Innovating today for a safer tomorrow.

Ultra Annual Report
and Accounts 2020

DELIVERING OUR PURPOSE

Innovating today for a safer tomorrow

We develop the mission-critical solutions in support of a safer tomorrow

Through innovative problem solving, using sustainable capabilities and evolving technologies, we deliver outstanding solutions to our customers' most complex problems in defence, security, critical detection and control environments. By partnering with our customers, we provide the insight, technology and services they need to perform at their best and to help them make the world a safer place.

Our global reach

Ultra's core markets are the 'five-eyes' nations; the USA, Canada, UK, Australia and New Zealand. This gives us access to the largest addressable defence budgets in the world.

North America	**64%**
UK	**18%**
Mainland Europe	**8%**
Australia and NZ	**4%**
Rest of the World	**6%**

Our markets

Maritime	**46%**
C4ISR/EW	**28%**
Critical detection and control markets	**26%**

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.

Direct defence sales to the US Department of Defense (DoD) accounted for 23.6% and UK Ministry of Defence (MoD) 6.6% of Group revenue in 2020 (2019: 29%). Indirect sales to the DoD and MoD accounted for an additional 26% (2019: 24%).

Our top customers

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

Our top 10 contracts accounted for 21% of our 2020 revenue (2019: 14%) and our top 10 platforms (excluding sonobuoy sales) accounted for 18% of revenue (2019: 13%).

DoD	**24%**
MoD	**7%**
Lockheed Martin	**5%**
BAE Systems	**5%**
Boeing	**4%**
Northrop Grumman	**4%**
Pratt & Whitney	**4%**
General Dynamics	**3%**
Australia DoD	**2%**
US Bureau of Alcohol, Tobacco, Firearms and Explosives	**2%**
Raytheon	**2%**
Rolls-Royce	**1%**
Thales	**1%**
GE	**1%**

DELIVERING FOR ALL OUR STAKEHOLDERS

Our 2024 objectives

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 goals:

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

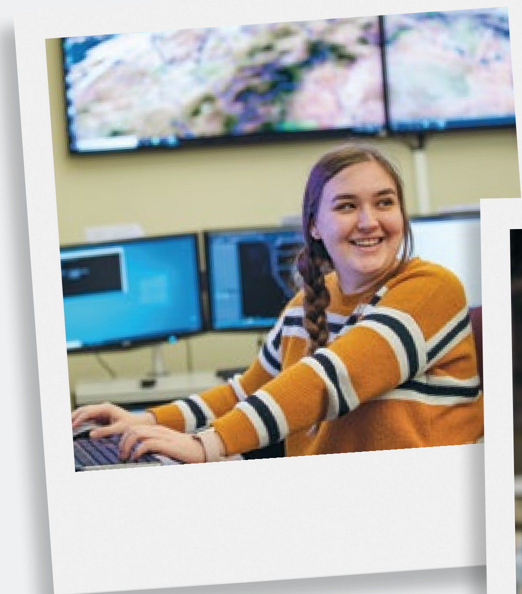
Customers
To partner with customers, delivering innovative solutions that create 'win-win' outcomes for all parties

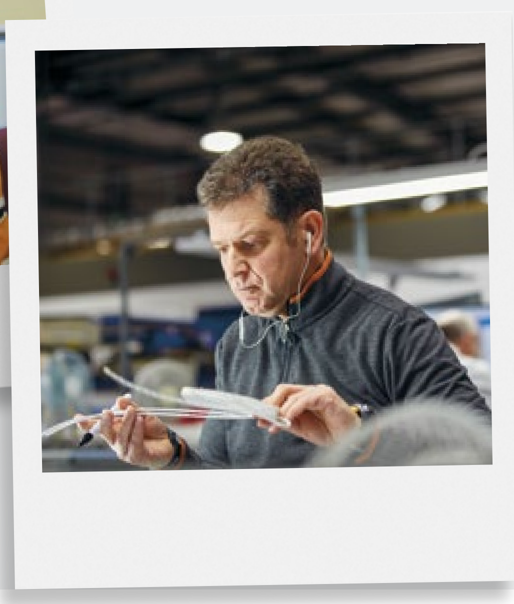
Suppliers
Develop Group-wide partners with like-minded values that provide best-value solutions, technical innovation and support mutual success, fairness and respect

Communities
To 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

See more on **p22-23**





"Ultra has given me the opportunity to grow as a young engineer, and really let me explore a range of different career options. It's highly motivating being surrounded by such intelligent, innovative and caring people."

Millie Midwinter-Lean, Ultra Precision Control Systems

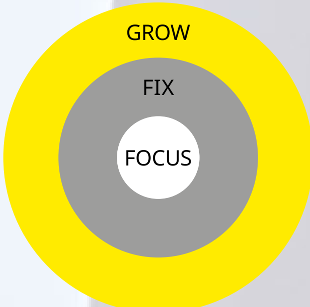
DELIVERING THROUGH FOCUS; FIX; GROW

Good progress in 2020. Accelerating into 2021.

2020 was the first of our multi-year transformation journey as we FOCUS on the things we're good at (applications engineering in the design, development and production of the key elements of mission-critical, intelligent and highly regulated systems); FIX the basics and unlock our potential to GROW faster.

We have made good progress across all our transformation workstreams. In 2021 we'll be advancing elements of our Focus; Fix; Grow programme to accelerate the realisation of our ONE Ultra goal to deliver exceptional value for all our stakeholders.

ONE ULTRA



Our 2021 priorities

1. Innovation
Invest in innovation aligned to customer needs

2. Customer
Strengthen sales capability and processes, market intelligence and customer relationships. Improve project delivery, on-time delivery, productivity and cost effectiveness

3. People & culture
Embed our ONE Ultra operating model. Improve organisation health, diversity and inclusion, talent bench strength and function, and leadership capability

4. Continuous improvement
Develop the culture, standard tools and capability to continually improve our processes

5. Transformation
Deliver the transformation programmes on time and to budget. Prioritise resources across the organisation

6. Health & safety, environment and compliance
Align businesses to common environmental, energy and safety standards. Improve the health and safety global programme across Ultra

See more on **p13**

Contents

Highlights

ONE ULTRA, DELIVERING

Further strategic progress
+ Key programme wins

Delivering growth
+ Third consecutive year of organic revenue growth
+ Strong order book development
+ Market outperformance

Robust performance
+ Solid execution, despite Covid-19
+ Margin progression and excellent return on invested capital (ROIC)
+ Increased dividend

Transformation on track
+ Good progress on Focus; Fix; Grow change programme

Exciting potential
+ Record order book, good visibility
+ Stable markets with Ultra well positioned in growth segments
+ Targeted technology investment
+ Transformation benefits accelerating

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.

* Underlying and organic measures, as quoted throughout the strategic report, are reconciled to statutory measures in note 2 (pages 122-123) and defined on pages 163-164.

** 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.

Performance highlights

Order book
£1.1bn +4.0%
(2019: £1.0bn)

Revenue
£859.8m +4.2%
(2019: £825.4m)

Statutory operating profit
£106.3m +12.8%
(2019: £94.2m)

Underlying operating profit*
£126.1m +6.7%
(2019: £118.2m)

Statutory basic earnings per share
118p +12.3%
(2019: 105.1p)

Underlying earnings per share*
130.6p +9.3%
(2019: 119.5p)

Statutory cash generated by operations
£142.6m +24.1%
(2019: £114.9m)

Underlying operating cash flow*
£116.1m +33.8%
(2019: £86.8m)

Underlying operating cash conversion*
92%
(2019: 73%)

Dividend per share
56.9p +5.0%
(2019: 54.2p)**

2020 was a year that demonstrated the underlying strength of Ultra, and the capabilities and dedication of our outstanding people.

Through the extraordinary efforts of the whole Ultra team, we made good strategic progress and achieved our third consecutive year of strong organic growth. We made good progress on our ONE Ultra transformation and, as a result, we delivered or exceeded most of our stakeholder objectives. These would have been excellent outcomes in any year, but against a background of pandemic-driven disruption and turmoil, it was an exceptional performance.

We enter 2021 with a record order book, giving us strong visibility, and we remain well positioned in key growth areas to support customers' evolving priorities. We continue to increase our technology investment, expanding the areas in which we can provide effective customer solutions. Our ONE Ultra transformation programme is having a positive impact on both growth opportunities and operational efficiency, and with strong 2020 delivery, we are confident enough to accelerate several of our transformation actions in 2021. This should see us begin to realise year-on-year net benefits in 2022, a year ahead of plan.

This excellent performance gives us further confidence in Ultra's exciting potential and our ability to deliver exceptional value for all stakeholders over the longer term.

Simon Pryce
Chief Executive

Six things that make us excited about Ultra

1.

An agile player in growing markets

+ Long-cycle defence markets with stable through-cycle growth
+ Well positioned to grow above core defence markets
+ Maritime five-year CAGR 2–4%
+ Intelligence & Communications five-year CAGR 3–5%
+ Other security and critical detection and control five-year CAGR 2–4%
+ Opportunities for share gain and expansion into adjacent and new markets

2.

Sustainable technology and cost advantage

+ Strong technology base, well aligned to future areas of growth
+ Leading software, data processing and algorithm capability
+ Application engineering of mission-critical sensing and control systems
+ Development spend (customer and internally funded) c.20% of revenue
+ Materially lower fully absorbed engineering cost per hour vs traditional primes

3.

Well positioned to capture segment growth

Ultra's core capabilities relevant to future customer priorities:

+ Combating near-peer threats
+ Countering asymmetric threats
+ Doing more with less
+ Accelerating detect to deploy
+ Mission-enabling sensing
+ Quantum extreme value statistical analysis

See more on **p8-10**

4.

Robust business model

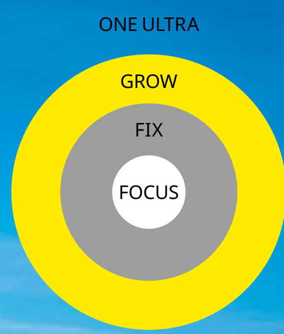
+ Good visibility from long-term contracts and lag to US defence outlays
+ Asset light with broad technology, platform and product exposure
+ Well diversified with our top 10 contracts accounting for 21% of 2020 revenue
+ Strong installed base with stable aftermarket and services revenue

See more on **p26-27**

5.

Transformation programme to accelerate growth and improve operational performance

+ Launched in January 2020, multi-year investment with costs taken 'above the line'
+ Opportunity for medium-term margin improvement and increased investment to support growth
+ ONE Ultra will deliver accelerated growth, performance improvement and operational leverage



See more on **p11-15**

6.

High return model with strong cash flow

+ Through-cycle cash conversion of 90–100%
+ Low capital business model, with long-term ROIC for existing businesses of over 20%
+ Capital allocation model supporting dividend growth

See more on **p64**

Ultra at a glance
Our Strategic Business Units

Maritime

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.

Competitive advantages
+ Thought leadership and proven design and delivery capability across a broad suite of anti-submarine warfare, sonar, radar and force protection capabilities
+ Compelling market position in high-integrity underwater sensing systems and solutions
+ Strong legacy platform presence and positions on current and future naval 'five-eyes' programmes of significance including Virginia class submarine (USA), Dreadnought, Type 23 & Type 26 (UK), CSC (Canada) and Hunter class (Australia)
+ Key multi-level relationships with 'five-eyes' naval customers
+ Long-standing support and partnerships with major platform primes
+ Deep-domain knowledge, an agile and innovative approach and a culture of continuous improvement enable us to offer cutting-edge, cost-competitive solutions across our capability suite

Strategic focus
+ Increased investment in innovation and disruptive technologies
+ Deliver efficiency improvements and continuous improvement
+ Increase customer satisfaction by improving on-time delivery and programme execution
+ Grow market share in 'five-eyes' nations
+ Increased focus on aftermarket support
+ Improve safety awareness, culture and performance

Reported Sales for the year to 31 December 2020
(46% of Group Sales)
£391.8m

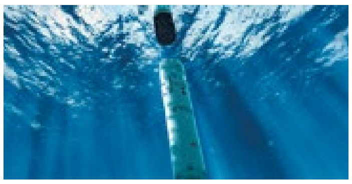
Organic sales growth
+12.3%

Statutory operating profit
£55.9m

Underlying operating profit
£58.6m

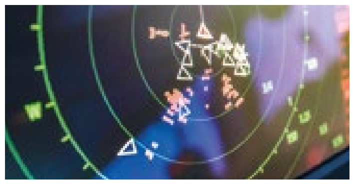
Underlying operating margin
15.0%

Core capabilities



Sonobuoy Systems
World-leaders in the manufacture and supply of sonobuoys and anti-submarine warfare (ASW) processing to navies worldwide. 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 & 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 & Power
We are proven turnkey system developers of traditional degaussing, advanced degaussing and high temperature degaussing systems and power conversion solutions for naval applications including electromagnetic analysis for naval platforms and ranges. 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.

2021 addressable markets
(Total accessible market in all accessible countries)

Sonobuoy Systems	Sonar Systems	Naval Systems & Sensors	Signature Management & Power
£388m 2020: £380m	£59m 2020: £58m	£543m 2020: £524m	£309m 2020: £299m

Intelligence & Communications

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 those operating in high-threat environments have the intelligence they need to carry out their missions safely and effectively.

Competitive advantages

+ Industry-leading expertise in resilient, secure communications networks & cryptography, and advanced artificial intelligence/ machine learning solutions
+ Strong platform positions providing high-integrity communications networks, real-time situational awareness and electronic warfare & telemetry systems
+ Deep-domain knowledge on aerial, maritime and land-based platforms providing software development, geospatial intelligence, crypto and communications expertise in applications where flawless execution in denied and contested environments is key
+ Long-standing relationships with 'five-eyes' government customers and leading defence primes
+ Domain knowledge, customer intimacy & applications-engineering heritage enable rapid, cost-effective design, prototyping and deployment of solutions

Strategic focus

+ Develop our core capabilities and interoperable solutions within NATO and allies
+ Increase investment in innovative and disruptive technologies, expand into adjacencies and deliver information advantage
+ Develop strategic relationships to extend into new areas
+ Focus on Tier 3 specific problems, and Tier 2 solutions where we have domain knowledge and offer significant value

Reported Sales for the year to 31 December 2020
(28% of Group Sales)
£241.0m

Organic sales growth
+8.6%

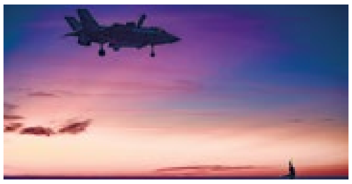
Statutory operating profit
£23.7m

Underlying operating profit
£33.5m

Underlying operating margin
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
Delivering 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.

2021 addressable markets
(Total accessible market in all accessible countries)

Communications	C2I	Cyber	Specialist Radio Frequency
£245m	£1.0bn	£962m	£1.1bn
2020: £239m	2020: £965m	2020: £918m	2020: £1.1bn

Ultra at a glance
continued

Critical Detection & Control

Reported Sales for the year to 31 December 2020
(26% of Group Sales)
£227.0m

Organic sales growth
-7.9%

Statutory operating profit
£30.0m

Underlying operating profit
£34.0m

Underlying operating margin
15.0%

2021 addressable markets

PCS
Serviceable Addressable Market*
£579m

Forensic Technology
Total Obtainable Market
£219m

Energy
Serviceable Addressable Market*
£1,188m

* Total value of Ultra product lines in accessible countries

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.

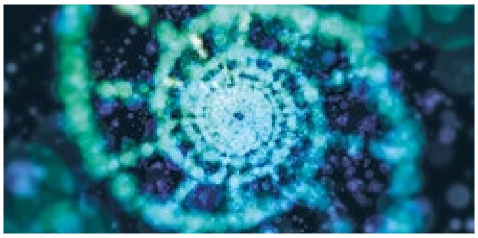
Our manned and unmanned vehicle systems and equipment improve vehicle reliability and performance, while reducing the burden on operators and maintainers.

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

Strategic focus
+ Expand our position in the five Ds domain (design, detect, distil, direct and deploy) within smaller mission- and safety-critical sub-systems where size, weight and power matter
+ Focus on our core skills of solving our customers' most challenging sensing and control requirements in some of the harshest environments
+ Consolidate our footprint and drive greater efficiency into our processes

Forensic Technology

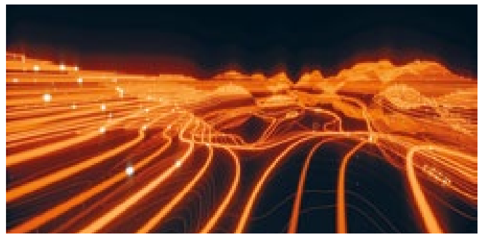


A world leader in the design and supply of highly sophisticated optical imagery systems, together with database management and data analytics software with our core focus on enforcement agencies around the world to prevent and solve crime.

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
+ 28 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

Strategic focus
+ Expanding addressable markets by developing hardware and software as a service and investing in new innovative technology that complements the Integrated Ballistic Identification System (IBIS)
+ Maintain our leadership position in the ballistic identification market by growing our revenue through innovation and the adoption of cutting-edge technologies to complete the end-to-end solution

Energy



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 focus
+ Expanding core offerings and utilise incumbent position in the aftermarket with reactor operators to increase share
+ Leverage experience and capabilities to gain position with Tier 1 Reactor OEMs on new build positions
+ Focus on SMR and next-generation reactor opportunities as they move to design completion and construction

Our growth story

Through our Focus; Fix; Grow plan we are transforming from a collection of disjointed businesses to become ONE Ultra

Over the following pages we report back on our progress and highlight our future goals

Our growth story
continued

We started our ONE Ultra journey after consulting all our key stakeholder groups. Their feedback showed us that, while we have plenty to be proud of, there is more we could do to improve how and what we deliver for them, and the efficiency with which we do it. As a result we started our Focus; Fix; Grow plan to become ONE Ultra.

In January 2020 we launched our ONE Ultra goal to become a cohesive solutions provider, addressing our customers' most complex problems.

ONE Purpose:
Innovating today for a safer tomorrow

ONE Vision:
To be a leading partner delivering outstanding solutions to customers' most complex problems in defence, security, and critical detection & control

Focused on what we're good at:

+ Applications engineering
+ Signal and data capture/processing
+ Signal, data and radio frequency (RF) transmission, analytics and interpretation
+ Specialist encryption
+ Sub-systems integration
+ SWaP (Size, Weight and Power) in harsh and regulated environments
+ Signature and power management

Building on our foundational technologies:

+ High-performance mission-optimised software
+ Size weight and power performance optimised hardware
+ Sensor/transducer design and production
+ Advanced algorithms and analytics
+ Software defined systems (radios/networks/radars)
+ Specialised power solutions
+ Big and complex data
+ Advanced and specialised radio frequency
+ Time- and mission-critical networking
+ Highly-accredited safety and security critical systems

To address future areas of customer needs:

1. Combating near-peer threats
2. Countering asymmetric threats
3. Doing more with less
4. Accelerating detect to deploy
5. Mission-enabling sensing
6. Quantum extreme value statistical analysis

ONE Set of ASPIRE values:

Agile
We embrace change, adapting to the conditions and making decisions at the right level.

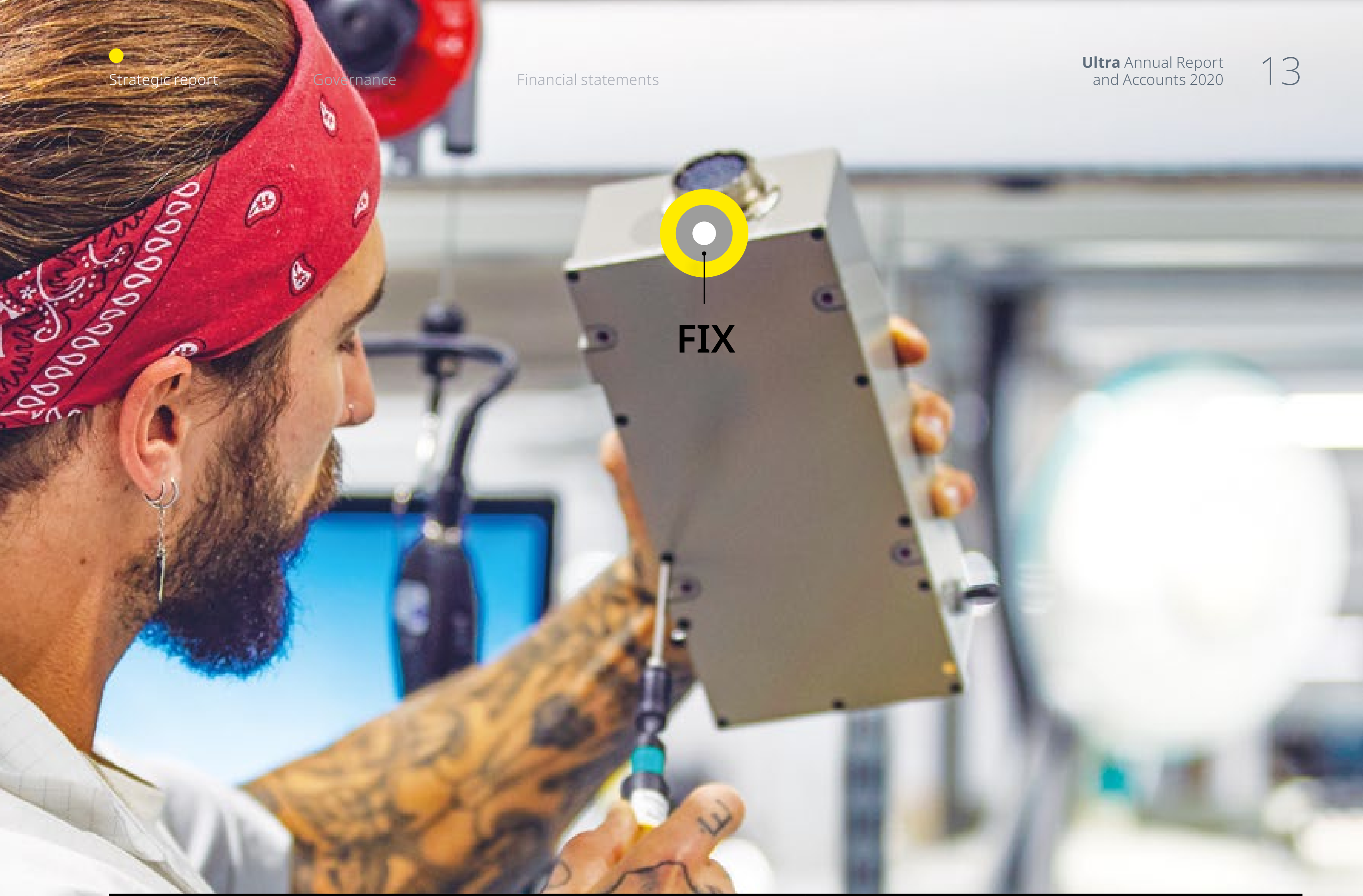
Sharing
We win as a team, sharing ideas and resources to achieve great things.

Performing
We are relentless about quality, we're never satisfied until we've done what we said we'd do.

Innovating
We're open and questioning, we challenge each other to think in new ways.

Rewarding
We love to celebrate success, seeking out and rewarding positive contributions at every level.

Empowering
We trust and empower each other, acting safely, ethically and with integrity.



WORKSTREAM	GOAL	PRIORITIES FOR 2021
Operating model	Improved alignment to strategy, greater empowerment and collaboration, improved operational oversight, enhanced leadership and reduced management layers.	+ Embed the new organisation model + Improved customer processes + Organisational alignment around common objectives
Site excellence	Improved working environment and sustainability, optimised manufacturing and utilisation of space.	+ Embed new ways of working to reduce footprint + Investment in Sonar Systems & Communications – Canadian sites + Site consolidation in UK and USA, and small site closures in the UK
Operational and functional excellence	Process standardisation, improvement and efficiency. Initially focused on improved commercial acumen, internal research and development (IR&D - see Glossary) investment, knowledge sharing and strategy, global sales, HR, project execution and finance processes that can be continuously improved. Additional processes to be reviewed over time.	+ Continued standardisation and improvement of functional support processes: – Embed global HR processes and system – Standardise global finance processes – Embed an improvement culture and standardise continuous improvement tools
Procurement	Better integration of our supply chain into design and manufacture, improved aggregation of spend, better supplier collaboration and management.	+ Develop standard procurement processes + Improved supplier collaboration and management + Strategic category management
ONE Ultra culture	Leadership and talent to support ONE Ultra strategy.	+ Embed values through performance, talent management and development + Continue to develop the talent pipeline + Next-level leadership, functional development and training + Focus on diversity
Technology enablement	Improved collaboration and efficiency of IT infrastructure and application suite.	+ Ultra Labs centre of excellence + Migrate to a global IT function + Improve application consolidation and standardisation

GROW

2020 was a year of great progress for Ultra:

ONE Ultra is our goal to become one organisation, with a common purpose and shared values:

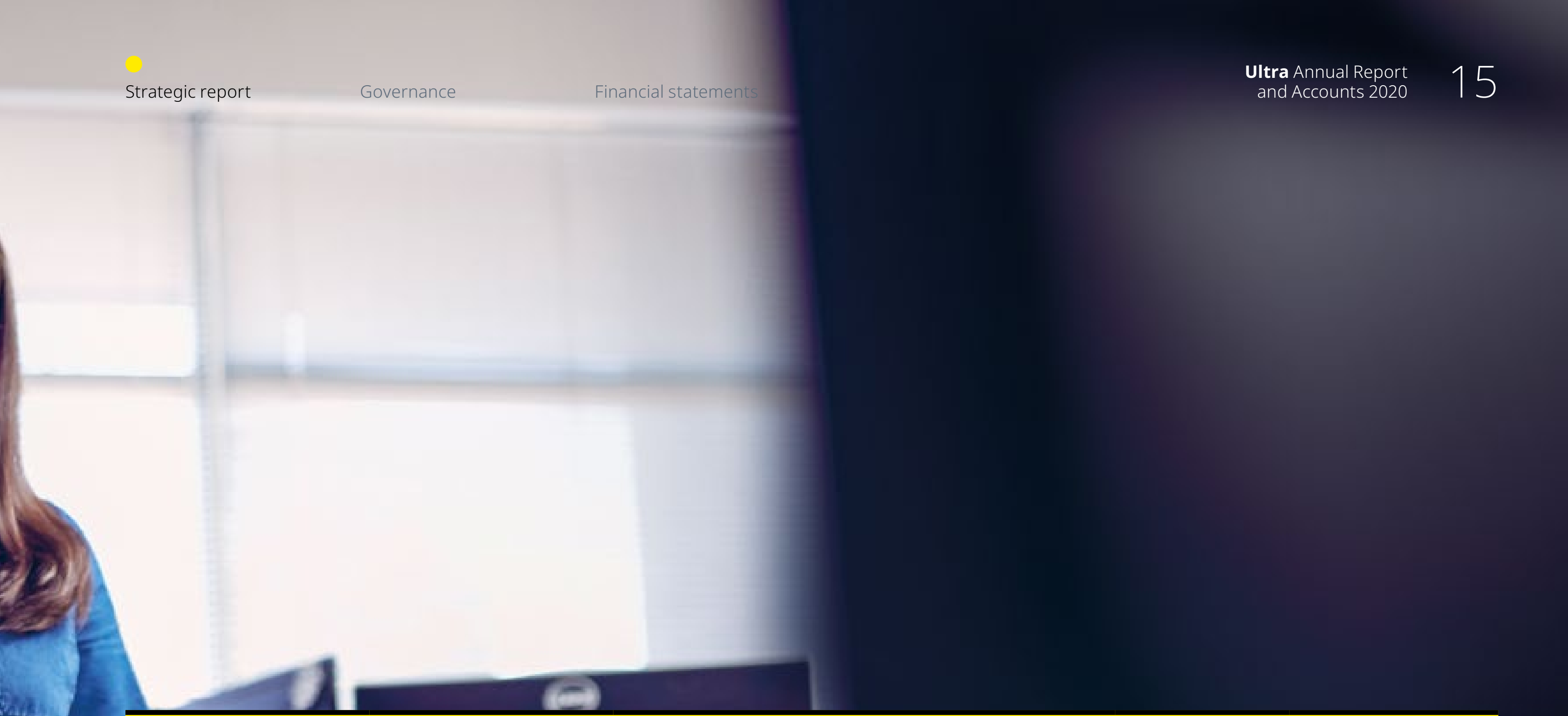
+ Focused, consistent strategy
+ Aligned, collaborating, sharing for best stakeholder outcomes
+ Strategic, relevant, innovative problem solvers, targeted relevant investment
+ Process and improvement focused, cost efficient
+ Agile, turbo-charged, quality decision-making
+ Rigorous execution and delivery

We will achieve ONE Ultra through:

1. A common vision, mission and set of values that support a collaborative, agile and customer-orientated culture
2. A focused and disciplined strategy pursuing specific applications and opportunities in areas of current and future technology leadership
3. Realising a parenting advantage to accelerate growth and improve efficiency and delivery
4. Capitalising on economies of scale, improving and standardising core processes and sharing and adopting best practice
5. Effective strategic relationship building, marketing and cross-selling to customers and end-users
6. Rigorous resource allocation discipline and deployment to support innovation and exceptional long-term value creation

Ultimately, our ONE Ultra strategy will deliver the 2024 goals set out for our five stakeholder groups detailed on pages 23-24.

2024 STAKEHOLDER GOAL	PROGRESS IN 2020	COMMENTARY	KPIS	RISKS
Employees Create a dynamic, inclusive and inspiring work environment that attracts, develops and retains the best diverse talent pool	+ 75.5% engagement score, above our internal target + More than 50% of critical management roles filled by internal candidates + More than 26% of management roles are held by women + Succession plans in place for all key management roles + Less than 10% Group employee voluntary turnover	+ Our engagement score rose to 75.5%, well ahead of our 2020 goal and we've delivered against our diversity and inclusion, training and leadership objectives. + We've been agile in adapting to the new working environment with a launch of our global home-working policy. + We have improved the strength of our leadership group. We have more work to do to achieve our aspiration, especially around the diversity of this talent and building a stronger bench below the Operating Business Unit (OBU) Leadership Team level. This year, in conjunction with Duke University, we created a Leading Star, Next Generation Star and Emerging Star training course for current and future leaders.	Employee Engagement	**Delivering change;** Retention and Recruitment risk; Health and Safety risk
Customers To partner with customers, delivering innovative solutions that create 'win–win' outcomes for all parties	+ Delivered share gains in Strategic Business Units 10% more than the market + Appointed new Chief Technology Officer	+ For the first time, we have a cross-Group technology roadmap that will inform our future investment decisions. We have some great innovation happening in areas such as sonobuoys, advanced C2I/Comms networking, adaptive detection and visualisation and specialist surface radar. + On-time delivery of production contracts increased in the year from 76.2% to 82.8%. This reflects the improvements made to Project Management excellence and operational oversight as part of our FIX workstreams, however we recognise there is still a way to go to bring this up to our targeted level.	Market Share, On time delivery, Internal R&D	**Bid and Contract Risk; Programme Risk;** Business Interruption



2024 STAKEHOLDER GOAL	PROGRESS IN 2020	COMMENTARY	KPIS	RISKS
Suppliers Develop Group-wide partners with like-minded values that provide best-value solutions, technical innovation and support mutual success, fairness and respect	+ Appointed new Head of Group Procurement + Developed a new centre-led, category-based operating model that optimises procurement and ensures the organisation works together effectively to deliver the most value possible on our external spend	+ Covid-19 and Brexit brought the procurement teams across the Group together and allowed us to solve problems with suppliers at a Group level. + This collaboration was impressive and we were able to avoid any significant disruptions. Our trusted suppliers were key to helping us to look ahead and adjust our orders and inventory. + Explaining our vision of procurement to suppliers allowed them to support us and help identify opportunities in key categories.	Revenue growth, Cash conversion and On-time delivery	**Bid and Contract risk; Programme risk; Governance and Compliance risk; Delivering Change;** Business Interruption
Communities To conduct business in an ethical, safe and sustainable way, acting as a positive force and making an active contribution to our communities	+ Corporate Social Responsibility (CSR) Group strategy + Environmental reduction targets set + Footprint reduction targets set + Group approach to health and safety created + Launched charitable matching scheme + Code of conduct launched to all employees	+ We launched our CSR Steering Committee, who launched our 'Positive Force' Group strategy in Q4 2020. + In addition, we commenced a number of other Group initiatives to support our CSR goals, including setting targets to improve revenue per square foot and reduction of physical locations, and reduce our consumption of single-use plastics. + 2020 also saw the launch of our Covid-19 fund, and $220,000 was donated during the pandemic. Our giving back framework of communities days and matched funding was also launched in Q1 2021. + Our Health & Safety goal is to align to the international standard ISO45001 H&S Management Standard. Alignment to this standard will start across our businesses in 2021.	Health & Safety, Carbon Emissions	**Governance, Compliance and Controls;** Environmental risk, Health & Safety risk
Investors Deliver outstanding through-cycle value for shareholders, through effective execution of Ultra's strategy	+ Delivered market share gains + Grew order and revenue book + Operating margin grew + Improved Average Working Capital Turn + Improved ROIC	+ After delaying payment of the 2019 full year dividend in March 2020 by withdrawing the proposed recommendation from the 2020 AGM, the Ultra Board confirmed in July 2020 that our liquidity position had remained strong during the pandemic. An additional interim dividend equivalent to the 2019 final dividend, and a 'normal' 2020 interim dividend, were paid in full in September 2020. + We met all our financial and market share targets in 2020, with particularly strong operating margin, cash flow and ROIC performance.	Order book, revenue growth, cash conversion, ROIC, Operating profit and internal R&D	**Bid and Contract risk; Programme risk; Governance, Compliance and Controls; Delivering Change;** Business Interruption

WE ARE

Brilliant thinkers

The Ultra Way

The Ultra Way is about creating cultural change to empower our people at every level of our organisation. Changing the way we think and work to keep improving the way we do things – so that, every day, we become better than we were the day before.

In 2020 we introduced the Ultra Way to our leadership team. Across 2021 we will continue to strengthen a culture of continuous improvement in Ultra.

We believe that by aligning all our people behind the idea of making a lot of small improvement steps we can deliver Ultra's 2024 goals and more.

