(1.8)	(0.4)	(0.1)	(0.4)	(0.7)	(6.8)
Additions	-	-	-	-	0.2	8.5	8.7
Reclassified from held for sale	-	-	-	-	0.3	-	0.3
Reclassification from tangible fixed assets (see note 15)	-	-	-	-	-	0.4	0.4
Disposals	-	-	-	-	(0.4)	(2.1)	(2.5)
At 1 January 2021	199.0	99.4	29.0	7.5	29.6	49.7	414.2
Foreign exchange differences	1.2	0.6	(0.1)	-	0.2	0.2	2.1
Additions	-	-	-	-	-	2.5	2.5
Reclassification from tangible fixed assets (see note 15)	-	-	-	-	-	1.6	1.6
Disposals	(6.0)	(1.0)	(28.9)	-	(0.9)	(0.6)	(37.4)
At 31 December 2021	194.2	99.0	-	7.5	28.9	53.4	383.0
Accumulated amortisation							
At 1 January 2020	(155.8)	(79.7)	(29.4)	(5.6)	(22.3)	(28.6)	(321.4)
Foreign exchange differences	2.8	1.6	0.4	0.1	0.4	0.5	5.8
Reclassified from held for sale	-	-	-	-	(0.2)	-	(0.2)
Disposals	-	-	-	-	0.4	2.0	2.4
Charge	(7.3)	(4.7)	-	(0.6)	(1.4)	(4.6)	(18.6)
At 1 January 2021	(160.3)	(82.8)	(29.0)	(6.1)	(23.1)	(30.7)	(332.0)
Foreign exchange differences	(0.8)	(0.6)	0.1	-	(0.2)	(0.1)	(1.6)
Disposals	6.0	1.0	28.9	-	-	0.5	36.4
Reclassified from tangible fixed assets (see note 15)	-	-	-	-	-	(0.8)	(0.8)
Charge	(5.4)	(4.3)	-	(0.1)	(1.2)	(5.1)	(16.1)
At 31 December 2021	(160.5)	(86.7)	-	(6.2)	(24.5)	(36.2)	(314.1)
Carrying amount							
At 31 December 2021	33.7	12.3	-	1.3	4.4	17.2	68.9
At 31 December 2020	38.7	16.6	-	1.4	6.5	19.0	82.2

Of the £33.7m net book value within customer relationships, £18.9m related to Herley and £8.2m related to Forensic Technology, with estimated weighted average remaining lives of 9.1 years and 6.5 years respectively. Of the £12.3m net book value within intellectual property, £6.4m related to Herley and £3.4m related to Forensic Technology, with estimated weighted average remaining lives of 4.0 years and 5.0 years respectively. Of the £17.2m (2020: £19.0m) net book value within the software, patents and trademarks category, £0.1m (2020: £0.1m) related to patents and trademarks. The amortisation of intangible assets charge is included within administrative expenses. Intangible assets, other than goodwill, are amortised over their estimated useful lives, typically as follows:

Customer relationships	5 to 21 years
Intellectual property	5 to 10 years
Profit in acquired order book	1 to 3 years
Other acquired	1 to 5 years
Development costs	2 to 10 years
Other intangibles:	
Software	3 to 5 years
Patents and trademarks	10 to 20 years

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continued

15 Property, plant and equipment

	Land and buildings		Plant and machinery £m	Assets under construction £m	Total £m
	Freehold £m	Short leasehold £m			
Cost					
At 1 January 2020	42.7	24.5	96.9	–	164.1
Foreign exchange differences	(0.6)	(0.4)	(1.4)	–	(2.4)
Additions	0.6	1.3	11.5	–	13.4
Disposals	(0.1)	–	(13.2)	–	(13.3)
Reclassified to software (see note 14)	–	–	(0.4)	–	(0.4)
Reclassified from held for sale	–	0.1	1.5	–	1.6
At 1 January 2021	42.6	25.5	94.9	–	163.0
Foreign exchange differences	0.3	0.1	0.6	–	1.0
Additions	3.0	2.1	12.3	4.8	22.2
Disposals	(5.0)	(1.5)	(1.8)	–	(8.3)
Reclassified to software (see note 14)	–	–	(1.6)	–	(1.6)
Reclassifications	(0.4)	–	0.4	–	–
At 31 December 2021	40.5	26.2	104.8	4.8	176.3
Accumulated depreciation					
At 1 January 2020	(9.8)	(18.4)	(71.7)	–	(99.9)
Foreign exchange differences	0.2	0.4	0.8	–	1.4
Charge	(1.1)	(1.9)	(7.4)	–	(10.4)
Disposals	0.1	–	12.9	–	13.0
Reclassified from held for sale	–	–	(0.5)	–	(0.5)
At 1 January 2021	(10.6)	(19.9)	(65.9)	–	(96.4)
Foreign exchange differences	(0.2)	(0.1)	(0.4)	–	(0.7)
Charge	(1.0)	(2.0)	(7.9)	–	(10.9)
Disposals	0.5	1.6	2.2	–	4.3
Reclassified to software (see note 14)	–	–	0.8	–	0.8
Reclassifications	(0.7)	0.7	–	–	–
At 31 December 2021	(12.0)	(19.7)	(71.2)	–	(102.9)
Carrying amount					
At 31 December 2021	28.5	6.5	33.6	4.8	73.4
At 31 December 2020	32.0	5.6	29.0	–	66.6

Freehold land amounting to £4.1m (2020: £7.4m) has not been depreciated.

16 Leased assets

The Group's leases relate to real estate, vehicles, printers & copiers, and other equipment. The Group therefore splits the leases between the following categories: land and buildings, and plant and machinery.

	Land and buildings £m	Plant and machinery £m	Total £m
Cost			
At 1 January 2020	43.2	1.4	44.6
Foreign exchange differences	(1.0)	–	(1.0)
Additions	6.1	0.2	6.3
Disposals	(1.3)	–	(1.3)
Reclassified from held for sale	1.4	–	1.4
At 1 January 2021	48.4	1.6	50.0
Foreign exchange differences	0.3	–	0.3
Additions	11.7	0.2	11.9
Impairment	(0.7)	–	(0.7)
Disposals	(2.2)	(0.1)	(2.3)
At 31 December 2021	57.5	1.7	59.2
Accumulated depreciation			
At 1 January 2020	(7.9)	(0.6)	(8.5)
Foreign exchange differences	0.3	–	0.3
Charge	(8.0)	(0.5)	(8.5)
Disposals	0.5	0.1	0.6
Reclassified from held for sale	(0.3)	–	(0.3)
At 1 January 2021	(15.4)	(1.0)	(16.4)
Foreign exchange differences	(0.1)	–	(0.1)
Charge	(7.6)	(0.4)	(8.0)
Disposals	1.1	0.1	1.2
At 31 December 2021	(22.0)	(1.3)	(23.3)
Carrying amount			
At 31 December 2021	35.5	0.4	35.9
At 31 December 2020	33.0	0.6	33.6

As permitted under IFRS 16 paragraph 6, the Group has elected not to recognise leases that are less than one year in length or are for a low-value asset (<£3.5k) on the balance sheet. These leases are expensed on a straight-line basis as short-term leases or leases of low-value assets. This expense is included in note 6. The finance charge on leases is included in note 9. Cash outflow in relation to leases is included in note 27. Some of our property that we lease is sublet to external parties; sublet income received on any of the above leases is also included in note 6.

Notes to accounts – Group
For the year ended 31 December 2021
continued

17 Inventories

	2021 £m	2020 £m
Raw materials and consumables	56.4	58.3
Work in progress	29.1	35.0
Finished goods and goods for resale	7.4	10.3
	92.9	103.6

The amount of any write-down of inventory recognised as an expense in the year was £1.6m (2020: £3.1m).

18 Over-time contract balances

Amounts receivable from over-time contract customers relates to work performed and revenue recognised on agreed contracts prior to the customer being invoiced.

The movement in the year of amounts receivable from over-time contract customers was as follows:

	Total £m
As at 1 January 2020	90.7
Foreign exchange differences	(1.5)
Revenue earned net of billings	(6.5)
Other	(3.3)
As at 1 January 2021	79.4
Foreign exchange differences	(0.1)
Revenue earned net of billings	7.9
As at 31 December 2021	87.2

Other movements relate to adjustments to revenue recognised in a prior period.

Amounts payable to over-time contract customers relate to payments received from customers in relation to the contract prior to the work being completed and the revenue recognised.

The movement in the year of amounts payable to over-time contract customers was as follows:

	Total £m
As at 1 January 2020	(67.3)
Foreign exchange differences	0.5
Cash advances net of revenue recognised	(12.4)
Other	0.5
Reclassified to deferred income	2.3
As at 1 January 2021	(76.4)
Foreign exchange differences	(0.4)
Cash advances net of revenue recognised	(5.1)
Other	1.8
Reclassified to held for sale	1.2
As at 31 December 2021	(78.9)

Within the opening 2021 balance of £76.4m (2020: £67.3m), £57.0m was utilised during the period (2020: £59.7m).

19 Trade and other receivables

	2021 £m	2020 £m
Non-current		
Amounts receivable from over-time contract customers (see note 18)	13.5	12.9
	13.5	12.9
Current		
Trade receivables	106.5	101.5
Loss allowance against receivables	(2.0)	(1.4)
Net trade receivables	104.5	100.1
Amounts receivable from over-time contract customers (see note 18)	73.7	66.5
Other receivables	3.6	6.2
Prepayments	18.6	10.6
Accrued income	7.2	5.1
	207.6	188.5

Trade receivables do not carry interest. The average credit period on sale of goods is 44 days (2020*: 31 days).

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

The ageing profile of trade receivables was as follows:

	2021 £m	Related loss allowance £m	Total £m	2020 £m	Related loss allowance £m	Total £m
Current	81.2	–	81.2	78.3	–	78.3
1 to 3 months	18.4	–	18.4	20.2	–	20.2
4 to 6 months	3.2	–	3.2	1.1	–	1.1
7 to 9 months	1.5	(0.1)	1.4	0.4	(0.1)	0.3
Over 9 months	2.2	(1.9)	0.3	1.5	(1.3)	0.2
Total	106.5	(2.0)	104.5	101.5	(1.4)	100.1

The Group makes loss allowances against its trade receivables and amounts receivable from over-time contract customers based on expected credit losses at an amount equal to lifetime expected credit losses based on prior experience and relevant forward-looking factors.

The Group recognises a loss allowance of 100% against all receivables over a year past due. For amounts receivable from over-time contract customers, accrued income, and other receivables the expected credit loss allowance is immaterial.

Movement in the loss allowance for trade receivables was as follows:

	2021 £m	2020 £m
Current		
Balance at beginning of year	1.4	1.8
Increase in loss allowance for trade receivables regarded as potentially uncollectable	1.1	0.4
Decrease in loss allowance for trade receivables recovered during the year or provision utilised	(0.5)	(0.8)
Balance at end of year	2.0	1.4

* The average credit period on sales of goods for 2020 has been restated on a consistent basis to the current year, based on a six month rolling calculation.

Notes to accounts – Group
For the year ended 31 December 2021
continued

19 Trade and other receivables continued

Credit risk

Credit risk is defined as the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group mitigates this risk of financial loss by only dealing with creditworthy counterparties.

While the Group has elements of concentration of credit risk, with exposure to a number of large counterparties and customers, the customers are mainly Government agencies or multinational organisations with whom the Group has long-term business relationships. The Group's assessment is that credit risk in relation to 'five-eyes' Government customers and leading defence primes or subcontractors to Governments is extremely low as the probability of default is not significant, for example the non-current portion of amounts receivable from over-time contract customers. The provision for expected credit losses is immaterial in respect of receivables from these customers.

Ongoing credit evaluation is performed on the financial condition of accounts receivable and, when appropriate, action is taken to minimise the Group's credit risk.

The carrying amount of financial assets recorded in the financial statements (see note 22), net of any allowances for losses, represents the Group's maximum exposure to credit risk.

20 Trade and other payables

	2021 £m	2020 £m
Amounts included in current liabilities:		
Trade payables	31.6	44.4
Amounts due to over-time contract customers (see note 18)	71.1	68.2
Other payables	15.4	19.9
Accruals	71.8	46.2
Deferred income	25.8	20.6
	215.7	199.3
Amounts included in non-current liabilities:		
Amounts due to over-time contract customers (see note 18)	7.8	8.2
Deferred income	3.6	3.8
	11.4	12.0

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

21 Borrowings

	2021 £m	2020 £m
Amounts due in less than one year:		
Bank loans and overdrafts	0.1	30.3
Government loans (see note 23)	3.7	–
Lease liability	8.3	8.0
	12.1	38.3
Amounts due after more than one year:		
Bank loans	19.3	19.0
Unsecured loan notes	101.4	101.0
Government loans (see note 23)	13.6	12.2
Lease liability	32.4	29.7
	166.7	161.9
Total borrowings:		
Amount due for settlement within 12 months	12.1	38.3
Amount due for settlement after 12 months	166.7	161.9
	178.8	200.2

The Government loans are stated at fair value, bank loans, unsecured loan notes and overdrafts are stated at amortised cost.

Included in total borrowings are syndication costs of £0.9m (2020: £1.4m), which are amortised over the duration of the loan. The Group's main financial covenants are that the ratio of net consolidated total borrowings to adjusted EBITDA is less than three, and that the net interest payable on borrowings is covered at least three times by underlying operating profit. For covenant purposes, net debt does not include pension obligations and all impacts of IFRS 16 are removed from adjusted EBITDA and net debt, and adjusted EBITDA is amended to remove the EBITDA generated by businesses up to the date of their disposal.

22 Financial instruments and financial risk management

Derivative financial instruments

Exposure to currency and interest rate risks arises in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to all significant fluctuations in foreign exchange rates and interest rates.

Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

+ Level 1 fair value measurements are those derived from quoted (unadjusted) active markets for identical assets or liabilities.

+ Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

+ Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All of Ultra's financial instruments have been assessed as Level 2 or Level 3. Further details on the Canadian Government Strategic Aerospace and Defence Initiative (SADI) loan, which is classified as Level 3, are set out in note 23.

	Level 3 £m	Level 2 £m	2021 Total £m	
Financial assets at fair value				
Foreign exchange derivative financial instruments (through profit and loss)	-	2.4	2.4	
Total	-	2.4	2.4	
Financial liabilities at fair value				
Government loans (see note 23)	17.3	-	17.3	
Foreign exchange derivative financial instruments (through profit and loss)	-	2.6	2.6	
Total	17.3	2.6	19.9	
	Level 3 £m	Level 2 £m	2020 Total £m	
Financial assets at fair value				
Foreign exchange derivative financial instruments (through profit and loss)	-	7.9	7.9	
Total	-	7.9	7.9	
Financial liabilities at fair value				
Government loans (see note 23)	12.2	-	12.2	
Foreign exchange derivative financial instruments (through profit and loss)	-	0.3	0.3	
Total	12.2	0.3	12.5	
	Current (liabilities)/assets		Non-current (liabilities)/assets	
	2021 £m	2020 £m	2021 £m	2020 £m
Financial (liabilities)/assets carried at fair value through profit or loss				
Foreign exchange currency liabilities	(1.1)	(0.2)	(1.5)	(0.1)
Foreign exchange currency assets	1.4	5.8	1.0	2.1

Notes to accounts – Group
For the year ended 31 December 2021
continued

22 Financial instruments and financial risk management continued

Financial assets

The financial assets of the Group were as follows:

	2021 £m	2020 £m
Cash and cash equivalents	138.8	114.4
Currency derivatives used for hedging	2.4	7.9
Trade receivables	104.5	100.1
Accrued income	7.6	5.1

The Directors consider that the carrying amount for all financial assets approximates to their fair value.

