

# ULTRA

## ULTRA ELECTRONICS HOLDINGS PLC

### Terms of Reference of the Board of Directors of the Company

(approved December 2015)

#### 1. CONSTITUTION

The Board sources its authority from the articles of association (the "**Articles**"), these terms of reference and the laws governing the Company and any other applicable regulatory requirements.

#### 2. PURPOSE OF THE BOARD

The purpose of the Board is to provide entrepreneurial leadership of the Company and its subsidiaries (the "**Group**") within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board should set the Group's strategic aims, ensure that the necessary financial and human resources are in place for the Group to meet its objectives and review management performance. The Board should set the Group's values and standards and ensure that its obligations to its shareholders and other stakeholders are understood and met.

#### 3. MEMBERSHIP

- 3.1 The Chairman of the Board and Board members shall be appointed by the Board on the recommendation of the Nomination Committee, ensuring that the structure, size and composition of the Board complies with the Company's Articles considering the provisions of the UK Corporate Governance code (the "**Code**").
- 3.2 The majority of Board members shall be independent Non-Executive Directors of the Company. 'Independence' for these purposes will be assessed by reference to provision B.1.1 of the Code. In addition, the Board shall comprise Directors with a broad range of skills, knowledge and diversity to ensure that the composition reflects an adequately broad range of experiences to discharge its duties and responsibilities effectively.
- 3.3 The Board shall be of a sufficient size that the requirements of the business can be met and that changes to the Board's composition and Committee membership can be managed without undue disruption.
- 3.4 Only members of the Board have the right to attend Board meetings. However, others may attend at the invitation of the Chairman and with the support of the Board as a whole.
- 3.5 Unless determined otherwise by the Board, appointments of the Chairman and independent Non-Executive Directors shall typically be for two three year periods but a Non-Executive Director may be invited to serve for an additional period provided the Non-Executive Director still meets the criteria for membership of the Board.
- 3.6 In accordance with the Code, Board appointments are subject to election or re-election (as applicable) and therefore the Board members will be proposed for election or re-election (as applicable) at the Company's Annual General Meeting each year, unless otherwise determined in accordance with the Articles.

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- 3.7 In the absence of the Chairman of the Board or Senior Independent Director, the remaining members present shall elect one of themselves to chair the meeting.

## **4. SECRETARY**

The Company Secretary or his or her nominee shall be the Secretary of the Board and will ensure that the Board receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

## **5. QUORUM**

A quorum shall be two members and in the case of an equality in votes, the Chairman shall have the casting vote. No meeting shall be convened unless all members of the Board have received notice of the meetings. Whenever it is practicable, meetings should be arranged so that all Board members can be present.

## **6. FREQUENCY OF MEETINGS**

- 6.1 Meetings shall be held at least 10 times a year, which is considered often enough for the Board to effectively discharge its role and responsibilities.
- 6.2 Outside of the formal meeting programme, the Chairman will maintain a dialogue with key individuals involved in the Company's governance.

## **7. NOTICE OF MEETINGS**

- 7.1 Meetings of the Board shall be called by the Secretary of the Board at the request of any of its members.
- 7.2 Unless otherwise agreed by all members of the Board, a notice of each meeting shall be forwarded to each member of the Board and any other person required to attend no later than five working days before the date of the meeting. Supporting papers shall be sent to Board members, and to other attendees as appropriate, at the same time. The notice of meeting shall confirm the venue, time and date of the meeting. Notices of meeting sent to members of the Board shall include an agenda of items to be discussed.

## **8. MINUTES OF MEETINGS**

- 8.1 The Secretary shall minute the proceedings and decisions of all Board meetings, including recording the names of those present and in attendance.
- 8.2 Draft Board minutes shall be circulated promptly to all Board members.