How the Ultra Way will support the delivery of ONE Ultra:

+ Involve everyone in making Ultra better
+ Build capability to make things better
+ Provide tools to our people to enable them to deliver change
+ Align the organisation to Ultra's goals

ACCELERATING CULTURAL CHANGE

Continuous improvement frees up resources…

One organisation, clear purpose and common values

Aligned, collaborating, sharing for the best Group outcomes

Process focused

A TEAM OF NETWORKED TEAMS

Increased flexibility and agility

Turbo-charged speed and strength of decision-making

Rigorous execution

…boosting innovation, accelerating growth, improving delivery and driving exceptional value creation

WE ARE

Breaking boundaries

How the Ultra Way helped Sonar Systems push past what they thought was possible

Earlier this year, the team at Sonar Systems in Halifax, Canada needed to meet a target of consistent output of 40 units a day on a new line of sonobuoys – all while ensuring that the production of other products didn't suffer.

"It was a big goal to go from 0 to 40 units a day, while maintaining three other lines. Definitely a challenge, but one that we graciously accepted." says Roberta Rose, Continuous Improvement Leader at Sonar Systems. That challenge seemed to boil down to one concern - capacity. Ahead of their planned Sprint/Kaizen event in September, Roberta was already confident that Continuous Improvement – powered by the Ultra Way – was key to Ultra's future. **"It is about empowering people, no matter their role or job title, to exceed and excel, and to do it together."**
She describes the operators at Sonar Systems as the 'surgeons on the floor'. **"We are the support staff there to ensure they can get the job done."**

By the November deadline, the results of the Sprint spoke for themselves. The team was able to improve the efficiency of the new work centres in a matter of weeks, and 40 units a day of the new sonobuoy were being delivered consistently. All key deliverables were met. But Roberta believes there was an even more important outcome: **"They didn't think they could do it, they said we were nuts! And I think there is still a bit of disbelief in the team at what we've achieved, they are so proud. To me that might be the biggest accomplishment – belief and faith in themselves, and the system. It has shown us that, with this, and if we work together, we can achieve incredible things."**

Following their success, the Sonobuoy team are taking Continuous Improvement to heart. **"We are already talking about stretching ourselves further"**, Roberta explains. **"We hadn't initially considered pushing past 40 a day. That to me is what the Ultra Way is all about. It is incremental step changes and using Continuous Improvement as a methodology."** This excitement seems to extend to the wider changes happening across Ultra: **"It is an opportunity for everyone who has an idea or an input to share it, to grasp hold of the problem and make it happen. We're moving away from a culture of Business Units mostly working on their own. People here are always talking about how great it is to be able to reach out and network, to collaborate."**

Chief Executive's report
Delivering for our stakeholders

Through the extraordinary efforts of the whole Ultra team, we made good strategic progress and achieved another year of strong organic growth. We also delivered or exceeded most of our stakeholder objectives. These would have been excellent outcomes in any year, but against a background of pandemic-driven disruption and turmoil, it was an exceptional performance.

Simon Pryce
Chief Executive

Financial summary

Ultra made good strategic progress during the year, winning new positions on key development and production programmes. These include a $145m 10-year indefinite-delivery/indefinite-quantity (IDIQ) for a new application of our next-generation ORION radios for the US Navy, a $42m low-rate initial production contract for Next Generation Surface Search Radar (NGSSR), a $24m Extended Range Directional Frequency Analysis and Recording (ER-DIFAR) sonobuoy development contract (our first outside the ERAPSCO joint venture), a new contract with the United States National Guard Bureau for Joint Interface Control Cell Extended Trainer solutions and a development and production award for NIXIE torpedo countermeasures, potentially worth over $250m.

Defence spending in our core 'five-eyes' markets remained robust and Ultra continued to outperform, delivering 5.9% organic growth in our order book. This included new contract wins and orders under IDIQs on existing platforms such as a $31m order from the US Marines and $27m from the US Army for our next-generation ORION radios, $162.8m of sonobuoy orders, and a $45m MK54 torpedo array order. We exited the year with another record order book of £1.1bn and entered 2021 with strong order cover of 71% (2020: 71%). Order intake in Q1 2021 continues to be strong, including the annual US sonobuoy award worth $80m to Ultra at the beginning of March.

Revenue grew by 4.2% in the year and 5.2% organically. Maritime grew organically by 12.3% with strong demand for radar and sonar products, including sonobuoys. Intelligence & Communications revenue grew organically by 8.6%, driven by sales of ORION radios and Air Defence System Integrator (ADSI) systems.

This growth was partly offset by Covid-19-driven declines in Critical Detection & Control of 7.9%, with commercial aerospace orders down by nearly 20% and weak industrial sensor sales in our Energy business. We did however see resilient demand for forensic-related support and maintenance services and strong demand in military aerospace, particularly on the F-35 and Typhoon programmes.

Group statutory operating profit increased by 12.8% to £106.3m. Group underlying operating profit increased 6.7% to £126.1m (2019: £118.2m).

In Maritime, underlying operating profit grew organically by 12.9%. Underlying operating margins expanded slightly to 15.0% (2019: 14.9%), with the tailwind from the non-recurrence of last year's contract losses of £8.8m offset by increased investment in R&D and transformation, as well as some supply chain and engineering disruption. Statutory operating profit in Maritime grew by 27.3%, and statutory operating margin increased to 14.3% (2019: 12.4%).

Underlying operating profit in Intelligence & Communications grew by 6.7% organically, reflecting increased sales in our Communications and C2I Operating Business Units and good operational improvements, particularly in Specialist RF. Underlying margins declined slightly to 13.9%, with improved productivity in several businesses, offset by increased investment in transformation and R&D. Statutory operating profit in Intelligence & Communications grew by 18.5%, and statutory operating margin increased to 9.8% (2019: 8.9%).

Underlying operating profit declined organically by 4.0% in our Critical Detection & Control due to the previously mentioned Covid-19 impact on sales. Underlying operating margins in this Business Unit however, grew to 15.0% (2019: 14.4%), reflecting good cost control, favourable transactional FX and good sales mix in our Forensics business. Statutory operating profit in Critical Detection & Control declined by 4.8%, and statutory operating margin increased to 13.2% (2019: 12.7%).

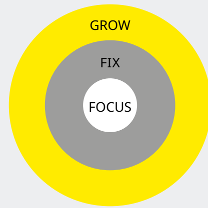
Overall, statutory operating margin was 12.4% (2019: 11.4%). The group underlying operating margin of 14.7% was better than we expected. As planned, we increased transformation investment by over £5m to £8m and increased our investment in internal research and development organically by £2.8m to 3.7% of sales (2019: 3.6%). The cost increases in transformation and R&D were partly offset by lower than expected indirect costs due to Covid-19-related changes to travel and marketing spending. These costs are expected to normalise during 2021.

Underlying profit before tax (PBT) increased by 8.7% to £114.5m. We made a net gain on the disposal of two small non-core businesses, partly offset by a legacy provision relating to one of the businesses sold. Statutory PBT increased by 14% to £103.7m, reflecting the underlying performance as well as decreased amortisation charges. Underlying earnings per share (EPS) increased by 9.3% to 130.6p (2019: 119.5p), reflecting the increase in underlying profit and a slight reduction in the underlying tax rate. As a result, statutory EPS increased 12.3% to 118.0p.

Statutory cash generated by operations increased to £142.6m (2019: £114.9m) and underlying operating cash conversion was excellent at 92% (2019: 73%). This was partially due to the increasing order book, which led to customer advances. In addition, collection of receivables was strong, unbilled receivables decreased and capital expenditure was lower than planned due to our new enterprise resource planning (ERP) strategy.

Transformation progress

During 2020 we moved firmly into the execution phase of Ultra's transformation, with good progress throughout the year across all workstreams in our Focus; Fix; Grow change programme:



WORKSTREAM	GOALS	PROGRESS IN 2020
Operating Model	+ Improved customer alignment + Better functional support + Relevant data, improved decision-making, disciplined allocation of scarce resources	Our new strategy was launched at the beginning of 2020 and this now guides all prioritisation and resource allocation decisions. The operating model design work to best support strategy execution was completed during the year. This included a new organisational structure, launched on 1 January 2021, completing our migration from an aggregation of individual site-based businesses to a collaborative Group. We revised and relaunched delegated authorities and empowerment guidelines to improve the speed and quality of decision-making, while improving visibility and oversight. We introduced and enhanced a suite of standard operational metrics to better focus on actions and outcomes, and to better measure and monitor progress against our stakeholder goals. We also introduced a process for aligning individual and corporate objectives across the organisation, no longer just based on outcomes but also on how they are achieved, with behaviours measured against our ASPIRE values.
Site Excellence	+ Improved and optimised working environment + Increased sustainability + Better working practices	We made good progress in optimising our footprint, closing a production site in Rochester, New York, and beginning plant closures in Wake Forest, North Carolina and one of our facilities at Greenford in the UK. We also approved plans to invest in two of our existing sites in Canada in 2021 to support future growth. We introduced Group-wide changes in working practices to create greater agility and flexibility, while improving footprint utilisation, and ultimately efficiency, cost and our impact on the environment. All sites have been updated to reflect the Group re-branding, and the launch of our vision, mission, and values. We have also invested in shop floor layout improvements, partly in response to the pandemic but also to upgrade and improve the working environment.
Operational and Functional Excellence	+ Improved utilisation, efficiency, productivity and delivery + Better collaboration to improve customer outcomes + Global standards where there is a benefit from having them + Improved business partnering and decision support	We made excellent progress on projects focused on improving our HR, finance, IT, project management and sales processes. We have reviewed our marketing and sales processes and identified material opportunities to improve through better use of the Group's extensive customer knowledge. We also further enhanced and improved risk assessment and management in our bid processes. During the year, we piloted a standardised customer feedback process to get better, independent, and more immediate information on customer needs and support. We completed the redesign and standardisation of our HR processes across the Group during the year. We selected a new Global human resource information system (HRIS) to be implemented across the Group, which will go live in Q2 2021. We made good progress expanding and standardising our chart of accounts and replacing our financial consolidation system. This will enhance our data quality and fidelity, and improve control and performance management. We are also improving several local finance administrative processes in advance of developing standard finance processes in 2021.
Procurement	+ More reliable supply chain + Better scale benefits + Transparent data and standard procurement processes + Better supplier collaboration and management	A Group Head of Procurement was appointed and is creating a centralised procurement function, responsible for standardising procurement processes and practices and key category management. In parallel, we have focused on aggregating demand in a small number of key categories to improve supplier collaboration and management as well as achieving economies of scale in 2021. Our internal capability to build high complexity, low volume printed circuit boards is also being enhanced to optimise design for manufacture and supply chain risk management.

Continued overleaf →

Chief Executive's report
continued

Transformation: on track continued

WORKSTREAM	GOALS	PROGRESS IN 2020
ONE Ultra Culture	+ Investing in people + Innovation + Working environment + Continuous improvement	Our new common vision, mission and values were agreed, launched and embedded in 2020. A leadership capability assessment was also completed. Assessment tools, performance management processes and remuneration structures have now been aligned to our ONE Ultra strategy and values. Leadership training programmes commenced in 2020 to support our new ONE Ultra behaviours. We were particularly pleased with the result of our all-employee engagement score, which increased to 75.5%. We were able to use feedback from this engagement survey and, as a response to the pandemic, have introduced new ways of working to support more flexible and agile working across Ultra. The new organisational structure has also created opportunities for us to enhance our bench strength and promote our best people. By the end of 2020, nearly 40% of Ultra's top talent were new or new in role. One in three of this group are female, and women now make up over 25% of Ultra's top management.
Technology Enablement	+ Improved collaboration + More efficient IT infrastructure + Standard processes supported by standard applications	New foundational IT infrastructure was selected in 2020, and is currently being implemented globally. These technologies support data standardisation initiatives and the widespread process improvements taking place across the Group. This will enable more effective information exchange and collaborative working. A Group Chief Technology Officer was appointed during the year to monitor technology trends, improve efficiency, and remove duplication from the Group's development efforts. We are already seeing better alignment of our internal R&D investments with our customers' future needs.

Ultra's underlying profit growth, the amortisation of intangibles and low capital intensity meant that ROIC increased to 20.0% in 2020 (2019: 17.8%).

Covid-19

Ultra's flexibility and performance through the pandemic demonstrates the strength of our business model, and the exceptional commitment and resilience of our people in addressing numerous customer, production, supply chain and other issues to continue to deliver for all our stakeholders. While most facilities experienced some disruption, all remained open and productive throughout the year.

We have not sought to benefit from any material local or national Covid-19 stimulus (such as furlough or tax deferral) and, although we continue to monitor and adapt to the changing situation in all our markets, we do not anticipate doing so.

We also provided immediate and much needed support to our local communities most impacted by the pandemic through our ONE Ultra Covid-19 fund. To date we have donated over $200,000 to our local communities across the world.

Summary & outlook

2020 was a year that demonstrated the underlying strength of Ultra and the capabilities and dedication of our outstanding people.

Through the extraordinary efforts of the whole of the Ultra team, we made good strategic progress and achieved our third consecutive year of strong organic growth. We made good progress on our ONE Ultra transformation and, as a result, we delivered or exceeded most of our stakeholder objectives. These would have been excellent outcomes in any year, but against a background of pandemic-driven disruption and turmoil, it was an exceptional performance.

We enter 2021 with a record order book giving us strong visibility and we are very well positioned in key growth areas, and to support customers' evolving priorities. We continue to increase our technology investment, expanding the areas in which we can provide effective customer solutions. Our ONE Ultra transformation programme is having a positive impact on both growth opportunities and operational efficiency, and with strong 2020 delivery, we are confident enough to accelerate several of our transformation actions in 2021. This should see us begin to realise year-on-year benefits in 2022, a year ahead of plan.

This excellent performance gives us further confidence in Ultra's exciting potential and our ability to deliver exceptional value for all stakeholders over the longer term.

WE ARE
Dedicated

Ultra heroes

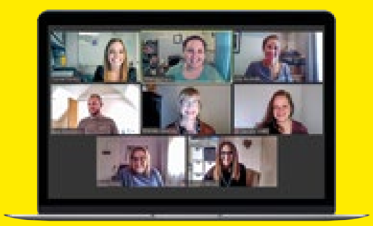
Our first priority during the pandemic has been to keep our people as safe and healthy as possible while continuing to deliver for our other stakeholders.

During this unprecedented and intensely challenging year, many of our colleagues have been on the front-line responding to the pandemic and have demonstrated exceptional resilience, great spirit and care for one another, our customers and our communities.

As a result of their exceptional efforts, apart from a day or two here and there, all facilities remained open and productive throughout the year, and there was no significant disruption to product or programme delivery.

We'd like to thank our 'Ultra Heroes' for everything they've done and how they've responded to the challenge of Covid-19 while continuing to pursue our ONE Ultra transformation agenda. We've had over 130 Ultra Heroes who have been recognised by their colleagues over the course of 2020. Here are just a few of these.

We couldn't be prouder of every one of our people during 2020 who have kept Ultra delivering for all our stakeholders.



In a world where connectivity is essential, we would also like to thank our global IT teams, who have been working around the clock to keep us all connected in a new virtual environment.

Bonny Stairs brought in her own sewing machine from home to sew face masks from leftover material from a local company in Halifax, Nova Scotia, for the production staff and people in the office at Ultra Sonar Systems. We can't thank Bonny enough for the hard work, time and effort she put in, so everyone feels safe and stays healthy.

Ultra C2I's Link-16 Alaska (LAK) Field Installation Team completed a major retrofit of the deployed systems in Alaska during the pandemic. The team addressed unique challenges and conditions throughout their time due to Covid-19 restrictions, such as difficulties with transportation, and changes in shifts and schedules.

The team was required to upgrade the final eight LAK sites located in some of the most remote locations in Alaska – accessible only by charter aircraft. Normally, this would have been an eight-week programme but, in order to meet critical timelines, the team was asked – and agreed – to do this in four weeks. Despite all the challenges and changing requirements, and because of their dedication, ingenuity, and endurance, the team completed the installations one day ahead of schedule.

Our **Ultra Forensic Technology Strategic Business Unit (SBU)** used personal time and money to produce and distribute 3D printed protective face shield frames for front-line medical workers. We would like to thank Paul Murphy, Firearm Examiner at our Largo, Florida office, and Bruno Sylvain, Senior Software Developer at our Montreal office in Canada.

At **Ultra Naval Systems** in the USA, employees decided to help our communities by using surplus 3D printer capacity to manufacture respirators and face shields. Between March and May 2020, 650 respirators and 120 face shields and masks had been printed, assembled, and delivered to front-line workers in desperate need of critical PPE.

Ventilator Challenge UK

VENTILATOR CHALLENGE | UK

We are proud to have assisted the UK Government with its "Ventilator Challenge UK" (VCUK), helping to produce as many ventilators as possible to support the NHS in treating people impacted by Covid-19. VCUK saw numerous employees come together in difficult circumstances from across our businesses in the UK. We had only one objective in mind: to find quick and effective solutions to any issues that arise daily.

Over the course of Spring and Summer 2020, our team of dedicated employees helped the Consortium with:

+ Technical solutions, providing concessions and supporting data
+ Performing test coverage analysis and suggesting process improvements
+ Setting up build lines for the manufacture, testing and programming of key Printed Circuit Board assembly
+ Providing support and guidance in best practice for configuration control and compliance of complex processes and supply chains.

It was a great example of ONE Ultra working tirelessly together as a single team for a common cause: delivering solutions to complex and ever-evolving problems.

Thank you to all our teams involved!

Working with our stakeholders and s172

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 22 and 23.

On pages 24 and 25 we set out the principal decisions taken by the Board in 2020, 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 **12-15**
Transformation investment: pages **19-20**

The interests of the company's employees

Supporting our people: pages **40-48**
Workforce engagement: page **80**

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

ONE Ultra strategy: pages **14-15**

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

Protecting our planet: pages **49-53**

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

Transform our business: pages **45-46**
Ethics Committee: page **75**
Audit Committee report: pages **84-87**

The need to act fairly between members of the company

Stakeholder goals: pages **14-15**
Investor engagement: page **81**

Employees

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

2020 focus areas

+ Building the talent pipeline
+ Strengthening leadership and functional capability
+ Compelling reward and recognition
+ Succeed through diversity
+ Create a winning culture
+ Transform our business

Key 2021 measures

+ Continuously improving our engagement score
+ Reducing voluntary turnover
+ Conducting an increased number of Ultra Way Sprints (continuous improvement events) per site, per month

How Ultra engages

+ UltraView engagement survey including action plan follow-up with all employees
+ Engagement Pulse survey in between full survey
+ Employee feedback sessions with managers
+ Leadership conferences (virtual in 2020)
+ Weekly newsletter and Ultranet sharing platform
+ Monthly town hall meetings
+ Leadership training programmes
+ Board and Executive Team site visits
+ Ethics Committee site visits
+ Strategic Business Unit roadshows
+ Ultra Way continuous improvement Sprints

Supporting our people **pages 40-48**
Workforce engagement **page 80**

Board engagement

Direct

+ Our CEO and CFO held several townhall meetings with Q&A
+ 'Ask the CEO' emails
+ Daniel Shook and Ken Hunzeker met certain employees at a site visit to Herley, Lancaster, USA
+ Victoria Hull and Geeta Gopalan, engaged with 50 of our women leaders as part of our Strategies for Success programme

Indirect

+ Received and discussed collated feedback from manager and employee group sessions regarding our Code of Conduct and re-branded Speak Up platform
+ Received and discussed feedback reports and recommendations from transformation focus groups
+ Received and discussed feedback from our independent Ethics Committee

Customers

2024 goal: To partner with customers, delivering innovative solutions that create 'win–win' outcomes for all parties.

2020 focus areas

+ Being the customers' supplier of choice in our areas of strategic focus
+ Partnering to understand customer problems and priorities and creating valued solutions that the customer is prepared to pay for
+ Delivering on our commitments and exceeding customer expectations
+ Being agile, flexible and responsive to customer needs
+ Valuing creative investment in strategic research and development to innovate in support of customer needs

Key 2021 measures

+ Launch of our new customer feedback tool to monitor customer satisfaction
+ Labour productivity
+ Cost of Poor Quality
+ On-Time Delivery improvement
+ Product Vitality Index (the percentage of revenue driven by products developed in the last five years)

How Ultra engages

+ Group-wide multi-channel engagement around organisational design changes
+ Ongoing customer relationship management to ensure our customers' needs are met
+ Central SBU engagement with key influencer relationships
+ Piloted a standardised customer feedback process – to be rolled out in 2021

ONE Ultra strategy **pages 12-15**

Board engagement

Direct

+ Our CEO engages directly with key customers and returns feedback to the Board in his Board reports

Indirect

+ Received customer feedback from Business presentations from SBU/OBU Leads
+ Customers' needs considered prior to approval of new sales policy, standardised customer feedback and the Group technology roadmap, aimed to align Ultra's internal R&D with customer future needs

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.

2020 focus areas

+ Taking a long-term and partnering approach to supply chain development
+ Focusing on lowest total cost of supply (including quality, delivery and inventory)

Key 2021 measures

+ Total cost of procurement (direct and indirect procurement costs) reduced
+ Late supplier deliveries reduced

How Ultra engages

+ Ongoing supplier relationship management through our procurement teams, to ensure our customers' needs are met
+ Creating a dialogue with our key suppliers – sharing our vision for procurement transformation and listening to our suppliers' feedback on how we can work together for mutual success
+ Taking a global view of strategic categories which allows us to collaborate with suppliers across businesses and countries creating bigger opportunities

ONE Ultra strategy **pages 12-15**

Board engagement
Direct

+ Reviewed supplier needs including payment practices and working capital movements, particularly in light of the pandemic and changes in customer advanced payments during the year

Indirect

+ Received a presentation on the procurement transformation business case that identifies our Group-wide approach to category management and supplier 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.

2020 focus areas

+ Aligning behind an Ultra-wide sustainability plan that is actioned, monitored, measured and regularly reviewed
+ Ensuring we are a positive force in all our local communities where we operate
+ Acting at all times in an ethical, safe and sustainable way in accordance with our ASPIRE values
+ Encouraging and supporting our employees to contribute to community work and support

Key 2021 measures

+ Reducing 2021 carbon emissions by 10% (2020 not a reliable base due to Covid-19)
+ Improving 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. Importantly, this measure is not just for employees but also visitors, suppliers and contractors who are on Ultra sites

How Ultra engages

+ Community engagement on a wide-scale following the launch of our Covid-19 fund. This resulted in the development of local community support frameworks where we operate
+ Community activities, initiatives and donations channelled via our Group CSR Committee – with 17 members across all our businesses and locations

Strategic report **page 21**
Giving back **page 53**

Board engagement
Indirect

+ Received a presentation from our CSR Committee Chair on the Company's CSR initiatives and developments in 2020 prior to approving Ultra's CSR policy and strategy, including 2021 objectives and initiatives
+ Received feedback reports on how the Company's Covid-19 fund had helped our communities
+ Investor feedback around CSR themes and disclosure was presented and discussed

Investors

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

2020 focus areas

+ Clearly defining and communicating our ONE Ultra strategy for outstanding value-creation
+ Clarifying and delivering Ultra's parenting advantage opportunities
+ Taking understood and managed risk within strategic guidelines to deliver growth above target market
+ Defining strategic key performance indicators (KPIs) and setting/communicating targets to monitor delivery
+ Disciplined capital allocation, within a clear policy that includes return hurdles, leverage levels and dividend policy

Key 2021 measures

+ Improve order book and sales growth
+ Improve ROIC
+ Improve working capital and inventory turns

How Ultra engages

+ Results roadshows and investor meetings with CEO, CFO and Investor Relations
+ Annual General Meeting
+ Investor calls and briefings

Our business model **pages 26-27**
Investor engagement **page 81**

Board engagement
Direct

+ Private and institutional investor meetings organised with Directors as requested
+ Investor presentations by the Chief Executive Officer and Chief Financial Officer throughout the year

Indirect

+ Public webcasts and investor materials on new Group website are now clearer and easier to find
+ Considered the needs of our investors when reviewing capital allocation and our dividend policy over the course of the year, particularly in light of the global pandemic

Working with our stakeholders
continued

Principal Board decisions in 2020

The Chair, in conjunction with the Company Secretary, sets the agenda for each Board meeting to ensure that the requirements of section 172 of the Companies Act 2006 are considered and met through a combination of the following:

+ Board papers ensure that longer-term consequences and stakeholder considerations are addressed where relevant.
+ Consistent approach to minute taking when section 172 factors are being considered.
+ Regular review of progress against our stakeholder goals, which are set out on pages 14 and 15.

Continuity of operations throughout the Covid-19 pandemic

Stakeholder considerations
As a critical supplier, the Board was mindful of the fact that, while our operations need to continue to deliver mission-critical systems for our customers, looking after the health and well-being of our people is always our first priority. A special Board meeting was called to discuss operations, including continuity planning and scenario analysis as well as the potential mitigating actions that could be taken to reduce the impact of the pandemic on the business. In assessing the potential scenarios and mitigating actions, the Board considered the potential impact on all relevant stakeholder groups, including the health and safety implications for relevant employees of keeping the Group's critical facilities open and operating.

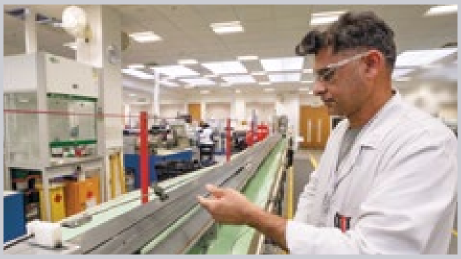
The Board also considered whether to pay the previously proposed final dividend for 2019 and concluded that until the financial impact of the pandemic was fully understood it would be prudent to postpone it. This resulted in the withdrawal of the Board's recommendation of a final 2019 dividend of 39.2p per share from the 2020 Annual General Meeting. However, once the limited impact of the pandemic became clearer, mindful of the interests of its stakeholders, including shareholders, the Board was comfortable to declare an interim 2020 dividend of 15.4p per share and an additional interim dividend of 39.2p per share (equivalent to the initially proposed final 2019 dividend). A $220,000 Covid-19 fund to support our local communities was also provided.

Supply chain risks were also reviewed as a result of Covid-19 and Brexit, considering the financial health of suppliers and their ability to continue supporting Ultra in the longer-term. The vast majority of our suppliers were able to meet our supply demands, although there was marginal impact within the supply chain in some areas.

Long-term implications
All our facilities were able to continue operating effectively as a result of our Covid-19 actions with minimal impact on delivery of our customers' solutions. Our employees were able to continue working in Covid-19 safe environments, or from home, with no furlough or job losses as a result of Covid-19. A global home-working policy was created and approved, which aims to allow office-based employees greater flexibility in how they work post-pandemic. Whilst accelerated by the pandemic, this also responded to feedback from our employee engagement survey. Additional security measures and technologies were deployed to further enhance the security of our networks and protect our employees' and customers' information.

Our continued operations ensured good cash flow and the continuation of good supplier relationships through our review of payment practices and working capital movements in our capital allocation decision-making.

The intended value of dividends to investors was maintained, although delayed, resulting in investors receiving the returns expected from Ultra.

Organisational design

Stakeholder considerations
The Board played an active role in reviewing and monitoring progress on Ultra's HR strategy (see page 40) including contributing to the organisational design changes and the development of leadership succession plans as the Group refocused to 'five-eyes' defence markets.

The Board also approved and supported the appointment of a Head of Diversity and Inclusion (D&I) to lead Group D&I initiatives.

Leadership training was launched for new teams post the organisational design changes to ensure all Ultra's leaders had the skills and demonstrated the behaviours needed to support our ONE Ultra strategy and our ASPIRE values.

Long-term implications
All of our HR process improvements agreed by the Board contribute to Ultra's goal to create a dynamic, inclusive and inspiring work environment that attracts, develops and retains the best diverse talent pool. The strategy will enhance Ultra's employee value proposition and, in turn, will benefit our employees and will enable us to better attract and retain the talent that we need to enable us to achieve our strategic objectives over the long term.

The new organisational design is a fundamental part of enabling our ONE Ultra vision and will allow much better cross-business collaboration and a more joined-up approach to customers, ultimately delivering value for our investors.

Sustainability plan

Stakeholder considerations
The Board recognises the importance of minimising the impact of the Company's operations on the communities in which we operate and the environment. As such, the Board approved Ultra's sustainability plan (see page 38), including goals for 2021 and 2024 across three key pillars:

+ Supporting our people
+ Protecting our planet
+ Giving back

The Board also supported the CSR Committee's approach to enhanced Environmental, Social and Governance (ESG) reporting goals to ensure we communicate better with our stakeholders regarding this area. As a result, we will be publishing a new Sustainability Report to ensure our stakeholders are better informed of our sustainability activities and initiatives, and enable us to provide enhanced reporting on progress against ESG/CSR objectives on an annual basis.

Long-term implications
The Board are mindful that Ultra's CSR progress is a key part of our ONE Ultra strategy to deliver value for all our stakeholders.

Through our sustainability plan, described further on pages 38-53, employees can help to deliver value within the communities in which they live and work in over the long term through Ultra's Giving Back framework.

Our environmental footprint goals will also help us to protect our local and global communities.

Transformation

Stakeholder considerations
The Board reviewed our transformation progress, including performance against 2020 and 2024 goals, at each Board meeting and at the Board strategy day in July 2020.

The Board used data from the transformation feedback sessions to inform decision-making about future projects and spend as part of the budgeting process. Feedback relating to employee workloads led to prioritisation of certain projects and de-prioritisation of others. In addition, the Board put a process in place to monitor the quantity of change happening at any one time and the impact it would have on different functional teams.

The Board also agreed that Ultra should invest in new IT infrastructure to support communications and collaboration.

Consideration was given to site moves in line with our site excellence transformation workstream, seeking to minimise redundancies and offering relocation support. The Board was mindful of the interests of employees when considering site moves and how to cause the least disruption to staff. As a result of Ultra's already large site presence, the Board believes there will be minimal impact for other stakeholders except increased efficiency for customers.

Customer feedback was used to match their requirements against the Group technology roadmap, which was presented to the Board, to ensure we are investing in technologies that will fulfil our customers' future needs, ensuring these meet their own sustainability commitments, while generating value for Ultra.

Long term-implications
The main purpose of our transformation programme is to position Ultra to enable it to deliver its ONE Ultra goals and create long-term value for all our stakeholders. See pages 12-15 for more detail.

Our business model
How we create value for our stakeholders

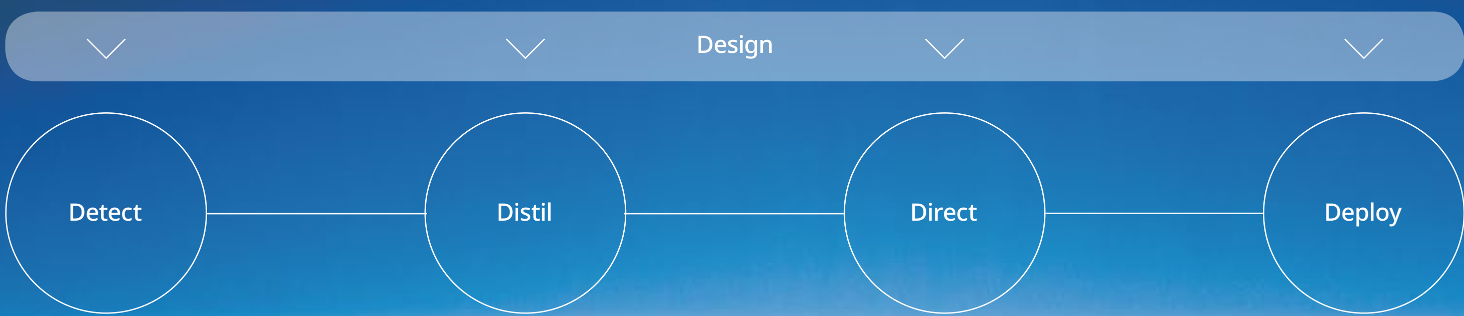
What we do

We are a trusted partner in the key elements of mission-critical & 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 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 the world is facing.



Who we work with

We work with the world's major prime contractors and directly with the US DoD and UK MoD. Direct defence sales to the US DoD and UK MoD accounted for 30% of our revenue in 2020.

Indirect sales to the DoD and MoD accounted for an additional 26%. We have high visibility of future revenues with 71% opening order cover for 2021 and 59% of our current year revenue generated by over-time contracts. Typically, such 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 22-25**

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.
+ Below are the KPIs we will focus on in 2021 to support our long-term goals. This year we have added an additional Environmental KPI to reduce 2021 emissions. This helps us achieve our 2024 community goal of conducting our business in a more sustainable way.
+ 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 re-investment into innovation through technology, people and capabilities to ensure we meet our purpose of innovating for a safer tomorrow.

Organic and underlying measures are defined on pages 163 and 164. 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)	Relevance to Executive Remuneration	Associated stakeholder goal
Organic order book growth	Organic order book growth compared with the prior year was +5.9% (2019: +10.7%). 20 5.9% 19 10.7% 18 5.2% 17 16.8% 16 0.4%	**Bid and Contract Risk** **Programme Risk** **Geopolitical Risk** **Defence Sector Cycle Risk**	Strategic objectives criteria	Investors Deliver outstanding, through-cycle value for shareholders through effective execution of Ultra's strategy.
Organic revenue growth	Organic revenue growth compared with the prior year was +5.2% (2019: +6.8%). 20 5.2% 19 6.8% 18 2.2% 17 -3.3% 16 -4.1%	**Defence sector cycle risk** **Delivering Change** **Geopolitical Risk** Business Interruption	Long Term Incentive Plan criteria	Investors Deliver outstanding, through-cycle value for shareholders through effective execution of Ultra's strategy.
Through-cycle cash conversion	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. 20 92% 19 73% 18 79% 17 97% 16 92%	Delivering Change Pensions Governance, Compliance & Controls Business Interruption	Average Working Capital Turn in annual bonus criteria	Investors Deliver outstanding, through-cycle value for shareholders through effective execution of Ultra's strategy.
ROIC	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. 20 20.0% 19 17.8% 18 16.2%	**Bid and Contract Risk** **Delivering Change** **Programme Risk** Business Interruption **Governance, Compliance & Controls**	Long Term Incentive Plan criteria	Investors Deliver outstanding, through-cycle value for shareholders through effective execution of Ultra's strategy.
Organic underlying operating profit growth*	Organic underlying operating growth compared with the prior year was +6.2% (2019: +2.9%). 20 6.2% 19 2.9% 18 -4.3% 17 -7.2% 16 0.2%	**Bid and Contract Risk** **Delivering Change** **Programme Risk** Business Interruption **Governance, Compliance & Controls**	Long Term Incentive Plan and annual bonus criteria	Investors Deliver outstanding, through-cycle value for shareholders through effective execution of Ultra's strategy.