Financial liabilities

The financial liabilities of the Group were as follows:

	2021 £m	2020 £m
Currency derivatives used for hedging	2.6	0.3
Bank loans and overdrafts	19.3	49.3
Unsecured loan notes	101.4	101.0
Government loans	17.3	12.2
Lease liabilities	40.7	37.7
Trade payables	31.6	44.4
Deferred consideration	2.3	2.3
Accruals and other payables	63.2	38.3

The Directors consider that the carrying amount for all financial liabilities, except for the unsecured loan notes, approximates to their fair value. For the unsecured loan notes, the derived fair value has been determined as £107.4m (2020: £110.6m) which compares with the carrying amount of £101.4m (2020: £101.0m). The fair value of the unsecured loan notes has been derived from indicative quotes for borrowings of similar amounts, terms and maturity periods and is classified as Level 2 within the fair value hierarchy.

Liquidity risk

The Group maintains committed banking facilities with core banks to provide prudent levels of borrowing headroom.

The Group's banking facilities are provided by a small group of banks, led by The Royal Bank of Scotland. On 7 November 2017, the Group obtained a £300m revolving credit facility, £50m has an expiry date of November 2023 and £250m has an expiry date of November 2024. The facility incorporates an uncommitted £150m accordion. The facility is denominated in Sterling, US Dollars, Canadian Dollars, Australian Dollars and Euros and is used for balance sheet and operational needs.

All bank loans are unsecured. Interest was predominantly charged at 0.65% (2020: 0.65%) over base or contracted rate. At 31 December 2021, the Group had available £280m (2020: £280m) of undrawn, committed revolving credit facilities.

At 31 December 2021, the Group also has unsecured loan notes in issue to Prudential Investment Management Inc (Pricoa) of £50.0m with an expiry date of October 2025 (2020: £50m), US\$40m with an expiry date of January 2026 and US\$30m with an expiry date of January 2029 (2020: US\$70m).

The Group is strongly cash-generative and the funds generated by operating companies are managed regionally to fund short-term local working capital requirements. Where additional funding is required, this is provided centrally through the Group's committed banking facilities.

The Group, through its Canadian subsidiaries Ultra Electronics Tactical Communication Systems (TCS) and Ultra Electronics Maritime Systems (UEMS), participates in Canadian programmes that provide Government support in relation to the development of certain of its products. Further disclosure is provided in note 23.

The Group has access to an overdraft facility of up to £5m net, £75m gross, across its UK GBP bank accounts; the balances across these accounts are notionally pooled. Cash and overdrafts are only presented net when there is a right and intention to settle on a net basis, otherwise overdrafts are presented as current liabilities. No amounts have been presented net in the current or prior year. The Group also has a separate US\$2.5m overdraft allocated against one account. The overdrafts are available for short-term working capital requirements.

Credit risk

The credit risk on liquid funds and derivative financial instruments is considered to be limited because the counterparties are banks with investment-grade ratings assigned by international credit rating agencies. The credit risk on Government loans, which are both from the Canadian Federal Government, is considered to be negligible. Cash is deposited across a number of different investment-grade banks in the main territories in which the Group is based.

22 Financial instruments and financial risk management continued

The table below sets out the credit ratings of the counterparties for the Group's derivative assets and cash and cash equivalents:

	Derivative assets £m	Cash and cash equivalents £m
2021		
AA-	-	42.3
A+	2.0	47.6
A	0.4	48.9
Total	2.4	138.8

The following table details the Group's remaining undiscounted contractual maturity for its financial liabilities:

	Within 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
2021					
Bank loans and overdrafts	0.9	21.3	-	-	22.2
Unsecured loan notes	3.8	3.8	87.9	24.3	119.8
Government loans	3.7	4.7	4.8	4.1	17.3
Trade payables	31.6	-	-	-	31.6
Currency derivatives used for hedging – cash outflow	35.0	30.3	21.4	-	86.7
Currency derivatives used for hedging – cash (inflow)	(33.9)	(29.5)	(20.8)	-	(84.2)
Deferred consideration	-	2.3	-	-	2.3
Accruals and other payables	63.2	-	-	-	63.2

	Within 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
2020					
Bank loans and overdrafts	30.4	0.1	20.5	-	51.1
Unsecured loan notes	3.8	3.8	60.9	54.4	122.9
Government loans	3.4	0.1	5.0	3.7	12.2
Trade payables	44.4	-	-	-	44.4
Currency derivatives used for hedging – cash outflow	11.1	3.8	0.5	-	15.4
Currency derivatives used for hedging – cash (inflow)	(10.9)	(3.7)	(0.5)	-	(15.1)
Deferred consideration	-	-	2.3	-	2.3
Accruals and other payables	38.3	-	-	-	38.3

The contractual maturity of currency derivatives stated above is the gross outflow relating to the derivative liabilities, per the requirements of IFRS 7 paragraph B11D. To enable readers to understand the overall position, the gross cash inflow associated with these liabilities is also presented.

The following table details the Group's contractual undiscounted cash inflows/(outflows) for its lease liabilities and lease subletting:

	Within 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
2021					
Lease liabilities	(9.7)	(9.2)	(18.4)	(7.3)	(44.6)
Subletting income	0.3	-	-	-	0.3
2020					
Lease liabilities	(9.6)	(8.0)	(17.6)	(7.2)	(42.4)
Subletting income	0.5	0.2	-	-	0.7

Notes to accounts – Group
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continued

22 Financial instruments and financial risk management continued

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 21, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity. The Group is not subject to externally imposed capital requirements.

Currency risk

The Group uses currency derivatives in the form of forward currency contracts to hedge its foreign currency transaction risk. The currencies giving rise to this risk are primarily US Dollars and Canadian Dollars. The majority of the exposure arises from USD denominated revenue from the UK PCS business, primarily in the aerospace sector.

At 31 December 2021, the net fair value of the Group's currency derivatives is estimated to be a liability of approximately £0.2m (2020: asset £7.6m), comprising £2.4m assets (2020: £7.9m) and £2.6m liabilities (2020: £0.3m). The loss on derivative financial instruments included in the Group's consolidated income statement for the period was £7.8m (2020: gain £3.4m).

The net notional or net contracted amounts of foreign currency-related forward sales contracts, classified by year of maturity are shown below.

	Weighted average hedge rate	Not exceeding 1 year £m	Between 1 year and 5 years £m	Over 5 years £m	Total £m
2021					
Sell US Dollars, purchase GBP	1.35	74.6	119.3	-	193.9
Other currencies	n/a	14.5	(0.6)	-	13.9
Total		89.1	118.7	-	207.8
2020					
Sell US Dollars, purchase GBP	1.29	92.8	36.4	-	129.2
Other currencies	n/a	(1.2)	(1.4)	-	(2.6)
Total		91.6	35.0	-	126.6

The notional amount is the Sterling equivalent of the net currency amount purchased or sold by Ultra. Ultra is net seller of USD.

Net investment hedges

Of the Group's US denominated borrowings of \$70m, \$19m (2020: \$29m) was designated as a net investment hedge at the year end. The net value of the external US borrowings does not exceed the net investments in the US companies and meets the conditions required to qualify as an effective hedge. The hedging loss taken to other comprehensive income in the year was £0.3m (2020: £1.5m gain). The total cumulative amount recorded within the translation reserve at 31 December 2021 in respect of ongoing net investment hedges is £(55.3)m (2020: £(55.0)m). No hedge ineffectiveness was recognised in the income statement.

Interest rate risk

The Group has US\$70m of fixed rate debt with Pricoa at an interest rate of 4.54%, which is due for repayment in January 2026 and January 2029, and £50m of fixed rate debt with Pricoa at an interest rate of 2.87%, which is due for repayment in October 2025. The revolving credit facility is at floating rates of interest.

The effective interest rates and repricing dates of the Group's financial assets and liabilities were as follows:

	Effective interest rate	Total £m	Within 1 year £m	1 to 2 years £m	2 to 5 years £m	5+ years £m
2021						
Cash and cash equivalents net of bank overdrafts	0.13%	138.7	138.7	-	-	-
Loan notes	3.71%	101.4	-	-	79.5	21.9
Unsecured bank loans	0.70%	19.3	-	19.3	-	-
Government loans	4.43%	17.3	3.7	4.6	4.9	4.1
2020						
Cash and cash equivalents net of bank overdrafts	0.27%	84.1	84.1	-	-	-
Loan notes	3.71%	101.0	-	-	50.0	51.0
Unsecured bank loans	0.67%	19.0	-	-	19.0	-
Government loans	4.43%	12.2	3.4	0.1	5.0	3.7

Bank overdrafts are netted with cash and cash equivalents because they form an integral part of the Group's cash management within the cash pooling arrangements, the interest exposure is on the net balance.

22 Financial instruments and financial risk management continued

Market risk sensitivity analysis

Interest rate risk

During 2021, the Group's net borrowings were predominantly at fixed interest rates. The Group has estimated the impact on the income statement of a 1% increase in market interest rates, from the average rates applicable during 2021. There is no significant difference between the amount recharged to the income statement and equity in the year.

The Group has closely monitored the market and the output from the various industry working groups managing the transition to new benchmark interest rates; during December 2021, the terms of the revolving credit facility were amended to replace UK LIBOR with SONIA and US LIBOR with SOFR, the impact of this change on the Group is negligible.

	Profit before tax £m
2021	1% change
Interest rate sensitivity	(0.2)
2020	
Interest rate sensitivity	(0.7)

Currency risks

The Group's main sensitivity is to changes in the exchange rate between the US Dollar and pound Sterling. The Group has estimated the impact on the income statement and equity of a 10% and 25% strengthening or weakening of average actual and transactional currency rates applicable during the year and a 10% and 25% change in the foreign exchange rates applicable for valuing foreign exchange derivative instruments. The analysis covers only financial assets and liabilities held at the balance sheet date and is made on the basis the net investment hedge remains effective.

	10% weakening of GBP		10% strengthening of GBP		25% weakening of GBP		25% strengthening of GBP	
	Profit before tax £m	Equity £m	Profit before tax £m	Equity £m	Profit before tax £m	Equity £m	Profit before tax £m	Equity £m
2021								
Transaction	8.9	–	(8.9)	–	26.6	–	(26.6)	–
P&L translation	9.5	(5.2)	(9.5)	5.2	23.8	(12.9)	(23.8)	12.9
Foreign exchange derivatives	(22.5)	–	17.9	–	(67.8)	–	39.5	–
Total foreign exchange	(4.1)	(5.2)	(0.5)	5.2	(17.4)	(12.9)	(10.9)	12.9
2020*								
Transaction	11.8	–	(11.8)	–	35.3	–	(35.3)	–
P&L translation	9.2	(5.1)	(9.2)	5.1	23.0	(12.8)	(23.0)	12.8
Foreign exchange derivatives	(3.3)	–	16.6	–	(25.1)	–	27.4	–
Total foreign exchange	17.7	(5.1)	(4.4)	5.1	33.2	(12.8)	(30.9)	12.8

* The 2020 equity column has been restated to reflect that the only impact to equity arises from the net investment hedges.

23 Government grants and loans

The Group, through its Canadian subsidiaries Ultra Electronics Tactical Communication Systems (TCS) and Ultra Electronics Maritime Systems (UEMS), participates in three Canadian programmes that provide Government support in relation to the development of certain of its products.

Under the Strategic Aerospace and Defence Initiative (SADI), the Canadian Federal Government provides a long-term funding arrangement in respect of certain eligible research and development project costs. Under this arrangement:

+ C\$31.8m was provided to TCS and will be reimbursed over the period to 2032.

+ Up to C\$8m will be provided to UEMS up to the end of 2023 and reimbursed over the period 2024 to 2039. The UEMS programme was extended by three years during 2021. The benefit of the below-market rate of interest has been calculated as the difference between the proceeds received and the fair value of the loans and has been credited to profit in the year. As at 31 December 2021, C\$5.4m (2020: C\$4.0m) had been received by UEMS.

The fair value of the loans has been calculated using a market interest rate for a similar instrument. The valuation used the discounted cash flow method and considered the value of expected payments using a risk-adjusted discount rate; the discount rate used was 18% for TCS and 15% for UEMS.

+ For TCS, the amount repayable depends on future revenue growth of the TCS business to 2032 and will be up to x1.5 of the amounts received up to a maximum of C\$47.7m (£27.8m). C\$5.4m (£3.2m) has been repaid to date, with a further C\$6.3m (£3.7m) repaid in early 2022.

+ For UEMS, the amount repayable depends on future revenue growth of the UEMS business from 2024 to 2039 and will be between x1.0 and x1.5 of the amounts received up until the end of the funding period.

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23 Government grants and loans continued

The significant unobservable inputs for this Level 3 financial instrument are: (i) whether, and by how much, TCS/UEMS revenues will grow during the periods to 2032/2039, and (ii) the specific years in which revenue will grow. There are significant inherent uncertainties in management's ability to forecast revenue over future years, particularly in later years. For TCS, if the compound annual revenue growth rate over the period from 2021 to 2032 was 3.0% higher than assumed in the valuation model, then the net present value of the liability as at 31 December 2021 would increase by C\$0.4m (£0.2m). If the forecast revenue growth occurs in earlier years than envisaged, then the net present value of the liability will increase; if the revenue growth increases were to occur one year earlier than assumed in the valuation model, then the net present value of the liability as at 31 December 2021 would increase by C\$4.0m (£2.9m).

TCS has also benefited from an Investissement Quebec (IQ) research and development programme, whereby IQ shared in the cost of research and development of certain specified new products. Under this arrangement, from 2010 to 2014, IQ financed C\$8.8m of eligible costs associated with these specified projects. The funding was repayable under a royalty arrangement over the period of 2014 to 2021, based on sales of specified products. A final payment of C\$2.1m was paid during the year. Royalties repaid have also been included as costs in the income statement in the period where they have been incurred.

Amounts recognised in the financial statements in respect of these programmes were as follows:

	2021 £m	2020 £m
Fair value of loan brought forward	12.2	9.5
Contributions	0.3	–
Net change in fair value to profit and loss (FVTPL) (see note 9)	4.7	2.9
Foreign exchange differences	0.1	(0.2)
Fair value of loan carried forward	17.3	12.2

Government grants credited to profit in the year

	2021 £m	2020 £m
Canadian Government	0.5	0.2

The amount recorded in other comprehensive income (FVTOCI), relating to changes in credit risk, was £nil (2020: £nil).

24 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation* £m	Employee share options costs £m	Derivatives £m	Retirement benefit obligations £m	Goodwill £m	Other £m	Total £m
At 1 January 2020	(6.8)	1.3	(0.7)	12.5	(12.9)	10.1	3.5
(Charge)/credit to income	(0.4)	0.1	(0.6)	(1.8)	(3.5)	(2.1)	(8.3)
Credit to other comprehensive income	–	–	–	2.9	–	–	2.9
Credit direct to equity	–	0.2	–	–	–	–	0.2
Exchange differences	0.4	–	–	–	0.3	(0.2)	0.5
Effect of change in tax rates	(0.2)	0.1	(0.1)	0.4	–	(0.4)	(0.2)
At 1 January 2021	(7.0)	1.7	(1.4)	14.0	(16.1)	7.4	(1.4)
(Charge)/credit to income	(0.4)	0.6	1.5	(1.9)	(3.5)	1.9	(1.8)
Charge to other comprehensive income	–	–	–	(3.5)	–	–	(3.5)
Credit direct to equity	–	0.8	–	–	–	–	0.8
Exchange differences	(0.2)	–	–	–	(0.1)	–	(0.3)
Effect of change in tax rates	(0.7)	–	–	0.3	–	(0.2)	(0.6)
Reclassifications	0.9	–	–	–	(0.2)	(0.7)	–
At 31 December 2021	(7.4)	3.1	0.1	8.9	(19.9)	8.4	(6.8)

	2021 £m	2020 £m
Non-current assets	14.7	13.6
Non-current liabilities	(21.5)	(15.0)
	(6.8)	(1.4)

* Relates to property, plant and equipment and intangible assets.