## **9. MATTERS RESERVED FOR THE BOARD**

The Board delegates certain elements of its authority through the delegation of authority framework set out in the Group Operating Manual. Those matters which are reserved for the Board are detailed below. Items marked \* are not considered suitable for delegation to a Board Committee:

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## 9.1 Strategy and Management

- 9.1.1 Overall management of the Group and setting the Group's values and standards.
- 9.1.2 Approve the Group's strategic objectives (including acquisition strategy) and five year Strategic Plan.
- 9.1.3 Approve the annual operating and capital expenditure budgets and any material changes to them.
- 9.1.4 Monitor the Group's financial performance and endorse updated forecasts.
- 9.1.5 Oversee the Group's operations ensuring:
  - competent and prudent management;
  - sound planning;
  - an adequate system of internal control;
  - adequate accounting and other records; and
  - compliance with statutory and regulatory obligations.
- 9.1.6 Review of performance in the light of the Group's strategy, objectives, business plans and budgets and ensuring that any necessary corrective action is taken.
- 9.1.7 Approve any extension of the Group's activities into new businesses or geographical areas.
- 9.1.8 Approve any decision to cease to operate all or any material part of the Group's business.
- 9.1.9 Consider personnel issues of significance where raised by the Nomination Committee and/or determined by the Board.

## 9.2 Structure and Capital

- 9.2.1 Changes relating to the Group's capital structure including reduction of capital, share issues (except under employee share plans) or share buy backs (including the use of treasury shares).
- 9.2.2 Major changes to the Group's corporate structure, including setting up of joint ventures, incorporation of new legal entities and winding up of Group legal entities.
- 9.2.3 Major changes to the Group's management and control structure.
- 9.2.4 Changes to the Company's listing or its status as a plc.

## 9.3 Financial Reporting and Controls

- 9.3.1 \*Approve the half-yearly report, trading updates and any preliminary announcement of the final results.

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- 9.3.2 \*Approve the Annual Report and Accounts (save that the final form may be delegated to a Sub-Committee of the Board set up solely for that purpose).
- 9.3.3 \*Approve the dividend policy, declaration of interim dividends and recommendation of final dividends to shareholders at the Annual General Meeting (save that the final form may be delegated to a Sub-Committee of the Board set up solely for that purpose).
- 9.3.4 \*Approve any significant change in accounting policies or practices (save that the final form may be delegated to a Sub-Committee of the Board set up solely for that purpose).
- 9.3.5 Treasury policies including foreign currency exposure and the use of financial derivatives.
- 9.3.6 Approve any disposal of assets (including write-offs of debtors/stock in excess of £500k (higher of proceeds or NBV).
- 9.3.7 Monthly review of management reports and accounts.

## 9.4 Internal Controls

- 9.4.1 Ensure maintenance of a sound system of internal control and risk management including receiving reports on, and reviewing the effectiveness of the Group's risk and control processes to support its strategy and objectives and undertake an annual assessment of such processes.
- 9.4.2 Approve an appropriate statement relating to internal controls for inclusion in the Annual Report.
- 9.4.3 Approve the Group's risk appetite statement.
- 9.4.4 Approve procedures for the detection of fraud and the prevention of bribery.

## 9.5 Contracts

- 9.5.1 Capital projects or investments exceeding £2m.
- 9.5.2 Operating and finance lease commitments exceeding £1m (or the capital value of rents for leases).
- 9.5.3 Contracts of the Company or any subsidiary in the ordinary course of business: with a contract value of at least £150m; involving initial investment in excess of £7.5m; which relate to financing plans and banking arrangements; or which are material strategically.
- 9.5.4 Material contracts and loans/borrowings of the Company or any subsidiary not in the ordinary course of business, for example all company/business acquisitions or disposals.

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9.5.5 Offset commitments which exceed 100% of the contract value or with a value: by project in excess of £7.5m; or by country in excess of £75m.

## 9.6 **Communication**

9.6.1 Ensure a satisfactory process is in place for dialogue with shareholders based on the mutual understanding of objectives.

9.6.2 Approve resolutions and corresponding documentation to be put forward to shareholders at a general meeting.

9.6.3 \*Approve all circulars, prospectuses and listing particulars. Approval of routine documents such as periodic circulars about scrip dividend procedures or exercise of conversion rights may be delegated to a Board Committee.

9.6.4 \*Approve press releases concerning matters decided by the Board. Such press releases are considered by the whole Board but the final decision may be delegated to a Committee set up solely for that purpose.

9.6.5 Statements regarding the Group's future prospects.

## 9.7 **Board Membership and Other Appointments**

9.7.1 \*Changes to the structure, size and composition of the Board, following recommendations from the Nomination Committee.

9.7.2 \*Ensure adequate succession planning for the Board and senior management so as to maintain an appropriate balance of skills and experience within the Company and on the Board.

9.7.3 \*Appointments to the Board, following recommendations by the Nomination Committee.

9.7.4 \*Selection of the Chairman of the Board and the Chief Executive.