OPERATIONAL

KPI	What is it and how are we doing?	Associated risks (Principal risks in bold)	Relevance to Executive Remuneration	Associated stakeholder goal
Employee engagement survey	Our overall Engagement Score achieved in our global employee engagement survey 20: 75.5% 19: 70.0%	**Delivering Change** Talent Retention & Recruitment Health, Safety & Environment	Strategic objectives criteria	Employees Create a dynamic, inclusive and inspiring work environment that attracts, develops and retains the best diverse talent pool.
On time delivery	Percentage of production contracts delivered on time from the Group. 20: 82.8% 19: 76.2%	**Bid and Contract Risk** **Programme Risk** Business Interruption	Strategic objectives criteria	Customers Partner with customers as preferred suppliers delivering innovative solutions that create 'win–win' outcomes for all parties.
Health and safety	The number of reportable accidents per 1,000 employees. 20: 0.5% 19: 0.7% 18: 0.6%	**Governance, Compliance & Controls** Health, Safety & Environment	Strategic objectives criteria	Communities To conduct business in an ethical, safe and sustainable way, acting as a positive force and making an active contribution to our communities. Employees Create a dynamic, inclusive and inspiring work environment that attracts, develops and retains the best diverse talent pool.
Internal R&D*	Previously shown as a percentage of sales, although changed to absolute amount invested in internal R&D to better reflect growth. 20: £31.8m 19: £29.6m 18: £28.1m 17: £29.9m 16: £34.1m	**Security and Cyber Risk** Talent Retention & Recruitment Product Risk	Strategic objectives criteria	Customers Partner with customers as preferred suppliers delivering innovative solutions that create 'win–win' outcomes for all parties.
Market share	Market share of our addressable markets. Our core focus is on the Maritime and Intelligence & Communications markets. Our addressable market share (measured using revenue in the year) in Maritime is 30% (2019: 21%) and in Intelligence & Communications 7% (2019: 8%), in Critical Detection & Control our Market Share was 13% (2019: not measured)	**Bid and Contract Risk** Product Risk Talent Retention & Recruitment	Strategic objectives criteria	Customers Partner with customers as preferred suppliers delivering innovative solutions that create 'win–win' outcomes for all parties.
Reducing emissions	Reducing Scope 1 to 3 greenhouse gas (GHG) emissions relative to 2019 baseline (Scope 1 and 2 only) for tCO_2e/£m. 20: 15.60 19: 18.19	**Governance, Compliance & Controls** Health, Safety & Environment	Strategic objectives criteria	Communities To conduct business in an ethical, safe and sustainable way, acting as a positive force and making an active contribution to our communities.

* This measure will be removed in 2021 and replaced with a solution vitality index measure to ensure we are investing in the right areas at the right times

Balanced Reward

Ultra's Directors' remuneration policy is designed to encourage delivery of the Group's ONE Ultra strategy and creation of value for all our stakeholders in a sustainable way, aligned to our purpose of innovating for a safer tomorrow. The main elements of the remuneration policy are:

1. Fixed pay

Base salary levels are reviewed annually by the Remuneration Committee, taking into account Company performance, individual performance, levels of increase for the broader population and market pay conditions.

2. Annual bonus

Annual bonus performance measures include:

+ Profit (40%)
+ Average Working Capital Turn (45%)
+ Strategic objectives (15%)

The strategic objectives include a range of specific, measurable targets aligned with our stakeholder groups that focus on delivering business results, improving organisational health, creating efficiencies, driving strategic growth, and leadership.

3. Long-Term Incentive Plan

The LTIP performance measures are aligned to our strategic objective performance metrics over a three-year performance period. Vested LTIP awards are subject to malus and clawback. The four measures are equally weighted to provide a balance between being agile and having a longer-term focus.

The LTIP measures are:

+ Total Shareholder Return
+ Return on invested capital
+ Organic Underlying Operating Profit growth
+ Organic Revenue growth

4. Shareholding targets

Executive Directors are required to build and maintain a shareholding in the Company with a value of two times salary. This encourages further alignment with shareholders.

Our target markets

Much of our business serves our core target market of 'five-eyes' defence, with specific focus on the Maritime (multi-mission) and C4ISR/EW* (multi-domain) sub-segments. The key drivers for these focus areas are, ultimately, the defence budgetary environments in the 'five-eyes' nations of the USA, UK, Canada, Australia and New Zealand, overlaid by threat-specific funding allocations and the ability of other allied nations to benefit from the technologies and capabilities borne by 'five-eyes' customers. Most of the balance of our business supports nuclear power generation, military and civil aerospace, and law enforcement markets worldwide.

Defence budgets

The outlook for defence budgets in our core geographical end markets remains robust in the short to medium term, with good near-term budgetary visibility, particularly in the USA and UK, underpinned in the medium term by heightened threat levels from near-peer adversaries, ongoing counter-terror activities and the requirement for substantial recapitalisations in some capability areas.

While the effects of the change in administration in the USA are yet to be fully understood, and the fiscal impact of the Covid-19 pandemic has not yet been quantified, we do not expect either to have a material impact on defence spending in the medium term. Further, the pace of investment and technological advancement by near-peer adversaries has altered the battlespace of the future, increasing the importance of further investment in the strategic focus areas of our Maritime and Intelligence & Communications Strategic Business Units.

We therefore remain confident that budgetary allocations in our areas of strategic focus will continue to trend upwards as a proportion of overall spend.

Defence trends

The pace of innovation driven by technological advancement and near-peer adversaries' increasing sophistication and development of capabilities continues to revolutionise the battlespace. The ascendance of new strategies and the overriding need to accelerate 'detect to deploy' are all impacting procurement trends, platform upgrade needs and future architectures. Battlespace architectures of the future will incorporate not only next-generation mission technology but platforms, often unmanned, that will alter dynamics across the battlespace.

Ultra's technology and capabilities in the maritime domain, and multi-domain C4ISAR-EW remain uniquely well positioned to provide mission-critical solutions, both on existing and next-generation platforms across a diverse threat spectrum that help keep personnel out of harm's way. Ultra is also accelerating its investment in data aggregation, transport, autonomy and multi-domain intelligence, which will be vital in providing solutions for customers who are increasingly focused on combating and countering near-peer and asymmetric threats, doing more with less and accelerating detect to deploy.

* C4ISR/EW: Command, Control, Communications, Computers (C4) Intelligence, Surveillance and Reconnaissance (ISR)/ Electronic Warfare (EW)

Maritime

Five-year expected market CAGR: 2–4%

Market trends

Heightened levels of global submarine activity are driving demand growth in both ASW systems and broader underwater systems infrastructure. Additionally, 'five-eyes' customers have announced a number of naval renewal and recapitalisation programmes, including enlarging the US fleet, introducing the Type 32 frigate into the UK Royal Navy and the acquisition of up to 15 new vessels in Canada as part of the Canadian Surface Combatant programme. These, and other similar programmes, will continue to drive demand for ASW capabilities, sonar systems and sub-systems, signature management and power systems and surface radar technologies for the rest of this decade.

Strategy developments

Ultra continues to win important positions in these growing markets, with notable recent successes including surface-ship ASW aboard the three variants of the UK Global Combat Ship: the UK RN Type 26, the Canadian Surface Combatant, and the Australian Hunter Class (SEA5000), with Ultra supporting each individual nation's unique requirements. Complementing the ASW capabilities of these vessels, Ultra has also significantly expanded our surface ship self-defence offerings with the multi-year award of the US–based towed torpedo countermeasure system, NIXIE. This is complementary to our existing UK-based S2170 torpedo detection system and our family of expendable torpedo countermeasures for both the 'five-eyes' and international markets.

In addition to these successes in our domestic markets, Ultra is continuing to develop innovative capabilities in support of maritime missions for unmanned platforms, including in the application of artificial intelligence and machine learning for greater automation of functions such as sonar and radar signal detection and automation of winching operations. Additionally, Ultra is investing in innovations for sub-systems that will counter near-peer threats and advanced mission technology equipment that will have to operate in increasingly denied and contested environments, broadening our presence with increased capability in the rapidly evolving underwater battlespace.

Intelligence & Communications

Five-year expected market CAGR: 3–5%

Market trends

The changing threat environment over the last few years has given rise to a dramatically different vision for the battlespace of the future, consisting of multi-domain, hyper-enabled systems linked by secure and seamless communication architecture. Robotics, cloud computing and new weapons payloads are disrupting traditional ecosystems, and drone technology is playing an increasingly vital role in combat operations. In addition to new platforms, rapidly changing software-handling infrastructure, enabled by greater accessibility to cloud computing, is impacting the way data is managed.

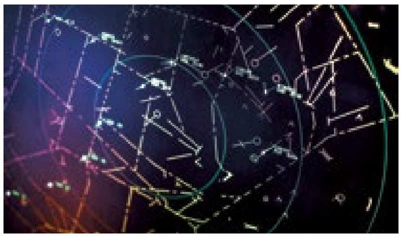
Investment by near-peer adversaries in technologically advanced threat capabilities is driving increased focus in a number of critical areas. These include rapid data acquisition, processing and communication systems that are capable of supporting multi-domain warfare in denied and contested environments, ensuring an information advantage for the warfighter.

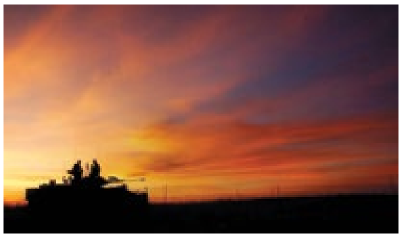
Strategy developments

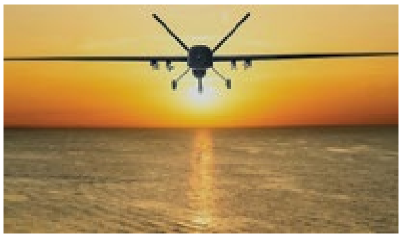
Ultra's continued success in Intelligence and Communications markets is a testament to our robust strategy to deliver information advantage to the customer through the provision of interoperable solutions and products that solve complex problems in areas where we have significant domain knowledge and differentiation.

Ultra's ORION radio, which is now into its fourth generation in US Army service in support of the TRILOS programme of record, has also been selected by both the US Marine Corps and US Navy, highlighting the strength and capability of the platform and the importance of interoperability across the services. Our customers' confidence in our ability to safely deliver information advantage to the warfighter is further demonstrated by recent contract awards for tactical data links in support of the Joint Interface Control Cell Extended Trainer (JET) programme, and high-integrity cryptographic management solutions enabling seamless and secure monitoring of crypto systems across the Alaskan air space.

Ultra continues to invest in innovative and disruptive technologies, in tandem with our customers, to ensure continued connectivity and security in a rapidly evolving battlespace. Our suite of capabilities is well suited to an environment where the prevalence of unmanned operations will increase and the importance of data processing and information delivery to the tactical edge will continue to grow.







Critical Detection & Control

Five-year expected market CAGR: 2–4%

Aerospace market trends

Civil aerospace has been severely impacted by the Covid-19 pandemic. However, long-term drivers of aerospace growth remain, with increasing global prosperity and globalisation driving greater demand for leisure and business travel. While recovery to 2019 traffic levels will take some time, recent clinical developments will gradually increase demand for, and accessibility to, air travel from its current low level.

The defence aerospace market continues to be robust, with ongoing fleet replacement programmes across a broad range of geographies continuing to drive growth for the foreseeable future.

The industry is moving towards more environmental, cost-effective solutions for both traditional and contemporary platforms, including urban air mobility, unmanned and electrified aircraft. These are areas where Ultra's focus on power efficiency and low size, weight and power is particularly compelling.

Forensic Technology market trends

Ultra's pioneering approach to Crime Gun Intelligence and our unique ability to provide a robust, networkable solution to our many customers around the world leaves us exceptionally well placed to continue on our growth path in response to growing demand for investigative leads and investigative conclusions that are admissible as evidence. The market is transitioning from demanding a capital-intensive solution to a more remote, cloud-based software architecture. Ultra is pioneering this shift to improve affordability and increase accessibility to a broader customer base, which will expand the addressable market.

Energy strategy development

Ultra Energy provides critical safety systems and specialist detector capabilities to nuclear facilities and selected industrial customers around the world, safeguarding nuclear workers, critical and high-value assets and the public. Ultra is positioned at the forefront of emerging technologies being developed for increased efficiency and decreased cost of nuclear power generation, such as advanced small modular reactor (SMRs) technologies, hydrogen production and hydrogen cells. Medium-term market growth is underpinned by both baseload capacity growth requirements and the transition from fossil fuel powered facilities to cleaner alternatives.

Strategic Business Unit review

Maritime

46% of Group revenue

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.

Thomas Link
President, Maritime

FINANCIAL RESULTS

£m	2020 as stated	2019 as stated	2019 for organic measure	Growth %	Organic growth %
Order book	**539.6**	481.5	472.4	+12.1	+14.2
Revenue	**391.8**	353.0	348.9	+11.0	+12.3
Underlying operating profit	**58.6**	52.5	51.9	+11.6	+12.9
Underlying operating margin	**15.0%**	14.9%	14.9%	–	–
Statutory operating profit	**55.9**	43.9	–	+27.3	–
Statutory operating margin	**14.3%**	12.4%			

FY2020 Performance summary

Our Maritime Business Unit had a strong year, with the order book increasing 14.2% organically. This was driven by: (i) MK54 and MK48 hull-mounted sonar torpedo array awards for the US DoD; (ii) initial production of the Next Generation Surface Search Radar (NGSSR) for the US Navy; and (iii) robust US domestic sonobuoy orders under the ERAPSCO joint venture and good international orders for sonobuoys (including the UK).

Organic revenue increased by 12.3% to £391.8m, reflecting strong sonobuoy sales, NGSSR production for the US Navy, electronic warfare systems sales in Australia and torpedo defence system sales to the Indian Navy.

Underlying operating profit was up 12.9% organically to £58.6m reflecting the increased sales. Margins increased a little to 15.0% (2019: 14.9%), with increased investment into R&D and transformation and some pandemic-driven supply chain and engineering disruption broadly offsetting the tailwind from the non-recurrence of 2019's contract losses of £8.8m.

We made a good start improving operational performance in this Business Unit with improved on time delivery and employee engagement.

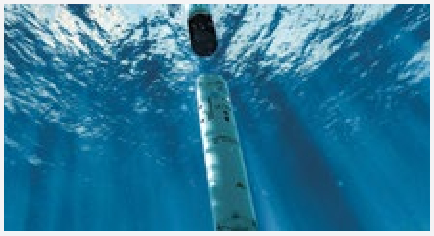
2021 FOCUS AREAS

- Develop core offerings, propositions and market share for 'five-eyes' nations
- Increased investment in innovation and disruptive technologies to differentiate our offerings and drive long-term growth
- Maximise value through alignment of investment to market needs (internal R&D) (KPI: Solution Vitality Index)
- Deliver efficiency improvements and continuous improvement culture (efficiency, value-added projects)
- Increase customer satisfaction by improving on time delivery and programme execution (KPI: On-time delivery, customer satisfaction)
- Increased focus on aftermarket support
- Improve safety awareness culture and performance (KPI: Near miss incidents)

ORDER BOOK

The Business Unit won a number of key contracts during the year, and the order book grew organically by 14.2%. The larger orders won in the year include:

+ **Sonobuoy Systems**
  Multiple sonobuoy awards won this year, including a $101m sonobuoy order and a $33.5m order, both under our ERAPSCO five-year IDIQ. Ultra was also awarded a $24m development contract to design and manufacture the ER-DIFAR sonobuoy for the US Navy.
+ **Sonar Systems**
  New Torpedo Defence System of towed active passive sonars for the Indian Navy, with the commencement of deliveries in 2020.
+ **Naval Systems & Sensors**
  A $45m order for the production of MK54 MOD 0 lightweight torpedo array kits and the AN/SLQ-25E 'NIXIE' electro-acoustic towed torpedo countermeasure system contract worth a potential $268m.
+ **Signature Management & Power**
  Upgrade of two fixed and one transportable Signature Measurement Ranges for Royal Australian Navy.



WE ARE

Problem solvers

Delivering electro-acoustic towed torpedo countermeasure systems

In December 2020 the US Navy selected Ultra to deliver the AN/SLQ-25E 'NIXIE' electro-acoustic towed torpedo countermeasure system, worth a potential $268m.

Ultra was awarded a $186,411,242 IDIQ contract for the AN/SLQ-25E 'NIXIE' electro-acoustic towed torpedo countermeasure system. This contract includes options which, if exercised, would bring the cumulative value of this contract to $268,514,278.

The NIXIE is a digitally controlled, electro-acoustic countermeasure decoy system that protects against various torpedo threats used on US and allied surface ships. The system consists of dual towed decoy devices and a ship-board signal generator and winch system. The decoy emits signals to draw a torpedo away from its intended target.

NIXIE is a strategic opportunity that aligns with Maritime Division's core competencies and future initiatives.

"I am delighted that we have been awarded this NIXIE contract which underpins Ultra's position as a major supplier of towed torpedo countermeasures for the US Navy. We are very proud to be supporting this programme which strongly aligns with our vision to innovate today for a safer tomorrow by solving our customers' most complex, mission-critical problems. The efforts put forth by the whole Ultra team have been exemplary, and we are all very much looking forward to getting started on delivering this important programme."

Martin Lewis
President, Ultra Naval Systems

Strategic Business Unit review
continued

Intelligence & Communications

28%
of Group revenue

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.

Mike Baptist
President, Intelligence & Communications

FINANCIAL RESULTS
Excluding Forensic Technology

£m	2020 as stated	2019 restated	2019 for organic measure	Growth %	Organic growth %
Order book	**237.1**	222.5	216.7	+6.6	+9.4
Revenue	**241.0**	224.8	222.0	+7.2	+8.6
Underlying operating profit	**33.5**	30.2	31.4	+10.9	+6.7
Underlying operating margin	**13.9%**	13.4%	14.1%	–	–
Statutory operating profit	**23.7**	20.0	–	+18.5	–
Statutory operating margin	**9.8%**	8.9%			

FY2020 Performance summary

Our Intelligence & Communications Business Unit won several new contracts and awards in 2020 with the order book increasing 9.4% organically to £237.1m. This was driven mostly by: (i) a $31m ORION radio contract with US Marines; (ii) $28.6m ACTS ORION radio contract with the US Navy; (iii) a new contract with the US National Guard Bureau for three JET systems (Joint Interface Control Cell Extended Trainer); and (iv) Airbus RSS8000 electronic warfare systems for German Defence.

Revenue grew organically by 8.6% to £241.0m, benefiting from strong sales from our Communications business and C2I ADSI (Air Defence Systems Integrator) tactical command and control systems to both the US and Taiwan navies.

Underlying operating profit increased organically by 6.7% driven by improved productivity and strong execution. Like-for-like operating margins remained broadly flat at 13.9% versus 14.1% in 2019. Margin growth from improved operational gearing in our C2I and Communications businesses and improved operational efficiency in Specialist RF was offset by increased restructuring and transformation investments and accelerated strategic R&D programmes. R&D focused on advanced communications and networking, including artificial intelligence and machine learning, virtual ADSI and leveraging hardware to deploy specialised real-time C2 functionality.

Despite the pandemic, good strategic progress was also made in this Business Unit with a strengthened senior leadership team now in place, and global sales and project management excellence projects.

2021 FOCUS AREAS

+ Develop our core capabilities and interoperable solutions within NATO and allies
+ Focus on Tier 3 product/solutions to application-specific problems, and Tier 2 system / sub-system solutions where we have domain knowledge and offer significant value within the solution
+ Increase investment in innovative and disruptive technologies to differentiate our offerings, expand into adjacencies and deliver information advantage
+ Develop strategic relationships to leverage our position with key customers and partners and extend into new areas
+ Leverage our transformation to a single Strategic Business Unit to integrate our offerings and increase scale to gain advantage in large pursuits

ORDER BOOK

This Business Unit won a number of key contracts during the year, and the order book grew organically by 9.4%. The larger orders won in the year include:

- **Communications**
  Expanded its position with the US Marine Corps, with a $31m ORION radio contract, expanded into the US Navy with the $28.6m ACTS award, and a number of other critical ORION radio orders.
- **C2 & intelligence**
  Continued to expand its presence in the situational awareness space with ongoing sustainment awards for its ADSI from the US Airforce and other key customers internationally with a number of awards including a $1.6m award from the Taiwan Navy. We were awarded two contracts for JET with US Airforce for total of $9.1m for delivery of advanced trainers to support Air National Guard Warfighter Objectives. In addition, we were awarded GBAD MADIS contracts totalling $5.3m for development of Marine Air Defence Integrated System (MADIS) for a Ground Based Air Defence (GBAD) future weapons system.
- **Specialist Radio Frequency**
  Continued 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 Electronic Warfare Simulation Technology (EWST) with Airbus for German Defence forces in the amount of £5.3m.
- **Cyber**
  Received additional awards for follow-on work for high-grade crypto and key management systems. We received £8.6m from BAE Systems for data encryption systems for the Eurofighter Typhoon fighter jet.

WE ARE
Innovators

Developing and delivering state-of-the-art solutions

2020 was a year of success for Ultra's Communications Business Unit, with contracts awarded by the US Army, US Navy and US Marines.

The ORION radio system is a software-defined, multi-channel, multi-band, multiple input/multiple output (MIMO) radio platform that enables a unified heterogeneous wireless network (HetNet) capable of supporting a diversity of user requirements and resilient network operations in contested and congested environments.

These awards demonstrate the strength of our innovative technology and Ultra's commitment to developing and delivering state-of-the-art communications systems. We are delivering our fourth generation of radio systems for the tactical communications networks of the US Navy, US Army, US Marine Corps, Special Forces and Army Air Defense agencies and look forward to many more years of partnership with our lead customers. The adoption of ORION by multiple DoD users will ensure interoperability with deployed communications assets between the US Army, US Navy, US Marine Corps and US Special Forces.

In 2020, the US Marine Corps Systems Command branch placed a US $31m order for Ultra ORION X500 radio systems for the Line of Sight Radio System (LRS) Project supported by the Terrestrial High Capacity Communications Program Office. The order was placed under the $497m indefinite delivery/indefinite quantity (IDIQ) contract awarded to Ultra TCS earlier in 2019 in support of the US Army's TRILOS Radio Program of Record.

The Marine Corps and US Army chose the ORION for its small size, power and weight, its high-bandwidth capacity and long-range line-of-sight communications capabilities as well as its ability to be rapidly deployed.

The US Navy also awarded a 10-year, IDIQ contract with a ceiling value of $145,375,113 and an initial order of $26.8m. The contract is for the development, production, spares and services for the Amphibious Tactical Communications System (ATCS). The ATCS will leverage core technologies from Ultra's ORION radio/networking systems to meet the challenging requirements of ship-board maritime environments. ATCS will provide full duplex communications that support secure ship-to-shore, shore-to-ship, ship-to-ship C2 data and video communications between expeditionary strike groups afloat and Marine Corps units ashore.

Strategic Business Unit review
continued

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.

FINANCIAL RESULTS
Including Forensic Technology

£m	2020 as stated	2019 restated	2019 for organic measure	Growth %	Organic growth %
Order book	**287.5**	318.9	316.2	-9.8	-9.1
Revenue	**227.0**	247.6	246.5	-8.3	-7.9
Underlying operating profit	**34.0**	35.5	35.4	-4.2	-4.0
Underlying operating margin	**15.0%**	14.3%	14.4%	–	–
Statutory operating profit	**30.0**	31.5	–	-4.8	–
Statutory operating margin	**13.2%**	12.7%			

This Strategic Business Unit has changed since 2019, and now includes Forensic Technology (Previously in the Intelligence & Communications division).

FY2020 Performance summary

Our Critical Detection & Control Business Unit suffered the most from the Covid-19 pandemic and, as a result, its order book declined organically by 9.1% to £287.5m. Commercial aerospace orders were impacted significantly, declining by nearly 20% due to the pandemic. Orders in our Forensic Technology business increased 35% year on year despite Covid-19 restricting our ability to visit customers, with a number of key contracts won in the year, for example, from the US Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) for additional IBIS (Integrated Ballistic Identification System) products and SafeGuard services. Our Energy business saw some Covid-19-related weakness in the market for industrial sensors, although made good strategic progress, adding more than 160 new customers in the year.

Revenues declined organically by 7.9% in the year due to: (i) commercial aerospace volumes falling by around 20% as a result of Covid-19 (Commercial sales: £41m in 2020 versus c.£65m in 2019); (ii) negative Covid-19 impact on global sales in Forensic Technology with delayed orders, primarily in Asia; and (iii) a challenging year in the nuclear and sensors markets for our Energy business. These declines were partially offset by continued strong growth in military aerospace for high pressure pure air generator (HiPPAG) products, engine ice protection system controllers and harnesses, in particular on the F-35 and Typhoon, and good demand for Forensic Technology's core IBIS product systems and related support and maintenance services.

Underlying operating profit only declined 4.0% organically to £34.0m. The impact of reduced sales in all three businesses was partially offset by: (i) lower indirect costs, mainly reduced travel during the Covid-19 pandemic; (ii) transactional FX tailwinds; (iii) good mix in our Forensics business with strong sales of support and maintenance services; and (iv) tight control on all discretionary spend and R&D plus benefits from previous years' cost reduction initiatives, delivering operational efficiencies. As a result, underlying operating margins increased from 14.4% to 15.0%.

PCS strategy

+ Expand our position in the five Ds domain (design, detect, distil, direct and deploy) within smaller mission- and safety-critical sub-systems where size, weight and power matter.
+ Focus on our core skills of solving our customers' most challenging sensing and control requirements in some of the harshest environments
+ Consolidate our footprint and drive greater efficiency into our processes

Forensic Technology strategy

Maintain our leadership position in the ballistic identification market by growing our revenue through innovation and the adoption of cutting-edge technologies. In order, to expand and diversify our offering, to reduce our dependency on only one sector, we will leverage growth potential in the following sectors:

+ Gunshot Detection sector
+ Crime Gun Intelligence (CGI)
+ Leveraging the IBIS technology and partner/acquire cutting-edge technology to expedite intelligence sharing and crime solving

Energy strategy

+ Expand core offerings and utilise incumbent position in the aftermarket with reactor operators to increase share
+ Leverage experience and capabilities to gain position with Tier 1 Reactor OEMs on new build platforms
+ Focus to secure scope with SMR and next-generation reactor opportunities as they move to design completion and construction start
+ In other industrial, government, and aerospace markets, rationalise activities in favour of growing markets
+ Design the organisation to match the strategy
+ Utilise Operational Excellence to improve every aspect of the business

ORDER BOOK

+ **PCS**
  Further LRIP (Low Rate Initial Production) orders were received on the F-35 platform covering both the HiPPAG (high pressure pure air generator) and EIPS (engine ice protection system) products. In addition, on the F-35 we received our first hose orders, expanding our value per aircraft on this key platform.
+ **Forensic Technology**
  Saw a number of large orders won in 2020, larger ones include a contract from ATF for additional IBIS products and SafeGuard services and contracts from customers in Peru, South Africa, Mexico and El Salvador for IBIS products and SafeGuard services to be deployed.
+ **Energy**
  Secured contracts relating to three new reactor designs and expanded our scope on a commercial rocket engine build.

A Positive Force
Our commitment to a sustainable future

A Positive Force

We believe that the only way we can deliver sustainably for all our stakeholders is through consistent alignment behind, and focus on, conducting our business ethically, responsibly and sustainably.

Sustainability is integrated throughout our business in strategic planning, risk management, innovation, and many other areas. We actively engage with our stakeholders to understand, anticipate, and address their short- and long-term needs.

We believe that sustainability is key for all our stakeholders and so is core to what we are trying to deliver. However, to highlight and better communicate the importance in our decision making of the impact on our workplace and the environment, we developed our 'Positive Force' sustainability plan. This focuses on three critical areas:

1. Supporting our People
2. Protecting our Planet
3. Giving Back

A Positive Force focuses on our commitment to a sustainable future and reinforces our ONE Ultra strategy by delivering long-term value creation to all our stakeholders.

We aligned these three pillars against the reporting pillars suggested in the white paper published by the World Economic Forum in conjunction with Deloitte, EY, KPMG and PwC in September 2020, "Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation". We are also mindful of the United Nations Sustainable Development Goals (SDGs) and will use these to further inform our strategy and focus areas in 2021 to ensure that we help to tackle some of the biggest challenges the world is facing.

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, support our people and contribute positively to the communities in which we operate.

OUR PILLARS

Supporting our people
(Stakeholders)

Protecting our planet
(Environment)

Giving back
(Communities)

OUR STAKEHOLDERS

Employees
A Positive Force inspires and supports our employees so they feel they are working for a business that is socially responsible, and supports sustainability. It also allows them to engage with our CSR initiatives.

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
continued

Supporting our people
(Stakeholders)

Living our values

In 2019, we developed a new vision, mission and set of ASPIRE values for ONE Ultra and a clear strategy for the future. Throughout 2020, our global teams have demonstrated that we can continue to execute and perform despite the many challenges that Covid-19 has presented to us. This has been possible due to the commitment and dedication of all of our employees who have lived our ASPIRE values during this difficult time. None more so than our 'Agile' value. We have all had to be flexible to the frequently changing environment and to adapt to new ways of working. A key aspect of this was our ability to support many of our colleagues working from home.

Our focus on the importance of living our values is reflected in all our communications to our employees. We have updated all internal and external signage and branding – and our businesses have incorporated our values throughout their sites. We have also emphasised our values through regular employee content, focusing on what our values mean to different employee groups across the organisation. To achieve this, we have created monthly spotlights, with video interviews, Q&A's and case studies.

ONE SET OF VALUES: ASPIRE

Agile
We embrace change, adapting to the conditions and making decisions at the right level.

Sharing
We win as a team, sharing ideas and resources to achieve great things.

Performing
We are relentless about quality, we're never satisfied until we've done what we said we'd do.

Innovating
We're open and questioning, we challenge each other to think in new ways.

Rewarding
We love to celebrate success, seeking out and rewarding positive contributions at every level.

Empowering
We trust and empower each other, acting safely, ethically and with integrity.

Our people and culture

We are committed to creating an inclusive, inspiring and dynamic work environment that attracts, develops and retains the best diverse talent. In Q1 of 2019 we set out an ambitious People strategy with a number of initiatives focused on six HR pillars, and we have made significant progress in delivering against these:

1. Build the talent pipeline

We have invested heavily in our internal talent management processes. We started the year by completing aspirations, capability and engagement development discussions with all our senior management team members. We used this information to create detailed talent profiles for senior, critical and high-potential staff, which were used in our Organisation Succession and Development Planning (OSDP) process culminating in much higher-quality talent discussions.

We have continued to invest in our internal talent acquisition team, delivering some excellent outcomes:

28,255 candidates considered for open positions
3,838 candidates submitted to hiring managers
1,974 interviews scheduled
490 offers accepted

Following the success of our US talent management model last year, we appointed a UK team in the second half of 2020. Within the first six months, they hired over 113 roles (out of the 490 above), exceeding our forecasted goal of 70 new hires.

We have also built out a sourcing function whose role is focused on building and engaging a community of talent for future roles. These profiles are identified through the OSDP process, understanding programmes Ultra is bidding on, and roles that are niche or challenging to fill. Since launching in August, we've added 734 individuals to our talent community, with 37% of the community focused on engineering talent.

2. Strengthen leadership and functional capacity

Strong leadership will be a critical differentiator in Ultra's long-term success. It will enable us to deliver business results, strategy and transformation. Even more importantly, it helps us to create the right culture to attract and retain diverse talent so that employees feel engaged, empowered and excited to work at Ultra.

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. 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.

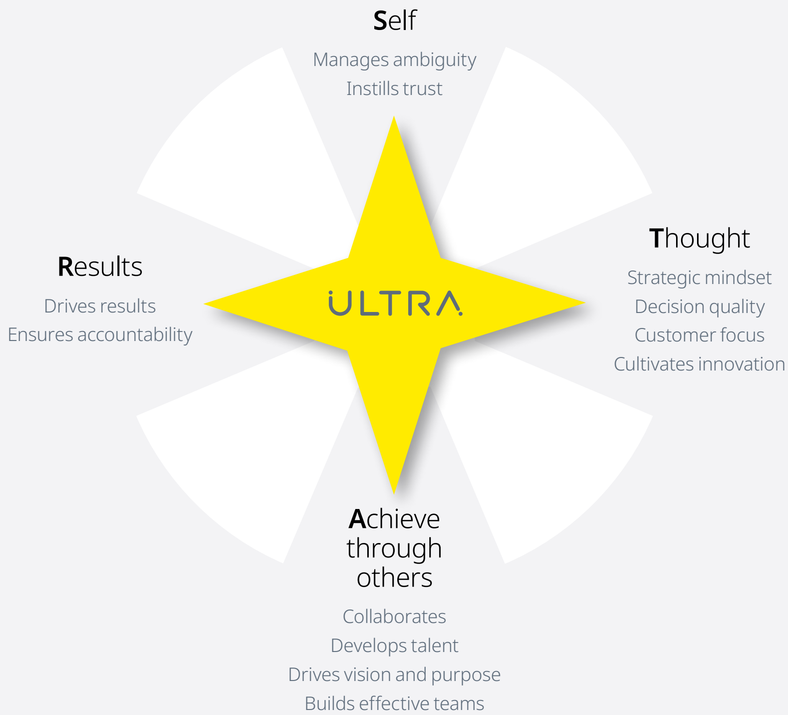
For this reason, we have spent the past year focusing on developing our leaders across the organisation, as well as seeking out talented colleagues who we believe are our future. In 2020, we have invested in and further developed a number of key initiatives to enable us to succeed in developing our diverse leadership team, these include:

+ Improving our operating model, which has been effective from January 2021. Specifically, within the Maritime and Intelligence & Communications Strategic Business Units (SBUs), we have created four Operating Business Units (OBUs) in each SBU. 40% of leadership roles within these new SBUs 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. As a basis of our 360-feedback process which has been designed and will be launched in Q2 of 2021.

+ In partnership with Duke Corporate Education we have designed an 18-month leadership development programme for four different cohorts: Leading Stars, Next Generation Stars, Rising Stars, and Emerging Stars with 120 participants in total. Module 1 was delivered in November/December with an overall rating of 4.3 out of 5.0.