24 Deferred tax continued

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so.

All deferred tax assets and liabilities are presented as non-current in accordance with IAS 1.56. There are deferred tax assets attributable to current items of £12.8m (2020: £9.5m) and deferred tax liabilities attributable to current items of £1.0m (2020: £1.7m).

Unrecognised deferred tax assets

Deferred tax assets, in excess of offsetting deferred tax liabilities, are recognised for loss carry forwards and deductible temporary differences to the extent that the utilisation against future taxable profits is probable. UK deferred tax assets of £1.7m (2020: £1.7m) have not been recognised as their recovery is uncertain.

25 Provisions

	Warranties £m	Contract- related provisions £m	Other £m	Total £m
At 1 January 2021	7.5	9.9	7.2	24.6
Reclassifications	–	(2.2)	2.2	–
Created	1.9	3.1	6.3	11.3
Reversed	(1.9)	(3.5)	(1.3)	(6.7)
Utilised	(0.6)	(1.7)	(1.0)	(3.3)
Exchange differences	–	–	0.2	0.2
At 31 December 2021	6.9	5.6	13.6	26.1
Included in current liabilities	6.7	4.7	11.9	23.3
Included in non-current liabilities	0.2	0.9	1.7	2.8
	6.9	5.6	13.6	26.1

Warranty provisions are based on an assessment of future claims with reference to past experience. Such costs are generally incurred within two years after delivery. Contract-related provisions – for example, including provisions for agent fees and costs relating to contract execution and delivery – are utilised over the period as stated in the contract to which the specific provision relates. Other provisions include reorganisation costs, costs in relation to settlement of legal matters, deferred consideration and dilapidation costs. Reorganisation costs will be incurred over the period of the reorganisation, which is typically up to two years. Deferred consideration is payable when earnings targets are met. Dilapidations will be payable at the end of the contracted life, which is up to 15 years.

26 Share capital and share options

	2021		2020	
	No.	£m	No.	£m
Authorised:				
5p ordinary shares	90,000,000	4.5	90,000,000	4.5
Allotted, called-up and fully paid:				
5p ordinary shares	71,410,205	3.6	71,122,599	3.6

The Company did not purchase or cancel any shares in the year.

287,606 ordinary shares having a nominal value of £14,380 were allotted during the year under the terms of the Group's various share option schemes. The aggregate consideration received was £2.6m.

The share premium account represents the premium arising on the issue of equity shares.

The "own shares reserve" represents the cost of shares in Ultra Electronics Holdings plc purchased in the market and held by the Ultra Electronics Employee Trust to satisfy options under the Group's Long-Term Incentive Plan (LTIP) share schemes. At 31 December 2021, the number of own shares held was 28,045 (2020: 108,494).

Share options

The Group's equity-settled share-based payments are measured at fair value at the date of the grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The Group recognised total expenses of £5.9m (2020: £2.6m) in relation to equity-settled share-based payment transactions. Expected volatility was determined by calculating the historical volatility of the Group's share price.

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26 Share capital and share options continued

During the year to 31 December 2021, the Group operated the following equity-settled share option schemes:

1. Savings-Related Share Option Schemes, Company Share Option Plan and Executive Share Option Scheme

A Savings-Related Share Option Scheme is open to all UK, US, Canadian and Australian employees and provides for a purchase price equal to the average of the daily average market price before the grant less 20% in the UK, Canada and Australia and 15% in the USA. Prior to 2021, the option price discount was 10% for all schemes. The vesting period is two to five years. If the options remain unexercised after a period ranging from three to six months from the date of maturity, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

The Company Share Option Plan provides share options for nominated employees in the UK. The purchase price is set at a mid-market price on the date of the grant. This is an approved scheme and vesting is unconditional. Options vest after three years and lapse after 10 years from the date of the grant.

The Executive Share Option Scheme provides share options for nominated employees in the UK, the USA and Canada. The purchase price is set at a mid-market price on the date of the grant. This is an unapproved scheme and vesting is unconditional. Options vest after three years and lapse after seven years from the date of the grant.

The number and weighted average exercise price of share options for all share-based payment arrangements (excluding LTIP) are as follows:

	Weighted average exercise price (£) 2021	Number of options 2021	Weighted average exercise price (£) 2020	Number of options 2020
Beginning of year	16.44	717,780	16.53	970,757
Granted during the year	16.42	253,087	–	–
Exercised during the year	16.51	(260,057)	16.94	(161,655)
Expired during the year	16.98	(68,663)	16.32	(91,322)
Outstanding at the end of the year	16.34	642,147	16.44	717,780
Exercisable at the end of the year	16.96	174,942	19.04	190,626
		2021		2020
Range of exercise price of outstanding options (£)		14.45–21.91		14.45–21.91
Weighted average remaining contracted life (years)		3.29		3.73
Weighted average fair value of options granted (£)		5.21		–

2. Long-Term Incentive Plan

Details in relation to the Ultra Electronics Long-Term Incentive Plan 2017 awards to Executive Directors are included in the Directors' remuneration report on pages 72-85. In April 2021, LTIPs were also awarded to nominated employees and are subject to the same four performance metrics (see page 95) as the Executive Director awards. The awards will vest in April 2024 upon achievement of those performance targets and are conditional upon continued employment.

The number of the LTIPs are as follows:

	Number of options 2021	Number of options 2020
Beginning of year	1,106,422	903,632
Granted during the year	483,353	426,153
Exercised during the year	(133,276)	(32,946)
Expired during the year	(316,718)	(190,417)
Outstanding at the end of the year	1,139,781	1,106,422
	2021	2020
Weighted average remaining contracted life (years)	1.33	1.39
Weighted average fair value of options granted (£)	18.38	15.09

27 Notes to the cash flow statement

	2021 £m	2020 £m
Operating profit	105.9	106.3
Adjustments for:		
Depreciation of property, plant and equipment	10.9	10.4
Amortisation of intangible assets	16.1	18.6
Amortisation of leased assets	8.0	8.5
Cost of equity-settled employee share schemes	5.9	2.5
Defined benefit pension scheme funding	(11.2)	(11.0)
Loss on disposal of property, plant and equipment	0.1	0.1
Increase in provisions	1.3	0.2
Operating cash flow before movements in working capital	137.0	135.6
Decrease/(increase) in inventories	3.5	(13.8)
(Increase)/decrease in receivables	(19.0)	19.3
Increase in payables	12.7	1.5
Cash generated by operations	134.2	142.6
Income taxes paid	(5.7)	(5.4)
Interest paid	(5.6)	(5.5)
Lease liability interest paid	(1.4)	(1.7)
Net cash from operating activities	121.5	130.0

The total cash outflow in 2021 relating to leases was £9.7m (2020: £10.7m), of which £0.1m (2020: £0.2m) related to low-value or short-term leases not recognised on the balance sheet.

Reconciliation of net movement in cash and cash equivalents to movements in net debt:

	2021 £m	2020 £m
Net increase in cash and cash equivalents	55.0	3.1
Cash inflow from movement in debt	-	65.1
Change in net debt arising from cash flows	55.0	68.2
Lease liability movement	(3.0)	3.5
Fair value adjustments and changes in interest accruals	(4.6)	(2.7)
Amortisation of finance costs of debt	(0.6)	(0.6)
Disposal of business	0.2	-
Translation differences	(1.2)	0.6
Movement in net debt in the year	45.8	69.0
Net debt at start of year	(85.8)	(154.8)
Net debt at end of year	(40.0)	(85.8)

Net cash and cash equivalents and overdrafts comprised the following:

	2021 £m	2020 £m
Cash and cash equivalents	138.8	114.4
Overdrafts	(0.1)	(30.3)
Net cash and cash equivalents and bank overdrafts	138.7	84.1

Cash and cash equivalents comprise cash at bank and short-term deposits with an original maturity date of three months or less.

Notes to accounts – Group
For the year ended 31 December 2021
continued

27 Notes to the cash flow statement continued

Net debt comprised the following:

	2021 £m	2020 £m
Cash and cash equivalents	138.8	114.4
Borrowings	(178.8)	(200.2)
	(40.0)	(85.8)

Reconciliation of changes in financing liabilities:

	2021 £m	2020 £m
Borrowings at start of year	(200.2)	(265.3)
Less overdraft at start of year	30.3	28.3
Liabilities arising from financing activities at start of year	(169.9)	(237.0)
Repayments of borrowings	70.0	76.2
Proceeds from borrowings	(70.0)	(11.1)
Other non-cash movements	(4.6)	(2.7)
Amortisation of finance costs of debt	(0.6)	(0.6)
Principal payment on leases	8.3	9.0
Lease liability non-cash movements	(11.3)	(5.5)
Disposal of business	0.2	–
Translation differences	(0.8)	1.8
Liabilities arising from financing activities at end of year	(178.7)	(169.9)
Add overdraft at end of year	(0.1)	(30.3)
Borrowings at end of year	(178.8)	(200.2)

28 Other financial commitments

Capital commitments

At the end of the year capital commitments were:

	2021 £m	2020 £m
Contracted but not provided	8.0	2.8

29 Retirement benefit schemes

Some UK employees of the Group are members of the Ultra Electronics Limited defined benefit scheme which was established on 1 March 1994. The scheme was closed to new members in 2003. The scheme is a final salary scheme with the majority of members accruing 1/60th of their final pensionable earnings for each year of pensionable service; however, the scheme was closed to future benefit accrual from 5 April 2016. A defined contribution plan was introduced for other employees and new joiners in the UK. The latest full actuarial valuation of the defined benefit scheme was carried out as at 5 April 2019. The Group also operates two defined contribution schemes for overseas employees. In addition to these schemes, the Group's Tactical Communication Systems business based in Montreal, Canada, has three defined benefit schemes. The Swiss business of the Forensic Technology group, which had a defined benefit scheme, was sold in the year and the liability has been derecognised.

Defined contribution schemes

The total cost charged to income in respect of the defined contribution schemes was £11.4m (2020*: £11.1m).

Defined benefit schemes

All the defined benefit schemes were actuarially assessed at 31 December 2021 using the projected unit method.

In the UK, Ultra Electronics Limited sponsors the Ultra Electronics Pension Scheme, a funded defined benefit pension scheme. The scheme is administered within a trust which is legally separate from the Company. Trustees are appointed by both the Company and the scheme's membership and act in the interests of the scheme and all relevant stakeholders, including the members and the Company. The Trustees are also responsible for the investment of the scheme's assets.

This scheme provides pensions and lump sums to members on retirement and to their dependants on death.

* 2020 defined contribution scheme costs have been restated following a review of the pension-related charges to the income statement in 2020.

29 Retirement benefit schemes continued

The Trustees are required to use prudent assumptions to value the liabilities and costs of the scheme whereas the accounting assumptions must be best estimates.

Responsibility for making good any deficit within the scheme lies with the Company and this introduces a number of risks for the Company. The major risks are: interest rate risk, inflation risk, investment risk and longevity risk. The Company and Trustees are aware of these risks and manage them through appropriate investment and funding strategies. The Trustees manage governance and operational risks through a number of internal controls policies, including a risk register.

Investment strategy

The investment strategy is set by the Trustees of the scheme. The investment strategy is targeting a level of investment return above that assumed under the Recovery Plan and slightly higher than the required return to achieve full funding on a self-sufficiency basis by 31 March 2030, with an appropriate level of diversification across assets and interest rate and inflation hedging to manage investment risks.

The UK Scheme's investment strategy is to invest broadly 54% in return-seeking assets and 46% in matching assets, with the aim of moving to 20% growth and 80% matching by 2030. This strategy reflects the UK Scheme's liability profile and the Trustees' and Company's attitude to risk.

The Trustees' investment strategy includes investing in liability driven investment (LDI), the value of which will increase with decreases in interest rates, and will move with inflation expectations. LDI primarily involves the use of Government bonds and derivatives such as interest rate and inflation swaps. The main risk is that the investments held move differently to the liability exposures; this risk is managed by the Trustees, their advisers and the scheme's LDI manager, who regularly assess the position.

The assets held are also well diversified, across asset classes and investment managers. This reduces the risk of drops in the value of individual asset classes, or a particular manager underperforming its investment objectives, having a negative impact on the funding position of the scheme. The investment performance and liability experience are regularly reviewed by the Trustees, and the Trustees will consult with the Company over any changes to the investment strategy.

Rather than holding the underlying assets directly, the scheme invests in pooled investment vehicles managed by professional external investment managers, whom the Trustees have appointed with the help of their investment advisers.

GMP equalisation

Following a High Court judgment on 26 October 2018, it became apparent across the UK pension industry that equalisation was required with respect to Guaranteed Minimum Pensions (GMPs). Scheme benefits earned in the period 17 May 1990 to 5 April 1997 may be affected by the requirement to equalise GMPs. It will take a considerable time for trustees and employers to decide on the approach for GMP equalisation, gather data, calculate the new benefits and cost, and ultimately make payments to members. The initial estimate for the Ultra Electronics Limited defined benefit scheme was that the impact was £3.2m; this was recorded as a debit to the income statement in 2018 with a corresponding increase in scheme liabilities. There have been no material changes in estimates in subsequent years.

Valuation

The scheme is subject to regular actuarial valuations, which are usually carried out every three years. The last actuarial valuation of the scheme was on 5 April 2019. The next actuarial valuation is due to be carried out with an effective date of 5 April 2022. These actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004 and so include deliberate margins for prudence. This contrasts with these accounting disclosures, which are determined using best estimate assumptions.

The results of the 5 April 2019 valuation have been projected to 31 December 2021 by a qualified, independent actuary. The figures in the following disclosure were measured using the projected unit method.

£2.3m of retirement benefit obligation was derecognised in the year when the non-core Forensic Technology business in Switzerland was sold (see note 30).

Key financial assumptions used in the valuation of these schemes were as follows:

	UK 2021	Canada 2021	UK 2020	Canada 2020	Switzerland 2020
Discount rate	1.90%	2.75%	1.45%	2.25%	0.20%
Inflation rate – RPI	3.30%	3.00%	2.95%	3.00%	0.60%
Inflation rate – CPI	2.75%	2.20%	2.35%	2.20%	0.60%
Expected rate of salary increases	n/a	3.45%	n/a	3.45%	1.00%
Future pension increases (pre 6/4/08)	3.10%	n/a	2.85%	n/a	0.00%
Future pension increases (post 6/4/08)	2.05%	n/a	1.95%	n/a	0.00%

For each of these assumptions there is a range of possible values. Relatively small changes in some of these variables can have a significant impact on the level of the total obligation. For the UK scheme, a 0.5% increase in the inflation assumption to 3.8% and a 0.5% decrease in the discount rate to 1.4% would increase the scheme's liabilities by £21.9m and £36.8m respectively. If the life expectancy of members was to increase by one year, the scheme liabilities would increase by £19.0m. The average duration of the scheme liabilities is 17 years (2020: 18 years).

The assumptions used are provided by Willis Towers Watson as Company advisers, and also by reference to the Bank of England gilt curve, at a duration appropriate to the scheme's liabilities.