9.7.5 \*Appointment of the Senior Independent Director to provide a sounding board for the Chairman and to serve as intermediary for the other Directors when necessary.

9.7.6 \*Membership and Chairmanship of Board Committees.

9.7.7 \*Continuation in office of Directors at the end of their term of office, when they are due to be re-elected by shareholders at the Annual General Meeting and otherwise as appropriate.

9.7.8 \*Continuation in office of any Director at any time, including the suspension or termination of service of an Executive Director as an employee of the Company, subject to the law and their service contract.

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9.7.9 \*Appointment or removal of the Company Secretary.

9.7.10 \*Appointment, reappointment or removal of the external auditor to be put to shareholders for approval, following the recommendation of the Audit Committee.

## 9.8 Remuneration

9.8.1 \*Determine the remuneration policy for the Directors, Company Secretary and other senior executives.

9.8.2 Determine the terms and conditions of the Non-Executive Directors, subject to the articles of association and shareholder approval as appropriate.

9.8.3 \*Approve the introduction of new share incentive plans or major changes to existing plans, to be put to shareholders for approval.

## 9.9 Delegation of Authority

9.9.1 \*The division of responsibilities between the Chairman, the Chief Executive and the Senior Independent Director, which should be in writing.

9.9.2 \*Establish Board Committees and approve their respective terms of reference.

9.9.3 \*Receive reports from Board Committees on their activities following each Committee meeting.

## 9.10 Corporate Governance Matters

9.10.1 \*Undertake an externally facilitated formal and rigorous review of its own performance and that of its Committees and individual Directors on a two year cycle (one year, the effectiveness of the Board and its Committees is evaluated and the next year, individual Directors' performance is evaluated).

9.10.2 \*Determine the independence of Non-Executive Directors in light of their character, judgment and relationships.

9.10.3 \*Consider the balance of interests between shareholders, employees, customers and the community.

9.10.4 Review of the Group's overall corporate governance arrangements.

9.10.5 \*Receive reports on the views of the Company's shareholders to ensure that they are communicated to the Board as a whole.

9.10.6 Authorise conflicts of interest where permitted by the Company's articles of association.

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## 9.11 Policies

Approve Group policies, including, but not limited to:

- Statement of Policy on Ethics and Business Conduct;
- Share Dealing Code;
- Anti-corruption and Bribery Policy;
- Gifts and Corporate Hospitality Policy;
- Health and Safety Policy;
- Environmental Policy;
- Communications Policy, including procedures for the release of price sensitive information;
- Corporate Social Responsibility Policy;
- Charitable Donations Policy; and
- HR Policy.

## 9.12 Other

9.12.1 The making of political donations.

9.12.2 The appointment of the Group's principal professional advisers.

9.12.3 Prosecution, defence or settlement of litigation above £250,000 or being otherwise material to the interests of the Group.

9.12.4 The overall levels of insurance for the Group including Directors' & Officers' liability insurance and indemnification of Directors.

9.12.5 Major changes to the rules of the Group's pension scheme, and when subject to the approval of the Company, changes of trustees or changes in the fund management arrangements.

9.12.6 Receive reports and recommendations from time to time on any matter which it considers significant to the Group.

## 10. REPORTING RESPONSIBILITIES

The Board shall compile a statement on how it operates to be included in the Company's Annual Report and Accounts including high level detail on which types of decisions are taken by the Board and which are delegated to its Committees and management.

## 11. OTHER MATTERS

The Board shall:

11.1 act in what it considers to be in the best interests of the Company consistent with its statutory duties;

11.2 have access to sufficient resources in order to carry out its duties, including access to the company secretariat for assistance as required;

11.3 be provided with appropriate and timely training, both in the form of an induction programme for new members and on an on-going basis for all members;

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- 11.4 give due consideration to laws and regulations, the provisions of the Code and the requirements of the UK Listing Authority's Listing, Prospectus and Disclosure and Transparency Rules and any other applicable Rules, as appropriate;
- 11.5 oversee any investigation of activities which are within its terms of reference; and
- 11.6 review and consider changes to its constitution.

## **12. AUTHORITY**

The Board is authorised to:

- 12.1 seek any information it requires from any employee of the Company in order to perform its duties;
- 12.2 obtain, at the Company's expense, outside legal or other professional advice on any matter within its terms of reference; and
- 12.3 call any employee to be questioned at a meeting of the Board as and when required.