ULTRA STAR LEADERSHIP MODEL



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

+ Creating a Manager Fundamentals programme, to include a community on our Group intranet, where we invited 600+ managers to the platform. This community is regularly updated with content focused on improving the way we manage and develop talent. Topics have included: Transforming Ultra, Diversity & Inclusion, Interviewing Skills, Manager Role Expectations, Communication Skills, Change Management, and Conflict Resolution.
+ Creating a mentor programme with a comprehensive toolkit. This is currently being trialled with our Strategies for Success development programme. It will be launched to the wider Group in 2021.
+ Launching LinkedIn Learning across the organisation, enabling us to deliver more e-learning content to our employees, leaders and development groups.

We are excited by the progress we have made in the past year with our new leadership development journey and believe this is the first step towards enabling our leaders to achieve, not just their own personal goals, but Ultra's vision of 'innovating today for a safer tomorrow'.

3. Compelling reward and recognition

Recognising and rewarding colleagues in a fair, open and meaningful way drives engagement and helps us to attract and retain the talent we need. We continue to align all our reward work against our reward philosophy pillars.

Since last year, we have been working closely with the Remuneration Committee to create a stronger strategy, framework, process and governance for pay across the Group.

2020 was a Remuneration Policy year and we updated the reward for our Executive Directors, in line with external requirements and to ensure that it was competitive and driving the right behaviors and actions. This was successfully approved at our 2020 AGM.

In 2020, we completed the design of our new global grading structure, harmonising bonus and long-term incentive frameworks, and providing consistent opportunities across the Group. We increased the transparency and quality of the compensation communication in Q1. We will be communicating this new structure to the rest of the organisation in H1 2021 as part of our yearly reward discussions.

To help embed our new ASPIRE values we launched Ultra Reward Hub in July 2020. Ultra Reward Hub is a peer-to-peer recognition platform and is an important part of building our ONE Ultra culture. We understand the importance of our employees feeling valued and believe that, by recognising our colleagues, we can form stronger social connections at work and build great teams. In turn, it makes us healthier, boosts self-esteem and reduces stress levels. In the six months that the values recognition programme was live in 2020 we had 456 recognition moments well distributed between our six values and our transformation programme.

A Positive Force
continued

4. Succeed through diversity

Inclusive Workplace	Diverse people	Social responsibility
Build and nurture	Attract, support, progress and retain	Amplify diversity, equality and inclusion with our stakeholders

Fundamentally, we believe that diversity is all of our human differences. It means understanding that each individual is unique and recognising our differences as an asset for our business.

Improving diversity, equity and inclusion is a priority for us and, during the year, we refreshed our strategy and looked to accelerate its implementation. Reporting to the Global HR Director, we appointed a full-time senior leader accountable for the implementation of this strategy. Our approach focuses on three key pillars: inclusive workplace; diverse people; and social responsibility.

We strive to build and nurture an inclusive workplace in which all our employees give their best for our customers and are recognised and rewarded for their contribution. We are developing a comprehensive employee education syllabus that will underpin our cultural competence. Unconscious bias in the workplace impacts our recruitment decisions and employee development, impairing diversity and retention rates, as well as promoting a disconnected culture. In 2020, partnering with external expertise, we delivered unconscious bias workshops for all of our 170 leaders. These sessions provided pragmatic understanding of the neuroscience behind unconscious bias and clear, research-based and practical actions to tackle bias and increase inclusion across Ultra. In January 2021, we will be inviting all line managers (600+ colleagues) to attend the workshop, enabling us to engage all employees on this topic through e-learning and team discussions.

It is our belief that our diversity, equity and inclusion strategy should be data led to ensure we deliver specific, locally targeted solutions across the entirety of our business. The 2020 design and development of our global HR system (myHR) will be a catalyst for this insight as it is rolled out in 2021.

It is the talent and commitment of our diverse people that enables us to deliver outstanding solutions to customers' most complex problems. We are taking purposeful action to create a more balanced and representative employee population, in which everyone can be at their best. In 2020, we launched 'Strategies for Success', a programme developed for our current and future female leaders. This initiative helps build a stronger pipeline of diverse talent with an objective to unlock the potential of women in Ultra. We are already achieving positive results with 13% of the participants promoted; 18% moved into different roles; 64% have taken on stretch assignments; and 90% now have formal mentors. Phase two will be developed in early 2021 where more female leaders will be given the opportunity to take part in this training programme while continuing the development of the 2020 cohort members through an ongoing series of learning interventions and network events.

We actively encourage and support the development of Employee Resource Groups to foster a diverse and inclusive workforce. 2020 saw the creation of the Uniquely Ultra employee group. These ~100 volunteers have been pivotal in the development of our strategy, what we want to achieve and the plan of activities for 2021. As representatives of all of our employees, the Uniquely Ultra team will be central in the expansion of our diversity, equity and inclusion pursuits throughout 2021 and beyond.

We have a range of policies in place to support employees to achieve balance between their work commitments and personal priorities. In 2020 we revised our Equality and Diversity, Bullying and Harassment, and Family policies to align to our strategy and values and behaviours. We are committed to treating everyone with fairness, dignity and respect.

We need to go further, so in 2021, working with external expertise, we will review our key people and supply chain policies through an inclusion lens. For example, we will work with expert organisations for neurodiversity and LGBTQ+, to further us along our journey where everyone can thrive and bring their whole self to work.

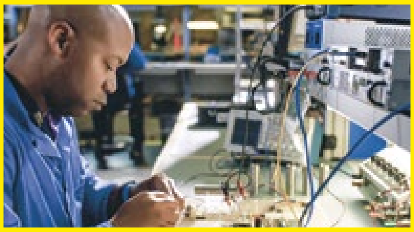
Our ability to attract and recruit the right people with the right skills in the future is dependent on there being a pipeline of available talent. We also have social responsibility as a force for good for our local communities. To support this, we focus on building awareness and engagement in science, technology, engineering and maths (STEM) with young people from an early age, as well as those who may have influence over their future career choices. The majority of our local businesses engage in STEM outreach programmes with activities such as internships, engaging in academic boards, guest lectures, joint R&D activities, plant tours and supporting technical projects. 2021 will see us coordinate and amplify these activities further. We continue to focus on early-career recruitment as an opportunity to bring more diverse talent into the organisation.

WE VALUE
all human differences

Uniquely Ultra

Uniquely Ultra is the Group's Diversity and Inclusion employee steering group. In 2020, we asked for employee volunteers to help us shape our diversity, equity and inclusion agenda. We were delighted when ~100 employees stepped forward.

Through workshops and focused working groups we have made huge strides developing our mission statement, strategic plan, and actions for 2021 and beyond. This has enabled us to begin to describe how our employees can build on fostering even more diverse workforces and inclusive workplaces in 2021.



EXECUTIVE TEAM GENDER BALANCE

6 male

1 female

SENIOR MANAGEMENT GENDER BALANCE*

32 male

11 female

* Taken from Hampton-Alexander submission Oct 2020

GENDER PAY GAP 2020 DATA (TO APRIL 2020)

Gender representation (% male/female)

77% 2020

77% 2019

23% 2020

23% 2019

Results

Gender pay gap
Mean

21.7% 2020

21.3% 2019

Gender pay gap
Median

24.2% 2020

22.3% 2019

Gender bonus gap
Mean

42.2% 2020

49.3% 2019

Gender bonus gap
Median

27.9% 2020

49.5% 2019

Gender equality in our workplace

Through our Diversity and Inclusion initiatives gender diversity is one of our key initial focus areas. We're committed to creating a diverse and inclusive place to work where our people can be themselves and be at their best.

Ultra employs 1,305 women directly and provides employment opportunities for more across our global supplier base. We believe that achieving greater gender parity strengthens our Company significantly, giving us a better understanding of the needs of the women, men, families and businesses who rely on our networks and services.

Gender pay

Disappointingly, we have seen a marginal increase (+0.4%) in the mean pay gap and also in the median pay gap (+1.9%). Some small movements of senior women moving out of the data set were sufficient to cause this small widening of the gap.

On a positive note, we have seen a good decrease of -6.9% in the mean bonus gap and a significant decrease of -21.6% in the bonus pay gap. These positive movements can be explained due to a greater prevalence of bonus payments across the Group in 2020, and a higher number of women receiving bonus payments.

Progress on closing the gender pay gap will be slow until there are proportionately more senior roles held by women. We are making progress to address this through appointments in 2021 and the initiatives discussed elsewhere in this section, which we expect to make a difference in the medium term.

A Positive Force
continued

WE ARE
Inclusive

Strategies for Success women's leadership group

Supporting the development of women in leadership roles in Ultra is a top priority in achieving our employee goal of 'creating a dynamic and inspiring work environment that attracts, develops and retains the best diverse talent'. At present, only 23% of our workforce are women, with a much smaller percentage of these occupying senior leadership positions. This doesn't represent the business that we want to be, and we are committed to driving progress to improve in this area.

To help build a stronger pipeline of diverse talent, and to unlock the potential of women in Ultra, we have 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'.

The S4S programme enables the women to:

+ Explore ways to further take control of their career through building greater belief in themselves and others
+ Explore personal work and leadership style and reflect on the impact this has on their career success and future progression
+ Build a clear development plan that maximises career potential

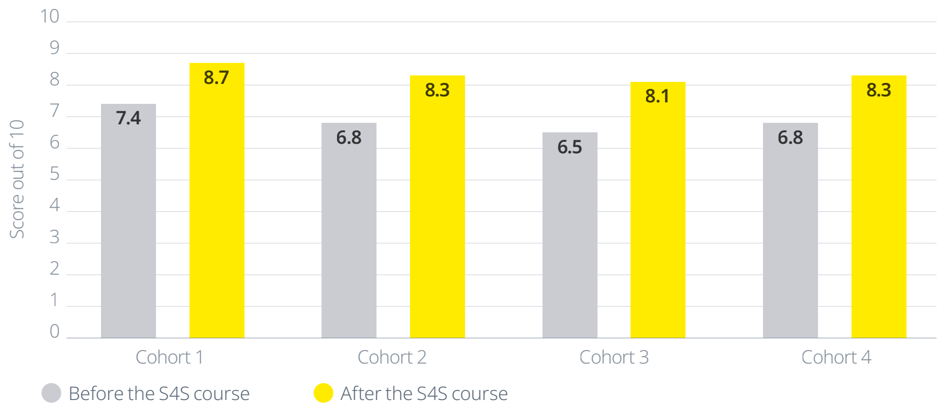
To deliver the programme we created an S4S community for our 80 women leaders which promotes dialogue and is a learning space to share experiences and challenges. It is also a place to hear about seminars and webinars relating to women-specific topics.

Feedback from our female leaders:
At the end of 2020 we surveyed our four cohorts of 20 women leaders to fully understand the effectiveness of our S4S programme. We are pleased to have helped our employees improve their confidence by over 1.5 points.

"I feel it has given me a real boost in my morale and I'm very positive about the steps Ultra are taking to promote women within the organisation. There is a very positive shift in the new Ultra mindset. I am very proud to be a part of this transformation."

"The mentoring programme, along with all the activities related to the S4S programme, has allowed me to actively focus on what I want to achieve with my career and professional growth. It serves as a constant reminder to push myself to learn, gives me motivation to grow, and reminds me of the successes I've achieved. All of these impact my day-to-day activities and aid in becoming a better employee."

OVERALL EFFECTIVENESS
Cohort confidence growth



5. Create a winning culture

Understanding what motivates our employees and how we can support their well-being helps us to provide a supportive workplace with opportunities that enrich skills and experience.

Creating the right culture to support our strategy and transformation is critical. We strive to maintain a healthy employee environment in which dialogue between management and our employees is embedded in our work practices. On a regular basis, our senior management team engages with our employees through a range of formal and informal channels, including all-staff meetings, townhalls, face-to-face gatherings, interviews and updates with our Executive Team, and online publications via our newsletter and intranet.

In 2019 we developed our new vision, mission, strategy, values and goals for the organisation, which was a key cultural shift and one that has been embraced by our global teams in 2020.

UltraView engagement survey

We have been tracking Group-wide engagement since we launched our first-ever global engagement survey in 2019. The results from our biannual and pulse surveys drive our HR strategy and empower our leaders to create action plans for local improvement. As an example, we launched our Global Home-Working Policy in November following the results from our pulse survey in June 2020 which showed 90% support for home-working. This is the first policy of its kind at Ultra and represents a major step in our transformation as we become ONE Ultra.

The purpose of the pulse survey was to see whether the actions we committed to taking at the Group level from the main survey in 2019 were having a positive impact on engagement. We also wanted to assess how we are performing against some of the employee goals we set for 2020 and 2024.

The Employee engagement survey was split into six different categories:

The pulse survey delivered a high response rate, with 75% of colleagues taking part. It was slightly down on the 79% we had for the main survey in 2019 but, given the challenges with logistics associated with Covid-19, this is a very strong result. More importantly, it provided us with insight into how three-quarters of our employees are currently feeling about Ultra.

Our overall engagement improved by 5.5% to 75.5%. We set ourselves a target to move engagement to 72% by the end of 2020 and then to over 75% by 2024. Our goal now will be to maintain the Engagement Index where it is for the main survey next year and to then assess whether we should increase our 2024 goal to 80%.

Within the results we saw some significant positive improvements:

+ Understanding our Company values + 16.4 points
+ Understanding the strategy of Ultra + 17.2 points
+ Confidence in Leadership team + 16.4 points
+ Ultra is performance orientated + 15.4 points

Other measures where we continue to score highly are our employees feeling proud to work for Ultra and that our employees feel that their work gives them a sense of personal accomplishment. These are all fundamental cultural improvements that we are proud of.

6. Transform our business

To improve data-driven people decisions and to support the enablement of our HR strategy, we are implementing a Global HR Information System across Ultra. The HR team has been involved from an early point in the transformation.

Our new HR Information System is designed to help modernise the way Ultra works by delivering:

+ A global, simple and future-proofed approach to managing our people and teams, enabling HR and line managers to perform routine tasks related to their people
+ New supporting technology, called 'myHR', which is intuitive, mobile and modern. 'myHR' will support our needs by introducing self-service across the organisation
+ Standardised HR processes globally which will be more effective and create more efficiencies

Engaging our people

We will be engaging our employees ready for the launch of 'myHR' in H1 2021 through a four-step process:

1. Articulating the vision and the connection to ONE Ultra as well as the benefits that 'myHR' will bring to the business.
2. Articulating the types of benefits that will impact the different stakeholder groups. Addressing the 'What's in it for me?' while describing the changes that will be required from individuals in their ways of working
3. Articulating detailed actions needed to work within the new environment and helping people prepare for the transition to the new 'myHR' enabled business processes
4. Giving everyone the opportunity to reflect on the transition. We want to energise our employees for ongoing continuous improvements within HR

Launching our Code of Conduct

In July 2020, we launched our 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. The training was split into two modules and launched to all employees. We also re-launched our Speak Up platform, which is our global 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.

We will be reviewing the Code of Conduct annually to reflect the needs of our business, regulations and best practice.

A Positive Force
continued

WE ARE
Dynamic

How we've used our engagement survey feedback

Engagement is especially important in maintaining strong business delivery in challenging times of operational and functional change.

In June 2020, we included a section in our pulse employee engagement survey about Covid-19 and how effectively the organisation managed the pandemic. From the results, we found 90% support across the Group for more flexible home-working. To ensure that our employees knew we were listening to their feedback, we assured them that this would be a priority for our HR team.

In June 2020, our HR team developed a Global Home-Working Policy structure, outlining the key benefits to our employees and Ultra. This was then sent to, and approved by the Executive Team, followed by the Board.

The Board reviews the results of all our employee engagement surveys, which highlight opportunities for continued improvement in relation to operational efficiency, employee well-being and career development. Actions to address these areas are discussed and agreed with the Board prior to implementation by senior management and communication to employees.

Between August and September 2020, the HR team developed the full Global Home-Working Policy, associated risk assessment forms, application forms and home-working processes. These were then approved by the Executive Team.

As a result of our HR team prioritising the Global Home-Working Policy, we were able to launch it Group-wide in November 2020 through our intranet, newsletter, town-halls and local HR teams.

The Board considers effective engagement a key element of its understanding of the Company's ability to create value as it recognises that our people are our greatest asset. Workforce views help inform the Board on matters such as operational effectiveness, culture, risk identification and strategy development and delivery.

Anti-bribery and corruption risks

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 efforts 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.

In November 2020, we launched updated 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 been completed by 99% of our organisation. New employees are required to complete the training as part of their induction process.

Human rights

We recognise our responsibility to respect the human rights of every individual who works for us – either as an employee, through our supply chain or within one of our communities close to our operations – as set out in the International Bill of Human Rights, and the eight fundamental conventions on which the United Nations Guiding Principles on Business and Human Rights are based.

If any of our employees have concerns about human rights issues within the business and they feel they are unable to raise concerns through normal reporting lines, they can raise concerns through the Speak Up platform, which is our independent whistleblowing hotline and portal. Our modern slavery statement can also be found at www.ultra.group.

Health & safety

The well-being and safety of Ultra's employees remains a vital priority for the Board, Executive Team and all business leadership, not just as an ethical pillar of social responsibility, but because a healthy, valued team working in a safe environment is a foundation-stone of high performance.

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 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 home-working for our people wherever appropriate. Experience from managing Covid-19 in health and safety terms will be taken forward to underpin the health and well-being of people through the tail end of the pandemic, and also 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.

All operating businesses are required to adhere to a written health and safety policy, fully compliant for the jurisdictions in which we operate, with local management owning the day-to-day health and safety risk management for the people in their charge. The businesses manage a range of safety risks, from office and light manufacturing environments, to providing services at customer sites or units, including military bases and platforms. Businesses report safety-related incidents and KPIs covering lost time accidents and externally reportable incidents, including rates per 1,000 employees as an embedded part of the monthly Business Performance Report which is reviewed by the Executive Team. Safety performance and strategy are reviewed by the Board as a specific concern annually, and safety is the first item on the agenda of every Board and Executive Team meeting. Lost time accidents and rates (being an accident resulting in half a day or more off work) per 1,000 employees are summarised in Figure 1 and externally reportable incidents and rates per 100 employees are at Figure 2.

The safety of the products and services provided to users and customers is also a key priority for Ultra. Each business ensures the appropriate legal and ethical levels of safety are met across a product's lifecycle, with particular emphasis on the manufacturing, in-service and disposal phases.

FIGURE 1
LOST TIME ACCIDENTS

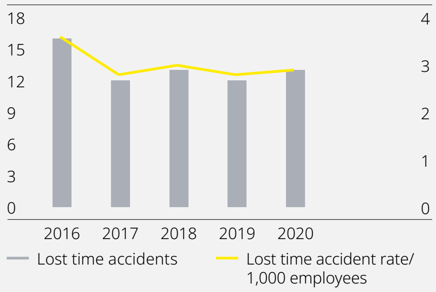
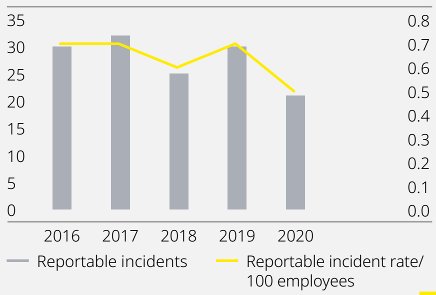


FIGURE 2
EXTERNALLY REPORTABLE INCIDENTS



ONE Ultra One Safety, Think Safe, Act Safe, Be Safe

In line with the wider transformation to become ONE Ultra, the strategy in health and safety is move to a ONE Ultra One Safety culture, built on common principles and policies while retaining the flexibility to ensure we meet local as well as Group-wide compliance needs. In 2020 we established a central Health, Safety & Environment (HS&E) working group, to set the agenda and goals for alignment which we will be rolling out from 2021. These include alignment globally to a single management system as a baseline for achieving ISO 45001 accreditation as our benchmark standard for all operating sites starting from 2022. In addition, we are unifying our approach to training and communicating for HS&E as the basis for development of a single safety culture.

Mental Health & Well-being

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 employees, which enable them to access advice and counselling 24/7. Mental health and well-being are important to us. We aim to promote early intervention which enables quicker recovery, reduces stigma and creates a positive culture.

2021 AREAS OF FOCUS FOR OUR 'SUPPORTING OUR PEOPLE' PILLAR

- + STEM Engagement – supporting our HR initiative in conjunction with Uniquely Ultra, increasing and developing our academic and STEM engagement
- + ONE Ultra Forces Charter – supporting Military and other forces veterans, reservists and their families – forces-friendly employer
- + ONE Ultra alignment to ISO 45001 – Health & Safety Management, for accreditation from 2022
- + Health & Well-being – Well-being of our personnel and communities through focused local initiatives
- + ONE Ultra alignment to ISO 26000 Social Responsibility guidance

WE ARE

Flexible

Supporting our workforce during Covid-19 – Flexible working

In March 2020, our IT team enabled 2,400 employees to become remote workers within two weeks of Covid-19 global lockdowns. Eight months later, we launched our Global Home-Working Policy (for roles where this can be done). It includes a common way to conduct risk assessments to ensure that we set our employees up effectively and safely to work from home and a common way to apply for a change to current working practices.

To underpin this new policy, we will also be working on how we can support employees from a mental and physical well-being perspective if they can work from home, as well as training for employees and managers on how to make virtual/remote working individually and in teams work effectively. Our businesses provide tools, well-being programmes and support that enable colleagues to balance their work-life with their commitments, supporting career development opportunities at each life stage.

We offer a range of health and well-being benefits, including Employee Assistance Programmes, a comprehensive wellness programme as part of our US benefits provision, and virtual team drinks and events. The content available depends on where our employees are based. For example, Ultra employees can get discounted rates at gyms and health clubs, health screening, private health insurance and private dental in a number of locations globally.

Protecting our planet
(Environment)

Our environmental strategy:
Moving to one global approach

Introducing common measures across Ultra
We are committed to continuous improvement in our environmental performance and compliance with all environmental laws. We aspire to minimise our environmental footprint by reducing greenhouse gas (GHG) emissions, decreasing waste, and limiting excess energy and water use at our sites. Under the ONE Ultra framework, the Group has the opportunity to move from a localised and historically compliance-driven approach, to a coordinated drive for excellence as part of our wider sustainability plan led by the new CSR Committee. The Group has initiated its sustainability strategy, to address more broadly the opportunities and threats related to climate change, and the need for the UK to transition to a sustainable, lower-carbon economy. This is in line with our commitment to implement the Task Force on Climate-related Financial Disclosures' recommendations, and in addition, we have set a target for reduction of 10% of GHG emissions relative to revenue (tCO_2e/£m) for 2021 (against the 2019 GHG emission baseline).

Developing our environmental approach
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 laid the groundwork in 2020 to move towards ISO 14001 environmental accreditation globally, unifying our environmental management system across our businesses by 2023.

In enacting our environment strategy, we are aligning our approach with the UN SDGs for Climate Action, Clean Energy, Life below Water and Life on Land, and we have focused on two core areas:

+ Climate Change and Emissions
+ Pollution, Biodiversity and Habitat

Climate change and emissions
Climate-related factors are specifically considered as part of our embedded risk review processes, which take account of near and longer-term risks. For risk management, addressing the potential impacts of climate change plays a crucial role in our long-term approach to sustainability, and this year we have identified climate change as a potential root cause to emerging risks to our operating and global market environments within our 10-year strategic planning timeframe. Our business-wide risk review exercise in 2021, which is integrated into the strategic planning process, will include specific climate change scenarios of temperature increases up to 2 degrees celsius, and testing of potential impacts including related natural catastrophe predictions, impacts on markets and changing regulation.

2020 emissions
2020 proved a challenging year with changes to our operational model and ways of working in the face of the Covid-19 pandemic. Our factories remained fully operational throughout the pandemic, with up to 60% of our staff moving to work from home; we are taking positive lessons from the change in ways of working and are integrating them into our developing sustainability plan, for the benefit of all our stakeholders in order to make our organisation more efficient and improve our environmental performance.

Streamlined Energy and Carbon Reporting (SECR) framework and UK Energy Savings Opportunity Scheme (ESOS)
The Group's increasing focus on sustainability and its carbon footprint are reflected in us establishing the CSR Committee. We were registered under the UK Carbon Reduction Commitment (CRC) run by the UK Environment Agency. This scheme came to an end last year and has been replaced by the SECR framework. We have made our first submission under this new scheme in 2020. In addition, Ultra implemented the viable recommendations from the 2019 independent UK ESOS energy review which was conducted in compliance with phase 2 of the scheme. ESOS operates on four-yearly compliance phases with the next review for compliance under ESOS phase 3 due by the end of 2023.

In 2020, Ultra started the process of developing an energy management system which will provide the baseline for future accreditation to ISO 50001 Energy Management standard, an international standard recognising organisations that enhance their energy performance by implementing an energy management system based on a model of continual improvement. This activity will further support the reduction of Ultra's energy use and associated cost.

FIGURE 3
OUR PROGRESS TOWARDS THE TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD)

Governance	Our Executive Team, and ultimately our Board, are responsible for assessing and managing relevant climate related risks and opportunities.	p75
Strategy	We have set a target for reduction of 10% of GHG emissions relative to revenue (tCO2e/£m) for 2021 (against the 2019 GHG emission baseline).	p50
Risk management	Climate related risks are integrated into our risk assessment process and are assessed using our risk framework.	p57
	Climate related risks are reviewed by the board and monitored regularly through our risk management process.	p25
	We have thorough processes in place for assessing and managing climate related risks, which are integrated into our overall risk management framework.	p50
Metrics and targets	Climate-related targets have been set for 2021.	p23
	We monitor our scope 1, scope 2 and required elements of scope 3 GHG emissions, and the related risks. We are expanding our metrics to include further scope 3 emissions elements progressively from 2021.	p50
	We have integrated carbon emissions into our KPIs to help us manage climate-related risks and opportunities and performance against targets.	p29

A Positive Force
continued

FIGURE 4A
COMBINED SCOPE 1 AND 2 EMISSIONS FROM ALL ULTRA BUSINESSES

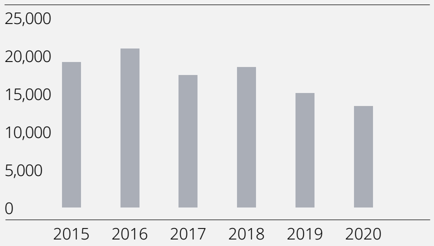


FIGURE 4B
COMBINED SCOPE 1 AND SCOPE 2 INTENSITY METRIC: tCO_2e / £M REVENUE

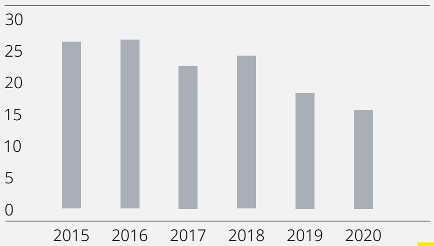


FIGURE 5A
TOTAL EMISSIONS BY SCOPE tCO_2e

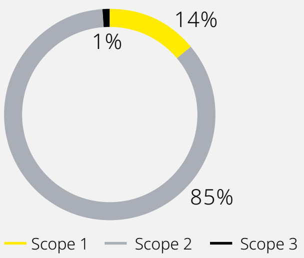
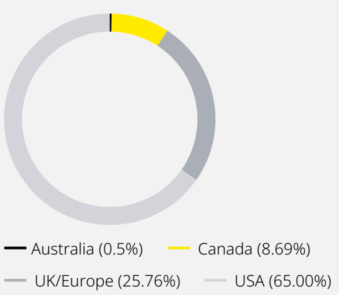


FIGURE 5B
TOTAL tCO_2e EMISSIONS BY REGION %



Measuring and reducing emissions
In line with the GHG Corporate Accounting and Reporting Standard, Ultra has continued to reduce our energy and GHGs, which is a response to increased customers' requirements as well as increased legislative impacts. This has been achieved by:

+ Monitoring and controlling our consumption of natural energy resources
+ Fighting against global warming and pollution by better managing our energy and emissions
+ Sharing sustainable development principles within the organisation, with a view to expanding with stakeholders and associated parties

Ultra has a longstanding commitment to tackling climate change. As noted in our 2019 accounts, The Group created a CSR Committee, which continues to meet regularly to review our sustainability and carbon footprint, and where we can constantly improve our position.

Methodology
As reported above, the Group falls into the SECR framework, as well as the ESOS.

We have reported all emission sources under the Companies Act 2006 (Strategic Report and Directors' 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 2020 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 has maintained 'scope 1' and 'scope 2' emissions for FY2020 and for comparative prior years, which are generated from our offices, manufacturing sites and business owned or controlled vehicles. From 2020 we also began reporting scope 3 emissions from vehicles covered under 'grey fleet' (personal cars used for business purposes), in line with new SECR requirements.

We have calculated and reported our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition). Recorded total energy consumption during the 2020 financial year was 39,723,354 kWh (39,723 MWh), of which 14,514,149 kWh was for the UK and 29,209,205 kWh for the rest of the world.

2020 emissions
Total scope 1 to 3 emissions measured for 2020 was 13,409 tonnes, which relative to revenue equates to 15.6 tCO_2e per £m of revenue. These are broken down by scope and region in Figures 4-5. Emissions with comparative prior-year's data for combined scope 1 and 2 emissions (scope 3 data not available for prior years) are shown in the diagrams below, for tCO_2e and emissions relative to revenue. Declines in 2019 and 2020 reflect action to reduce relative emissions and activity changes resulting from Covid 19.

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

1. Replacing old halogen, T8 and inefficient lamps with low-energy LEDs.
2. Replaced ageing office equipment with energy-efficient products.
3. Expanded video conferencing and online meetings (as opposed to face-to-face meetings).
4. Older, inefficient boilers have been replaced, along with older electricity water heaters.

We have set a target for reduction of 10% of GHG emissions relative to revenue (tCO2e/£m) for 2021 (against the 2019 GHG emission baseline). Ultra supports and is committed to the Science Based Targets Initiative framework and has summarised our progress towards the Taskforce on Climate-related Financial Disclosures in figure 3, through:

+ 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 video conferencing facilities which has demonstrably improved our teams' effectiveness
+ A new Company car policy to encourage lowering emissions and making electric cars more accessible, including the installation of charging points at some of our premises
+ Revised travel policies to refocus our team on essential travel only

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, for example in our single-use plastics reduction initiative. We are revising our approach in 2021 to monitoring and reporting of packaging waste to broaden the scope of previously reported UK only data under ONE Ultra.

Protection of the environment, biodiversity and restoration of natural habitats

As a responsible corporate citizen, 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 2020, Ultra actively supported maintaining biodiversity by:

+ Encouraging our employees to take part in an organised tree planting programmes in all our operating territories, reducing deforestation and therefore the release of greenhouse gases
+ Continuing our 'reduce, reuse, recycle' initiative across all of 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 new endangered habitats – examples of which include supporting the New England Aquarium
+ Supporting biodiversity partnerships local to our businesses, e.g. employee volunteering at local Wildlife Trusts

Ultra will build on the progress made in these initiatives in 2021.

Our technology, products and the environment

Technology development and access

We are very proud of the work we do to protect our military personnel who risk their lives to protect us. Through our technology we keep our society safe, make the jobs that our military personnel do less risky and ensure 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, money, and has a lesser effect on the use of the world's raw materials and production of waste.

WE ARE

responsible

Single-use plastic policy

Single-use plastics are choking our natural environment. Although many plastics are recyclable, it is often not cost effective to recycle and millions of tons of plastic waste is dumped into oceans and landfills every year, causing harm to our environment and ecosystems.

We were therefore pleased to launch our ONE Ultra Single-Use Plastics Policy in late 2020, its aim to actively reduce Ultra's plastic usage and waste across all our sites.

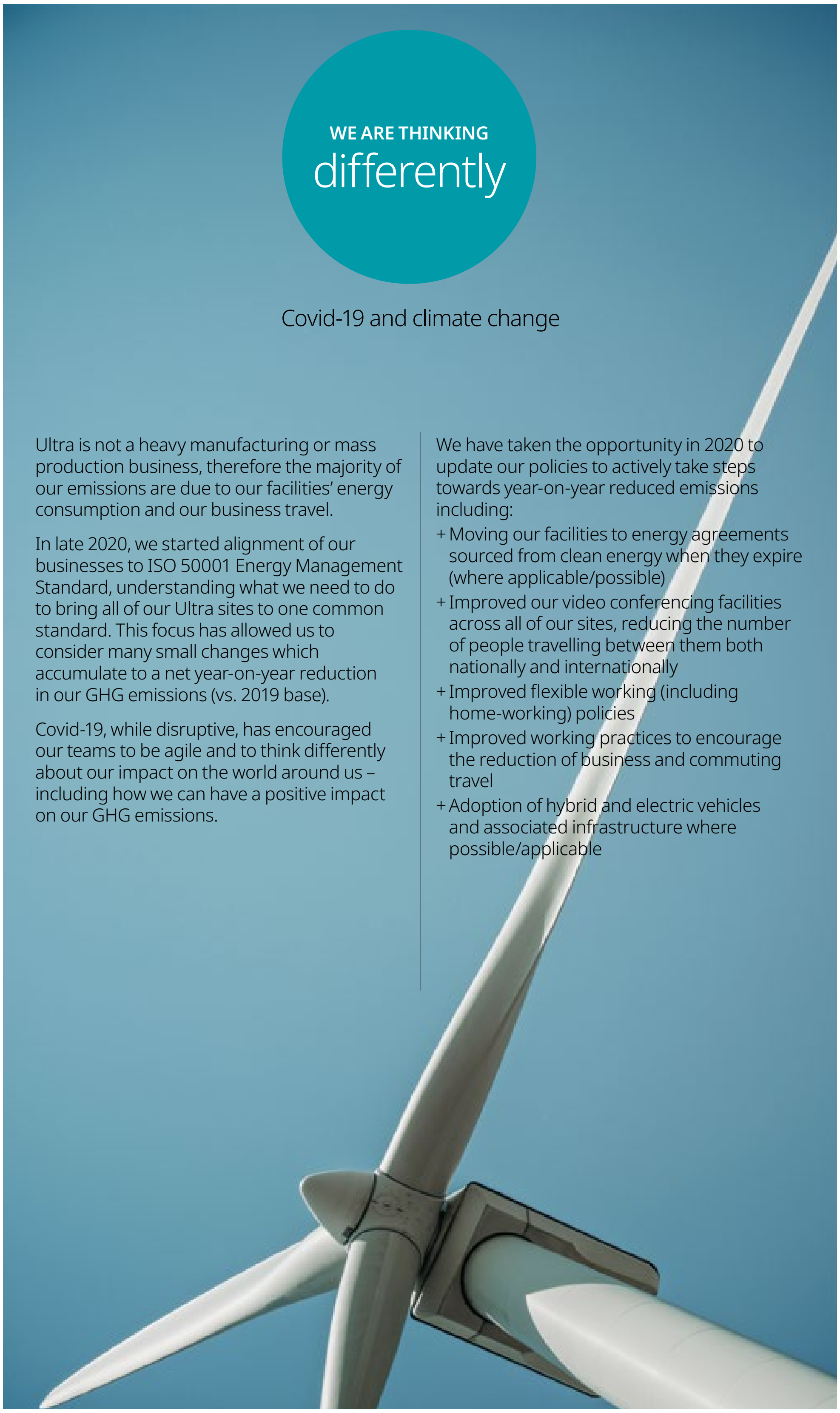
Our new policy aims to:

+ Demonstrate our collective commitment to tackle unnecessary plastic usage
+ Drive continuous improvement to significantly reduce single-use plastic usage and waste
+ Work with all of our stakeholders to drive awareness and encourage our teams to seek suitable alternatives to plastic
+ Measure, and report on, plastic usage to ensure it declines over time

The CSR Committee have arranged for every employee to be issued with an Ultra branded reusable tumbler or water bottle worldwide. This will enable us to take the positive step of eliminating all single-use cups on all our sites.