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continued

29 Retirement benefit schemes continued

The key demographic assumption used was in relation to the mortality rates of current and future pensioners. Due to the size of the scheme the mortality rates were based on standard tables, namely:

Current pensioners – males	95% of SAPS S3PMA with CMI 2020 projections and a 1.25% floor from 2013 (UK only)
Current pensioners – females	101% of SAPS S3PFA with CMI 2020 projections and a 1.25% floor from 2013 (UK only)
Future pensioners – males	95% of SAPS S3PMA with CMI 2020 projections and a 1.25% floor from 2013 (UK only)
Future pensioners – females	101% of SAPS S3PFA with CMI 2020 projections and a 1.25% floor from 2013 (UK only)

The mortality assumptions used in the valuation of the UK scheme make appropriate allowance for future improvements in longevity and are set out below:

	2021	2020
Current pensioners (at 65) – males	23 years	22 years
Current pensioners (at 65) – females	24 years	24 years
Future pensioners (at 65) – males	24 years	24 years
Future pensioners (at 65) – females	26 years	26 years

Amounts recognised in the income statement in respect of the Group's defined benefit schemes were as follows:

	UK 2021 £m	Canada 2021 £m	Switzerland 2021 £m	Total 2021 £m	UK 2020 £m	Canada 2020 £m	Switzerland 2020 £m	Total 2020 £m
Current service cost	-	0.1	-	0.1	-	0.1	0.4	0.5
Administration expenses	-	0.1	-	0.1	-	0.1	-	0.1
Interest on pension scheme liabilities	6.1	0.2	-	6.3	7.4	0.2	-	7.6
Past service cost	-	-	-	-	0.1	-	-	0.1
Expected return on pension scheme assets	(5.1)	(0.2)	-	(5.3)	(6.1)	(0.2)	-	(6.3)
Gain on settlements	-	-	(2.3)	(2.3)	-	-	-	-
Charge	1.0	0.2	(2.3)	(1.1)	1.4	0.2	0.4	2.0

Of the current service cost for the year, £nil (2020: £0.1m) has been included in cost of sales, and £0.1m (2020: £0.4m) has been included in administrative expenses.

Actuarial gains and losses have been reported in the statement of comprehensive income.

The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit retirement schemes is as follows:

	UK 2021 £m	Canada 2021 £m	Switzerland 2021 £m	Total 2021 £m	UK 2020 £m	Canada 2020 £m	Switzerland 2020 £m	Total 2020 £m
Fair value of scheme assets	369.1	8.4	-	377.5	353.3	8.1	8.1	369.5
Present value of scheme liabilities	(403.9)	(8.4)	-	(412.3)	(423.2)	(9.0)	(10.4)	(442.6)
Scheme deficit	(34.8)	-	-	(34.8)	(69.9)	(0.9)	(2.3)	(73.1)
Related deferred tax asset	7.9	1.0	-	8.9	13.3	0.3	0.4	14.0
Net pension liability	(26.9)	1.0	-	(25.9)	(56.6)	(0.6)	(1.9)	(59.1)

29 Retirement benefit schemes continued

Movements in the present value of defined benefit obligations during the year were as follows:

	UK 2021 £m	Canada 2021 £m	Switzerland 2021 £m	Total 2021 £m	UK 2020 £m	Canada 2020 £m	Switzerland 2020 £m	Total 2020 £m
Present value of obligation at 1 January	(423.2)	(9.0)	(10.4)	(442.6)	(386.4)	(8.4)	(8.2)	(403.0)
Current service cost	-	(0.1)	-	(0.1)	-	(0.1)	(0.4)	(0.5)
Interest cost	(6.1)	(0.2)	-	(6.3)	(7.4)	(0.2)	-	(7.6)
Actuarial gains and losses	11.4	0.5	-	11.9	(43.3)	(0.8)	(0.1)	(44.2)
Exchange difference	-	-	-	-	-	0.1	(0.6)	(0.5)
Past service cost	-	-	-	-	(0.1)	-	-	(0.1)
Liabilities extinguished on settlements	-	-	10.4	10.4	-	-	-	-
Benefits paid	14.0	0.4	-	14.4	14.0	0.4	(1.1)	13.3
Present value of obligation at 31 December	(403.9)	(8.4)	-	(412.3)	(423.2)	(9.0)	(10.4)	(442.6)

Movements in the fair value of scheme assets during the year were as follows:

	UK 2021 £m	Canada 2021 £m	Switzerland 2021 £m	Total 2021 £m	UK 2020 £m	Canada 2020 £m	Switzerland 2020 £m	Total 2020 £m
Fair value at 1 January	353.3	8.1	8.1	369.5	315.2	8.0	6.5	329.7
Interest income	5.1	0.2	-	5.3	6.1	0.2	-	6.3
Return on assets	13.7	0.1	-	13.8	35.1	0.1	(0.3)	34.9
Exchange differences	-	0.1	-	0.1	(0.1)	(0.1)	0.4	0.2
Employer contributions	11.0	0.4	-	11.4	11.0	0.4	0.4	11.8
Assets distributed on settlements	-	-	(8.1)	(8.1)	-	-	-	-
Administration expenses	-	(0.1)	-	(0.1)	-	(0.1)	-	(0.1)
Benefits paid	(14.0)	(0.4)	-	(14.4)	(14.0)	(0.4)	1.1	(13.3)
Fair value at 31 December	369.1	8.4	-	377.5	353.3	8.1	8.1	369.5

Scheme assets were as follows:

	UK 2021 £m	Canada 2021 £m	Total 2021 £m	UK 2020 £m	Canada 2020 £m	Switzerland 2020 £m	Total 2020 £m
Fair value:							
Equities	67.2	3.1	70.3	82.5	2.4	2.7	87.6
Bonds	-	5.1	5.1	-	5.5	2.0	7.5
Property	41.6	-	41.6	38.1	-	1.6	39.7
Other assets	11.4	0.2	11.6	9.4	0.2	1.4	11.0
Other investment funds:							
Absolute return	53.0	-	53.0	89.6	-	0.4	90.0
LDI	106.0	-	106.0	101.5	-	-	101.5
Multi-asset credit	89.9	-	89.9	32.2	-	-	32.2
	369.1	8.4	377.5	353.3	8.1	8.1	369.5

The scheme's investments are in pooled funds which are unquoted.

Notes to accounts – Group
For the year ended 31 December 2021
continued

29 Retirement benefit schemes continued

The analysis of the actuarial gain/(loss) in the consolidated statement of comprehensive income was as follows:

	UK 2021 £m	Canada 2021 £m	Total 2021 £m	UK 2020 £m	Canada 2020 £m	Switzerland 2020 £m	Total 2020 £m
Changes in assumptions underlying the present value of the scheme liabilities	14.6	0.5	15.1	(41.4)	(0.8)	0.3	(41.9)
Experience gains/(losses) arising on scheme liabilities	(3.2)	-	(3.2)	(1.9)	-	(0.5)	(2.4)
Actual return less expected return on pension scheme assets	13.7	0.1	13.8	35.1	0.1	(0.2)	35.0
	25.1	0.6	25.7	(8.2)	(0.7)	(0.4)	(9.3)

Cumulative actuarial losses, net of deferred tax, recognised in the consolidated statement of comprehensive income at 31 December 2021 were £61.6m (2020: £83.8m). The five-year history of experience adjustments is as follows:

	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Present value of defined benefit obligations	(412.3)	(442.6)	(403.0)	(370.7)	(389.0)
Fair value of scheme assets	377.5	369.5	329.7	297.7	306.3
Scheme deficit	(34.8)	(73.1)	(73.3)	(73.0)	(82.7)
Experience adjustments on scheme liabilities	(3.2)	(2.4)	(7.3)	(3.8)	(0.8)
Percentage of scheme liabilities	0.8%	0.5%	1.8%	1.0%	0.2%
Experience adjustment on scheme assets	13.8	35.0	31.2	(12.1)	15.3
Percentage of scheme assets	3.7%	9.5%	9.5%	(4.1%)	5.0%

The amount of contributions expected to be paid to defined benefit schemes per annum is £11.0m until March 2025.

30 Acquisitions and disposals

Disposals

In June 2021, certain non-core assets from our contract electronics manufacturing business in the Critical Detection & Control SBU were disposed of and in August 2021, certain non-core assets from our Forensic Technology business in Switzerland, also part of the Critical Detection & Control SBU, were disposed of.

The assets and liabilities disposed of were as follows:

	2021 £m
Other intangible assets	0.9
Property, plant and equipment	1.8
Inventories	3.7
Trade and other receivables	0.4
Net cash	0.4
Trade and other payables	(1.3)
Retirement obligation	(2.3)
Total	3.6
Proceeds received	(1.2)
Loss on disposal	2.4

30 Acquisitions and disposals continued

Classified as held for sale

As at 31 December 2021, assets and liabilities have been classified as held for sale for net assets planned to be disposed of in the following 12 months, which are shown in the table below at their fair value. All of these assets and liabilities related to non-core aerospace assets to be divested to help facilitate the closure of our Greenford PCS site and were held within the Critical Detection & Control SBU. The disposal of these assets completed on 24 January 2022, for cash consideration of £34.8m; the gain on disposal recorded in FY22 was £29.2m.

	2021 £m
Goodwill	2.4
Inventories	4.4
Total assets classified as held for sale	6.8
Trade and other payables	(1.2)
Total liabilities classified as held for sale	(1.2)
Net assets classified as held for sale	5.6

31 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel, which includes the Directors of the Group, is set out below in aggregate for each of the categories specified in IAS 24: Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' remuneration report on page 76.

	2021 £m	2020 £m
Short-term employee benefits	5.9	5.5
Post-employment benefits	0.3	0.3
Termination benefits	-	0.4
Share-based payments	3.4	3.1
	9.6	9.3

32 Non-controlling interests

There is a 5% non-controlling interest in the Group's CORVID Holdings Limited subsidiary. Before any intra-Group eliminations, the consolidated revenue of the subsidiary in the year was £3.1m (2020: £2.7m), the gain was £48,000 (2020: £5,000 gain) and the net assets were £1.8m (2020: £4.1m). Sales to Group companies were £2.4m (2020: £2.1m).

During 2021, dividends totalling £nil (2020: £820,000) were issued. £nil (2020: £41,000) in dividend was paid to the non-controlling interest holder.

33 Contingent liabilities

Contingent liabilities are potential future cash outflows which are either not probable or cannot be measured reliably, or will be confirmed only by the occurrence of an uncertain future event not wholly within the control of the Group.

The Group has entered into a number of guarantee and performance bond arrangements in the normal course of business, totalling £41.5m (2020: £37.3m).

As previously announced, investigations associated with conduct of business issues are ongoing, and Ultra continues to cooperate with the relevant authorities. A provision has been booked with respect to one matter where the IAS 37 provision recognition criteria have been deemed to have been met. On the other matter, taking into account all available evidence, Ultra concluded that the amount of any possible obligation cannot be measured with sufficient reliability. Consequently, the timing and amount, if any, of financial effects (such as fines, penalties or damages) or other consequences from the investigation are not possible to reliably predict or estimate.

Future liabilities contingent on deal completion: costs already incurred in relation to the proposed acquisition of the Group by Cobham Ultra Acquisitions Limited have been expensed in 2021. However, certain costs associated with the proposed acquisition are contingent upon the acquisition becoming effective, an uncertain future event not wholly in the control of the Group, consequently they do not meet the IAS 37 criteria to be provided for as at 31 December 2021. These costs will comprise financial and corporate broking advice of £26.0m and retention bonuses for certain employees of £5.5m.

Notes to accounts – Group
For the year ended 31 December 2021
continued

34 Additional information as required by Listing Rules Requirement 9.8.4

- + Long-term incentive plans – see Directors' remuneration report
- + Allocation of equity securities for cash – see note 26
- + Election of independent Directors – see Directors' report on page 86
- + Contractual arrangements – see Directors' report on page 86
- + Details of independent Directors – see Chairman's governance report on pages 54-55
- + Substantial shareholders – see Directors' report on page 86

No profit forecasts are issued by the Group and no Directors have waived any current or future emoluments. No shareholders have waived or agreed to waive dividends. None of the shareholders are considered to be a Controlling Shareholder (as defined in Listing Rules 6.1.2A).

35 Post balance sheet events

The Group completed the sale of some legacy aerospace product lines from the Critical Detection & Control SBU realising net cash proceeds of £34.8m on 24 January 2022 (see note 30).

36 Related undertakings

The Company owns either directly or indirectly the ordinary share capital of the following undertakings:

Company name	Country incorporated	% owned	Direct/Indirect (Group interest)
3e Technologies International Inc.	United States	100%	Indirect (Group interest)
AEP Networks Limited	Ireland	100%	Direct
CORVID Holdings Limited	Guernsey	95%	Direct
CORVID Protect Holdings Limited	Guernsey	95%	Indirect (Group interest)
DF Group Limited	United Kingdom	100%	Direct
EMS Development Corporation	United States	100%	Indirect (Group interest)
ERAPSCO	United States	50%	Indirect (Group interest)
Flightline Electronics Inc.	United States	100%	Indirect (Group interest)
Forensic Technology (Europe) Limited	Ireland	100%	Direct
Forensic Technology AEC Thailand Limited	Thailand	100%	Direct
Forensic Technology Inc.	United States	100%	Direct
Forensic Technology Mexico S. de RL. de C.V	Mexico	100%	Indirect (Group interest)
Forensic Technology-Tecnologia Forense Ltda	Brazil	100%	Indirect (Group interest)
Giga Communications Limited	United Kingdom	100%	Direct
GIGASAT, INC.	United States	100%	Direct
Gigasat. Asia Pacific Pty Limited	Australia	100%	Indirect (Group interest)
Herley Industries Inc.	United States	100%	Indirect (Group interest)
Herley-CTI Inc.	United States	100%	Indirect (Group interest)
Prologic Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics (USA) Group Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics Advanced Tactical Systems Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics Aneira Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics Australia Pty Limited	Australia	100%	Direct
Ultra Electronics Avalon Systems Pty Limited	Australia	100%	Indirect (Group interest)
Ultra Electronics Canada Inc.	Canada	100%	Direct
Ultra Electronics Connecticut LLC	United States	100%	Indirect (Group interest)
Ultra Electronics Defense Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics DNE Technologies Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics Enterprises (USA) LLC	United States	100%	Indirect (Group interest)
Ultra Electronics Finance Limited	Jersey	100%	Indirect (Group interest)
Ultra Electronics Forensic Technology Inc./ Les Technologies Ultra Electronics Forensic Inc.	Canada	100%	Direct

36 Related undertakings continued

Company name	Country incorporated	% owned	Direct/Indirect (Group interest)
Ultra Electronics Hong Kong Holdings Limited	Hong Kong	100%	Direct
Ultra Electronics ICE, Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics in collaboration with Oman Investment Corporation LLC (in liquidation)	Oman	70%	Direct
Ultra Electronics Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics Investments (USA) LLC	United States	100%	Indirect (Group interest)
Ultra Electronics Limited	United Kingdom	100%	Direct
Ultra Electronics Maritime Systems Inc.	Canada	100%	Indirect (Group interest)
Ultra Electronics Measurement Systems Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics Ocean Systems Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics Pension Trustee Company Limited	United Kingdom	100%	Indirect (Group interest)
Ultra Electronics Precision Air and Land Systems Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics Secure Intelligence Systems Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics Swiss Holdings Company Limited	United Kingdom	100%	Indirect (Group interest)
Ultra Electronics TCS Inc.	Canada	100%	Indirect (Group interest)
Ultra Electronics TopScientific Aerospace Limited	Hong Kong	50%	Direct
UnderSea Sensor Systems Inc.	United States	100%	Indirect (Group interest)
Weed Instrument Company Inc.	United States	100%	Indirect (Group interest)

The principal activity of the trading subsidiary undertakings is the design, development and manufacture of electronic systems for the international defence and aerospace markets.

Registered Office: Ultra Electronics Holdings plc, 35 Portman Square, Marylebone, London W1H 6LR, England.

Statement of accounting policies in respect of the Group's consolidated financial statements

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

Basis of accounting

The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the UK.

The consolidated financial information has been prepared on the historical cost basis except for certain assets and liabilities which are measured at fair value, see note 22.