Small changes can make a BIG difference!

A Positive Force
continued



WE ARE THINKING
differently

Covid-19 and climate change

Ultra is not a heavy manufacturing or mass production business, therefore the majority of our emissions are due to our facilities' energy consumption and our business travel.

In late 2020, we started alignment of our businesses to ISO 50001 Energy Management Standard, understanding what we need to do to bring all of our Ultra sites to one common standard. This focus has allowed us to consider many small changes which accumulate to a net year-on-year reduction in our GHG emissions (vs. 2019 base).

Covid-19, while disruptive, has encouraged our teams to be agile and to think differently about our impact on the world around us – including how we can have a positive impact on our GHG emissions.

We have taken the opportunity in 2020 to update our policies to actively take steps towards year-on-year reduced emissions including:

+ Moving our facilities to energy agreements sourced from clean energy when they expire (where applicable/possible)
+ Improved our video conferencing facilities across all of our sites, reducing the number of people travelling between them both nationally and internationally
+ Improved flexible working (including home-working) policies
+ Improved working practices to encourage the reduction of business and commuting travel
+ Adoption of hybrid and electric vehicles and associated infrastructure where possible/applicable

Our products

Opportunities to improve product differentiation through improved energy-efficiency outcomes for customers are a key part of our systems design partnering with customers and end-users. As our new sustainability plan rolls out, Ultra 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 issues are considered throughout a product's lifecycle, from concept through to disposal. All Ultra businesses ensure their practices and processes consider the environment. Businesses work with their suppliers to reduce the impact of their 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 wastage, which is disposed of appropriately using specialist contractors where necessary.

Nuclear energy products

Our Energy business focuses predominantly on producing system-critical controls and sensors for the generation of nuclear power, a zero-emission clean energy source that prevents the addition of thousands of tons of harmful air pollutants each year that contribute to acid rain, smog, lung cancer and cardiovascular disease.

2021 AREAS OF FOCUS FOR OUR 'PROTECTING OUR PLANET' PILLAR

+ Global alignment to ISO 14001 – Environmental Management System for accreditation from 2022
+ ONE Ultra development of Energy Management System as basis for future accreditation to ISO 50001 – the international Energy Management Standard
+ ONE Ultra alignment to ISO 26000 Social Responsibility Guidance
+ We have set a target for reduction of 10% of GHG emissions relative to revenue (tCO2e/£m) for 2021 (against the 2019 GHG emission baseline)
+ ONE Ultra Single-Use Plastic Policy – limited single-use plastic across sites, including a specific target to reduce our consumption of single-use plastics by 20% in 2021

Giving back

(Communities)

Working with our local communities

Ultra actively supports the local communities in which we operate. We believe that by working with local partners towards shared goals, and by empowering our teams to engage with local people, we can create lasting positive contributions that promote social and economic development.

Ultra supports our employees' involvement in social initiatives to make a positive impact. In 2020, they have been involved with initiatives such as collecting and donating clothing, food and supplies to groups in need of extra support, volunteering in community projects and promoting STEM-related activities in schools. We always welcome ideas for such initiatives at a local and Group level to encourage ongoing engagement and our CSR Committee are actively supporting this on a continuous basis.

ONE Ultra Covid-19 Fund

In line with Ultra's Communities goal, we launched our Covid-19 fund in May 2020, which has been created specifically to support Covid-19 charities and initiatives in our local communities.

Due to the urgent need for donations during the pandemic, we asked our employees to nominate projects that they would like to be considered for support from our Fund, including local charities, initiatives or other community causes that are directly impacted due to Covid-19. Since inception, we have donated more than $220,000 across 51+ organisations where our teams have had a demonstrable positive impact by providing much-needed funding across the USA, UK, Canada and Australia.

Here is a selection of organisations Ultra has helped and how they link to our ASPIRE values:

Sharing: $13,000 to Make-a-Wish to enable employees to return to safe operations in the workplace. The charity was forced to cut its workforce in the UK due to Covid-19. We supported the charity through risk assessments, implemented a variety of sanitation stations, bottles of anti-bacterial sprays/hand washes/gels, surface wipes and face masks.

Empowering: $5,200 to High Mead Farm, a community interest (not-for-profit) farm in Longham, Ferndown, Dorset, which is only 2.5 miles from our Energy office. High Mead takes referrals from Social Services and offers a day service providing Co-Farmers (members of the public living with mental and physical health issues) the opportunity to work with animals, soil, nature, arts, crafts and learn trade skills as a form of therapy.

Innovating: $10,000 to the University of Texas (Austin) Covid-19 Modeling Consortium, to help build models to detect, project and combat Covid-19.

Rewarding: $4,300 to Operation Flinders, a South Australian based charitable organisation that runs a world-leading wilderness adventure programme for young offenders.

In Q1 2021 we will launch our ONE Ultra Giving Back Framework. Our employees will be encouraged to volunteer for 'community days' to support charities, environmental projects, STEM and educational programmes, as well as other social initiatives that align with our Ultra ASPIRE values. This active contribution framework will support the engagement of our employees with initiatives that are important to them. The programme will encourage working as a team and make a real difference to the communities in which we operate.

ONE Ultra Forces Charter

Our Forces defend and protect us at home and abroad, sacrificing many of their civilian freedoms while doing so, and often facing hardship and a risk of serious injury and death during the course of their duties.

As part of our sustainability plan, we have committed to actively supporting our Forces community – both Civil and Military. We recognise the value that serving personnel, veterans, and their families, contribute to our safety, our business, and defence of the regions in which we operate.

In December 2020, we launched our ONE Ultra Forces Charter, which sets three key principles for Ultra:

1. To recognise, respect and show gratitude of service, honouring the commitment and sacrifices made by the Forces community
2. To take positive measures to prevent any disadvantage of the Forces community
3. To recognise that special treatment may be appropriate, especially for the injured or bereaved

Our charter supports our ASPIRE values and strategic priorities and is built upon our commitment to a sustainable future by engaging with our communities, striving to operate in a sustainable manner, minimising our environmental impact, and showing that we are an active positive contributor to our communities.

Education and culture

STEM activities in schools, colleges and universities are supported across all our businesses, and within our supply chain.

Our STEM outreach forms the basis of many of our local activities. We have many STEM ambassadors across the Group – a network we are keen to expand further to help inspire the next generation of scientists and engineers. Here are some examples of our achievements in 2020:

+ Our North American teams participated in over 17 in-person and virtual STEM fairs
+ We partnered with Texas Tech University, Texas A&M University and the University of Texas to provide internships to hire new talent. We are also working with the Texas A&M Engineering Experiment Station to start a mentorship programme and pipeline into Ultra of their AI talent, utilising their Innovation Centre for testing activities and teaming with them to chase opportunities
+ We continued our partnership with Budmouth College's CEIL Programme (Centre of Excellence for Industrial Liaison) providing work placements and interviews/soft skills for students, as well helping their 'BudSat' cube satellite team with regular engineering support and mentoring
+ We have built a strong relationship with Lancaster University including lecturing on courses, providing summer placements, year in industry, BSc/MSc projects and product development
+ We sponsored two women scholars through Arkwright Engineering Scholarships
+ In Australia, we awarded a student our inaugural scholarship in partnership with the Playford Memorial Trust Scholarship. In addition, we also hosted two interns in Australia through the Defence Industry Internship Program, one of whom will be commencing permanent employment at Ultra in 2021.

2021 AREAS OF FOCUS FOR OUR 2021 'GIVING BACK' PILLAR:

+ Giving Back Framework – Up to two days per employee to support local community initiatives
+ Giving Back Fund to match local charitable fundraising and sponsorship efforts

Principal risks and uncertainties
We manage risk to support our ONE Ultra strategy

The identification and management of risk is a core element of the way we operate in Ultra's businesses. We consider risk when we evaluate the market environment, assess business opportunities and review delivery of performance against objectives.

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 a year, reviews the Group's key and emerging risks, and the controls and indicators to manage them.

The risk management framework underpins Ultra's approach to managing risk effectively. The framework facilitates the proactive review and management of existing and emerging risks through the identification, measurement, control and reporting of risk that can undermine the business model, future performance, solvency or liquidity of the Group. As part of this, we:

+ identify the causes and drivers of a risk and accountability for its management
+ identify the potential consequences of each risk through analysis of likelihood and consequences, before and after the impact of specific controls
+ analyse 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
+ articulate the specific controls and warning indicators in place or being strengthened to manage and mitigate a risk

Day-to-day ownership of risk sits with business and functional management, under the regular review of the Executive Team to whom the Board have delegated principal responsibility for risk oversight. As Ultra implements its transformation programmes in 2021 and beyond, risk management and effective controls are key drivers in the development of our new structures, polices and processes as we transition to ONE Ultra.

Risk assurance
Ultra's management, Audit Committee and Board receive independent assurance on our key risks and controls through Internal Audit reviews which are outsourced and conducted by PwC. Outputs of the risk process are an input to the Internal Audit plan, focusing review activity on recognised priority risks. Twice-yearly financial control 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.

SWOT ANALYSIS

Strengths
+ World-leading domain technology/capability
+ Specialist sub-system engineering and design expertise
+ Established customer relationships with opportunities for solution expansion and share gain
+ Long-cycle, growing defence markets
+ Business model generates high returns on capital
+ Asset-light, high capital return model with broad technology, platform and product exposure
+ Strong cash generation for re-investment

Weaknesses
+ Historically no value-focused strategy
+ Inconsistent execution and delivery
+ Resistance to change
+ Disaggregated systems and processes
+ Historic lack of investment discipline
+ Underinvestment in people, processes and infrastructure
+ Limited collaboration
+ Technology silos and duplication/inefficient resource usage

Opportunities
+ Core domain expertise in customer priority areas for 'five-eyes' markets
+ Greater strategic engagement potential for improved execution
+ ONE Ultra and parenting advantage efficiency and effectiveness
+ Values differentiation

Threats
+ Political change/defence spending reduction from Covid-19 governmental refinancing
+ Increasing regulation/compliance burden
+ Failure to deliver necessary wide-scale change for transformation
+ Long-term contract bid error
+ Execution error on large, long-term programmes
+ Compliance failure
+ Unknown impact on businesses of global environment change

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 reviewed annually. Ultra has a low risk appetite in situations where its culture, reputation or financial standing may be adversely affected. However, the Group does consider taking higher risks where the opportunity is seen to outweigh the potential risks, provided that appropriate levels of mitigating controls are in place. Where safety may be compromised, Ultra has zero tolerance. The Executive Team and Board assessed specific risk appetite in relation to Ultra's key and principal risks in 2020, 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).

Principal risks
In line with developing 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. In addition to the principal risks identified below, Ultra also actively manages risks assessed as a lower, but not to say insignificant, level. These potential risks are often common to listed businesses and include business interruption risks (where in 2020 Ultra demonstrated very effective management of the Covid-19 outbreak), talent retention and recruitment risks (which has also been reducing for Ultra as our ONE Ultra HR programmes roll-out) and health, safety and environment risks (which are seen as a priority for excellence rather than principal risk), which have been reported on externally in previous years.

Increased risk (medium term)

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 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 develop and maintain strong relationships with customers, governments and stakeholders differentiating through our domain expertise
+ Long-term nature of specialist defence contracts
+ We seek to position the Group to access the higher-growth parts of the market

Comment, changes and outlook
As the key inherent risk for our chosen sector, there is a higher risk tolerance recognising that we are well placed to manage risks which are at the core of what we do.

Growth in global tensions and instability is raising defence priorities for national governments in our key markets in the short term. This may be offset in the medium term if, following the economic impact of Covid-19, defence spending is impacted for a period in key markets as governments seek to reduce Covid-19-driven deficits. This drives an increasing potential risk assessment beyond 2022.

Reducing risk

Geopolitical Risk

With our focus on the defence sector, geopolitical 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.

As well as carrying elements of risk, changes in the geopolitical and threat environment for our 'five-eyes' markets can also carry opportunity as our key customers draw on areas of our domain expertise in their response to a changing threat environment.

Uncertainty has reduced with the finalisation of the US election, and while Brexit was not a key risk for Ultra, agreement on arrangements for relevant trading areas post Brexit has improved the ability to plan for and manage future opportunities.

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 or other incorrect assumptions at the outset of a contract can lead to unexpected liabilities, increased outturn costs and reduced profitability.

Mitigation commentary/examples
+ 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.

Our investment in enhancing our internal professional legal team continued in 2020, improving our capability to tailor contract risk reviews to Ultra's risk appetite compared with more generic external legal reviews. The implementation of standardised bid and contract policies and processes, and the pooling of capability and the alignment of similar businesses under the ONE Ultra banner are in place and will bed in during 2021.

Principal risks and uncertainties
continued

Reducing risk

Programme Risk

Many of the programmes entered into by Ultra are complex and long term and are 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

+ Strengthened programme capability and processes
+ Newly implemented ONE Ultra programme management policy in 2020, replacing local diverse business policies
+ Formal review and escalation framework
+ Review and approval of key programmes by SBU management teams, the Executive Team and the Board
+ 'Lessons learned' and best practice sharing
+ Inspection of programmes by customers

Changes and outlook

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

The standardisation of programme management policies and tools was rolled out in 2020 as part of the ONE Ultra implementation, standardising our approach to programme management and its control framework. Additionally, the business reorganisation effective from the start of 2021 brings alignment of specialist resources and simplified management and oversight.

We also have a successful programme of supporting our Programme Managers to become accredited by the Project Management Institute.

Increased risk (short term)

Delivering Change

The ability to continuously improve and transform our business in line with our ONE Ultra strategy 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 support 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 policy, procedures and controls
+ Executive sponsorship of all major programmes
+ Bi-weekly Executive Team review of transformation programmes
+ Investment in dedicated professional transformation resource and leadership

Changes and outlook

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

We have strengthened capability around change management, together with our methodology for measuring the amount of change required by each project and the change management initiatives required to effect the change.

Increased risk

Security and Cyber Risks

As a key partner to our customers, Ultra has custody of classified information. The incidence and sophistication of cyber crimes continue to rise. The effective management and protection of information and Ultra's security and IT systems are 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 intellectual property. 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 intellectual property or classified information.

Mitigation commentary/examples

+ Consolidation of CORVID Protect as specialist internal cyber security resource
+ As a business-to-business provider with minimal personal data, Ultra's conventional cyber risk profile for personal data loss is naturally mitigated
+ 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 US Social Security Administration and Proxy Board vehicles
+ Independent security reviews by defence departments and customers

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 during 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 through 2021 is a key enabler of the ONE Ultra strategy. This will drive mitigation of the increasing levels of risk in the global cyber environment.

Reducing risk

Governance, Compliance & Internal Controls

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 and compliance requirements. Retrospective compliance changes (for example, 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 International Traffic in Arms Regulations controls could result in regulatory action and 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

Mitigation commentary/examples

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

Changes and outlook

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

2020 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 2021 as part of our transformation programmes.

No significant change

Pensions

The Group's UK defined benefit pension scheme needs to be managed to ensure it does not become a serious liability for the Group. There are a number of factors including investment returns, long-term interest rate and price inflation expectations, and anticipated members' longevity that can increase the liabilities of the scheme.

Risk appetite: Risk averse

Potential impact

Any increase in the deficit may require additional cash contributions and thereby reduce the available cash for the Group.

Mitigation commentary/examples

+ Annual accounting and triennial pension valuations are in place and any issues that may arise are highlighted to the Board
+ The Pension Trustees and the Company actively consider pension risk reduction activities such as liability matching, lower risk investment strategy and hedging
+ The Board undertakes regular pension strategy reviews

Changes and outlook

Investment in the management of pension risk takes account of prudent specialist advice; risk averse. Periodic professional review and reports from advisers as the risk environment changes are in place as indicators for this legacy cash risk.

The pension scheme has continued to increase the hedging of its liabilities and the de-risking of its investment strategy. There is no change to this risk.

HEALTH, SAFETY AND ENVIRONMENT RISKS AND OPPORTUNITIES

ONE Ultra ONE Safety: Think Safe, Act Safe, be Ultra Safe

As the Group transforms itself to ONE Ultra, our approach to the management of health and safety risks is moving from a localised model to one with ONE Ultra ONE Safety at its heart. Programmes, developed through consultation with our businesses in 2020, will roll out in 2021 to align our management of safety risk with a unified management system and global toolset. While Ultra's operating environment is relatively benign from a health and safety perspective, it is our aim to seize the opportunity to develop a true safety culture, aligned to our ASPIRE values, where every individual recognises their ownership, and the contribution they can make to achieving excellence in safety, reflecting Ultra's zero tolerance to safety risk.

Global Environment Risk

Ultra recognises that a compliance-focused approach to environmental risks is neither appropriate nor will it fit with our CSR priorities. In line with our newly launched ASPIRE values, environmental priorities are a key pillar of our sustainability plan to be the best environmental custodians we can be, as part of an opportunity to differentiate ourselves for all our stakeholders through our values as well as wider business capability and performance. While environmental factors are not yet recognised as a current principal risk, they feature on our wider risk radar. We see here an opportunity for excellence and anticipate that they will become an emergent key risk in coming years as we commit to environmental targets and support global initiatives on climate change and environmental improvement.

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.

Ultra's net debt at 31 December 2020 was £85.8m (2019: £154.8m) including £37.7m (2019: £41.2m) of lease liability. The Group's committed lending facilities amount to £401.2m 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 £5.0m and $2.5m net overdrafts. 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

Though global macro-economic conditions remain uncertain with continued uncertainty arising from impacts of the Covid-19 pandemic (detail on the potential risks to the Group associated with this are set out on pages 55–57), the Group's ability to continue trading successfully in 2020 during the pandemic, 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 satisfactory level of confidence in respect of trading in the year to come.

LONG-TERM VIABILITY STATEMENT

Ultra's prospects and viability

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

The market

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

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 2023, to coincide with its review of the Group's annual budget and medium-term forecasts from the strategic plan. Performance and risks against both the annual budget and the strategic plan are reviewed regularly by the Board and Executive as part of our normal governance cycle.

The Directors have considered the potential impact of the principal risks set out on pages 55-57 and have modelled scenarios, which included the potential impact of the principal risks on the business. 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 proportion of sales to governments and other major prime contractors; 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:

+ A very prolonged and deep downturn across a large proportion of the operating units (e.g. Defence Sector Cycle Risk, Geopolitical Risk), resulting in a 15% year-on-year decline in revenues after 2021, with underlying operating cash conversion of 70%;
+ Significant execution issues on one or more contracts or programmes (e.g. Bid and Contract Risk, Programme Risk or Delivering Change risk), resulting in no revenue growth beyond 2021 and underlying operating cash conversion reducing to 50%; and
+ Realistic worst-case financial impacts to the Group of the Covid-19 pandemic, which included an assumption of four- to eight-week long closures of all sites, similarly significant disruption to the supply chain, and increased workforce absence through illness.

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 outflow arising from the Group's other principal risks. Consideration was also given to the level of unexpected cash outflow or decline in profitability that would result in a breach of financial covenants.

The Directors have determined that the three-year period to December 2023 is an appropriate period to provide its viability statement. Based on this assessment, 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 2023.

WE ARE

Agile

Our risk approach to Covid-19

In order for the Board and Executive Team to monitor the rapidly changing crisis in 2020, an Executive Covid-19 Incident Management Team was created. This team initially met on a weekly basis throughout the first global lockdowns. As initiatives to manage and coordinate our response were embedded, these meetings were able to drop to biweekly throughout the summer of 2020 and are now occurring only as and when needed with Covid-19 being managed largely on a day-job plus basis.

At all points of our decision-making we considered our five key stakeholder groups and the medium- and long-term impact for all our decisions. Engagement with our stakeholders has been crucial in understanding their views. For example:

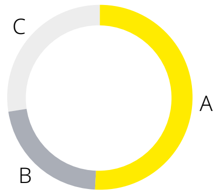
+ Ultra was identified as a critical supplier in defence and energy in all our jurisdictions and moulded our business continuity response to prioritise critical programmes
+ At the same time, we worked actively with our customer base to minimise any service disruption while also winning new contracts
+ As a result of employee feedback following our actions to implement Covid-19-safe environments and home-working, Ultra has launched its first-ever Group flexible working policy to support working from home where appropriate
+ Investors – we proactively engaged with shareholders with numerous one-to-one calls, an update Regulatory News Service announcement and sales meetings with brokers throughout the pandemic
+ Suppliers – We worked actively with suppliers to address areas of issue in supply chains and any areas of support they needed
+ The local community support given by Ultra employees was particularly impressive, with many sites making PPE and also being named as part of the Ventilator Challenge UK. The Group also created a $220,000 fund to support local communities impacted by the pandemic

Throughout the Covid-19 experience so far, Ultra has continued all operations with new socially-distanced working arrangements and with up to 60% of staff working remotely from home.

We conducted a Covid-19 lessons learned exercise at the end of 2020 and have taken learnings forward both to manage the ongoing pandemic, but also to embed practices into normal operations such as improved cleaning routines and more flexible working practices such as revised shift patterns and home-working where appropriate.

Financial review

STATUTORY OPERATING PROFIT BY DIVISION

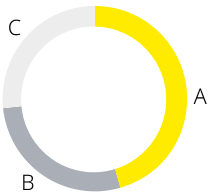


A. Maritime	£55.9m
B. Intelligence & Communications	£23.7m
C. Critical Detection & Control	£30.0m

During 2020 we continued to grow our order book, revenue and profit, while also expanding margins and investing into R&D and transformation. We strengthened our governance process around programme management, transformation and R&D and are increasingly comfortable that those projects will deliver benefits for our stakeholders. We are optimistic about 2021, notwithstanding continued Covid related disruption. The pandemic added additional work to an already busy year, so I am very grateful to everybody in Ultra who worked so hard to deliver an excellent set of results for all our stakeholders.

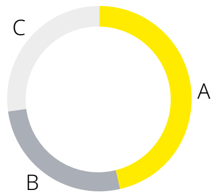
Jos Sclater
Chief Financial Officer

REVENUE BY DIVISION



A. Maritime	£391.8m
B. Intelligence & Communications	£241.0m
C. Critical Detection & Control	£227.0m

UNDERLYING OPERATING PROFIT BY DIVISION



A. Maritime	£58.6m
B. Intelligence & Communications	£33.5m
C. Critical Detection & Control	£34.0m

GROUP PERFORMANCE

	Underlying		Organic growth %	Statutory		Growth %
	2020	2019		**2020**	2019	
Order book £m	**1,064.2**	1,022.9	+5.9	**1,064.2**	1,022.9	+4.0
Revenue £m	**859.8**	825.4	+5.2	**859.8**	825.4	+4.2
Operating profit £m	**126.1**	118.2	+6.2	**106.3**	94.2	+12.8
Operating margin %	**14.7**	14.3	+40bps	**12.4**	11.4	+100bps
Profit before tax £m	**114.5**	105.3	+8.7	**103.7**	91.0	+14.0
Earnings per share (p)	**130.6**	119.5	+9.3	**118.0**	105.1	+12.3
Total dividend per share (p)				**56.9**	54.2†	+5.0
Operating cash flow £m	**116.1**	86.8	+33.8	**142.6**	114.9	+24.1
Free cash flow £m	**99.4**	64.7	+53.6			
Net debt to EBITDA	**1.05x**	1.58x				

Alternative performance measures
In the analysis of the Group's operating results, earnings per share and cash flows, 'underlying' information is presented to provide readers and stakeholders with additional performance indicators that are prepared on a non-statutory basis. These non-statutory performance measures are consistent with how business performance is reported within the internal management reporting. See pages 163-164 for further information. A reconciliation is set out in note 2 between operating profit, underlying operating profit and 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 free cash flow definition has been revised to deduct the principal payments on leases, the 2019 comparative has been restated. The calculation for return on invested capital (ROIC) is also set out in note 2. The calculation for underlying earnings per share is set out in note 12. 'Organic' growth measures compare current and prior-year results at constant currency translation, and as adjusted for any acquisitions or disposals to reflect the comparable period of ownership. See note 2.

† 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.

Ultra's 2020 results

Order book and revenue

Ultra's order book grew by 4.0% to £1,064.2m (2019: £1,022.9m), with organic growth of 5.9%.

Revenue grew by 4.2% to £859.8m (2019: £825.4m). This represents organic growth of 5.2%, reflecting strong growth rates in Maritime and Intelligence & Communications, partly offset by organic decline in Critical Detection & Control.

REVENUE

	£m	% impact
2019	825.4	
Currency translation	(4.1)	-0.5
Disposals	(3.9)	-0.5
2019 (for organic measure)	817.4	
Organic growth	**42.4**	**+5.2**
2020	**859.8**	+4.2

STATUTORY OPERATING PROFIT AND MARGINS

£m	2020	2019
Statutory operating profit	**106.3**	94.2
Amortisation of intangibles arising on acquisition	12.6	21.7
Acquisition and disposal related costs	1.1	0.9
Significant legal charges and expenses	3.3	1.4
Restructuring costs related to disposal	2.8	–
Underlying operating profit	**126.1**	118.2

Statutory operating profit increased by 12.8% to £106.3m (2019: £94.2m) and statutory operating margin increased to 12.4% (2019: 11.4%). This reflects the underlying operating performance, as described below, as well as reducing amortisation costs as assets created by historical acquisitions became fully amortised.

The restructuring costs of £2.8m and some of the legal charges and expenses of £3.3m followed the sale of our aircraft products business, described below. As a result of the sale, we moved the remaining manufacturing from our site in Rochester, New York to Fort Wayne, Indiana and Manhattan, Kansas.

UNDERLYING OPERATING PROFIT AND MARGINS

Underlying operating profit	£m	% impact
2019	118.2	
Currency translation	(0.6)	-0.5
Disposals	1.1	+0.9
2019 (for organic measure)	118.7	
Organic growth	**7.4**	**+6.2**
2020	**126.1**	+6.7

Underlying operating profit was £126.1m (2019: £118.2m), an increase of 6.7% on the prior year. Organic profit growth was 6.2%, driven 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 £144.2m (2019: £145.6m*). Company-funded investment increased organically by £2.8m to £31.8m (2019: £29.6m*) which represents 3.7% of revenue (2019: 3.6%), while customer funding decreased to £112.4m (2019: £116.0m*). The overall level of R&D investment in the year was 16.8% of revenue (2019: 17.5%). The company-funded spend was more modest than originally envisaged as investments relating to the commercial aerospace sector were reduced.

Finance charges

Net financing charges decreased by £1.3m to £11.6m (2019: £12.9m) driven by reduced pension scheme financing charges, lower average borrowings and a decline in interest rates on floating rate borrowings. The interest payable on borrowings was covered 14.7 times (2019: 12.4 times) by underlying operational profit.

Profit before tax

Statutory profit before tax increased 14.0% to £103.7m (2019: £91.0m). Underlying profit before tax was £114.5m (2019: £105.3m), as set out below:

£m	2020	2019
Statutory profit before tax	**103.7**	91.0
Amortisation of intangibles arising on acquisition	**12.6**	21.7
Acquisition and disposal related costs	**1.1**	0.9
(Gain)/Loss on disposals net of £2.8m restructuring costs (see note 30)	**(2.8)**	0.9
(Gain) on derivatives	**(3.4)**	(10.6)
Significant legal charges and expenses	**3.3**	1.4
Underlying profit before tax	**114.5**	105.3

Amortisation costs declined from £21.7m to £12.6m as the customer relationship and technology assets created by historical acquisitions became fully amortised. Acquisition and disposal related costs in the year were £1.1m (2019: £0.9m). A net £2.8m gain arose from the divestment of certain non-core aircraft product lines from the former Flightline business in the Maritime SBU, net of related closure and relocation costs for the remainder of the business and production lines (see note 30).

The net gain on forward foreign exchange contracts was £3.4m (2019: £10.6m gain). Significant legal charges and expenses of £3.3m (2019: £1.4m) primarily relate to conduct of business-related costs; 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. See contingent liabilities note 33.

As in 2019, transformation costs are included in underlying profit.

Tax, EPS and dividends

The Group's underlying tax rate in the year decreased slightly to 19.0% (2019: 19.4%). The statutory tax rate on profit before tax is 19.0% (2019: 19.0%).

Underlying EPS increased 9.3% to 130.6p (2019: 119.5p), reflecting the increase in underlying profit and slightly reduced underlying tax rate. The weighted average number of shares in issue was 71.0m (2019: 70.9m). Basic EPS increased to 118.0p (2019: 105.1p). At 31 December 2020 the number of shares in issue was 71.1m.

Ultra's dividend policy has a through-cycle target of circa two times normalised cash and earnings cover. The 2020 proposed final dividend of 41.5p (2019: 39.2p postponed final dividend paid in September 2020) per share is proposed to be paid on 14 May 2021 to shareholders on the register at 9 April 2021 subject to approval at the Annual General Meeting. This will result in a final full year dividend of 56.9p (2019: 54.2p†), which will be covered 2.3 times by underlying EPS.

Return on invested capital (ROIC)

ROIC increased to 20.0% (2019: 17.8%). The calculation is set out in note 2. ROIC under the previous measure, as still used in the Long-Term Incentive Plan (LTIP) targets for the 2017–2019 issuances, was 22.9% (2019: 22.0%).

* The 2019 R&D spend has been restated following re-analysis of the development spend.

Financial review
continued

Operating cash flow and working capital
Statutory cash generated by operations was £142.6m (2019: £114.9m). Underlying operating cash flow was £116.1m (2019: £86.8m) resulting in underlying operating cash conversion of 92% (2019: 73%). Our focus on improving working capital turn has continued to be successful with the average working capital turn for the Group improving to 10.1x (December 2019: 7.3x). Working capital decreased by £4.2m, principally due to strong receivables collections and increases in advanced payments, partially offset by higher inventory levels. Capital expenditure was flat and lower than originally anticipated due to previously announced changes in enterprise resource planning (ERP) strategy, at £21.9m (2019: £21.8m).

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 £5.3m relating to disposals (see note 30)
+ Dividend payments of £38.7m (2019: £36.7m)
+ Tax paid of £5.4m (2019: £9.5m)
+ A £1.5m (2019: £1.9m) outflow on significant legal charges and expenses, predominantly relating to legacy conduct of business matters

Various emergency Covid-19 tax reliefs were introduced around the world, resulting in Ultra having to defer £6.1m of corporation tax and indirect tax payments and social security contributions. £5.6m of these deferrals had been paid at the balance sheet date. In addition the US Coronavirus Aid, Relief, and Economic Security Act made temporary changes to the US Internal Revenue Code which allowed the Group to deduct previously deferred US interest expense resulting in a prior-year tax credit of £3.7m.

Funding and liquidity
The Group's committed banking facilities amount to £401.2m (2019: £402.8m) 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. The $70m notes expire in January 2026 and January 2029.

The liquidity of the Group is strong; as at 31 December 2020, the total borrowings drawn from the RCF were £20.0m (2019: £85.5m), giving committed facility headroom of £280.0m (2019: £214.5m) in addition to £5.0m and $2.5m of uncommitted overdrafts. The Group also held £84.1m (2019: £82.2m) of net 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/EBITDA is less than three, and that the net interest payable on borrowings is covered at least three times by EBITA. In certain acquisition scenarios, the ratio of net consolidated total borrowings/EBITDA is permitted to be up to 3.5x for two consecutive six-month periods. The covenants are under a 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 £85.8m (2019: £154.8m) including £37.7m (2019: £41.2m) of lease liability. Net debt/EBITDA when including pension liabilities and lease liabilities was 1.05x (2019: 1.58x). On a covenant basis, which excludes pension liabilities and lease liabilities, the figure is 0.34x (2019: 0.86x). Net interest payable on borrowings was covered 14.7x (2019: 12.4x) 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.

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.

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 2020 was $1.28 (2019: $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 2021, 100% of the expected exposure is covered, reducing to 70% of the exposure for 2022 and around 20% of the exposure for 2023. Exposure to other currencies is hedged as it arises on specific contracts.

A net investment hedge is in place to reduce income statement volatility from revaluation of US Dollar assets and liabilities 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 2020 when the net scheme deficit, calculated in accordance with IAS 19, was £56.6m (2019: £59.1m). The present value of the liabilities increased by £36.8m to £423.2m in 2020 primarily due to the 50bps decrease in the discount rate. There was a £38.1m increase in scheme assets, mainly driven by increases in investment values in funds and equities.

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 and had an IAS 19 net deficit of £0.6m at the end of the year (2019: £0.3m). 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. Certain employees at the Swiss subsidiary of Forensic Technology, Projectina, also participate in a defined benefit pension scheme. The scheme had an IAS 19 net deficit of £1.9m at the end of the year (2019: £1.4m).

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.

Jos Sclater
Chief Financial Officer
9 March 2021

2021 FINANCIAL GUIDANCE

Based on our strong order book, and while we continue to monitor and adapt to the changing situation in all our markets, we are planning for continued revenue growth in 2021, although we do not expect to see any improvement in commercial aerospace revenue until at least 2023.

We expect operating margins to reduce somewhat in 2021 for the reasons described:

+ We plan to accelerate our transformation investments to £11–13m, with increased investment in process efficiency, procurement category management and two major site consolidations. With the good progress made in 2020 and acceleration of certain projects into 2021, we now expect to begin to realise year-on-year benefits in 2022, a year ahead of plan. We continue to expect the Focus; Fix; Grow transformation to be broadly complete by the end of 2023
+ We intend to further increase internal R&D to between 3.8% and 4% of revenue in 2021, as we continue to invest in capabilities to support customer needs in pursuit of continued future growth, following a period of lower expenses due to Covid-19 restrictions
+ Indirect costs such as travel and marketing are expected to begin normalising over the course of 2021
+ Capital expenditure will increase to around £35m in 2021. This is to support facility expansion in our Sonar OBU ahead of Canadian Surface Combatant production and our Communications OBU to support production of ORION radio systems. As a result, cash conversion is expected to be 75–85%
+ Underlying tax rate is expected to remain stable at a little below 20% (with the cash tax rate expected to be less than 10%)

Financial review
continued

INVESTMENT REVIEW

How we allocate capital: A prudent and disciplined approach

Effective capital allocation is critical to delivering long-term value to shareholders and growing our return on invested capital. We have a clear and disciplined approach to capital allocation with a policy that provides the financial flexibility required to successfully execute our long-term growth strategy, while ensuring that capital is deployed in the most effective manner. 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 acquisitions (M&A) investment to accelerate strategy delivery, if it is value creative on a risk-adjusted basis

3. Sustainable through-cycle dividend growth. As announced in 2019, 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 gearing between 1.5 – 2.5x net debt (including pension and lease liabilities) to EBITDA. We believe this appropriately reflects the Group's operational risk profile, although from time to time it may be higher as investment opportunities arise.

For more detail on our risks please see pages 54-57.

Transformation investment

As planned, we increased transformation investments by over £5m to £8.2m (2019: £3.0m). See pages 19-20 for more details on our transformation workstreams.

Capital expenditure

Capital expenditure in the year was £21.9m (2019: £21.8m), including spend on major transformation initiatives such as a new HR information system and a new financial consolidation platform, which will go live in 2021.

Investing to create value for all our Stakeholders

Our ONE Ultra strategy is to create value for all our stakeholder groups. We set annual goals for our KPIs to make sure we achieve our 2024 targets for each group; this helps focus the organisation on driving performance which will benefit all of our stakeholders.

Hedging policy

Ultra hedges transactional foreign exchange, largely where we sell from the UK into USA, mostly for our PCS business. Ultra is 100% hedged in 2021 at 1.29 $:£, the proportion hedged steps down until 2023.

Dividend policy

There is no change to Ultra's dividend policy which was originally announced in 2019. The Board has implemented a dividend policy with a through-cycle target of circa two times normalised cash and earnings cover, signalling confidence in the Group's future prospects.

NON-FINANCIAL INFORMATION STATEMENT

In compliance with sections 414CA and 414CB of the Companies Act 2006, a non-financial information statement summarising the nature and location of non-financial disclosure is included within the Directors' report on page 103.

WE ARE

Relentless explorers

UltraLabs

Ultra has always been good at innovation. Customers know that when they have a problem they can rely on us to solve it for them. Helping their systems perform better and keeping their people safe.

But how can we solve those problems more efficiently and effectively and how can we help them solve the problems they don't even know they have yet? That's where UltraLabs comes in.

UltraLabs has five main objectives:

+ To develop specialist capabilities to support cross-Group technology need, particularly machine learning and artificial intelligence
+ To monitor emerging technology trends and, in conjunction with the SBUs, access research funding and look at applications to address existing and future customer challenges
+ To develop and will act as the owner of the Ultra innovation process
+ To engage with customers' most strategic and future thinkers to ensure Ultra's technology and capability suite is aligned with customers' future needs
+ To develop cross-Group concepts and solutions driven by customer-informed opportunity

One first example of UltraLabs in action is Ultra joining forces with L'École de technologie supérieure (ÉTS) in Montreal, Canada to create the first institute of distributed artificial intelligence in Montreal. This partnership is developing specialist artificial intelligence and machine learning technologies in resilient, inter-service, mission-critical communication, and the capabilities it is developing are already helping us develop new solutions and more opportunities for us to innovate and grow.

Chairman's governance report

It has certainly been a busy year and one where we have made significant strategic and financial progress, despite the challenging environment caused by the impact of Covid-19.

Tony Rice
Chair

Dear Shareholder,

I am pleased to present my Chairman's Governance Statement. This should be read in conjunction with the compliance report on page 67 which shows how the Company has complied with the UK Corporate Governance Code 2018.

It has certainly been a busy year and one where we have made significant strategic and financial progress, despite the challenging environment caused by the impact of Covid-19.

As soon as the extent of the pandemic and the potential implications became apparent, we called a special Board meeting to discuss Ultra's response, with the safety, health and well-being of our employees and their families at the forefront of our discussions. As a critical supplier, all of our manufacturing facilities remained open. Our businesses each carried out specific workplace risk assessments and adapted their working practices to enable them to continue to meet their customers' requirements, while keeping our people safe.

We also reviewed detailed scenario modelling prepared by the Executive and senior management teams which looked at the potential financial implications of the pandemic, alongside potential actions that might be taken. As a result of the fantastic collaborative efforts of our employees globally, we did not need to implement those mitigations and were able to manage the impact of the pandemic effectively.

We were very pleased to see that, in response to a specific question in the employee engagement survey carried out in May 2020, our employees scored management's response to the pandemic with a 73.2% favourable score. During the year, management continued to adapt to the changing circumstances in the locations where we operate, always with the health and safety of our workforce, and their families, our primary concern.

Mindful of the need to balance the interests of all of the Group's stakeholders, as part of the scenario planning exercise, we considered the implications and options for the 2019 final dividend. Due to the unprecedented nature of the pandemic and resulting uncertainty, we made the decision to withdraw that dividend and consider whether to make a further interim dividend payment for 2019 later in the year once the impact of Covid-19 had become clearer. We therefore withdrew the resolution to approve the 2019 final dividend from our 2020 Annual General Meeting ("AGM"). Once the limited impact of the pandemic on Ultra and the response of the organisation to it became more clear, and we were comfortable that the Company had a strong liquidity position, we concluded that it was appropriate to declare an additional 2020 interim dividend of 39.2p per share (equivalent to the initially proposed final 2019 dividend) in July 2020. This was in addition to declaring an interim dividend for 2020 of 15.4p per share. The Board were confident to make this decision based on the strength of Ultra's business model, strong cash conversion and liquidity position.

All our facilities continued to operate effectively thanks to the pragmatism, hard work and resilience of our employees, and I would like to personally thank all of Ultra's workers for their resilience and dedication to the Company and focus on delivering our vital products to our customers. The Board continues to monitor the impact that Covid-19 has on all our stakeholders at each Board meeting. Further information of how our stakeholders were considered during the Covid-19 pandemic can be found on page 24.

We also needed to react swiftly in relation to our AGM and Board meeting planning. Our Board has continued to operate effectively throughout 2020 utilising video conference facilities, and, when it was legally permitted, some attendees present at meetings in person, socially distanced in our large boardroom. To adhere to Government guidelines and protect our people, we made the decision to hold our AGM with minimum attendees in person to limit the risk of spreading Covid-19, yet invited shareholders to ask any questions in advance of the meeting. This year, our AGM will follow a similar format to keep everyone safe. While the Board has suffered from not being able to meet fully in person and we have all very much regretted not being able to visit our facilities as planned, we have worked hard to ensure that we remained connected and work effectively together as a Board.

Strategy execution

It was a year of strategy execution for the Company as we continued to deliver on our strategy and transformation programmes at pace. Our key focus as a Board was to ensure that the strategic priorities of the ONE Ultra strategy were implemented effectively while ensuring the day-to-day operations continued to deliver to expectations. That said, we have been mindful of the ongoing pressure on our people to deliver to expectations while having the additional demands of our transformation agenda. As a result of addressing this, workstreams were reprioritised to relieve pressure on those most affected, and this will be an area of continuing focus.

We received quarterly updates from the Executive Team regarding strategy implementation, organisational design and other transformation programmes, and constructively challenged assumptions, tested the senior management and Executive teams' decision-making and provided guidance accordingly.

Careful monitoring was especially important given the additional challenges Covid-19 presented to us and our stakeholders but, as a Board, we feel the Company has been extremely resilient and have been very pleased by the way the new strategy and the Focus; Fix; Grow programme has continued to be implemented. We are increasingly confident of the benefits of the ongoing transformation and look forward to seeing these coming to fruition. We will continue to scrutinise the strategy execution and transformation programmes closely this year and monitor performance against the 2021 strategic priorities, which are outlined on page 13.

Purpose, values & culture

To support our ONE Ultra goals, our new purpose, vision, mission, ASPIRE values and brand were launched at our Senior Leadership conference in January 2020. I continue to be impressed with the employees and management teams I have met, albeit virtually, in 2020 and can feel the enthusiasm and excitement around the positive changes Ultra is going through. We were mindful of the enhanced workload from business as usual together with transformation projects and the added complexities of Covid-19. We are sensitive to the need to monitor workloads and ensure they remain within acceptable limits.

To assist this cultural and mindset shift, the roll-out of our ASPIRE values was a significant step in shaping and aligning our behaviours across our Group as we move towards ONE Ultra. The Board received periodic reports on how our values have been embedded throughout the business from the Chief HR Officer in addition to other employee feedback. We would normally have met with employees first-hand at our Board site visits at least three times per year. Alas, due to the pandemic this has not been possible as a Board, although some of our Directors have been able to vist sites as noted on page 80. I hope that we can recommence our Board site visits to meet many more of our teams in the near future, but we are grateful for the comprehensive reports we receive as described in our approach to workforce engagement on page 80.

Environmental, Social and Governance (ESG)

I am extremely pleased to see the progress the Company has made regarding our ESG matters, and our reporting of these areas with the launch of our sustainability plan 'A Positive Force' in December 2020. Our newly formed CSR Committee acted quickly to coordinate the Company's response to Covid-19 to support the communities in which we operate through the establishment of our ONE Ultra Covid-19 fund, with donations to worthy causes that were affected by the pandemic, totalling over $220,000. Further information on A Positive Force and the activities and initiatives of our CSR Committee can be found on pages 38 to 53 and in our Sustainability Report which is published alongside this Annual Report. ESG has always been a key part of our ONE Ultra strategy, which aims to deliver targeted goals for all our stakeholders. It is also a key area of focus for us as a Board and we will continue to monitor developments closely as we work towards our 2021 Group goals.

Corporate Governance is at the heart of everything we do as a Board. We welcome advancements in this area and are aware of the increasing importance of governance, and our obligations as a Board. We receive regular corporate governance updates from our Company Secretarial team to ensure we remain abreast of new regulations and developments in this area and actively promote adherence to all aspects of the Code, as demonstrated in the adjacent table, in addition to best practice guidelines.

Our Board

Sir Robert Walmsley, who had served on our Board since 2009, stepped down as Senior Independent Director at the conclusion of our AGM on 13 May 2020. I would like to reiterate my thanks to Sir Robert for his outstanding contribution to our Board throughout his tenure.

I am delighted that Lieutenant General (retired) Ken Hunzeker joined our Board on 1 July 2020. Ken is a US national, with a strong military, defence and US Government background and has significant knowledge of our key technologies and our customers. Due to the Covid-19 pandemic, Ken hasn't been able to attend a Board meeting in person yet, but with the benefit of video conference facilities, Ken has settled into his role very quickly and already exhibits the qualities sought from a Non-Executive Director, with constructive challenge and valuable insights, given his exemplary military experience.

As I explain in more detail in the Nomination Committee report on page 83, we are currently searching for at least one further Non-Executive Director to join our Board as Martin Broadhurst will step down on 1 July 2021 following a nine-year tenure on the Board. Martin has made a significant contribution to our Board and, in later years, as Chairman of our Remuneration Committee. I would like to thank Martin for his insights and support over his tenure and wish him all the very best for the future. Geeta Gopalan, who has extensive financial experience, will Chair the Remuneration Committee with effect from 1 July 2021.

Sustainable growth

I am pleased to report that the Board will be proposing a final dividend of 41.5p per share, in line with our dividend policy and as a signal of our increasing confidence in Ultra's future.

I would like to reiterate my thanks to everyone throughout Ultra for their continued commitment to the Company. The Board remains excited about the significant value creation opportunities for all our stakeholders, not only from the Company's strong technology base which is well aligned to future growth areas, but also from our Focus; Fix; Grow transformation delivering increased efficiency and operating leverage potential. 2020 was a year of great progress for the business and I look forward to the exciting times that lay ahead for Ultra as well as the easing of pressures arising from the Covid-19 pandemic in all of our personal lives.

Tony Rice
Chairman
9 March 2021

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

In respect of the year ended 31 December 2020, 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.

As reported in last year's Annual Report and Accounts, Sir Robert Walmsley agreed to continue in his role as Non-Executive Director until May 2020, beyond the recommended nine-year tenure set out in the Code, while the Company completed the recruitment process for a suitable replacement. The Board nonetheless considers that Sir Robert Walmsley demonstrated independence of character and judgement and constructively challenged the Board and the Executive Team when matters were discussed at Board meetings. It therefore considers that he remained an Independent Non-Executive Director for Code purposes.

Throughout the financial year ended 31 December 2020, the Board considers that it, and the Company, has complied with the provisions of the Code. Further details demonstrating how the principles and relevant provisions of the Code have been applied can be found as follows:

Our governance structure
Our Board

Tony Rice N

Simon Pryce

Jos Sclater

Geeta Gopalan A R N

Martin Broadhurst 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 CEO of Cable & Wireless Communications plc, CEO of Tunstall plc and held a number of senior roles in BAE Systems plc. Tony has a BA in Business Studies from City of London College and an MBA from Cranfield School of Management.

Committees
Nomination (Chair)

Other key appointments
+ Chair of Dechra Pharmaceuticals plc
+ 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 Lazards 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, 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

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.

Martin Broadhurst
Independent Non-Executive Director

Appointed to the Board 2 July 2012

Martin joined Marshall Aerospace as a management trainee in 1975 and, following a number of roles with the Company, including Production Director and Director of Programmes, served as Chief Executive between February 1996 and December 2010. During his time as Chief Executive, he served on the Group Holdings Board and was Chair of a number of subsidiary companies.

Committees
Audit, Nomination and Remuneration (Chair)

Other key appointments
+ Non-Executive Director A J Walter Ltd
+ Chair of Trustees of the Royal Aeronautical Society

Skills and experience
Extensive experience in the defence and aerospace markets. International business leadership and growth. Large engineering organisation management experience.

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 RBG Holdings 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 who specialise 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.

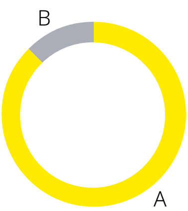
Our Governance Structure
continued

Board composition

BOARD SKILLS, EXPERIENCE & DIVERSITY

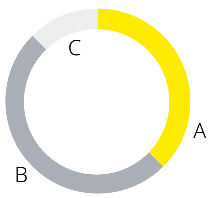
	Relevant Sectors			Geographies			Experience					Tenure
	Defence & Aerospace	Security & Cyber	Energy Markets	UK & Europe	North America	Rest of World	Finance & Legal	Capital Markets & Public Companies	Public Sector & Procurement	Leadership in Large Organisations	Military	Length of Service
Executive Directors:												
Simon Pryce	●	●	●	●	●	●	●	●	●	●		2.5 years
Jos Sclater	●			●	●	●	●	●		●		1 year
Non-Executive Directors:												
Tony Rice	●			●	●	●	●	●	●	●		2 years
Geeta Gopalan		●		●			●	●		●		3.5 years
Martin Broadhurst	●	●		●	●	●			●	●		8.5 years
Victoria Hull				●	●	●	●	●		●		3.5 years
Daniel Shook			●	●	●	●	●	●		●		1.25 years
Ken Hunzeker	●	●			●	●				●	●	0.5 years

BOARD BAME DIVERSITY



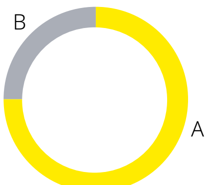
A.	White Caucasian	7
B.	BAME	1

BOARD TENURE DIVERSITY



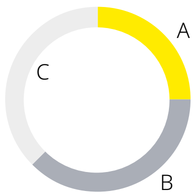
A.	0-2 years	3
B.	2-4 years	4
C.	4+ years	1

BOARD GENDER DIVERSITY



A.	Male	6
B.	Female	2

AGES



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

Board diversity policy

A Board composed of the right balance of skills, experience and diversity of views is best placed to support a company in its strategic objectives, therefore the Board recognises the benefits of diversity. Diversity of skills, background, knowledge, international and industry experience, and gender, among many other factors, 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 42-44.

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 effective dialogue drawing on Directors' breadth of skills, knowledge and experience, as depicted above.

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. Although the current Board structure does not meet the Hampton-Alexander target of a minimum 33% female representation on the Board, we will work towards achieving this target as we continue to refresh the Board composition, in particular, as we search for at least one new Non-Executive Director this year but while recognising the need to increase the diversity on the Board in its broadest sense, including, but not limited to, gender, sexual orientation, age and cultural background and beliefs and ensuring that we have a Board that collectively has the appropriate mix of skills and experience to support the Company in achieving its strategic priorities.

Further information on our diversity initiatives to build a strong pipeline of senior leaders can be found on pages 42-44.

Board independence

The Board monitors its own independence and objectivity on an ongoing basis and is confident that all Directors act with independent judgement, and that half the Board, excluding the Executive Directors and the Chair, are Independent Non-Executive Directors. 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. All our Non-Executive Directors are for the wider workforce considered to be independent pursuant to the UK Corporate Governance Code 2018 ("Code"). As such, all Non-Executive Directors shall offer themselves for re-election at the Company's AGM on 12 May 2021.

In July 2021, Martin Broadhurst will have served on the Board for nine years, after which he would not meet the Code's criteria for independence. Although Martin will offer himself for re-election at the Company's AGM on 12 May 2021, he will step down as Non-Executive Director on 1 July 2021 when he will have completed a nine-year tenure on the Board.

During the year, Sir Robert Walmsley served on the Board until the conclusion of the AGM on 13 May 2020. As reported in our last Annual Report, Sir Robert agreed to stay on the Board beyond a nine-year tenure, as explained further on page 67. The Board was satisfied that Sir Robert acted free of judgement and bias and was therefore considered to be an Independent Non-Executive Director throughout his whole tenure.

Our Governance Structure
continued

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 dictates 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.

ultra.group

DIVISION OF RESPONSIBILITIES

Chair	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. 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.
Chief Executive	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.
Chief Financial Officer	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.
Senior Independent Director	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.
Non-Executive Directors	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.
Group General Counsel and Company Secretary	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 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.

Committees of the Board

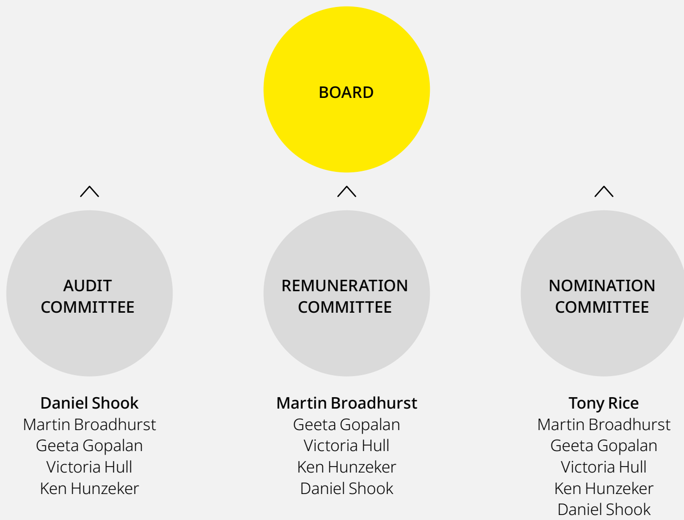
To facilitate the effective discharge of its duties, the Board has three Committees to which certain key responsibilities are delegated. The terms of reference for each Committee were reviewed and updated in May 2020 and are available to download on the Company's website.

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 68-69.

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.

Our Governance Structure
continued

Our Executive Team


Simon Pryce


Jos Sclater


Richard Cashin


Steve Izquierdo


Louise Ruppel


Mike Baptist OBE


Thomas Link


Andrew Puryear

Simon Pryce
Chief Executive

See bio on page 68.

Jos Sclater
Chief Financial Officer

See bio on page 68.

Richard Cashin
President, Strategy & Corporate Development

Richard Cashin is a Chartered Management Accountant and has over 20 years' experience in financial leadership, M&A, corporate development and strategy deployment. Prior to joining Ultra in June 2019, Richard was Senior Vice President of Finance for the Polymers and Composites division of Meggitt plc, a FTSE 150 global aerospace and defence company. Richard has also held senior roles within UBS Global Asset Management and Rolls-Royce plc.

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.

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 and drives the transformation and operating model to support that delivery. The team also makes policy, prioritisation and scarce resource allocation decisions, taking into account the needs of all stakeholders in addition to shareholders, so that agreed stakeholder targets are met and the Company can progress towards our long-term strategic objectives.

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. 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 80.

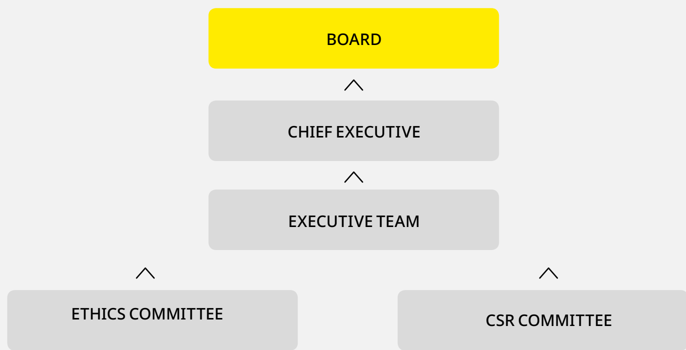
Due to the Covid-19 pandemic, the Executive Team was only able to make one site visit as a Group in Q1 2020 to our facility at Herley, Lancaster, although the Chief Executive Officer and Chief Financial Officer made several site visits and held numerous townhall meetings including Q&A sessions with employees when it was safe to do so. Executive Team site visits will resume as soon as it is safe to travel.

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. David Shattock, who had served on the Committee for 12 years, stood down this year for personal reasons. We are looking for a third member of the Committee, to be based in North America, to join the Committee in 2021.

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; and
+ Review Speak Up reports and challenge the integrity and independence of our Speak up platform.

THE ROLE OF OUR EXECUTIVE TEAM



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.

Further information on the work carried out by our Ethics Committee can be found on page 80.

Ethics Committee biographies

Tim Cross CBE
Major General (Retired) Tim Cross commanded everything from a small Bomb Disposal Team in N 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 1990's. 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 Royal 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.

CSR Committee
The CSR Committee is Chaired by Rikki Douglas 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. See pages 38-53 for further information.

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.

Our Governance Structure
continued

How the Board operates

Board meetings

In 2020 there were eight scheduled Board meetings, plus an additional scheduled Board meeting dedicated to the Company's response to Covid-19 (see page 24 for further information). Throughout the year, the Board and Committee meeting had full attendance of Directors, as depicted in the adjacent table.

The Board usually meets at the Company's head office in London but aims to hold 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. This forms part of the Company's approach to workforce engagement as explained on page 80.

Due to Covid-19, the Board was unable to visit any Ultra sites in 2020 collectively, but hopes to reinstate visits as soon as practical when it is safe to do so. Video-conference facilities have been utilised in 2020 to ensure the safety of all our Board members and noting that our new Non-Executive Director, Ken Hunzeker, resides in the United States.

A forward-looking agenda is prepared to ensure 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.

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.

BOARD AND BOARD COMMITTEE MEETING ATTENDANCE 2020

	Board	Audit Committee	Remuneration Committee	Nomination Committee	AGM	Board Strategy Day
Total no. of meetings in 2020[1]	9	3	5	2	1	1
Executive Directors:						
Simon Pryce	9/9	n/a	n/a	n/a	1/1	1/1
Jos Sclater	9/9	n/a	n/a	n/a	1/1	1/1
Non-Executive Directors:						
Tony Rice	9/9	3/3	5/5	2/2	1/1	1/1
Sir Robert Walmsley[2]	3/3	1/1	2/2	1/1	1/1	n/a
Geeta Gopalan	9/9	3/3	5/5	2/2	1/1	1/1
Martin Broadhurst	9/9	3/3	5/5	2/2	1/1	1/1
Victoria Hull	9/9	3/3	5/5	2/2	1/1	1/1
Daniel Shook	9/9	3/3	5/5	2/2	1/1	1/1
Ken Hunzeker[3]	6/6	2/2	3/3	1/1	n/a	1/1

1 The total number of scheduled meetings held during the year
2 Sir Robert Walmsley stepped down from the Board on 13 May 2020
3 Ken Hunzeker was appointed to the Board on 1 July 2020

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

The Directors' induction plan was strengthened over the course of the year following the 2019 Board evaluation. A more structured full and formal, tailored, induction is given to each incoming Director led by the Chair in conjunction with the Company Secretary. The core induction programme includes a management pack of information 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. Time commitments are reviewed on an annual basis and 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.

Prior to Ken Hunzeker's appointment to the Board as an Independent Non-Executive Director, his external commitments were reviewed. The Nomination Committee and the Board were satisfied that he had sufficient time to devote to the role.

THE BOARD FROM A NON-EXECUTIVE DIRECTORS' PERSPECTIVE

Ken Hunzeker

Q: Why did you join Ultra's Board?
It was an opportunity that allowed me to continue to support the military and provide the equipment we need. Ultra has an incredible reputation in the US DoD, and I thought that, based upon my background and experience, I could make a positive contribution to the Company.

Q: What are your thoughts on your first six months with Ultra?
The Management and Board are exactly the incredible teams I thought I was joining. They really are a phenomenal management team, and a very talented Board that is very dedicated and diligent in the execution of their duties. I feel very privileged to be part of the team.

Q: How have you got to know Ultra?
First, there was a very detailed and thorough induction programme with Ultra employees and the Board giving me a good understanding of the business and the ONE Ultra strategy. I particularly enjoyed meeting with leaders from across the business and hearing what support they would like from me as an incoming Non-Executive Director. I have participated in every Board and committee meeting since joining the Board. The presentations are always sent in time to review, they are very detailed, and the Board and Management interaction allows for discussion and resolution of all key issues. Additionally, I was able to visit one of the key manufacturing businesses in the USA and have a town hall with all the leadership there, I'm looking forward to completing many more site visits once Covid-19 restrictions begin to ease, and hope to visit sites in the UK, Canada and Australia as well as the USA. Finally, I have had multiple video calls with the Chairman and other Board members to explain topics we are covering in the meetings in more detail.

Q: What do you think of the culture within Ultra?
Our culture is evolving, and the concept of ONE Ultra is grabbing excellent traction. Management and the Board are totally immersed in creating a values-based environment that will continue to set the standard in our field.

Q: How do you find the Board dynamics?
The Board dynamics are excellent. The discussion and crosstalk is welcomed and very focused. Everyone is pulling together in a manner that was refreshing to see, and an honour to be part of.

Q: What do you think will be the focus for the year ahead?
Transformation is still job one, and it is critical as we continue to grow the Company and business lines. There are some brilliant opportunities to grow Ultra. I'm particularly excited to see new technology collaboration across the businesses and the new Group technology roadmap as this will position us for growth in our defence markets.

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 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 54-57.

Following the appointment of a Chief Risk Officer in 2019, risk management and internal controls were key focus areas during the year. See pages 86-87 of the Audit Committee report for further information.

Succession planning
Succession planning has been key focus area throughout 2020 and continues to be a priority in 2021. The Nomination Committee has primary responsibility for Board and Senior leader succession planning. Further information can be found on pages 82-83.

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 progress on the roll-out of the Company's renewed mission, vision and values
+ Received updates and provided strategic direction relating to the Focus; Fix; Grow transformation plan.
+ Considered strategic matters at a designated strategy day
+ Received updates on potential M&A activity
+ Reviewed and approved Sustainability plan and Social Responsibility Policy
+ Received a briefing on the US defence market environment
+ Received a briefing on the UK defence market environment

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
+ Resolved to withdraw the final dividend for the year ended 31 December 2019 given the COVID-19 pandemic and pay an additional 2020 interim dividend equal to the final dividend that was withdrawn
+ Received presentations from Strategic Business Unit Presidents
+ Received updates on the Group's defined benefit pension scheme and related governance

Board changes

+ Resolved to extend the appointment of Sir Robert Walmsley until the conclusion of the Company's 2020 AGM
+ Appointed Victoria Hull as Senior Independent Director when Sir Robert Walmsley stepped down following the 2020 AGM
+ Appointed Mr Kenneth Hunzeker as a Non-Executive Director

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

+ Held a special meeting to discuss the Covid-19 pandemic including enhanced safety measures for staff 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 Secretary
+ Reviewed the Company's anti-bribery and corruption policy compliance/training programme and approved a new anti-bribery and corruption manual
+ Considered the Company's whistleblowing procedure processes and approved a new Code of Conduct and Speak Up reporting platform
+ Discussed the Board evaluation and agreed actions as a result of the feedback
+ Approved revised terms of reference for the Audit, Remuneration and Nomination Committees
+ Approved the Group's modern slavery statement
+ Approved the Group's gender pay gap disclosure

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 and resulting action plans
+ Reviewed progress regarding the new Human Resources Information System to be implemented in 2021

Other

+ Received a technology and engineering update
+ Appointed Numis as joint broker, replacing Investec

BOARD EVALUATION

2019 Board evaluation actions and progress

Below shows the key focus areas identified as a result of the 2019 internal Board evaluation process, together with the progress in 2020.

Review of risk management

Linkage of risk reporting to the new strategic objectives, looking at interconnectivity of risks.

Progress: The Audit Committee and Board had an increased focus on risk management during 2020, with an additional Audit Committee meeting scheduled dedicated to risk management. See pages 85-87 for further information.

Culture

Receive feedback on the roll-out of the new ASPIRE values and overall culture.

Progress: The Board received reports on how the ASPIRE values and Code of Conduct were rolled out and embedded throughout the Group from the Chief HR Officer and the Company Secretariat. Independent feedback on this area was provided by the Ethics Committee which included more broader feedback on culture and ethics throughout the Group. See page 80 for further information.

Training

Develop a broader Directors' training agenda for 2020.

Progress: A tailored Board training agenda was developed and adhered to in 2020. The Directors' induction process was also further enhanced.

Customers

Greater insight into how customers' needs and expectations are changing and consider how changes in market dynamics could impact our strategy.

Progress: The Board received briefings on US and UK defence markets received during the year.

The Board strategy session considered all stakeholder groups, including our customers and their needs and expectations.

A technology roadmap was developed which identified areas where we will need to develop or buy technology and/or expertise, to deliver the best solutions to our customers.

2020 Board Evaluation

The Board recognises that formal Board evaluation is an important tool in the development of Directors' individual and collective performance to enhance Board effectiveness on an ongoing basis. 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.

In Q4 2020, the Board engaged the services of Clare Chalmers of Clare Chalmers Limited to facilitate an external Board evaluation process. Clare Chalmers Limited is a highly regarded specialist firm that works with a number of FTSE organisations to assess and improve Board effectiveness. Clare Chalmers Limited is fully independent and has no other connection with the Company or any individual Director. Below is an overview of how the Board evaluation was conducted.

Scoping

Clare Chalmers met with the Chair and the Company Secretary to discuss the objectives of the review and any areas of specific focus. A scoping agenda was agreed and sent to each Director ahead of scheduled one-to-one meetings with Clare to allow time for deliberation on certain matters in advance of the interviews.

Document review

The Company provided relevant documents for formal review, including a selection of Board and Committee minutes, agendas and papers and other corporate governance documentation including the Company's Matters Reserved for the Board and Committees' Terms of References.

Board and committee observation

Clare Chalmers Limited observed one Board meeting and two Committee meetings to form a picture of how the practical arrangements of the meetings come together and to assess the Board and Committee dynamics.

Interviews

Clare held one-to-one interviews via video conference with each of the Board members, the Company Secretary and certain members of the senior management team who regularly participate in parts of the Board and Committee meetings. Although an agenda was followed all interviewees could raise their own additional points, which was encouraged.

Feedback and actions

Clare produced a written report and initially discussed her key findings with the Chair and the Company Secretary. A specific Board evaluation feedback session was scheduled with the full Board where Clare presented her key findings and recommendations which were discussed, together with key actions. The Chair held one-to-one sessions with each of the Directors to discuss the feedback. The Senior Independent Director and Chair also had a one to one discussion. The Company Secretary then produced an action plan as a result of the findings for consideration and approval by the Board.

The key findings of the review are presented below:

Board strengths

+ The Board's strengths are around culture, tone, openness and transparency under the Chair's leadership.
+ There is a great appreciation for the Chair's style and approach, which has facilitated positive boardroom dynamics ensuring that all Board members have the opportunity to speak.
+ The Chair and the CEO have a good working relationship, described as being "trusting and mature with good communication".
+ The Board has good engagement with the Executive Team and certain members of the senior management team, and is very supportive of management.
+ The Director on-boarding process and induction plans have improved with very positive feedback received from the most recently appointed Non-Executive Director, Ken Hunzeker.
+ The Committees are working well, with good progress made around remuneration policy within the Remuneration Committee.
+ Daniel Shook has settled into the role of Audit Committee Chair well, leading an action-oriented Audit Committee while setting the right tone and encouraging open discussions.

Focus areas for 2021

The Company benefits from an experienced Board but the potential recruitment of new Non-Executive Directors presented an opportunity to broaden that experience with individuals from different backgrounds.

+ As the Company moves from the 'Focus' to the 'Fix' of its Focus; Fix; Grow transformation journey, the focus of the Board will move from planning and strategy to monitoring delivery of those plans and both management and the Board would look at ways to ensure that this is achieved effectively through agenda planning, papers and meeting preparation.
+ Board members and management would focus on ensuring that they fully leverage the knowledge and experience of the Independent Non-Executive Directors.
+ Although work has been underway for succession planning for the Executive Team and Senior Management Team, succession plans for the CEO and CFO should now be formalised.

The action plan, prepared by the Company Secretary and agreed by the Board, addresses all of the above focus areas for 2021. Progress against these areas will be reported on in next year's annual report.

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Our Board in action
continued

Workforce engagement

Our talent is critical to our success and we are aware of the importance of listening to, and understanding, the views of our workforce. As we move forward on our Focus; Fix; Grow transformation journey and during these challenging times of Covid-19, understanding the views of our workforce has never been so important. For the purpose of employee engagement, we define our workforce as employees with formal contracts of employment.

During the year the Board reviewed its means of engaging with the workforce, noting the three specific methods the 2018 Code recommends.

We have a talented and hardworking workforce of over 4,253 across 37 sites in 10 countries and value the views and insights of our employees throughout the Group. Given Ultra's geographical spread and numerous businesses, we used a combination of methods to understand the views of the workforce as follows.