Adoption of new and revised standards

During the year, the Group revised its accounting policy in relation to upfront configuration and customisation costs incurred in implementing SaaS arrangements in response to the IFRS Interpretations Committee agenda decision clarifying how IFRS Standards apply to these types of arrangements. The new accounting policy is presented below. The impact to prior periods was not material.

Software-as-a-Service (SaaS) arrangements

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period. Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received. Some of the costs incurred relate to the development of software code that enhances or modifies, or creates additional capability to, existing on-premise systems and meets the definition of, and the recognition criteria for, an intangible asset. These costs are recognised as intangible software assets and amortised over the useful life of the software on a straight-line basis. The useful lives of these assets are reviewed at least at the end of each financial year, and any change accounted for prospectively as a change in accounting estimate.

Capitalisation of configuration and customisation costs in SaaS arrangements

Part of the customisation and configuration activities undertaken in implementing SaaS arrangements may entail the development of software code that enhances or modifies, or creates additional capability to the existing on-premise software to enable it to connect with the cloud-based software applications (referred to as bridging modules or APIs). Judgement was applied in determining whether the additional code meets the definition of, and the recognition criteria for, an intangible asset in IAS 38 Intangible Assets. During the year, the Group recognised £nil as intangible assets in respect of customisation and configuration costs incurred in implementing SaaS arrangements.

Determination whether configuration and customisation services are distinct from the SaaS access

Costs incurred to configure or customise the cloud provider's application software are recognised as operating expenses when the services are received. In a contract where the cloud provider provides both the SaaS configuration and customisation, and the SaaS access over the contract term, the Directors applied judgement to determine whether these services are distinct from each other or not, and therefore, whether the configuration and customisation costs incurred are expensed as the software is configured or customised (i.e. upfront), or over the SaaS contract term.

Specifically, where the configuration and customisation activities significantly modify or customise the cloud software, these activities are not distinct from the access to the cloud software over the contract term. Judgement has been applied in determining whether the degree of customisation and modification of the cloud-based software is significant. During the year, the Group recognised £1.1m as prepayments in respect of customisation and

configuration activities undertaken in implementing SaaS arrangements which are considered not to be distinct from the access to the SaaS access over the contract term.

Other

The following IFRIC interpretations, amendments to existing standards and new standards have been adopted in the current year but have not impacted the reported results or the financial position:

- + Amendment to IFRS 16 – COVID-19-Related Rent Concessions beyond 30 June 2021
- + Amendments to IFRS 9 and IFRS 7 – initial application of Interest Rate Benchmark Reform

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

- + IFRS 17 (including the June 2020 Amendments to IFRS 17) Insurance Contracts
- + Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- + Amendments to IAS 1 Classification of Liabilities as Current or Non-current
- + Amendments to IFRS 3 Reference to the Conceptual Framework
- + Amendments to IAS 16 Property, Plant and Equipment – Proceeds before Intended Use
- + Amendments to IAS 37 Onerous Contracts – Cost of Fulfilling a Contract
- + Annual Improvements to IFRS Standards 2018-2020 Cycle – Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture
- + Amendments to IAS 1 and IFRS Practice Statement 2 Disclosure of Accounting Policies
- + Amendments to IAS 8 Definition of Accounting Estimates
- + Amendments to IAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Strategic Report on pages 46-47.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

- + Has the power over the investee;
- + Is exposed, or has rights, to variable returns from its involvement with the investee; and
- + Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Basis of consolidation continued

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-Group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between: (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis and included consideration of the potential ongoing impacts of Brexit and Covid-19. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

In the course of preparing the financial statements, no judgements have been made in the process of applying the Group's accounting policies, other than those involving estimates, that have had a significant effect on the amounts recognised in the financial statements.

Critical accounting estimates and assumptions

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Contract revenue and profit recognition

A significant proportion of the Group's activities are conducted under long-term contract arrangements and are accounted for in accordance with IFRS 15 Revenue from Contracts with Customers. This revenue is derived from a large number of individual contracts across the Group. Revenue and profit recognition on these contracts is based on estimates of future costs as well as an assessment of contingencies for technical risks and other risks; for example, assessment of the time and cost required to design, build, integrate and test a new product where the technology involved is currently at a low technology readiness level, and other risks such as the ability to obtain the necessary customer specification approval, or regulatory approvals. There are no individual contracts where the estimation uncertainty is considered to have a significant risk of resulting in a material adjustment within the next financial year; however, a quantification of the impact across the aggregated portfolio of over-time contracts of a 1% increase in estimated costs to complete is included in note 3.

Retirement benefit plans

The Group accounts for its post-retirement pension plans in accordance with IAS 19 Employee Benefits.

The critical estimates and assumptions used in determining the defined benefit post-retirement obligation include the discount rate used in discounting scheme liabilities, the inflation rate and future mortality assumptions. For each of these assumptions, there is a range of possible values. Relatively small changes in some of these variables can have a significant impact on the level of the total obligation.

The valuation of pension scheme assets and liabilities at a specific point in time rather than over a period of time can lead to significant annual movements in the pension scheme deficit as calculated under IAS 19, but it has no impact on short-term cash contributions since these are based upon separate independent actuarial valuations.

Details of the pension scheme estimates, assumptions and obligations at 31 December 2021 are provided in note 29.

Contingent liabilities

As set out in note 33, the Group concluded, with respect to a conduct of business matter, that the amount of any possible obligation cannot be measured with sufficient reliability. This has been disclosed as a contingent liability.

Proxy Board

Certain Group companies in the USA undertake work of importance to US national security; consequently activities are conducted under foreign ownership regulations, which require operation under a Proxy Agreement. The regulations are intended to insulate these activities from undue foreign influence as a result of foreign ownership. The entity that is operated under the management of a Proxy Board is Ultra Electronics Advanced Tactical Systems Inc. (ATS).

The Directors consider that the Group has control over the operating and financial policies and results of this entity and therefore they are consolidated in the Group consolidated accounts in accordance with IFRS 10 Consolidated Financial Statements.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

**Statement of accounting policies
in respect of the Group's consolidated financial statements**
continued

Business combinations continued

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- + Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively; and
- + Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes an asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to their acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition-date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill

Goodwill is initially recognised and measured as set out above. Goodwill is not amortised but is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units or groups of cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK Generally Accepted Accounting Practice (GAAP) amounts subject to being tested for impairment at that date.

Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and will not be included in determining any subsequent profit or loss on disposal.

Revenue recognition

The Group recognises revenue from the sales of goods and from long-term contracts. Revenue is measured based on the consideration specified in a contract. Revenue is recognised either when the performance obligation in the contract has been performed, i.e. 'point in time' recognition, or, over time, as control of the performance obligation is transferred to the customer.

Under a book-and-hold agreement with a customer, the Group may have physical possession of an asset that the customer controls, therefore the revenue is recognised when the customer has control of the asset. The Group follows the 'five step' model as set out in IFRS 15 to ensure that revenue is recognised at the appropriate point whether over time or at a point in time; the five steps are:

1. Identify the contract(s) with a customer.
2. Identify the performance obligations.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations.
5. Recognise revenue as performance obligations are satisfied.

For each performance obligation, the Group determines if revenue will be recognised over time or at a point in time.

Over time

Performance obligations are satisfied over time if one of the following criteria is satisfied:

- + The customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs.
- + The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- + The Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

Revenue recognition continued

Revenue that is recognised over time is determined by reference to the stage of completion of the performance obligation. For each performance obligation to be recognised over time, revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks, except in limited scenarios where the proportion of costs incurred would not be representative of the stage of completion. Owing to the complexity of some of the contracts undertaken by the Group, the cost estimation process and the allocation of costs and revenue to each performance obligation are carried out using the experience of the Group's engineers, project managers and finance and commercial professionals. Cost estimates are reviewed and updated on a regular basis. Some of the factors impacting cost estimates include the availability of suitably qualified labour, the nature and complexity of the work to be performed, the technology readiness level, the availability of materials and the performance of sub-contractors. Revenue and associated margin are recognised progressively as costs are incurred and as risks have been mitigated or retired.

For contracts with multiple activities or deliverables, management considers whether those promised goods and services are: (i) distinct – to be accounted for as separate performance obligations; (ii) not distinct – to be combined with other promised goods or services until a bundle is identified that is distinct; or (iii) part of a series of distinct goods and services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct if the customer can benefit from them on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract. For example, certain Ultra contracts might be to design and build a system as one performance obligation when the criteria above are assessed. Other Ultra contracts might contain one performance obligation to design a system and a separate obligation to build them: these are required to be treated as separate performance obligations if, for example, the customer obtains control of the design and could ask another contractor to build them.

At the start of a contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. The transaction price is allocated to each performance obligation based on relative standalone selling prices of all items in the contract. This could be based on list prices, external market evidence or, where individual tailored products are concerned, based on the estimated expected costs to produce the item or deliver the services, plus a reasonable margin to reflect the risk of delivering the product or service. Variable consideration (for example, discounts dependent on sales levels, returns, refunds, rebates and other incentives) is included based on the expected value, or most likely amount, only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised.

The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. A contract modification exists when the parties to the contract approve a modification that either changes existing or creates new enforceable rights and obligations.

Payment terms vary from contract to contract but will typically be 30 days from the date of invoice. The Group's contracts are not considered to include significant financing components on the basis that there is no difference between the consideration and the cash selling price.

Incremental costs of obtaining a contract are capitalised to the extent that they are recoverable from the customer and the anticipated contract period will be more than one year. Incremental costs are those that would not have arisen if the contract had not been obtained. Unconditional bid or proposal costs would not be capitalised as costs to obtain a contract because they are incurred whether the contract is obtained or not. Ultra has not capitalised any such costs to date. The effect of a contract modification on the transaction

price and the Group's measure of progress towards the satisfaction of the performance obligation is recognised either as: (i) an additional separate contract; (ii) as a termination of the existing contract and creation of a new contract; or (iii) as part of the original contract using a cumulative catch-up.

Where the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Point in time

If performance obligations do not meet the criteria to recognise revenue over time, then revenue from the sale of goods or services is recognised at a point in time. This is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods or services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue is normally recognised when control of the goods or services has transferred to the customer. This may be:

- + At the point of physical delivery of goods and acceptance by the customer;
- + When the customer has legal title to the asset;
- + When the customer has the significant risks and rewards of ownership of the asset; or
- + When customer-specific acceptance criteria have been met, e.g. when product testing has been completed.

In the majority of cases, revenue is recognised at the point of physical delivery and acceptance by the customer, and the Group has the right to payment.

Contract assets and liabilities

The timing of payments received from customers, relative to the recording of revenue, can have a significant impact on the contract-related assets and liabilities recorded on the Group's balance sheet.

The majority of development programmes have payment terms based on contractual milestones, which are not necessarily aligned to when revenue is recognised, particularly for those contracts with revenue recognised over time by reference to the stage of completion. This can lead to recognition of revenue in advance of customer billings; 'amounts receivable from over-time contract customers' relates to work performed and revenue recognised on agreed contracts prior to the customer being invoiced. On other development programmes, a proportion of the transaction price is received in advance and consequently a contract liability arises; 'amounts payable to over-time contract customers' relates to payments received from customers in relation to the contract prior to the work being completed and the revenue recognised.

For contracts where revenue is recognised at a point in time, 'deferred income' recorded on the balance sheet represents payments received from customers prior to the work being completed and the revenue recognised, and 'accrued income' recorded on the balance sheet represents any revenue recognised on agreed contracts prior to the customer being invoiced.

When a good or service provided is returned or to be refunded the revenue is reversed equal to the amount originally recognised as revenue for that good or service. Consideration of returns and refunds is made when calculating the transaction price to be allocated to the performance obligation.

A warranty may represent a separate performance obligation if it is distinct from the other elements of the contract (i.e. it can be sold separately and provides additional goods and services beyond the agreed-upon specifications), otherwise it is treated as a provision. Most warranties are treated as provisions. If it is a separate performance obligation, then the revenue is recognised when the control of the additional good or service under the warranty is passed to the customer.

Statement of accounting policies in respect of the Group's consolidated financial statements

continued

Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Any internally generated intangible asset arising from development activities is recognised only if an asset is created that can be identified, it is probable that the asset created will generate future economic benefit and the development cost of the asset can be measured reliably.

Internally generated assets are amortised on a straight-line basis over their useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets

Costs associated with producing or maintaining computer software programmes for sale are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, that will generate economic benefits exceeding costs beyond one year and that can be measured reliably, are recognised as intangible assets. Capitalised software development expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation is provided on a straight-line basis over the estimated useful life of the related asset (see note 14).

Acquired computer software licences for use within the Group are capitalised as intangible assets on the basis of the costs incurred to acquire and bring to use the specific software.

Patents and trademarks are stated initially at historical cost. Patents and trademarks have definite useful lives and are carried at cost less accumulated amortisation and impairment losses.

Intangible assets arising from a business combination whose fair value can be reliably measured are separated from goodwill and amortised over their remaining estimated useful lives.

Impairment of fixed assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, except for goodwill.

Property, plant and equipment

Property, plant and equipment is shown at original historical cost, net of depreciation and any provision for impairment.

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

Freehold buildings	40 to 50 years
Short leasehold improvements	over remaining period of lease
Plant and machinery	3 to 20 years

Freehold land and assets under construction are not depreciated.

Leases

IFRS 16 requires that all leases and the related rights and obligations should be recognised on the lessee's balance sheet, unless the lease is less than one year in length or is for a low value asset. Leases that do not meet these criteria are expensed on a straight-line basis.

For each lease, a liability for lease obligations to be incurred in the future must be recognised. Correspondingly, a right-of-use asset is capitalised. The asset and liability are initially measured at the present value of all future lease payments plus directly attributable costs.

The Group's leases relate to real estate, vehicles, printers & copiers and other equipment. Leases are classified in the following categories: Property and Non-property.

The Group's property leases range from one year to 25 years in length and are based primarily in the UK, USA and Canada. The Group's non-property leases range from one year to seven years.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The asset and liability are initially measured at the present value of all future lease payments plus directly attributable costs. Payments made before the commencement date and incentives (e.g. rent free periods) received from the lessor are also included in the carrying amount of the right-of-use asset. The asset is then amortised over the useful life of the lease on a straight-line basis. Further details on the valuation of the right-of-use asset and the lease liability and the discount rate applied in calculating the present value are discussed below.

Interest on the lease liability is expensed within financing charges. The cash impact of the lease is split between the principal and interest.

Short-term leases and leases of low-value assets

As permitted under IFRS 16 paragraph 6, the Group has elected not to recognise leases that are less than one year in length or are for a low-value asset (<£3.5k) on the balance sheet. These leases are expensed on a straight-line basis as short-term leases or leases of low-value assets.

Valuation of lease liabilities and right-of-use assets

IFRS 16 requires the Group to make judgements that impact the initial valuation of the lease liabilities and the right-of-use assets. These judgements include: determining what contracts are in scope of IFRS 16, determining the lease contract term and determining the interest rate used for discounting future cash flows.

The lease term is the non-cancellable period of the lease contract. It can also be impacted by periods covered by an option to extend the lease if the Group is reasonably certain that it will exercise that option. For lease contracts with an indefinite term, the Group estimates the length of the contract to be equal to the economic useful life of the asset or typical market contract term. The lease term is used to determine the depreciation rate of right-of-use assets.

Property, plant and equipment continued

The lease liability is measured at amortised cost using the effective interest method. The present value of the lease payment is determined using the discount rate. The discount rate is determined based on: 1) the risk-free rate on Government bonds in the location and currency of the lease over a similar term as the lease; 2) the Group's borrowing rate; and 3) an asset-specific premium. Discount rates remain the same throughout the lease unless the lease term or renewal assumptions change and range between 0.5% and 10.5%.

The lease liability and right-of-use asset are remeasured when there is a change in the future lease payments arising from a change in the expected lease term, or a change in the estimated total cost of the lease.

Subletting

The Group sublets some property space to third parties. For these sublets, the Group first determines if the sublet lease is an operating or finance lease. This is determined as a finance lease if substantially all of the risks and rewards of the property are transferred to the lessee through the lease, otherwise it is classified as an operating lease.

When the sublease is considered as a finance lease, the discounted value of the cash income from the sublet is deducted from the right-of-use asset and liability of the Group's lease ("head lease") for that property unless the head lease is a short lease or a low value asset lease.

If the sublease is considered an operating lease, then the payments received from the lease are recognised as income on a straight-line basis.

Inventories

Inventories are valued at the lower of cost (determined on a first-in, first-out basis and including an appropriate proportion of overheads incurred in bringing the inventories to their present location and condition) and net realisable value. Provision is made for any obsolete, slow-moving or defective items.

Trade receivables

Trade receivables are initially measured at transaction price (being the same as fair value) then subsequently remeasured at amortised cost less any impairment. An appropriate provision is recorded for expected credit losses in accordance with the simplified approach permitted under IFRS 9. The Group measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

Amounts receivable from over-time contract customers

For a contract recognised over time under IFRS 15 the control of the product may be passed to the customer before the customer is invoiced. At this point, revenue is recognised and an asset is recorded on the balance sheet as an amount receivable from over-time contract customers. The amount receivable from over-time contract customers is classified as a current asset when it is to be invoiced within 12 months, otherwise it is recorded as a non-current asset. This asset is transferred to trade receivables once the customer is invoiced, following which cash is expected to be received per the agreed contractual terms. Refer to note 19 for details on the average debtor days.

Amounts due to over-time contract customers

For a contract recognised over time under IFRS 15, a payment may be received from the customer before the control of the product is passed to the customer. At this point a liability is recorded on the balance sheet as an amount due to over-time contract customers, which is recognised net of any refunds expected to be paid. This liability is derecognised when the control is passed to the customer and revenue can be recorded. Amounts due to over-

time contract customers is recorded as a current liability when the revenue is expected to be recognised within the next 12 months, otherwise it is classified as a non-current liability.

Cash and cash equivalents

Cash and bank balances comprise cash at bank and in hand and short-term deposits with an original maturity date of three months or less. Cash and overdrafts are only presented net when there is a right and intention to settle on a net basis, otherwise overdrafts are presented as current liabilities. For the purpose of the cash flow statement, cash and cash equivalents consist of cash and short-term deposits, less overdrafts, which are repayable on demand.

Assets and liabilities held for sale

Assets and liabilities classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Assets and liabilities are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at the actual exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. 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 income statement.

The trading results and cash flows of overseas undertakings are translated into Sterling, which is the functional currency of the Company, using the average rates of exchange during the relevant financial period. The balance sheets of overseas subsidiary undertakings are translated into Sterling at the rates ruling at the year end. Exchange differences arising from the retranslation of the opening balance sheets and results are classified as equity and transferred to the Group's translation reserve. The Group does not hedge exposure arising from the retranslation of the results of foreign subsidiaries.

Goodwill and fair value adjustments on the acquisition of foreign entities are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRS as Sterling-denominated assets and liabilities.

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred, except where they relate to qualifying assets, in which case they are capitalised.

Government grants

Government grants are recognised in the income statement 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.

Government assistance provided in the form of below-market rate of interest loans are treated as Government grants. The benefit of the below-market rate of interest is calculated as the difference between the proceeds received and the fair value of the loan and is matched against the related expenditure.

The fair value of the loan is calculated using prevailing market interest rates.

Statement of accounting policies in respect of the Group's consolidated financial statements

continued

Retirement benefit 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.

For defined benefit retirement schemes, the cost of providing benefits is determined using the projected unit Credit method, with actuarial valuations being carried out at each balance sheet date. The actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of comprehensive income.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

Curtailment gains or losses are recognised immediately in the income statement.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets.

Payments to defined contribution retirement schemes are charged as an expense as they fall due.

Trade payables

Trade payables are initially measured at fair value then subsequently remeasured at amortised cost.

Loans and overdrafts

Loans and overdrafts are recognised initially at fair value, being proceeds received less directly attributable transaction costs. Subsequent to initial recognition, loans and overdrafts are stated at amortised cost with any transaction costs amortised to the income statement over the period of the borrowings using the effective interest method. Any difference between the amount initially recognised and the redemption value is recognised in the income statement over the period of the borrowings.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-related conditions.

Fair value is measured by use of a Black-Scholes model for the share option plans and a stochastic model for awards made under the 2017 Long-Term Incentive Plan.

The credits in respect of equity-settled amounts are included in equity.

Provisions

Provisions, including property-related and contract-related provisions, are recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and where it is probable that an outflow of economic benefits will be required to settle the obligation.

Provision is made for the anticipated cost of repair and rectification of products under warranty, based on known exposures and historical occurrences. Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Taxation

The tax expense represents the sum of the current tax payable and deferred tax.

The current tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities.

Derivative financial instruments

IFRS 9

Ultra uses derivative financial instruments, principally forward foreign currency contracts and interest rate swaps, to reduce its exposure to exchange rate and interest rate movements. Ultra does not hold or issue derivatives for speculative or trading purposes.

The Group's hedging strategy under IFRS 9 is to minimise income statement volatility arising from re-valuation of US Dollar assets and liabilities held on the UK balance sheet. The net investment hedge offsets the value of the external US Dollar borrowings with the net investments in US companies and net US Dollar assets held on the UK balance sheet.

Classification and measurement

All financial instruments are initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs.

Derivative financial instruments continued

IFRS 9 divides all financial assets that were previously in the scope of IAS 39 into two classifications – those measured at amortised cost and those measured at fair value. Where assets are measured at fair value, gains and losses are either recognised entirely in profit or loss (fair value through profit or loss, FVTPL), or recognised in other comprehensive income (fair value through other comprehensive income, FVTOCI).

A debt instrument is measured at amortised cost if: a) the objective is to hold the financial asset for the collection of the contractual cash flows; and b) the contractual cash flows under the instrument solely represent payments of principal and interest. A debt instrument is measured at FVTOCI if: a) the objective is to hold the financial asset both for the collection of the contractual cash flows and selling financial assets; and b) the contractual cash flows under the instrument solely represent payments of principal and interest. All other debt instruments must be measured at FVTPL. For financial liabilities designated FVTPL, the amount of change in the fair value of the financial liability attributable to changes in credit risk is recognised in other comprehensive income. The Canadian Government loans are measured at FVTPL, see note 23, with the net change in fair value reflected in finance costs. Any change arising from credit risk would be FVTOCI.

Hedge accounting

Hedge accounting will not generally be applied to transactional hedging relationships, such as hedges of forecast or committed transactions. However, hedge accounting will be applied to translational hedging relationships where it is permissible under IFRS 9. When hedge accounting is used, the relevant hedging relationships will be classified as fair value hedges, cash flow hedges or net investment hedges. In order to qualify for hedge accounting, the hedge relationship must meet the following effectiveness criteria at the beginning of each hedged period:

- + There is an economic relationship between the hedged item and the hedging instrument.
- + The effect of credit risk does not dominate the value changes that result from that economic relationship.
- + The hedge ratio of the hedging relationship is the same as that actually used in the economic hedge.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the hedge ratio of the hedging relationship is adjusted so that it meets the qualifying criteria.

Where the hedging relationship is classified as a fair value hedge, the carrying amount of the hedged asset or liability will be adjusted by the increase or decrease in the fair value attributable to the hedged risk and the resulting gain or loss will be recognised in the income statement where permissible under IFRS 9.

Where the hedging relationship is classified as a cash flow hedge or as a net investment hedge, to the extent that the hedge is effective, changes in the fair value of the hedging instrument will be recognised in the consolidated statement of comprehensive income and accumulated in equity. Any gain or loss relating to the ineffective portion is recognised immediately in the income statement. For cash flow hedges of forecasted future transactions, when the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in equity will be either recycled to the income statement or, if the hedged items result in a non-financial asset, will be recognised as adjustments to its initial carrying amount.

Income statement

Additional line items are disclosed in the consolidated income statement when such presentation is relevant to an understanding of the Group's financial performance.

Operating profit

Operating profit is stated after charging restructuring costs but before investment income and finance costs.

Exceptional items

When items of income or expense are material and they are relevant to an understanding of the entity's financial performance, they are disclosed separately within the financial statements. Such exceptional items include material costs or reversals arising from a restructuring of the Group's operations, material creation or reversals of provisions, and material litigation settlements.

Underlying and non-statutory performance measures

Management monitors the underlying financial performance of the Group using alternative performance measures. These measures are not defined in IFRS and are considered to be non-statutory. This additional information is not uniformly defined by all companies and may not be comparable with similarly titled measures and disclosures by other organisations. The non-statutory disclosures should not be viewed in isolation or as an alternative to the equivalent statutory measure.

The underlying presentation is regularly reviewed by management to identify items that are unusual, due to their materiality and nature, and other items relevant to an understanding of the long-term trends of the Group's performance. The non-statutory performance measures are consistent with how business performance is planned and reported within the internal management reporting to the divisional management teams, Executive Committee and to the Board. Some of the measures are used for setting remuneration targets.

The reconciliations between underlying and statutory measures are shown in note 2. The related tax effects of these items, reflected when determining underlying earnings per share, are set out in note 12.

Underlying profit is used by the Board to monitor and measure the underlying trading performance of the business using a measure that is comparable over time. Items excluded from underlying profit are treated consistently with the financial covenant treatment as defined in the Group's committed financing facilities. Underlying profit excludes:

- + Costs associated with mergers & acquisitions (M&A), including the costs associated with the proposed acquisition of the Group by Cobham Ultra Acquisitions Limited, disposals or closures: delivery of the Group's strategy has included investment in acquisitions that enhance Ultra's portfolio of capabilities, as well as disposal or closure of non-core businesses, facilities or product lines. The exclusion of significant items arising from this activity is to align short-term operational decisions with this longer-term strategy. Items excluded are directly attributable external legal and adviser costs, adjustments to the fair value of contingent consideration and acquired inventory, payment of retention bonuses, restructuring costs related to disposals and closures, and gains or losses made upon the disposal or closures. Similarly, amortisation and impairment of goodwill or intangible assets arising on acquisition are excluded from underlying profit because they are not related to the in-year operational performance of the business, being driven by the timing and amount of historical investment in acquired businesses. The directly attributable external costs associated with the proposed acquisition of the Group by Cobham Ultra Acquisitions Limited, such as adviser costs incurred on bid-defence and subsequent adviser and legal costs, have been excluded from underlying profit as these costs are not related to the in-year operational performance of the business or execution of the Group's strategy.

**Statement of accounting policies
in respect of the Group's consolidated financial statements**
continued

**Underlying and non-statutory performance
measures** continued

- + Significant legal charges and expenses: these are the charges arising from investigations and settlement of litigation that are not in the normal course of business. These costs are not related to the in-year operational performance of the business and are excluded.
- + Mark to market gains or losses from foreign exchange financial instruments: there is volatility in the valuation of outstanding instruments as exchange rates move over time. This has minimal impact on profit over the full term of the instruments, but can cause significant income statement volatility in particular periods. These gains or losses are excluded to ensure appropriate and timely commercial decisions are made regarding mitigating the Group's foreign currency exposures.

Underlying operating cash flow is used by the Board to monitor and measure the underlying cash performance of the business using a measure that is comparable over time. The Group is cash-generative and reinvests funds to meet its strategic objectives. Management believes that using cash generated by operations, after principal payments on leases, net expenditure on property, plant and equipment, outflows for capitalised product development and other intangibles, and adding back the operating cash impacts arising from M&A, disposals & closures, and significant legal charges & expenses is the appropriate underlying metric of the cash cost of sustaining a growing business.

Underlying operating cash conversion is the ratio of underlying operating cash flow to underlying operating profit.

Free cash flow is used by management to monitor utilisation of cash in line with the Group's capital allocation policy. It is defined as net cash flow from operating activities, after interest received, purchase of property, plant and equipment, proceeds on disposal of property, plant and equipment, expenditure on product development and other intangibles, and principal payments on leases.

Organic growth (of revenue, profit or orders) excludes the impact of currency translation, acquisitions, disposals and closures of businesses. It is calculated as the annual rate of increase that was achieved at constant currency exchange rates, assuming that acquisitions made during the prior-year were only included for the same proportion of the current year, and adjusted for closures or disposals to reflect the comparable period of operation or ownership. The constant exchange comparison retranslates the prior year reported results from the prior year's average exchange rates into the current year's average exchange rates. See note 2 for reconciliations between absolute growth and organic growth.

Other metrics and definitions used by management to monitor the performance of the business are defined as follows:

Adjusted EBITDA is the underlying operating profit for the year, before depreciation charges and before amortisation arising on non-acquired intangible assets. Net debt used in the 'net debt to adjusted EBITDA' metric comprises borrowings including pension obligations and lease liabilities, less cash and cash equivalents. For covenant purposes, net debt does not include pension obligations and all impacts of IFRS 16 are removed from adjusted EBITDA and net debt, and adjusted EBITDA is amended to remove the EBITDA generated by businesses up to the date of their disposal.

ROIC is calculated as underlying operating profit as a percentage of invested capital (average of opening and closing balance sheets). Invested capital is defined as net assets of the Group, excluding net debt and lease liability, pension obligations, tax and derivatives. This allows ROIC to be calculated on the operating assets of the business within the control of management. The calculation for ROIC is shown in note 2. ROIC under the previous measure, as used in the LTIP targets for the 2017–2019 issuances, is calculated as underlying operating profit expressed as a percentage of invested capital (average of opening and closing balance sheets). Invested capital is calculated as net assets of the Group (after adjusting for exchange rate fluctuations and to eliminate the impact of the 2017 equity raise and subsequent buy-back) adjusted for amortisation and impairment charges arising on acquired intangible assets and goodwill, and the add-back of other non-underlying performance items, such as tax, fair value movements on derivatives, the S3 programme, acquisition and disposal-related costs and the Ithra (Oman) contract, impacting the balance sheet.

Average Working Capital Turn (AWCT) is the ratio of the 12-month average month-end working capital (defined as the total of inventory, receivables and payables excluding lease liabilities) to gross revenue, calculated at constant FX rates.

Interest cover is the ratio of underlying operating profit to finance costs associated with borrowings, excluding lease finance charges (total borrowing costs per note 9, excluding the finance charge on leases, adding back bank interest per note 8).

Underlying tax is the tax charge on underlying profit before tax. The underlying tax rate is underlying tax expressed as a percentage of underlying profit before tax. This metric is used to calculate the underlying earnings per share. See note 12.

Net finance charges exclude fair value movements on derivatives.

Order intake is the value of new contractually committed customer orders (and amendments to existing orders) booked in the year.

Order book is the value of partially satisfied and unsatisfied performance obligations from contractually committed customer orders.

Order cover is the ratio of the 31 December 2021 closing order book due for execution in 2022, to consensus revenue for 2022.