Ultra is relatively unique with its own entirely independent Ethics Committee (the "Committee") which aims to visit at least four sites every year on a rotational basis. Further information on the formal remit of our Ethics Committee and the biographies of the Committee members can be viewed on page 75. 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.

Covid-19 has made site visits difficult this year, however, the Committee Chair, Tim Cross, made a physical site visit to our Ocean Systems site in the USA in Q1 2020 when travel was still safe. A virtual visit was held with Ultra CIS in September 2020 utilising video conferencing facilities. Simon Lowe, who joined the Committee in September 2020 following the departure of long-standing Committee member David Shattock, was able to conduct a socially distanced site visit to Ultra Maritime in Rugeley in October, which Tim Cross joined virtually. The Committee recognises the importance of face-to-face meetings, yet as this is not possible given the pandemic, plans are in place to hold further virtual visits until it is safe to travel again.

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.

Formal Committee meetings are held twice a 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. Where possible, meetings are held at different business sites to combine a meeting with a site visit.

The Committee's visibility has increased in 2020 through the Ultranet – a shared intranet page where the Committee can share views. The Committee's communications 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.

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 see this as an effective means of employee engagement, which also assists the Board to monitor culture through the Group.

As described on page 76, the Board aims to visit at least two North American sites and at least one UK site on an annual basis. The Board always schedule time to meet with employees when visiting Ultra locations to listen to their views and gauge culture on a first-hand basis. Due to the unprecedented nature of the pandemic, site visits as a Board were not possible in 2020, although two Non-Executive Directors, Ken Hunzeker and Daniel Shook, were able to visit the Herley facility in Lancaster, USA, when it was safe to do so and met with employees during their visit. They then provided feedback to the Board on their visit and their interactions and conversations with the people they met there. It is hoped that Board site visits will resume in the latter half of 2021 when it is safe to do so.

Simon Pryce and Jos Sclater also made several site visits throughout 2020, where travel allowed, and delivered townhall meetings with question and answer sessions at certain sites.

Our UltraView global employee engagement survey, launched in 2019, 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. Detailed information of participation, engagement scores and resulting actions from our UltraView employee survey can be found on pages 45-46.

Our whistleblowing platform was re-branded and re-launched as 'Speak Up' in July 2020, in conjunction with the launch of our Group Code of Conduct, to encourage employees to Speak Up anonymously if they feel internal channels are not appropriate. Subject to any classified and/or security restrictions, all Speak Up feedback is reported to Ultra's Senior Independent Director and, ultimately, to the Board.

Following the launch of the Code of Conduct and associated training, team leaders throughout the Group held discussion sessions with their teams to talk about, and get feedback on, the Code of Conduct and Speak Up. The feedback was collated by our Company Secretariat and presented to the Board which was a great mechanism to hear the 'employee voice'. Appropriate actions were made locally based on the feedback received.

Simon Pryce has an 'Ask the CEO' email address which he responds to directly. As a result of this direct interaction with the CEO, one of our Regional Managers for Environmental, Health & Safety who reached out to Simon helped to drive a Group-wide single use plastics sustainability initiative, working closely with our CSR Committee. More information of this initiative can be found in the case study on page 51.

Investor engagement

HOLDERS BY GEOGRAPHY
AS AT 11 FEBRUARY 2021

	11 February 2021
	% invested capital
UK	66.82
North America	23.6
Western Europe (Exc. UK)	6.46
Other	3.12
Total	100.00

TOP 10 HOLDERS
AS AT 11 FEBRUARY 2021

	11 February 2021		
Shareholder	Shares	% invested capital	Cum% invested capital
Invesco	7,162,079	10.07	10.07
Baillie Gifford	4,439,650	6.24	16.31
Fidelity Management & Research	3,711,498	5.22	21.53
BlackRock	3,393,398	4.77	26.30
Vanguard Group	2,949,442	4.15	30.44
Fidelity International	2,940,112	4.13	34.58
Mondrian Investment Partners	2,624,404	3.69	38.27
Legal & General Investment Management	2,133,138	3.00	41.26
Aberdeen Standard Investments	2,125,847	2.99	44.25
Janus Henderson Investors	1,901,730	2.67	46.93

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.

The Board places clear importance on communications with shareholders, both institutional investors and individual shareholders. Ultra has a comprehensive Investor Relations programme, managed by the Head of Investor Relations, who provides 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 includes 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 Investor Relations Director make 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, who collectively met with over 50% of the Company's share register. Our Board members also make themselves available to engage with shareholders as required.

The Board is also 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 and the Interim Report. Both are available on the Company's website and the Annual Report is sent to all shareholders who elect to receive it in hard copy. Copies are available upon request and can be downloaded from the website.

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. Our Chair of the Remuneration Committee actively communicated with our top holders concerning our 2020 remuneration policy review. Each of the Non-Executive Directors is also offered the opportunity to attend meetings with major shareholders and would do so if requested. 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 Investor Relations Director at every Board meeting.

A new Group website was launched in January 2020 along with our new branding and strategy. Investors can find webcasts for all previous results meetings, top shareholder information and analyst consensus on this new website as well as Investment Proposition and Corporate Overview for Ultra.

Our latest Capital Markets Day was also held in January 2020. There was an impressive attendance of over 150 investors and analysts to hear about the launch of our new ONE Ultra strategy. These events are planned biannually or when there is significant news or change in strategy to communicate.

Through all these regular, planned contacts and engagements with Investors, including anonymous feedback reports twice per year the Board have regular opportunities and allocated time to consider all stakeholder views and discuss changes that need to be made. For example, a large focus of the Board this year has been how Ultra can improve communication of our sustainability plan to support investor decision-making and information capture.

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.

Regrettably, as a consequence of the Covid-19 pandemic, it was not be possible for shareholders to attend our 2020 AGM in person. The health and well-being of our employees, shareholders and the wider community which we operate within is of paramount importance to us, therefore we held our AGM with the minimal number at attendees to form a quorum. We had hoped to welcome our shareholders to our 2021 AGM. However, in light of recent Government guidelines, once again we must strongly recommend that shareholders do not attend this year's AGM in person to ensure the safety of everyone. We very much hope that we will be able to welcome shareholders to our 2022 AGM.

If 20% of votes are cast against a resolution that has been recommended by the Board for approval at any General Meeting, 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
- Martin Broadhurst
- Geeta Gopalan
- Victoria Hull
- Ken Hunzeker (appointed 1 July 2020)
- Daniel Shook

Attendance at meetings is detailed in the table on page 76. 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 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 2020. This report should be read in conjunction with the compliance report on page 67 which shows how the Company has complied with the UK Corporate Governance Code 2018.

There have been many changes to the Board, and indeed the Executive Team, in recent years and our Leadership Team has continued to evolve, as it always will. As a Nomination Committee, our priorities for the year were:

+ Assessing the balance of experience, skills, knowledge and diversity of our Board, and developing role descriptions for new Non-Executive Directors.
+ Ongoing succession planning considerations for the Board and Senior Leadership Team.
+ Receiving feedback on the annual performance evaluation process of the Board, and utilising the information to make informed decisions regarding skills, knowledge, experience and diversity criteria.
+ Screening candidates for the Non-Executive Director vacancy and making a recommendation to the Board regarding the appointment of a new Non-Executive Director.
+ Reviewing the membership of the Board's Committees and making recommendations to the Board regarding Committee appointments.
+ Reviewing the Non-Executive Directors' time commitments to ensure 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.

Sir Robert Walmsley stepped down from the Board as Senior Independent Director following the conclusion of the Company's Annual General Meeting on 13 May 2020. The Nomination Committee elected to recommend to the Board that Victoria Hull fulfil the role of Senior Independent Director of the Company, due to her experience outside of Ultra and tenure on the Board since 2017. Victoria subsequently became Senior Independent Director following Sir Robert's departure from the Board on 13 May 2020.

Last year I reported that a search was underway for a Non-Executive Director with defence and/or military experience to join our Board. Due to our significant presence in North America, the Nomination Committee, and indeed the Board, agreed that a Non-Executive Director based in North America would be advantageous to us as a Board, and to the Company on the whole.

Following an extensive search with the assistance of executive search agency Russell Reynolds Associates, based in Washington DC, USA, a rigorous and thorough interview process was undertaken reviewing a list of strong candidates from a wide range of backgrounds. The external search firm engaged has no other connection with the Company or individual Directors. Candidates were assessed using objective criteria with due regard to the benefit of diversity on the Board, while ensuring candidates had the requisite time available to devote to the position and no conflicts of interest. Following our interview process I am very pleased to report that Lieutenant General (retired) Ken Hunzeker joined our Board on 1 July 2020, and was appointed to our Nomination, Audit and Remuneration Committees.

This year, our Board will continue to evolve as Martin Broadhurst is approaching his nine-year tenure on the Board and would not be viewed as independent thereafter in accordance with the Code. Martin has been a valued Board member throughout his tenure, and we have been extremely grateful for his knowledge and expertise, in addition to his historic knowledge of Ultra. It is unfortunate that we will lose him as a Non-Executive Director but we will adhere to the Code and bring on at least one new Non-Executive Director later this year.

In December 2020, the Committee again reviewed the composition of the Board, giving due regard to the structure, size and diversity of our Board and the experience our Non-Executive Directors have. We have engaged external search advisers to provide us with a diverse pool of candidates for the Non-Executive Director vacancy to join our Board when Martin Broadhurst steps down.

Following our review, Geeta Gopalan will take over as Chair of the Remuneration Committee with effect from 1 July 2021, when Martin steps down. Geeta has extensive financial experience and experience of Remuneration Committees and we are pleased that Geeta can take on the role, and are satisfied that she can dedicate the time necessary to divulge her responsibilities as Remuneration Committee Chair.

As noted above, over the mid to long term we will consider bringing on an additional Independent Non-Executive Director, which would bring our Board to nine Directors. We will keep this under review while we conduct our search for Martin's replacement.

There has been a great deal of work on organisational design and succession planning throughout the Ultra Group to ensure that, as part of our transformation agenda, we have the right Senior Leaders within the organisation to lead Ultra through our change programme.

Board evaluation
The Committee reviewed the results of the Board external evaluation process, notably the areas that related to the composition of the Board and succession planning, and the feedback was used when reviewing the balance of skills, knowledge, experience and diversity on the Board in succession planning discussions described above.

Leadership succession
There has been a great deal of work on organisational design and succession planning throughout the Ultra Group to ensure that, as part of our transformation agenda, we have the right Senior Leaders within the organisation to lead Ultra through our change programme, as described in detail on pages 40-41.

There have been many changes to the Executive Team in recent years. Now these are firmly settled, Executive Team and Senior Leader succession planning will be a focus for the Committee in 2021.

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.

The Nomination Committee, and the Board as a whole, receives feedback and updates regarding diversity and inclusion initiatives, and oversees progress against these initiatives to ensure Ultra maintains a diverse and inclusive workplace.

We were disappointed to see a marginal increase in our gender pay gap, yet as the number of females remains relatively low, we realise that it only takes a small change to affect the statistics. We envisage that this trend will be reversed in the mid term through our comprehensive people strategy and diversity initiatives.

As a Committee we are very pleased with the positive steps the Company has taken to address diversity and inclusion in the workplace, together with the gender pay gap, and are comfortable that the approaches taken are appropriate. Further information on the Company's initiatives and results can be found on pages 42-44.

We will continue to monitor progress in this area and hope to see demonstrable results with increased gender and diversity balance among the Senior Leadership Team in the future, together with a fall in the gender pay gap.

We promote equality of opportunity 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 remain a key focus area for us and when considering Board and succession planning, notwithstanding that all appointments will be based on merit and candidates' experience and business acumen.

See pages 70-71 for more information on our existing Board diversity.

Audit Committee report

MEMBERS

Daniel Shook (Chair)
Martin Broadhurst
Geeta Gopalan
Victoria Hull
Ken Hunzeker (appointed 1 July 2020)

Attendance at meetings is detailed in the table on page 76. The Committee's terms of reference are available at ultra.group

MAIN RESPONSIBILITIES

As a Committee we are committed to supporting 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, and
+ 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 2020. This report should be read in conjunction with the compliance report on page 67 which shows how the Company has complied with the UK Corporate Governance Code 2018.

2020 was my first full year as Chair of the Audit Committee and during the year I continued to build my knowledge of Ultra's businesses and business leaders, albeit virtually in most cases. I was fortunate to be able to visit in August 2020 the Herley site in Lancaster, PA with our new Audit Committee member, Ken Hunzeker, who I welcome to the Committee. The main responsibilities and activities of the Audit Committee are set out in this report.

Regarding the Committee's membership, the Board considers all Committee members to be Independent Non-Executive Directors. I am currently Finance Director for another FTSE plc and have previously held diverse finance roles in several large multinational companies, therefore the Committee, and the Board, is 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 68-69.

During the year, Committee members have actively supported and challenged management in several areas including the development of the internal control framework, contract accounting and risk reserves, management of key controls in a remote-working environment, and the ongoing transformation programme. The Committee remains pleased with management's visible commitment to advancing the organisation's overall control environment.

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 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 four 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") was re-appointed as the Company's external auditor in 2020. In accordance with professional practice guidelines, Alex Butterworth, who has acted as Lead Partner since 2016, will rotate off the audit team following completion of the 2020 audit and Jonathan Thomson will take over as Lead Partner. To ensure a smooth handover, Jonathan Thomson has been heavily involved in the audit process for this period and attended all Committee meetings relating to the 2020 audit.

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 and recommends the re-appointment of Deloitte for the 2021 reporting period. The Committee believes that it is in the best interest of its members for Deloitte to remain as external auditor over the short term to leverage their knowledge and experience of the Company whilst we are going through a period of change. Once we are sufficiently advanced through our ONE Ultra transformation programme, the Committee will lead an audit tender process by no later than 2023, which will be the maximum term that Deloitte can remain as auditors, and will ensure there is a sufficient pool of high calibre firms to tender given the recent independence requirements.

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. The Audit Committee has decided that 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 2020 Deloitte provided non-audit services fees of £3k (2019: £11k) representing 0.2% (2019: 1%) 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

ACTIVITY DURING 2020

Financial statements and accounting policies	
+ Review management's significant issues and judgements + Review the Group's financial statements and the formal announcement on the Group's financial performance + Review the Group's going concern and long-term viability statement assumptions	+ Considered and recommended to the Board for approval the annual and interim financial statements 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 86) + Reviewed underlying assumptions and the rigour of the testing underpinning the going concern statement and long-term viability statement (as set out on page 58) prior to approving them
Risk management and internal controls framework	
+ Review and provide oversight of the Group's risk management and internal controls processes + Assess the effectiveness of the Group's system of internal control and risk management	+ Considered reports on the risk management and internal controls environment and its effectiveness + Discussed half-yearly internal controls reports from business reviews, together with actions arising from findings + Reviewed the principal risks, the Group's risk appetite and risk metrics and considered their alignment to 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 + Monitored the development of the finance function under the new CFO and met with key finance leads as part of business reviews to further assess the controls environment + Further details of the approach to risk management can be found on pages 54-57.
External audit, engagement and policy	
+ Review the scope and effectiveness of the external audit process + Negotiate the terms of the external auditor's appointment, the scope, fees and independence + Ensure an effective audit partner rotation process	+ Considered Deloitte's external audit planning report prior to the commencement of the 2020 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 FRC standards
Internal Audit	
+ Review the effectiveness of the Internal Audit function + Discuss control issues identified by Internal Audit	+ Agreed the Internal Audit plan for the year, monitored effectiveness of the Internal Audit against the plan and reviewed the effectiveness of Internal Audit through oversight of a questionnaire-based effectiveness review with stakeholders + Considered summary reports from the risk-based and rotational reviews and progress reports on the implementation of remedial actions, noting the progress made in the control environment within the Group's businesses
Other	
+ Review tax strategy	+ Approved the Company's tax policy

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 there is no issue as regards to independence and objectivity and other potential providers are adequately considered.

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 2019 audit, key learnings were identified and fed into the 2020 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; and
+ 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.

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

Risk management and internal controls was a key focus area for the Committee in 2020 following on from work carried out in 2019 by the newly appointed Chief Risk Officer. In addition to the usual risk management and controls agenda items

Audit Committee report
continued

SIGNIFICANT JUDGEMENTS CONSIDERED

The Audit Committee considered the areas of most significant accounting judgement and disclosure both prior to and during the course of the 2020 year-end external audit.

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 156-164.
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, the reduction in future growth rate and the change in the model to run into perpetuity after the end of the strategic plan period, rather than for 10 years as had been the case previously. The Committee noted that the cash flows used were derived from the 2021 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 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 had previously considered the impact to the current cash-generating unit (CGU) groupings arising from the 1 January 2020 change in operating segments. The Committee discussed and engaged with the external auditor when considering all these matters.
Taxation	The Committee considered a report from management on recent developments relating to the European Commission decision that the UK Controlled Foreign Companies rules are partial State Aid and other uncertain tax positions related to intra-Group financing. The Committee considered the Group's key tax accounting judgements with respect to the assessment, measurement and recognition of uncertain tax positions and the associated disclosures in respect of these matters. The Committee discussed and engaged with the external auditor when considering all these matters. See disclosure in note 10.
Conduct of business matters and Oman Airport IT contract	The Committee was updated on the investigations associated with conduct of business matters and the status of matters arising relating to the Oman Airport IT contract (see note 33 on page 152). The Committee considered the judgements relating to these matters and disclosure in the Annual Report with respect to the contingent liabilities. 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.

covered in Committee meetings throughout the year, a fourth Committee meeting was held during the year, dedicated solely to risk management and internal controls, which enabled the Committee to do a deep dive into the risk management and internal controls processes, analyse results and identify areas for continuous improvement. At the meeting, the Committee also received briefing and training from the Group's insurance brokers on peer group risk management best practice. This additional risk management and internal controls meeting is now a scheduled meeting on the Audit Committee's annual agenda.

During the year a new risk management framework was rolled out throughout the Group, led by the Company's Chief Risk Officer, to ensure a consistent approach to risk management across all Ultra businesses. Strategic risk assessments were carried out with the businesses based on the 2020 strategy reviews. The risk framework and Group risk register were reviewed by the Committee and the Board.

The focus on risk management will be maintained in 2021.

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 registers at Business Unit and Group level
+ Staff training
+ Internal Audit (provided by PwC)
+ Speak Up platform for external support of whistleblowing reporting
+ SBU review of monthly 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 which 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 Divisional Finance Director meets the Chief Financial Officer and discusses the internal controls processes and issues for each business in their division. 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 was strengthened in 2020 with further standardisation of policies and processes and additional measures aimed at enhanced commercial capability and oversight within the businesses. In particular, additional emphasis has been placed on the delivery of improvement actions arising from formal control reviews, including Internal Audit reports. A Financial Policy and Compliance Controller also joined Ultra in Q3 2020.

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 December 2020 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 continuous improvement. As such, the focus for 2021 will be on assessing the speed of impact of key risks in addition to the scale of impact, testing of controls as well as improving Group-wide understanding of the three lines of defence risk model and mapping of assurance around risk controls and monitors.

Internal Audit

PwC acts as Ultra's internal auditor. 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 is flexible enough to highlight and address emerging risks as well as testing controls on recognised risks. 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 is 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 biannually. Progress reports on follow-up remedial actions are reported regularly to the Committee. PwC confirms whether appropriate action has been taken to address the risks when it next visits the business 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 fraudulent activity detected or alleged would be promptly reported to the Board and auditors would be informed accordingly. 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. To promote awareness of the platform, the former 'EthicsPoint' platform was re-branded as 'Speak Up' and relaunched in July 2020 in conjunction with a new Code of Conduct for the Company. Every Board member, employee and consultant is required to undertake training on the Code of Conduct with clear messaging to speak up if any wrongdoing is suspected. Importantly, there is a clear message that the Company will not except 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 Oversight Committee also receives any reports made via "Speak Up". All reports are thoroughly investigated and corrective action is taken if necessary. Further promotion of the "Speak Up" platform is planned in 2021 to ensure all employee are aware of this channel to raise concerns. The Committee was pleased with the re-launch and is satisfied that the whistleblowing procedures and follow-up investigative processes within the Company are practical and appropriate for the Company.

Anti-bribery & corruption

The Company has a zero-tolerance approach to bribery and corruption anywhere in the world. This message is emphasised in the Company's new 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). As part of internal controls enhancements during the year, to ensure the Company's ABC policies aligned with the Company's new Code and Values, the previous anti-bribery corruption policy, gifts and hospitality policy and selection and management of intermediaries policy were consolidated into a single ABC Manual, which was approved by the Board and re-launched in Q3 2020. The Company has implemented an annual review cycle in respect of the ABC Manual.

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 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.

The Internal Audit function conducted a review of the Company's ABC policies and procedures in 2020 and ABC controls have formed part of the controls environment reviewed by Internal Audit in Business Unit reviews. ABC compliance with the manual will be a specific controls focus area from 2021.

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 and the UK Corporate Governance Code 2018.

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 2020 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

Despite a year of great uncertainty in the world, I am delighted that we have continued to make positive progress against our goals under the Focus; Fix; Grow strategy and, in many cases, our expectations have been exceeded.

Martin Broadhurst
Chair of the Remuneration Committee

MEMBERS

Martin Broadhurst (Chair)
Geeta Gopalan
Victoria Hull
Daniel Shook
Sir Robert Walmsley (until 13 May 2020)
Ken Hunzeker (from 1 September 2020)

Attendance at meetings is detailed in the table on page 76. The Committee's terms of reference are available at ultra.group

PRINCIPAL ACTIVITIES OF THE COMMITTEE

+ Agreed the proposed Remuneration Policy in accordance with legislation, UK Corporate Governance Code and emerging best practice
+ Consulted with key shareholders on the proposed Remuneration Policy prior to the AGM
+ Evaluated the performance conditions in all executive incentive plans in light of the impact of Covid-19 in 2020 and beyond and the progress made against Ultra's transformation strategy
+ Reviewed the annual gender pay gap data and employee terms and conditions in the organisation as a whole
+ Conducted annual governance checks including reviewing dilution limits, shareholding levels against the Policy
+ Took input from the Board on ESG considerations
+ Conducted a competitive tendering process and appointed a new independent Remuneration Committee adviser
+ Reviewed the outcome of the CEO pay ratio calculation and considered year-on- year changes
+ Decided the annual pay increase for the CEO and CFO as well as the Executive team
+ Reviewed the outcome of salary, bonus and long-term incentives for the senior management group

Dear Shareholder,

On behalf of the Board, I am pleased to present our Directors' remuneration report for the financial year ended 31 December 2020. This report should be read in conjunction with the compliance report on page 67 which shows how the Company has complied with the UK Corporate Governance Code 2018.

Overview of the year

At the start of the year, the Committee finalised the proposed Directors' Remuneration Policy (the "Policy") which was presented to investors for a binding vote at the 2020 Annual General Meeting. The Committee consulted the Group's key investors and shareholder bodies regarding the proposed Policy and I would like to thank shareholders for their input to, and support of, our Policy which, along with the advisory vote on the Remuneration Report, was approved by shareholders. The Committee believes the Policy aligns incentives and creates retention for management in the delivery of our long-term business strategy and stakeholder objectives, and has operated as intended during 2020.

Despite a year of great uncertainty in the world, I am delighted that we have continued to make positive progress against our goals under the Focus; Fix; Grow strategy and in many cases our expectations have been exceeded. We recognise the hard work and resilience over the year of the Executive Team and all of our employees to produce a strong set of outcomes for all stakeholders. Among our key financial measures, we saw very positive improvement from management actions: Organic revenue growth exceeded target at 5.2% and organic profit growth was 6.2%. The average working capital turn (AWCT), which is a key measure of capital efficiency and a key metric of the bonus plan, showed strong improvement and exceeded the stretch target. Management also delivered strong organic growth in our order book of 5.9%. In the view of the Committee these are an excellent set of results, which deliver near maximum payment against performance targets in the annual bonus.

The Committee also considered the impact of the Covid-19 pandemic, which created disruption and turmoil that impacted every aspect of our business, including customers, operations and the safety of our employees. The Committee is satisfied that the issues have been managed well.

The Committee also considered its approach to target setting and award opportunity for 2021 at length and reviewed multiple inputs, including key risks and opportunities, management projections, investor guidelines and expectations, and analysts' consensus. Ultra has not needed to benefit from any material local or national Covid-19 stimulus (such as furlough or tax deferral), reduce salaries, or make any Covid-19-related layoffs. We paid an additional 2020 interim dividend equivalent to the planned 2019 final dividend and our share price has generally been maintained at, or above, pre-pandemic levels. Given the impact of Covid-19 has been managed and our strategic targets remain valid, we do not believe it is necessary or appropriate to adjust opportunities, measures or targets as a result of Covid-19.

In addition, the Committee continues to be actively informed on progress with HR initiatives benefiting the workforce as a whole. These can be reviewed in more detail in the 'Supporting our people' section on pages 40-46.

We have the same reward philosophy across the whole of Ultra and this underpins all our reward programmes, aligning the Executive Directors with the wider workforce. We communicate the application of our reward philosophy to all employees through a cascade approach. We hold updates on reward with around 170 of the global senior management team two or three times a year, and more regularly with the HR Community, to ensure that they have the information to present to employees and answer their questions on the shop floor at regular 'Town Hall' sessions within individual businesses.

The Committee has also received information on gender pay gap and CEO pay ratio data, which has been a factor in its decision-making.

Our approach to reward

The Committee seeks to ensure that the remuneration we offer attracts and retains the best talent and is structured to provide the appropriate focus on both short-term and long-term goals.

In accordance with our Policy, fixed pay is aimed at a competitive level against similar companies. Variable remuneration is a combination of both short- and long-term incentives which are linked to delivery of our strategy.

We set stretching targets to incentivise and reward sustainable profitable growth, disciplined working capital management and long-term value creation for our stakeholders. Our Remuneration at a glance section on the following two pages demonstrates how our key strategic performance indicators align with our incentive arrangements.

Our Executive Directors have service contracts with a notice period of one year which the Committee considers appropriately reflects current market practice and the interests of the Group.

Remuneration outcomes for 2020

Annual bonus

The annual bonus focuses on the delivery of stretching underlying profit growth and AWCT targets. Reflecting the significant progress against our strategic goals, these measures have exceeded target and, in the case of AWCT, exceeded the maximum. A number of strategic objectives were set, which were met or exceeded. In combination, this has resulted in annual bonus payments at 99.43% of maximum. The Committee spent time considering whether the formulaic outcome was appropriate in the context of overall Group performance and Ultra's broader stakeholder experience. In the light of strong performance in challenging circumstances and the level of leadership shown by the Executive Directors, it has determined the outcomes are appropriate. A full review can be found on page 93.

LTIP

The Long-Term Incentive Plan (LTIP) granted in March 2018 was subject to achievement of performance conditions. This award had four performance conditions – relative total shareholder return (TSR), return on invested capital (ROIC), organic revenue growth and organic underlying operating profit growth – with each measure having equal weighting.

At the time that the 2018 awards were granted, Transformation costs were classified as non-underlying and did not impact the Company's reported underlying profit. However, reflecting the ongoing Focus; Fix; Grow transformation agenda, Ultra has changed the accounting convention such that transformation costs are taken 'above the line' and therefore impact underlying profit. 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 amount of those costs or that the accounting approach would change. An overall vesting of 85% of the maximum award was achieved when adjustment was made for the transformation costs (detail shown on page 94). If this adjustment had not been made, the vesting level would have been 67.7%.

Against a background of good stakeholder outcomes across the measurement period, and a strong management performance, the Committee concluded that it would be equitable, consistent and appropriate to adjust for the change in accounting treatment.

Implementation of policy for 2021

The Committee considered salary increases for the CEO and CFO and took into account several factors, including general workforce increases and the excellent performance of the incumbents, and decided on increases of 2.5% for each. Ultra has maintained a healthy merit increase budget of 3% for the workforce as a whole (higher in some jurisdictions where specific market conditions may require it) and recognises the hard work of all employees in delivering so strongly in a difficult year, for which we are grateful.

The Committee reviewed internal and external metrics in determining the targets for the LTIP metrics and has increased both the threshold and stretch for the organic operating profit and organic revenue growth measures from those set for the 2020 awards. The Committee believes the targets for all of the measures to be challenging against the data reviewed.

After consideration of the CFO's performance, and the growth in the role, particularly considering the strides made against the transformation agenda, the Committee decided to reflect this by approving a market competitive level of both annual bonus opportunity of 150% (125% in 2020) and a LTIP of 150% (125% in 2020).

The CEO's pension opportunity will be reduced by a further 2% to 14% in 2021. The Policy, approved in 2020, stated the Committee's intention to reduce the percentage rate to the prevailing rate for UK employees by the end of this policy period. We note investor guidance that this should be accomplished by the end of 2022, and will consider this further during the year. We have not stated a fixed plan to effect the reduction as work on the employee value proposition may change the workforce pension entitlement.

Board changes

Sir Robert Walmsley retired from the Board at the AGM on 13 May 2020 and we thank him for his valued contributions to the Committee. Ken Hunzeker joined the Committee on 1 September 2020 and we look forward to benefiting from his experience and perspective in future.

Closing remarks

This is my last Remuneration Report as Chair of the Committee as I will be stepping down from the Board on 1 July 2021. It has been an honour to serve as Chair over the last seven years and I am grateful for the excellent input and advice from Committee members and all who support the work of the Committee.

The Committee will continue to operate in accordance with our Policy under the new Committee Chair.

Martin Broadhurst
Chair of the Remuneration Committee

Directors' remuneration report
continued

Remuneration at a glance

Performance outcomes for year ending 31 December 2020

Name	Metric	Metric achieved		Simon Pryce	Jos Sclater
2020 bonus[1]	PBT[3] (40%)	39.43%	% of max	99.43%	99.43%
	AWCT (45%)	45.0%[4]	% of base salary	149.1%	124.3%
	Strategic objectives (15%)	15.0%[4]	£	£1,016,606	£528,233
2018 LTIP	TSR (25%)	25.0%[4]	% of max. award vesting	85.0%	n/a
	ROIC (25%)	19.5%	No. of vested shares	61,181	n/a
	Organic underlying operating profit growth (25%)	17.4%	Estimated £[2]	£1,280,525	n/a
	Organic revenue growth (25%)	23.1%			

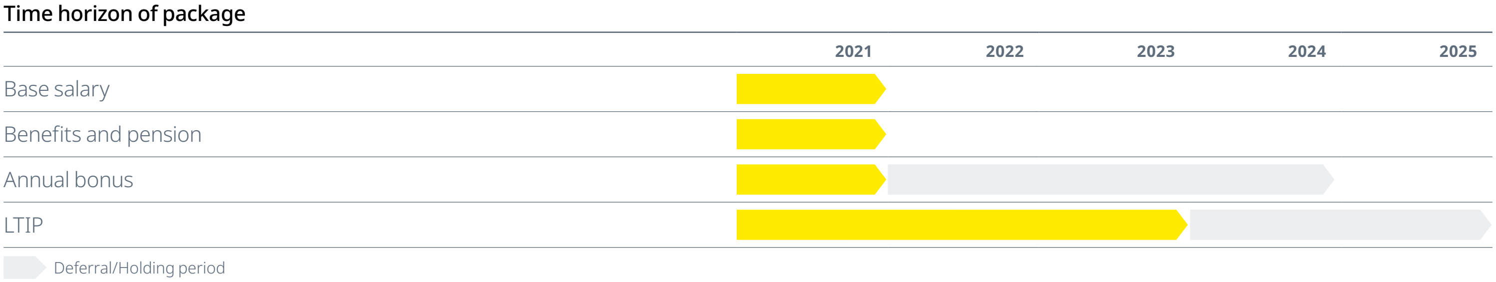
1 One-third of bonus deferred in shares for three years
2 Estimated value on vesting has been calculated using a share price of £20.93 being the average closing share price over the three months to 31 December 2020
3 Underlying profit before tax
4 Metric achieved in full

Summary of Remuneration Policy and implementation for 2021

The table below provides an overview of the Remuneration Policy ('Policy') and its application for 2021. The Policy was approved by shareholders at the May 2020 AGM. The full Policy is set out in our 2019 Report and Accounts which can be found on our website (ultra.group)

Name	Purpose and how it supports strategy		Simon Pryce	Jos Sclater
Base salary (effective 1 April 2021)	Recognise the market value of the role and individual's skills, experience and performance to ensure we can attract and retain talent		£698,640	£435,625
Benefits and pension	To provide benefits consistent with role and competitive post-retirement benefits or cash allowance equivalent to ensure overall package is market competitive		14%	7.5%
Annual bonus	Drives and rewards annual performance on both financial and non-financial metrics	Maximum opportunity (% of salary) Target is 50% of maximum	150%	150%
		Performance metrics	85% financial/15% non-financial	
		Deferral	One-third deferred into shares for three years	
LTIP	Drive and reward the main strategic objective of delivering long-term value creation. Aligns Executive Directors' interests with those of shareholders	Grant level (% of salary)	200%	150%
		Performance metrics	Four performance metrics, equally weighted	
Share ownership requirements	To provide alignment of interests between Executive Directors and shareholders	% of salary	200%	200%

Time horizon of package



Deferral

In accordance with the Policy, 33% of bonus awarded is deferred in Ultra shares for three years during which cash dividends are payable. 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 awards which is enforced through sale restriction in our share plans portal. This method of 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 plan granted in 2020 and beyond, equivalent to 100% of salary for one year. The Company has obtained written agreement from the Executive Directors that they agree, and commit to, the post-employment holding requirements which are also a stated requirement in 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 to 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.