Company balance sheet

For the year ended 31 December 2021

	Note	2021 £m	2020 restated £m	2019 restated £m
Fixed assets				
Property, plant and equipment	37	1.0	2.5	1.8
Other intangible assets	38	1.5	–	–
Investments*	39	1,076.4	1,078.6	785.3
Leased assets	40	1.7	2.1	2.5
		1,080.6	1,083.2	789.6
Current assets				
Trade and other receivables	41	9.0	3.0	7.9
Cash and cash equivalents		11.1	5.2	3.8
		20.1	8.2	11.7
Creditors: amounts falling due within one year*	43	(121.0)	(111.0)	(140.0)
Net current liabilities		(100.9)	(102.8)	(128.3)
Total assets less current liabilities		979.7	980.4	661.3
Creditors: amounts falling due after more than one year	44	(124.5)	(122.7)	(188.8)
Provisions for liabilities	45	(6.1)	–	–
Net assets		849.1	857.7	472.5
Capital and reserves				
Share capital	47	3.6	3.6	3.5
Share premium account	48	208.1	205.5	203.2
Capital redemption reserve	48	0.4	0.4	0.4
Retained earnings*	48	637.3	649.6	266.8
Own shares	48	(0.3)	(1.4)	(1.4)
Shareholders' funds		849.1	857.7	472.5

The Company only profit for the year was £22.6m (2020*: £418.0m). The financial statements of Ultra Electronics Holdings plc, registered number 02830397, were approved by the Board of Directors and authorised for issue on 23 March 2022.

On behalf of the Board,

S. PRYCE, Chief Executive Officer

J. SCLATER, Chief Financial Officer

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

Ultra Electronics Holdings plc is a company incorporated in England & Wales. The registered office is 35 Portman Square, London W1H 6LR

* The 31 December 2019 and 31 December 2020 investment balances have been restated for the reversal of impairment losses recognised in previous years following a review of the carrying value of the Company's investment in DF Group Limited. £35.8m has been reversed as at 31 December 2019 and £291.8m has been reversed at 31 December 2020. In addition, £2.5m of liabilities previously presented in the 31 December 2020 balance sheet within 'Creditors: amounts falling due within one year' were not the legal liability of the Company and have been removed from the balance sheet. See note 51.

Company statement of changes in equity

For the year ended 31 December 2021

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Retained earnings £m	Own shares £m	Total £m
Restated balance at 1 January 2020*	3.5	203.2	0.4	266.8	(1.4)	472.5
Restated retained profit for the year*	-	-	-	418.0	-	418.0
Total comprehensive income for the year	-	-	-	418.0	-	418.0
Equity-settled employee share schemes	0.1	2.3	-	2.6	-	5.0
De-recognition of deferred tax on share based payments	-	-	-	0.9	-	0.9
Dividends paid	-	-	-	(38.7)	-	(38.7)
Restated balance at 31 December 2020*	3.6	205.5	0.4	649.6	(1.4)	857.7
Retained profit for the year	-	-	-	22.6	-	22.6
Total comprehensive income for the year	-	-	-	22.6	-	22.6
Disposal of own shares	-	-	-	0.5	1.1	1.6
Equity-settled employee share schemes	-	2.6	-	5.9	-	8.5
Tax on share based payments	-	-	-	(0.2)	-	(0.2)
Dividends paid	-	-	-	(41.1)	-	(41.1)
Balance at 31 December 2021	3.6	208.1	0.4	637.3	(0.3)	849.1

* The 31 December 2019 and 31 December 2020 retained earnings balances have been restated for the reversal of impairment losses recognised in previous years following a review of the carrying value of the Company's investment in DF Group Limited. £35.8m has been reversed at 31 December 2019 and £291.8m has been reversed at 31 December 2020. The 31 December 2020 retained earnings balance has also been restated for £2.5m of liabilities previously presented in the 31 December 2020 balance sheet within 'Creditors: amounts falling due within one year' which were not the legal liability of the Company. See note 51.

Notes to accounts – Company

For the year ended 31 December 2021

37 Property, plant and equipment

	Total £m
Cost	
At 1 January 2020	2.6
Additions	1.0
Disposals	–
At 1 January 2021	3.6
Additions	0.1
Reclassification to other intangible assets	(1.5)
Disposals	(0.6)
At 31 December 2021	1.6
Accumulated depreciation	
At 1 January 2020	(0.8)
Charge	(0.3)
Disposals	–
At 1 January 2021	(1.1)
Charge	(0.4)
Reclassification to other intangible assets	0.8
Disposals	0.1
At 31 December 2021	(0.6)
Net book value	
At 31 December 2021	1.0
At 31 December 2020	2.5

38 Other intangible assets

	Total £m
Cost	
At 1 January 2021	–
Additions	0.9
Reclassification from property, plant and equipment	1.5
At 31 December 2021	2.4
Accumulated depreciation	
At 1 January 2021	–
Charge	(0.1)
Reclassification from property, plant and equipment	(0.8)
At 31 December 2021	(0.9)
Net book value	
At 31 December 2021	1.5
At 31 December 2020	–

Notes to accounts – Company
For the year ended 31 December 2021
continued

39 Investments

a) Principal subsidiary undertakings

The Company owns either directly or indirectly 100% of the ordinary share capital of a number of subsidiary undertakings as set out in note 36.

b) Investment in subsidiary undertakings

	Total £m
At 1 January 2021*	1,078.6
Additions	2.7
Disposals	(4.9)
At 31 December 2021	1,076.4

* The opening investment balance has been restated for the reversal of £327.6m impairment losses recognised in previous years following a review of the carrying value of the Company's investment in DF Group Limited. See note 51.

40 Leased assets

	Total £m
Cost	
At 1 January 2020	2.8
Additions	–
At 1 January 2021	2.8
Additions	–
At 31 December 2021	2.8
Accumulated depreciation	
At 1 January 2020	(0.3)
Charge	(0.4)
At 1 January 2021	(0.7)
Charge	(0.4)
At 31 December 2021	(1.1)
Carrying amount	
At 31 December 2021	1.7
At 31 December 2020	2.1

The Company's leased assets relate to real estate.

41 Trade and other receivables

	2021 £m	2020 £m
Amounts falling due after more than one year		
Deferred tax assets (see note 42)	2.1	1.5
	2.1	1.5
Amounts falling due within one year		
Amounts due from subsidiary undertakings	4.0	0.4
Other receivables	0.9	0.4
Prepayments	2.0	0.7
	6.9	1.5
Total trade and other receivables	9.0	3.0

Amounts due from subsidiary undertakings are unsecured and repayable on demand.

42 Deferred tax

Movements in the deferred tax asset were as follows:

	2021 £m	2020 £m
Beginning of year	0.7	0.1
(Charge)/credit to the profit and loss account	(0.2)	0.6
(Charge)/credit direct to equity	(0.2)	–
End of year	0.3	0.7

The deferred tax balances are analysed as follows:

	2021 £m	2020 £m
Employee share option costs	2.1	–
Other temporary differences relating to current assets and liabilities	(1.8)	0.7
Deferred tax	0.3	0.7

These balances are shown as follows:

	2021 £m	2020 £m
Debtors: amounts falling due after more than one year	2.1	1.5
Creditors: amounts falling due after more than one year	(1.8)	(0.8)
Deferred tax	0.3	0.7

Deferred tax assets, in excess of offsetting tax liabilities, are recognised for loss carry forwards and deductible temporary differences to the extent that the utilisation against future taxable profits is probable. At the balance sheet date the Company had deferred tax assets of £1.7m (2020: £1.7m) that have not been recognised as their recovery is uncertain.

Notes to accounts – Company
For the year ended 31 December 2021
continued

43 Creditors: amounts falling due within one year

	2021 £m	2020 restated £m
Borrowings (see note 46)	0.4	10.7
Amounts owed to subsidiary undertakings	103.2	82.5
Other payables	0.8	1.4
Accruals*	16.6	16.4
	121.0	111.0

The bank loans held in borrowings above are unsecured. Interest was predominantly charged at 0.65% (2020: 0.65%) over base or contracted rate.

Amounts owed to subsidiary undertakings are unsecured and repayable on demand.

* £2.5m of liabilities previously presented in the 31 December 2020 balance sheet within accruals were not the legal liability of the Company. As such, this has been corrected with the associated liability removed from the balance sheet. See note 51.

44 Creditors: amounts falling due after more than one year

	2021 £m	2020 £m
Borrowings (see note 46)	122.7	121.9
Deferred tax liability (see note 42)	1.8	0.8
	124.5	122.7

The financial risk management objectives and policies of the Company are managed at a Group level; further information is set out in note 22.

45 Provisions for liabilities

	Contract- related and other £m	Total £m
At 1 January 2021	–	–
Created	6.1	6.1
At 31 December 2021	6.1	6.1

Contract-related and other provisions comprise provisions relating to contract execution and delivery which are utilised over the period as stated in the contract to which the specific provision relates, and provisions for costs in relation to settlement of legal matters.

46 Borrowings

Borrowings fall due as analysed below:

	2021 £m	2020 £m
Amounts due within one year		
Bank loans and overdrafts	–	10.1
Lease liability	0.4	0.6
	0.4	10.7
Amounts due after more than one year		
Bank loans	19.3	18.8
Unsecured loan notes	101.4	101.0
Lease liability	2.0	2.1
	122.7	121.9

Interest on unsecured loan notes was charged at 3.71% (2020: 3.71%); £79.5m (2020: £50.0m) of notes are repayable in 2-5 years and £21.9m (2020: £51.0m) are repayable after five years. Refer to note 22 for more details.

47 Called-up share capital

The movements are disclosed in note 26.

48 Equity reserve

The profit and loss account includes £65.4m (2020: £65.4m) which is not distributable. A net foreign exchange gain of £0.4m was taken to reserves in the year (2020: £2.1m gain). Further details in respect of dividends are presented in note 11 and in respect of share-based payments in note 26.

The Company holds 28,045 own shares (2020: 108,494).

49 Related parties

Transactions with Corvid Holdings Limited are set out in note 32.

50 Contingent liabilities

Contingent liabilities relating to Ultra Electronics Holdings plc are as set out in note 33.

Notes to accounts – Company
For the year ended 31 December 2021
continued

51 Prior year restatement

A review of the recoverability of the Company's investment in DF Group Limited has been performed in the year. During the review, it was identified that the value-in-use exceeded the carrying value of the investment by £35.8m in 2019 and £454.2m in 2020. The cumulative impairment losses that had been recognised in previous years totalling £327.6m should have therefore been reversed partially in the 2019 financial statements and the remaining reversal in the 2020 financial statements. In line with IAS 8 Accounting Policies, Change in Accounting Policies and Errors the prior year financial statements have therefore been restated. £35.8m has been reversed in the 2019 financial statements, and the remaining impairment loss of £291.8m has been reversed in the 2020 financial statements. This has resulted in an increase of £35.8m in retained earnings, investments and net assets in 2019, and a further £291.8m increase in retained earnings, investments and net assets in 2020.

In addition to the above, £2.5m of liabilities previously presented in the 31 December 2020 balance sheet within 'Creditors: amounts falling due within one year' were not the legal liability of the Company. As such, this has been corrected with the associated liability removed from the balance sheet, and an associated entry recorded in the retained earnings as at 31 December 2020.

A reconciliation of the 2019 and 2020 balance sheet as previously reported to the restated position is provided below:

	2019 As previously reported £m	Impairment reversal £m	2019 As restated £m	2020 As previously reported £m	Impairment reversal and derecognition of liability £m	2020 As restated £m
Fixed assets						
Property, plant and equipment	1.8	–	1.8	2.5	–	2.5
Investments	749.5	35.8	785.3	751.0	327.6	1,078.6
Leased assets	2.5	–	2.5	2.1	–	2.1
	753.8	35.8	789.6	755.6	327.6	1,083.2
Current assets						
Trade and other receivables	7.9	–	7.9	3.0	–	3.0
Cash and cash equivalents	3.8	–	3.8	5.2	–	5.2
	11.7	–	11.7	8.2	–	8.2
Creditors: amounts falling due within one year	(140.0)	–	(140.0)	(113.5)	2.5	(111.0)
Net current liabilities	(128.3)	–	(128.3)	(105.3)	2.5	(102.8)
Total assets less current liabilities	625.5	35.8	661.3	650.3	330.1	980.4
Creditors: amounts falling due after more than one year	(188.8)	–	(188.8)	(122.7)	–	(122.7)
Net assets	436.7	35.8	472.5	527.6	330.1	857.7
Capital and reserves						
Share capital	3.5	–	3.5	3.6	–	3.6
Share premium account	203.2	–	203.2	205.5	–	205.5
Capital redemption reserve	0.4	–	0.4	0.4	–	0.4
Retained earnings	231.0	35.8	266.8	319.5	330.1	649.6
Own shares	(1.4)	–	(1.4)	(1.4)	–	(1.4)
Shareholders' funds	436.7	35.8	472.5	527.6	330.1	857.7

Statement of accounting policies

For the Company accounts

A summary of the Company's principal accounting policies, all of which have been applied consistently throughout the year and preceding year, unless otherwise stated below, in the separate financial information presented for the Company, are set out below:

Basis of accounting

The Company accounts have been prepared under the historical cost convention and in accordance with FRS 101 Reduced Disclosure Framework. No profit and loss account is presented for the Company, as permitted by section 408 of the Companies Act 2006. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement and certain related-party transactions. The Company's retained profit for the year is disclosed in the Company statement of changes in equity.

Fixed assets and depreciation

Property, plant and equipment 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:

Short leasehold improvements	over remaining period of lease
Plant and machinery	3 to 20 years

Leases

IFRS 16 requires that all leases and the related rights and obligations should be recognised on the lessee's balance sheet, unless the lease is less than one year in length or is for a low-value asset. Leases that do not meet these criteria are expensed on a straight-line basis.

For each lease, a liability for lease obligations to be incurred in the future must be recognised. Correspondingly, a right-of-use asset is capitalised. The asset and liability are initially measured at the present value of all future lease payments plus directly attributable costs.

The Company's leases relate to real estate, vehicles, printers and copiers and other equipment. The Company therefore chose to split the leases between the following categories: property and non-property.

The Company's property lease is eight years in length and is based in the UK. The Company's non-property leases range from one year to three years.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The asset and liability are initially measured at the present value of all future lease payments plus directly attributable costs. Payments made before the commencement date and incentives received from the lessor are also included in the carrying amount of the right-of-use asset. The asset is then amortised over the useful life of the lease on a straight-line basis. Further details on the valuation of the right-of-use asset and the lease liability and the discount rate applied in calculating the present value are discussed below.

Interest on the lease liability is expensed within financing charges. The cash impact of the lease is split between the principal and interest.

Short-term leases and leases of low-value assets

The Company has elected not to recognise leases that are less than one year in length or are for a low-value asset (<£3.5k) on the balance sheet. These leases are expensed on a straight-line basis as short-term leases or leases of low-value assets.

Valuation of lease liabilities and right-of-use assets

IFRS 16 requires the Company to make judgements that impact the initial valuation of the lease liabilities and the right-of-use assets. These judgements include: determining what contracts are in scope of IFRS 16, determining the lease contract term and determining the interest rate used for discounting future cash flows.

The lease term is the non-cancellable period of the lease contract. It can also be impacted by periods covered by an option to extend the lease if the Company is reasonably certain that it will exercise that option. For lease contracts with an indefinite term the Company estimates the length of the contract to be equal to the economic useful life of the asset or typical market contract term. The lease term is used to determine the depreciation rate of right-of-use assets.

The lease liability is measured at amortised cost using the effective interest method. The present value of the lease payment is determined using the discount rate. The Company has used two discount rates; one for property and one for non-property leases. The discount rate is determined based on: 1) the risk free rate on Government bonds in the location and currency of the lease over a similar term as the lease; 2) the Company's borrowing rate; and 3) an asset-specific premium. Discount rates remain the same throughout the lease unless the lease term or renewal assumptions change and range between 1.9% and 2.9%.

The lease liability and right-of-use asset are remeasured when there is a change in the future lease payments arising from a change in the expected lease term, or a change in the estimated total cost of the lease.

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 tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date. Temporary differences are differences between the Company's taxable profits and its results as stated in the financial statements. These arise from including gains and losses in tax assessments in different periods from those recognised in the financial statements. A net deferred tax asset is regarded as recoverable, and therefore recognised, only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not discounted.

Retirement benefit costs

The Company participates in a defined benefit plan that shares risks between entities under common control. The details of this UK scheme, for which Ultra Electronics Limited is the sponsoring employer, are set out in note 29. There is no contractual agreement or stated policy for charging the net benefit cost to Ultra Electronics Holdings plc.

Statement of accounting policies

For the Company accounts
continued

Investments

Fixed asset investments are shown at cost less provision for impairment. Assessment of impairments requires estimates to be made of the value-in-use of the underlying investments. These value-in-use calculations are dependent on estimates of future cash flows and long-term growth rates. The criteria used in this assessment are consistent with those set out in note 13 and the critical accounting estimates and assumptions as set out below.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the strategic report on pages 46-47.

Share-based payments

The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of the grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. Further disclosure in relation to share-based payments is given in note 26.

Related parties

The Remuneration of the Directors, who are considered to be the key management personnel of the Company, is disclosed in the audited part of the Directors' remuneration report on page 72.

Loans and overdrafts

Interest-bearing loans and overdrafts are recorded as the proceeds are received, net of direct issue costs where there is a facility commitment. In these circumstances, issue costs are deducted from the value of the loan and amortised over the life of the commitment. Where there is no

facility commitment, issue costs are written off as incurred. Finance charges including premiums payable on settlement or redemption are accounted for on an accruals basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the Directors are required to make judgements (other than those involving estimates) that have a significant impact on the accounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical accounting judgements in applying the Company's accounting policies

There were no critical accounting judgements that would have a significant effect on the amounts recognised in the Parent Company financial statements.

Critical accounting estimation and assumptions

There are no major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Footnote

A reconciliation is set out in note 2 between operating profit, underlying operating profit and adjusted EBITDA, between profit before tax and underlying profit before tax, between cash generated by operations and underlying operating cash flow, and between net cash flow from operating activities and free cash flow.

The calculations for organic measures are also set out in note 2. The calculation for underlying earnings per share is set out in note 12. Further detail on non-statutory performance measures is set out on pages 145-146.

Underlying operating profit is before amortisation of intangibles arising on acquisition, acquisition and disposal related costs and significant legal charges and expenses. See note 2.

Adjusted EBITDA is the underlying operating profit for the year, before depreciation charges and before amortisation arising on non-acquired intangible assets. See note 2.

Underlying operating margin is the underlying operating profit as a percentage of revenue.

Underlying profit before tax is before amortisation of intangibles arising on acquisition, fair value movements on derivatives, acquisition and disposal-related costs, gain or loss on disposal net of related restructuring costs and significant legal charges and expenses. See note 2.

Underlying tax is the tax charge on underlying profit before tax. The underlying tax rate is underlying tax expressed as a

percentage of underlying profit before tax. This metric is used to calculate the underlying earnings per share. See note 12.

Underlying operating cash flow is cash generated by operations, less principal payments on finance leases, less net capital expenditure and R&D, and excluding the cash outflows from acquisition and disposal-related payments and significant legal charges and expenses. See note 2.

Operating cash conversion is underlying operating cash flow as a percentage of underlying operating profit. See note 2.

Net debt used in the net debt to adjusted EBITDA metric comprises borrowings including pension obligations and lease liabilities, less cash and cash equivalents.

Interest cover is the ratio of underlying operating profit to finance costs associated with borrowings, excluding lease finance charges (total borrowing costs per note 9, excluding the finance charge on leases, adding back bank interest per note 8).

Organic growth (of revenue, profit or orders) is the annual rate of increase that was achieved at constant currency translation when compared to the prior year results as adjusted for any acquisitions or disposals to reflect the comparable period of ownership. See note 2.

Order intake is the value of new contractually committed customer orders (and amendments to existing orders) booked in the year.

Order book is the value of partially satisfied and unsatisfied performance obligations from contractually committed customer orders.

Order cover is the ratio of the 31 December 2021 closing order book due for execution in 2022, to consensus revenue for 2022.

Underlying earnings per share is before amortisation of intangibles arising on acquisition, fair value movements on derivatives, acquisition and disposal-related costs net of contingent consideration adjustments, gain or loss on disposal and significant legal charges and expenses. See note 12.

Average Working Capital Turn is the ratio of the 12-month average month-end working capital (defined as the total of inventory, receivables and payables excluding lease liabilities) to gross revenue, calculated at constant FX rates.

ROIC is calculated as underlying operating profit expressed as a percentage of invested capital (average of opening and closing balance sheets). Invested capital is defined as net assets of the Group, excluding net debt and lease liability, pension obligations, tax and derivatives. See note 2.

Total shareholder return is annual shareholder return (capital growth plus dividends paid, assuming dividends reinvested) over a rolling five-year period.

Glossary

Definitions

Acronym	Definition
ADSI	Air Defence Systems Integrator
AGR	Active Guard and Reserve
AI	Artificial Intelligence
ASW	Anti-submarine warfare
ATCS	Amphibious Tactical Communications Systems
AWCT	Average working capital turn
BAME	Black, Asian and Minority Ethnic
BEIS	Department for Business, Energy & Industrial Strategy (UK)
C2I	Command, Control and Intelligence
C4ISR/EW	Command, Control, Communications, Computers (C4) Intelligence, Surveillance and Reconnaissance (ISR)/Electronic Warfare (EW)
CAGR	Compound annual growth rate
CGI	Crime Gun Intelligence
CSC	Canadian Surface Combatant
CSR	Corporate Social Responsibility
DARPA	Defense Advanced Research Projects Agency
ECU RP	End Crypto Unit Replacement Programme
EPS	Earnings per share
ER-DIFAR	Extended Range Directional Frequency Analysis and Recording
ERP	Enterprise resource planning
ESG	Environmental, Social and Governance
EW	Electronic Warfare
FIPS	Federal Information Processing Standards
FTR	Flight Termination Receiver
HMS	Hull mounted sonar
HiPPAG	High pressure pure air generator
HSM	Hardware security modules
IAMD	Integrated Air and Missile Defence
IBIS	Integrated Ballistic Identification System
IDIQ	Indefinite-delivery/indefinite-quantity contract
IFRS	International Financial Reporting Standards
IP	Intellectual Property
IR&D	Internal research and development
IS	Information systems
ISR	Intelligence, surveillance and reconnaissance
ISS	Integrated sonar system
ITAR	International Traffic in Arms Regulations
ITN	Integrated tactical network
JADC2	Joint all-domain command and control
MIMO	Multiple input/multiple output
MDI	Multi-domain integration

Acronym	Definition
MDIS	Multi-domain intelligence systems
MIS	Management information systems
ML	Machine learning
MSC/ECF	Main static converter/electric cruise propulsion
NATO	North Atlantic Treaty Organisation
NCSC	National Computer Security Center
Net zero	Decarbonisation target whereby greenhouse gases emitted into the atmosphere are fully offset by removal of emissions from the atmosphere. The corporate standard followed by Ultra is set by the Science Based Targets initiative.
NGSSR	Next Generation Surface Search Radar
OBU	Operating Business Unit
Order book	Order book is the value of partially satisfied and unsatisfied performance obligations from contractually committed customer orders
ORION	Ultra ORION is a family of multichannel, multiband, point-to-point (PTP) point-to-multipoint (PMP) and mesh radio systems
PBT	Profit before tax
PCS	Precision Control Systems
PSSC	Precision Strike Sensor Core
REAP	Rosetta Echo Advanced Payloads
RF	Radio Frequency
ROIC	Return on invested capital
Sales pipeline	Sales pipeline is defined as new awards which we anticipate bidding on and the opportunities within the programmes we are currently delivering on
SBU	Strategic Business Unit
SSA	US Social Security Administration
SSNR	Spectral signal to noise ratio
SSTD	Surface Ship Torpedo Defence
SWaP	Size, Weight and Power
TRILOS	US Army network modernisation programme, Terrestrial Transmission Line of Sight Radio
UAV	Unmanned aerial vehicle
UGV	Unmanned ground vehicle
UI/UX	User experience/user interface
uIFF	Micro identifier friend or foe
USAF	United States Air Force
USMC	United States Marine Corps
USMDA	United States Missile Defence Agency
USN S&T	United States Navy Science and Technology
USV	Unmanned surface vehicle (water-based)
UUV	Unmanned underwater vehicle
VDS	Variable depth sonar

Shareholder information

Five-year review

Financial highlights

	2017 ^{††} £m	2018 [†] £m	2019 £m	2020 £m	2021 £m
Revenue					
Maritime	329.5	317.9	353.0	391.8	395.4
Intelligence & Communications	200.5	211.1	224.8	241.0	241.3
Critical Detection & Control	245.4	237.7	247.6	227.0	214.0
Total revenue	775.4	766.7	825.4	859.8	850.7
Underlying operating profit¹					
Maritime	59.3	52.8	52.5	58.6	59.4
Intelligence & Communications	18.8	21.6	30.2	33.5	37.9
Critical Detection & Control	42.0	38.3	35.5	34.0	32.3
Total underlying operating profit ¹	120.1	112.7	118.2	126.1	129.6
Underlying operating margin ¹	15.5%	14.7%	14.3%	14.7%	15.2%
Profit before tax	60.6	42.6	91.0	103.7	82.7
Profit after tax	48.9	32.4	74.6	83.8	66.9
Underlying operating cash flow ²	116.5	89.3	86.8	116.1	111.5
Free cash flow ³	65.3	67.6	64.7	99.4	90.7
Net debt at year end ⁴	(74.5)	(157.5)	(154.8)	(85.8)	(40.0)
Underlying earnings per share (p)⁵	116.7	109.5	119.5	130.6	135.7
Dividend per share (p)	49.6	51.6	[^] 54.2	56.9	**16.2
Average employee numbers	4,172	4,119	4,089	4,253	4,531

The operating segment split for 2017 to 2019 has been restated to reflect the new segments that became effective from 1 January 2020.

1 Underlying operating profit is before amortisation of intangibles arising on acquisition, acquisition and disposal related costs, significant legal charges and expenses and, for 2018 and earlier, the S3 programme and impairments. See note 2. Underlying operating margin is the underlying operating profit as a percentage of revenue.

2 Underlying operating cash flow is cash generated by operations, less principal payments on finance leases, less net capital expenditure and R&D, and excluding cash outflows from acquisition and disposal related payments and significant legal charges and expenses and, for 2018 and earlier, the S3 programme. See note 2.

3 Free cash flow is before dividends paid, acquisitions, disposals and financing.

4 Net debt is loans, overdrafts and finance lease liabilities less cash and cash equivalents. See note 27.

5 Underlying earnings per share is before amortisation of intangibles arising on acquisition, fair value movements on derivatives, acquisition and disposal related costs net of contingent consideration adjustments, gain or loss on disposal, significant legal charges and expenses and, for 2018 and earlier, the S3 programme, impairments, GMP equalisation and defined benefit pension finance charges and in 2018 the loss on closing out a foreign currency derivative contract. See note 12.

* Not prepared under IFRS 15.

† Not prepared under IFRS 16.

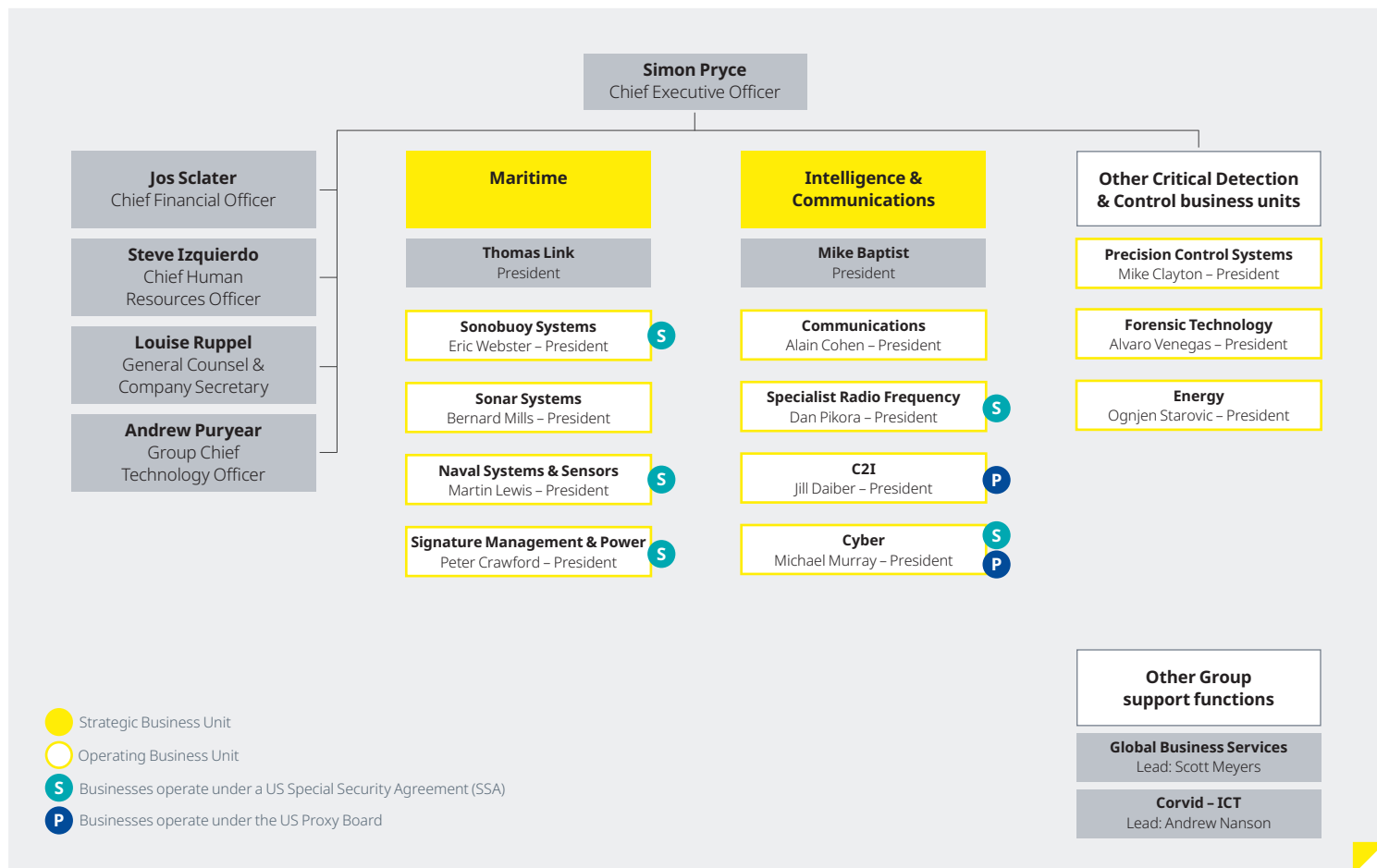
[^] When including the 2019 final dividend that was withdrawn as a precautionary measure due to the Covid-19 pandemic, and paid on 18 September 2020 as an additional interim dividend.

** Under the terms and conditions set out in the announcement dated 16 August 2021 (relating to the recommended cash acquisition of Ultra by Cobham Ultra Acquisitions Limited), no 2021 final dividend will be paid to shareholders while the acquisition remains conditional on obtaining certain clearances, including UK Government approval. Consequently, the total full year dividend is unchanged from the interim dividend of 16.2p.

Annual General Meeting

A separate circular providing the Notice of Annual General Meeting and details of the resolutions to be put to the meeting will be sent to shareholders in due course. Proxy votes lodged for each Annual General Meeting are announced at the meeting and published on the Group's website (www.ultra.group). Electronic communication with shareholders is preferred wherever possible since this is both more efficient and environmentally friendly. However, shareholders may opt to receive hard copy communications if they wish.

Ultra’s organisational structure



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