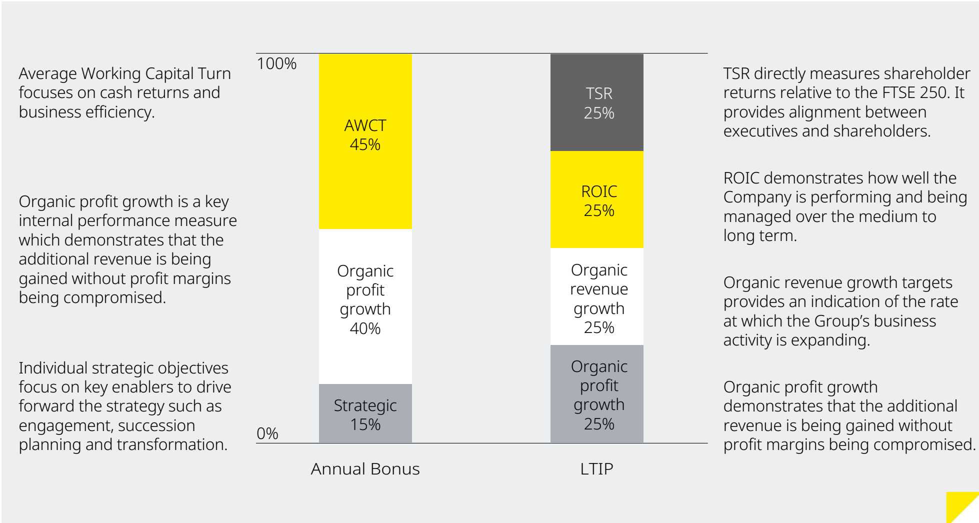
The Remuneration Policy and implementation in the context of the principles of the UK Corporate Governance Code 2018 ("Code")

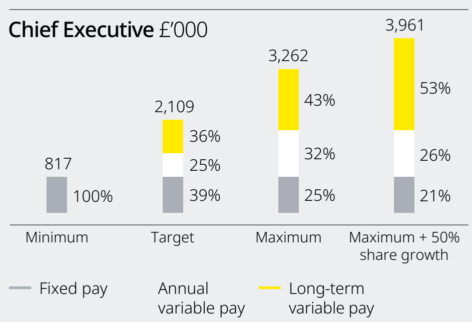
The Committee believes the current Policy and implementation are consistent with the six factors outlined in the Code.

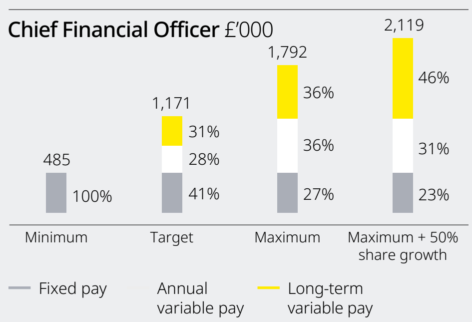
+ **Clarity** – remuneration arrangements are transparent and the Committee engages regularly with shareholders
+ **Simplicity** – the purpose, structure and strategic alignment of each element of pay is uncomplicated, and operationally easy to understand
+ **Risk** – there is an appropriate mix of fixed 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 a one- and three-year period 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. Further information regarding how our executive remuneration is linked to our strategy can be found on pages 22 and 23.

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 2021 base salary, benefits and 2021 annual bonus and LTIP awards, assuming the following scenarios.







Notes:
Fixed pay includes 2021 annual salary, and actual benefits and pension. For the Chief Executive the pension has been calculated at 14% of base salary.
Minimum: Fixed pay only
Target: Fixed pay, target bonus and expected value of LTIP
Maximum: Fixed pay, maximum bonus and maximum vesting under LTIP
Maximum + 50% share price: Maximum plus 50% share price growth on LTIP

Annual Report on Remuneration

The Remuneration Committee presents its Annual Report on Directors' Remuneration which is set out in this section. Decisions taken on remuneration during the year are in line with our Directors' Remuneration Policy, which was approved at our AGM in May 2020.

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 organisation as a whole 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 had four scheduled meetings. A review is undertaken of activities annually to ensure that the Committee continues to meet its terms of reference (available on our website) and fulfil its duties.

Composition

Martin Broadhurst was Chair of the Committee and Geeta Gopalan, Dan Shook and Victoria Hull were members throughout the year. Sir Robert Walmsley stepped down from the Committee as at 13 May 2020 and Ken Hunzeker joined the Committee on 1 July 2020. 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, the Chief Financial Officer and the Independent Adviser.

Advice

Until 31 May 2020, the Committee received independent advice on executive remuneration and share schemes from the executive compensation practice at Aon plc. Following Aon's withdrawal from this line of business on 31 May 2020, the Committee undertook a competitive re-tender process after which it appointed A&M as its independent adviser. Both Aon and A&M are members of the Remuneration Consultants Group and are signatories to its Code of Conduct. Aon received fees for advice given to the Committee in 2020 of £31,481 (excluding VAT) and A&M received fees of £52,662 (excluding VAT) charged on a time and materials basis.

During 2020, insurance broking services were also provided to the Group by other subsidiaries of Aon plc and the Committee considers these completely separate from the advice given to it.

In addition, the Committee consults the Chief Executive with regard to the remuneration and benefits offered to the Executive Team (other than in relation to his own remuneration) and also receives specialist input from the Chief Human Resources Officer and his team.

Single figure of total remuneration (audited)

	Basic salary/fees £'000		Benefits £'000		Pension £'000		Total fixed remuneration £'000		Annual performance bonus[4] £'000		LTIP £'000		Total variable remuneration £'000		Total £'000	
	2020	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020**	2019	**2020[5]**	2019[6]	**2020**	2019	**2020**	2019
S Pryce[2,3,5]	**677**	665	**20**	20	**114**	120	**811**	805	**1,017**	787	**1,281**	–	**2,297**	787	**3,109**	1,592
J Sclater[1,2,3]	**425**	28	**17**	1	**32**	2	**474**	31	**528**	–	**–**	125	**528**	125	**1,002**	156
T Rice	**202**	194	**–**	–	**–**	–	**202**	194	**–**	–	**–**	–	**–**	–	**202**	194
M Broadhurst	**64**	63	**–**	–	**–**	–	**64**	62	**–**	–	**–**	–	**–**	–	**64**	58
G Gopalan	**56**	55	**–**	–	**–**	–	**56**	55	**–**	–	**–**	–	**–**	–	**56**	53
V Hull	**61**	55	**–**	–	**–**	–	**61**	55	**–**	–	**–**	–	**–**	–	**61**	53
K Hunzeker[7]	**28**	–	**–**	–	**–**	–	**28**	–	**–**	–	**–**	–	**–**	–	**28**	–
D Shook	**64**	21	**–**	–	**–**	–	**64**	21	**–**	–	**–**	–	**–**	–	**64**	–
Sir R Walmsley[8]	**23**	63	**–**	–	**–**	–	**23**	62	**–**	–	**–**	–	**–**	–	**23**	62

Notes

1 Jos Sclater was appointed to the Board on 9 December 2019.
2 Benefits: car benefit, life assurance and private medical insurance. No other benefits are payable.
3 Pensions: Simon Pryce received a cash supplement of 16% of base salary from June 2020 (reduced from 18%). Jos Sclater received a cash supplement of 7.5% of base salary.
4 One-third of bonus is deferred into shares for three years.
5 The LTIP value shows shares that will vest to Simon Pryce in July 2021. The value on vesting has been calculated using a share price of £20.93 being the average closing share price over the three months to 31 December 2020. The proportion of the value of the LTIP that is attributable to share price appreciation is 27.8%.
6 Jos Sclater's 2019 LTIP and 2019 total remuneration have been restated to include his Recruitment Award made on 10 December 2019 which was omitted last year. This award vests subject to continued employment. Details of the award can be found in table 3.
7 Ken Hunzeker was appointed to the Board on 1 July 2020.
8 Sir Robert Walmsley stood down from the Board on 13 May 2020.

Annual bonus for the year under review (audited)

The maximum bonus opportunity for the Chief Executive and Chief Financial Officer for 2020 was 150% of salary and 125% of salary respectively. As outlined elsewhere in this report, the Group has performed extremely well over the year and this has resulted in near maximum outcomes on the financial measures. The financial measures comprise 85% of the overall bonus opportunity. The Committee does not consider that there are any factors which would lead it to consider an adjustment to the formulaic outcome of the financial measures. The overall outcome is shown in Table 1.

Each Executive Director was also given challenging role-specific objectives, which make up the remaining 15% of the bonus opportunity. A series of objectives were set under the four headings for each Executive Director shown below in Table 2. The Committee reviewed performance against each of the specific actions to determine level of attainment by category. The detailed actions have not been disclosed as they continue to be commercially sensitive.

Table 1 **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%	£98.7 m	£111.9 m	£111.7 m	98.57 %	
	AWCT[2]	45%	7.30	7.85	10.1	100 %	**99.43%**
	Strategic[3]	15%	n/a	n/a	Exceeds	100 %	
Jos Sclater	PBT[1]	40%	£98.7 m	£111.9 m	£ 111.7 m	98.57%	
	AWCT[2]	45%	7.30	7.85	10.1	100 %	**99.43%**
	Strategic[3]	15%	n/a	n/a	Exceeds	100 %	

1 Underlying profit before tax
2 Average working capital turn
3 Role-specific strategic objectives
4 Targets were set at budgeted constant foreign exchange rates. No bonus is payable for threshold performance

Table 2 **– Strategic objectives and performance**

Simon Pryce Strategic SMART objectives were set against each of the following key headings	Outcome
Delivering Business Results + Strategy & Stakeholder KPIs and order book growth	Meets
Deliver Efficiency & Productivity + Execution of key transformation initiatives & enhanced reporting	Exceeds
Drive strategic growth + Customer engagement and technology investment	Exceeds
Improve organisational health + ESG and sustainability plan, engineering talent development	Exceeds
Leadership + Development programmes for critical and high potential employees	Exceeds
Overall rating	**Exceeds**

The Committee agreed that there was extremely strong delivery of both the strategic objectives set out above, and in dealing with specific unexpected challenges faced by the business in the light of the Covid-19 external environment. Considering this, the overall performance of the business, and the 'exceeds' performance rating, means full payment on this component of the bonus plan was warranted.

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Jos Sclater Strategic SMART objectives were set against each of the following key headings	Outcome
Delivering Business Results + Transformation project development and realisation	Exceeds
Deliver Efficiency & Productivity + Finance & IT transformation projects to affect standardisation and efficiency	Exceeds
Drive strategic growth + Risk management framework and financial balanced scorecards	Exceeds
Improve organisational health + Improve financial engagement score	Exceeds
Leadership + Build and Develop finance and transformation teams	Exceeds
Overall rating	**Exceeds**

The Committee agreed that performance overall was excellent and major progress had been made against all key objectives under the CFO's leadership. The Committee also considered delivery of additional major projects, for example, driving the implementation of continuous improvement initiatives across Ultra, that had not been included in objectives at the start of the year, and awarded an overall 'exceeds expectations' rating resulting in full payment of this component of the bonus plan.

The Committee determined that the following bonuses would be payable to the Executive Directors. One-third of the bonus paid will be deferred into shares for three years. The deferred payment will be subject to malus and clawback in accordance with the rules of the plan.

Director	% of maximum	% of salary	Cash bonus £'000	Deferred bonus £'000	Total bonus £'000
Simon Pryce	99.43	149.1	677,771	338,835	1,016,606
Jos Sclater	99.43	124.3	352,173	176,060	528,233

LTIP vesting for the year under review (audited)
The 2018 LTIP, vested as shown below. Simon Pryce is the only current Director holding a 2018 LTIP award.

As outlined in the Chairman's statement, at the point the 2018 awards were granted, transformation costs were classified as non-underlying and did not impact 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. 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 previously noted, the Committee determined it would be appropriate for it to exercise its discretion to adjust for these costs. This accounting change also impacts the 2019 awards. While the Committee will consider the vesting of the award at the time, it is intended to apply the same approach as the 2018 award including adjustment for any material benefits from transformation impacting the result (since it was too early for such benefits to impact the 2018 award outcome).

	Weighting	Threshold[3]	Stretch	Outturn	% Vesting
TSR Measured against the constituents of the FTSE 250 (excluding investment trusts)	25%	Median	Upper quartile	Upper quartile	25.0%
ROIC Average ROIC calculated on an annual basis over the three-year performance period[2]	25%	15%	25%	22.2%	19.5%
Organic operating profit growth[1]	25%	2%	5%	3.9%	17.4%
Organic revenue growth[1]	25%	2%	5%	4.7%	23.1%
Total					**85.0%**

1 See page 172 for definition of organic measures. Awards vest in a straight-line basis between threshold and stretch. Growth rates are averaged over the three-year period. The above outturns reflect the adjustment for transformation costs.
2 ROIC is 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.
3 20% of LTIP vests at threshold

The details of the vesting are shown in the table below:

Executive Director	Number of shares at grant	Number of shares to lapse	Number of shares to vest
Simon Pryce	71,978	10,797	61,181

As disclosed in last year's report, former Director Amitabh Sharma was deemed a good leaver and, in accordance with his exit terms, a pro-rated number of shares will vest, based on the time worked during the performance period and reflecting the above performance outturn.

Share awards granted during the year (audited)

LTIP awards were granted to Simon Pryce and Jos Sclater in 2020. Details of the awards are shown in the table below.

	Scheme	Date of grant	Basis of award	Face value £'000[2]	Number of shares[3]	Vesting at threshold	Vesting at maximum	Performance period
Simon Pryce[1]	LTIP	04/06/2020	200% of salary	1,364	10,410	20%	100%	3 years to 31 December 2022
		17/03/2020			72,867	20%	100%	3 years to 31 December 2022
Jos Sclater	LTIP	17/03/2020	125% of salary	531	32,453	20%	100%	3 years to 31 December 2022

1 As disclosed in last year's report, an award over a further 10,410 shares was made to Simon Pryce, following shareholder approval of the new Remuneration Policy and related amendments to the LTIP at the AGM, taking the total grant to 200% of base salary. The additional award was granted using the same share price as the award granted to him on 17 March 2020.
2 Face value is calculated at the grant date of the 17 March 2020 awards, using a closing middle-market price of the day preceding the date of grant. This share price was also used to calculate the award granted on 4 June 2020, (see table 3).
3 All awards were granted as nil cost options.

For the awards under the LTIP scheme above, four performance metrics apply which are equally weighted. These are shown in the table 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 growth[3]	25%	**Annual growth in organic operating profit**	
Below threshold		<2%	0%
Threshold		2%	5%
Stretch		5%	25%
Organic revenue growth[3]	25%	**Annual growth in organic revenue**	
Below threshold		<2%	0%
Threshold		2%	5%
Stretch		5%	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 defined for the Group as underlying operating profit expressed as a percentage of average invested capital (calculated as an average of the 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. Awards will vest on a straight-line basis between threshold and stretch.
3 Growth targets are expressed as annual growth rates and averaged over the three-year period. Awards vest on straight-line basis between threshold and target. See page 172 for definition of organic measures.

Payments to past Directors (audited)

Amitabh Sharma stepped down from the Board in December 2019, in accordance with his departure agreement disclosed last year, he received pay-in-lieu of notice in 2020 totalling £356,700. No other payments were made to past Directors in 2020.

External appointments

Simon Pryce is a Non-Executive Director of Electrocomponents plc. During 2020 he earned fees of £70,000 in respect of this appointment. No other Executive Directors held external appointments in 2020.

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Statement of Directors' and former Directors' shareholdings (audited)
Details of Directors' interests in share-based incentives are shown in tables 3 to 6 below.

Table 3 **Directors' interests under the Ultra Electronics discretionary share plans**

Director	Date of grant	Actual share price at grant	at 31/12/19	Granted	Vested	Lapsed	at 31/12/20	Earliest vesting of outstanding awards
Simon Pryce								
LTIP	04/06/2020[1]	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	–	–	–	65,336	16/04/2022
	02/07/2018[2]	16.17	71,978	–	–	–	71,978	02/07/2021
Deferred bonus	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 Sclater[3]								
LTIP	17/03/2020	16.37	–	32,453	–	–	32,453	17/03/2023
	10/12/2019	20.66	25,714	–	–	–	25,714	16/04/2022
Recruitment award	10/12/2019	20.66	2,016	–	2,016	–	2,016	10/12/2020
	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 As disclosed in last year's report and as outlined on page 95 of this report, Simon Pryce was granted an additional award after the AGM on the same vesting terms as the award granted on 17 March 2020, following shareholder approval of the new Remuneration Policy and related amendments to the LTIP. The number of shares was based on the same share price as the 17 March 2020 grant.
2 As outlined on page 94 the performance period of this award ended on 31/12/2020 with 85% of this award due to vest on 02/07/2021.
3 As disclosed on appointment, Jos Sclater's recruitment award vests in equal tranches over three years subject to continued employment at the vesting date. The first tranche vested on 9 December 2020 but has not been exercised.

Table 4 **Directors' beneficial shareholdings at 31 December 2020**

Director	Shareholding (number of shares beneficially held) as at 31 December 2020[3]
Simon Pryce	22,023
Jos Sclater	80
Tony Rice	20,000
Martin Broadhurst	2,100
Geeta Gopalan	0
Victoria Hull	1,684
Ken Hunzeker[1]	2,000
Daniel Shook	2,500
Sir Robert Walmsley[2]	3,000

1 Ken Hunzeker joined the Board on 1 July 2020.
2 Sir Robert Walmsley stood down on 13 May 2020 and shareholding shown is that at his departure date.
3 There were no changes to the Directors' interests between 1 January 2021 and 4 March 2021.

Statement on shareholding requirements
Under the Policy, Executive Directors are required to build up and maintain a shareholding equivalent to 200% of their base salary. As at 31 December neither of the Executive Directors had achieved the requirement. As the Chief Executive and Chief Financial Officer had negligible vested share incentives at 31 December 2020, the Committee considers this acceptable and will continue to monitor progress towards achieving the shareholding requirement. The Chief Executive's position will be strengthened with the vesting of his 2018 LTIP in July 2021.

Director	Shareholding requirement % of base salary	Current holding % of base salary[1]	Requirement met	Current holding % of base salary (including awards unvested and subject to continued employment)[2]
Simon Pryce	200%	67.6%	No	90.9%
Jos Sclater	200%	0.4%	No	16.8%

1 Current holding has been calculated using a share price of £20.93 being the average closing price over the three months to 31 December 2020.
2 Includes deferred bonus awards and, in the case of Jos Sclater, his Recruitment Award on a net of tax basis. These awards vest subject to continued employment. Details of these awards can be found in table 3.

Table 5 **Directors' interests under the all-employee share plan**

Director	Interests as at 1 January 2020[1]	Shares acquired during the year	Interests as at 31 December 2020	Shares acquired from 1 January 2020 to 8 March 2021	Interests as at 8 March 2021
Simon Pryce	131	92	223	23	246
Jos Sclater	–	80	80	23	103

1 Last year's figure of 138 erroneously included seven shares purchase in January; this has now been corrected.

Table 6 **Directors' interests under the Save As You Earn share plan**

Director	Interests as at 1 January 2020	Shares acquired during the year	Interests as at 31 December 2020	Shares acquired from 1 January 2020 to 8 March 2020	Interests as at 8 March 2021
Simon Pryce	830	–	830	–	830
Jos Sclater	–	–	–	–	–

Change in remuneration of Directors and employees

The following table illustrates the change (as a percentage) in elements of the Directors' remuneration from 2019 to 2020 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/ fee change	Taxable benefits change	Bonus change
Executive Directors			
Simon Pryce	2%	-4%	29%
Jos Sclater[1]	0%	0%	n/a
Non-Executive Directors			
Tony Rice[2]	4%	n/a	n/a
Martin Broadhurst	1%	n/a	n/a
Geeta Gopalan	2%	n/a	n/a
Victoria Hull[3]	10%	n/a	n/a
Ken Hunzeker[4]	n/a	n/a	n/a
Daniel Shook[5]	0%	n/a	n/a
Sir Robert Walmsley[6]	-63%	n/a	n/a
Comparator Group			
Parent company employees[7]	n/a	n/a	n/a
UK employees[8]	4%	6%	42%

1 Jos Sclater joined the Board on 9 December 2019. His base salary and benefits entitlement did not change between 2019 and 2020 and thus 0% is shown rather than a formulaic calculation.
2 Tony Rice became Chair of the Board on 28 January 2019.
3 Victoria Hull became Senior Independent Director on 13 May 2020.
4 Ken Hunzeker joined the Board on 1 July 2020.
5 Daniel Shook joined the Board on 1 September 2019. There was no change in the full year equivalent fee and thus 0% is shown rather than the formulaic calculation.
6 Sir Robert Walmsley stood down on 13 May 2020.
7 The regulations require disclosure of the change in remuneration of the employees of the parent company. As the parent company has only 9 senior level employees other than the Directors above, it would not be representative to provide a percentage change in their pay.
8 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.

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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:

	2020 £m	2019 £m	Change %
Staff costs[1]	**288.0**	267.9	7.5
Dividends[2]	**40.4**	38.4	5.2
Revenue[3]	**859.8**	825.4	4.2
Statutory profit before tax[3]	**103.7**	91.0	14.0

1 £1.3m (2019: £1.3m) of the staff costs figures relate to pay for the Executive Directors.
2 The dividends figures relate to amounts payable in respect of the relevant financial year.
3 Revenue and statutory profit before tax are included to add further context to annual spend.

Pay comparisons
Below we present the ratio of the CEO's remuneration compared with representative UK employees utilising option A for the calculation, in accordance with the Companies (Miscellaneous Reporting) Regulations 2018 para 19D. Option A was chosen as it is the most statistically accurate. In addition, and to more accurately reflect the composition of the Group, with over half of our employees located overseas, we have included the ratio for our worldwide workforce in 2020.

The calculations for the relevant representative employees have been made as at 31 December 2020. To provide the comparable figure for bonus we have used the expected 2020 bonus although this was not paid at the time of 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 standard 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
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 a set of core principles including managing reward by reference to external competitor benchmarks and individual performance in role. Eligibility for short- and long-term incentives is determined consistently by seniority. The CEO receives a significant proportion of his reward in the form of variable pay, and as such, his total reward may vary substantially year by year depending on the Group's performance. The Committee believes the median pay ratio is consistent with the Group's pay philosophy and progression policies.

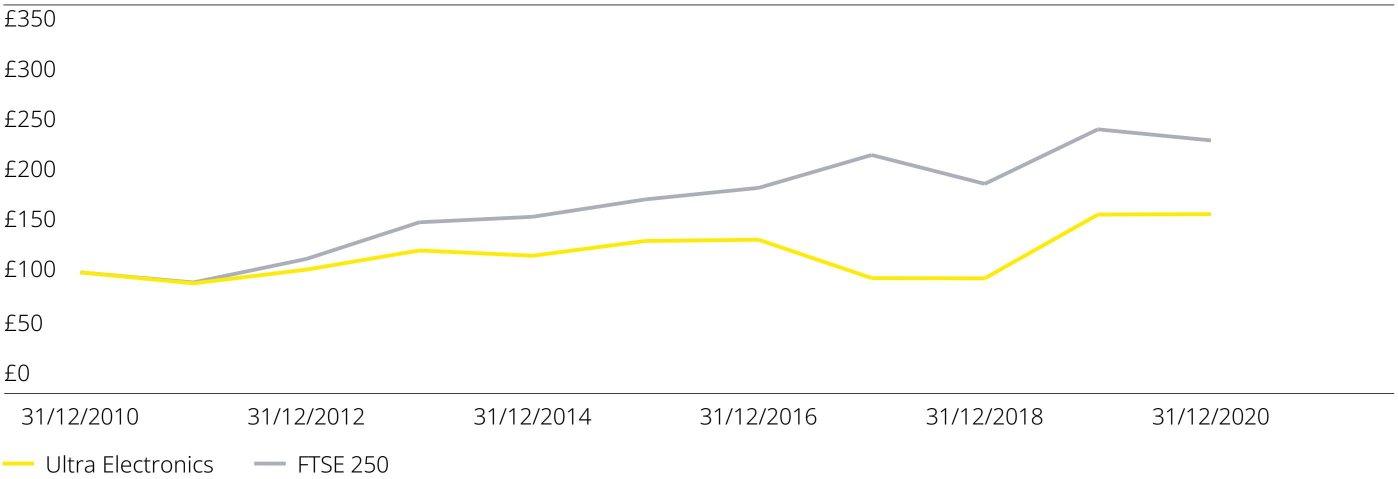
The employees in the sample do not typically participate in a performance-based long-term incentive and receive more of their reward as fixed pay. The increase in the ratio for 2020 compared to 2019 reflects the vesting of the 2018 LTIP in the 2020 CEO figure.

The table below shows the total pay, benefits and salary for each quartile of the UK sample.

£	25th percentile	50th percentile	75th percentile
Total pay and benefits	30,915	44,146	60,963
Salary	28,616	39,106	55,052

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 it 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 2020, of £100 invested in Ultra Electronics on 31 December 2010, compared with the value of £100 invested in the FTSE 250 Index on the same date.

The other points plotted are the values at intervening financial year ends.

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 December 2020	3,109	99%	85%
S Pryce	31 December 2019	1,592	95%	–
S Pryce[1]	31 December 2018	750	71%	–
D Caster[2]	31 December 2018	284	–	–
D Caster[3]	31 December 2017	81	–	–
R Sharma[4]	31 December 2017	765	–	–
R Sharma	31 December 2016	1,194	82%	–
R Sharma	31 December 2015	1,197	88%	–
R Sharma	31 December 2014	680	–	–
R Sharma	31 December 2013	612	–	–
R Sharma	31 December 2012	597	–	–
R Sharma[5]	31 December 2011	722	76%	–
D Caster[6]	31 December 2011	141	–	–

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.
5 CEO from 21 April 2011.
6 CEO to 21 April 2011.

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continued

Statement of shareholder voting

At the 2020 AGM, shareholders were asked to vote on the Directors' Remuneration Policy and the 2019 Directors' Remuneration Report which received the following votes:

Director's Remuneration Policy	Total number of votes	% of votes cast
Votes for	50,910,945	81.51%
Votes against	11,545,822	18.49%
Total votes cast (for and against)	62,456,767	100%
Votes withheld	1,160,704	
Total votes cast	63,617,471	

Director's Remuneration Report	Total number of votes	% of votes cast
Votes for	52,498,868	86.22%
Votes against	8,390,183	13.78%
Total votes cast (for and against)	60,889,051	100%
Votes withheld	2,728,420	
Total votes cast	63,617,471	

Implementation of the Directors' Remuneration Policy in 2021

A summary of how the proposed Policy will be applied for the year ending 31 December 2021 is set out below.

Salary increases

Salary increases are effective from 1 April 2021. The increases for both the Chief Executive and Chief Financial Officer are less than the budgeted increase for the workforce as a whole which was 3.0%. Executive Directors' salaries effective 1 April 2021 are shown below.

	2021 salary £'000	2020 salary £'000	Increase awarded from 1 April 2021
S Pryce	699	682	2.5%
J Sclater	436	425	2.5%

Annual bonus for 2021

The maximum bonus for the Executive Directors in 2021 will be 150% of base salary. One-third of any bonus payable will be deferred into shares for three years and subject to malus and clawback.

The structure of the 2021 bonus is unchanged from 2020 and will include up to 40% of the maximum payable for the 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 objectives. The objectives for 2021 will be fewer and centred around key strategic and stakeholder priorities as described on pages 22 and 23.

The Committee has reviewed the targets against the financial measures to ensure they are stretching, given the internal growth plans and external market dynamics. The Committee discussed whether to amend the strike and maximum targets for both metrics as a percentage of target and concluded that it was appropriate to keep the same range for 2021. The Committee will keep this under review during 2021 as business conditions develop and consider whether an amendment is appropriate for 2022.

We have not disclosed actual targets as we consider the targets to be commercially sensitive. We will disclose them retrospectively in the 2021 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 the Policy, would require the Committee to adjust the formulaic outcome.

Directors' pension entitlements

Simon Pryce and Jos Sclater receive an annual cash allowance in lieu of a Company pension contribution. In 2020 Simon Pryce's pension contribution was 16% of base salary (reduced from 18% in 2019) and this will be reduced further in 2021 to 14% of base salary. Jos Sclater has a pension contribution rate of 7.5%, which is aligned with that currently available for the majority of the UK workforce. The Committee is committed to reducing Simon Pryce's pension to the workforce level by the start of 2023.

Long-term awards to be granted in 2021

The Committee intends to grant an annual LTIP award in shares to the value of 200% of base salary to the Chief Executive and 150% to the Chief Financial Officer during 2021. The measures and targets that will apply to the awards are shown in the table below. The Committee reviewed internal and external metrics in determining the targets for threshold and stretch. In light of this review, the Committee has increased both the threshold and stretch of the organic underlying operating profit and organic revenue growth measures from those set for the 2020 awards. The Committee did not adjust the ROIC threshold despite an outcome in 2020 of 20% (see note 2); the Committee considered that it was not reasonable to maintain the same high level of increase given the improvements already made. The Committee believes the targets for all of the measures to be challenging against the data reviewed.

Long-term awards to be granted in 2021 continued

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 growth[3]	25%	**Annual growth in organic operating profit**	
Below threshold		<4%	0%
Threshold		4%	5%
Stretch		8%	25%
Organic revenue growth[3]	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 pages 163, 164 & 172 for definitions of organic measures. Awards vest in a straight-line basis between threshold and stretch.

Non-Executive Directors
The level of the Chairman's fee will increase to £235,000 from £202,000 with effect from 1 April 2021. This is the first increase since 2017 and adjusts the fee to a competitive level. In addition, the base Non-Executive Director fee will increase to £59,000 and the Senior Independent Director and Committee Chair fees to £10,000.

Fee levels with effect from 1 April 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 have letters of appointment in place with remaining terms as follows, subject to re-appointment at the Company's Annual General Meeting:

	Letter of appointment end date
Tony Rice	AGM 2022
Martin Broadhurst	02/07/2021
Victoria Hull	27/04/2023
Geeta Gopalan	27/04/2023
Daniel Shook	01/09/2022
Ken Hunzeker	01/07/2023

2021 Annual General Meeting
The Committee encourages shareholders to vote in favour of the Directors' remuneration report at the 2021 AGM. The Directors' remuneration report was approved by the Board on 9 March 2021 and signed on its behalf by:

Martin Broadhurst
Chair of the Remuneration Committee

Directors' report
for the year ended 31 December 2020

The Directors of the Company present their report together with the audited consolidated financial statements for the year ended 31 December 2020.

Results and dividends
The Group results for the year ended 31 December 2020 are set out on page 4 of the strategic report.

An interim dividend of 15.4 pence per share (2019: 15.0 pence per share) was paid on 18 September 2020. An additional interim dividend of 39.2 pence per share, equivalent to the previously proposed 2019 final dividend that was withdrawn as a precautionary measure due to the Covid-19 pandemic, was also paid on 18 September 2020. The final 2020 dividend of 41.5 pence per share (2019: nil, however a dividend of 39.2 pence per share was paid as an additional interim dividend on 18 September 2020 as above) is proposed to be paid on 14 May 2021 to shareholders on the register of members on 9 April 2021, subject to approval at the Company's AGM. If approved, the total dividend payable in respect of the year ended 31 December 2020 will be 56.9 pence per share when excluding the additional interim dividend of 39.2 per share paid on 18 September 2020. The total dividend payable in respect of the year ended 31 December 2019 was 15.0 pence per share, due to the withdrawal of the final dividend as explained above.

Research and development
The Directors are committed to maintaining a significant level of research and development expenditure. During the year a total of £144.2m (2019: £145.6m*) was spent, of which £112.4m (2019: £116.0m*) was funded by customers and £31.8m (2019: £29.6m*) by Ultra. The company-funded spend was more modest than originally envisaged as investments relating to the commercial aerospace sector were reduced.

Political donations
Neither the Company nor any of its subsidiaries have made any political donations during the year (2019: £nil).

Directors and re-election
Details of the Directors serving during the year are set out on pages 68-69 of the corporate governance report. Martin Broadhurst, Geeta Gopalan, Victoria Hull, Simon Pryce, Tony Rice, Jos Sclater and Daniel Shook will stand for re-election. Ken Hunzeker will stand for election at the AGM 2021.

Directors and their interests
The Directors who served throughout the year and to the date of signing of this Report (see biographies on pages 68-69), and their interests in the shares and share options of Ultra at the end of the year and at 8 March 2020 are shown in the Annual Report on Remuneration (see page 96).

Post balance sheet events
There are no post balance sheets to report.

* The 2019 R&D spend has been restated following re-analysis of the development spend.

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 2020.

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 2020.

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 specialist components.

Purchase of own shares
During the year Ultra purchased nil ordinary shares (2019: 634,996). 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 11 February 2021, 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 11 FEBRUARY 2021

	11 February 2021		
Shareholder	Shares	% Invested capital	Cum% Invested capital
Invesco	7,162,079	10.07	10.07
Baillie Gifford	4,439,650	6.24	16.31
Fidelity Management & Research	3,711,498	5.22	21.53
BlackRock	3,393,398	4.77	26.30
Vanguard Group	2,949,442	4.15	30.44
Fidelity International	2,940,112	4.13	34.58
Mondrian Investment Partners	2,624,404	3.69	38.27
Legal & General Investment Management	2,133,138	3.00	41.26
Aberdeen Standard Investments	2,125,847	2.99	44.25
Janus Henderson Partners	1,901,730	2.67	46.93

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 32-37
Future developments	Strategic report: pages 30-31
Corporate social responsibility	Strategic report: pages 38-53
Workforce engagement	Strategic report: pages 22 and Governance report: page 80
Customer and supplier relationships	Strategic report: pages 22-23
The environment and greenhouse gas emissions	Strategic report: pages 49-52
Principal risks and uncertainties facing the Group	Strategic report: pages 54-57
Business ethics and employment practices	Strategic report: pages 38-48 and Governance report pages 75 and 80
Details of long-term incentive plans	Directors' remuneration report: pages 88-101 and note 26 to the financial statements
Corporate governance	Governance report: pages 66-104
Non-financial KPIs	Strategic report: pages 28-29
Financial risk management	Principal risks and uncertainties: pages 54-57, Audit committee report pages 84-87 and note 22 to the financial statements

There is no other information to be disclosed pursuant to the requirements of Listing Rule 9.8.4R.

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 49-52
Employees	+ Code of Conduct + Health and safety policy	Supporting our people – page 45 Supporting our people – page 47
Human rights	+ Human rights policy + Data privacy policy* + Information security policy* + Modern slavery statement* + Anti-slavery and trafficking statement*	Supporting our people – page 46
Social responsibility	+ Corporate Social Responsibility policy* + A Positive Force: our commitment to a sustainable future	A Positive Force – pages 38-53
Anti-corruption and bribery	+ Anti-bribery and corruption policy	Supporting our people – page 46 Audit committee report – page 87
Principal risks and impact on business activity		Principal risks and uncertainties – pages 54-57
Business model		Our business model – pages 26-27
Non-financial key performance indicators		Key performance Indicators – pages 28-29

* 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 9 March 2021 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 European Union 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

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 2020 and of the group's profit for the year then ended;
+ the group financial statements have been properly 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 European Union;
+ 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 statement of accounting policies; and
+ the related notes 1 to 48.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, international accounting standards in conformity with the requirements of the Companies Act 2006, and IFRSs as adopted by the European Union. 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 (the 'FRC's') 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 the non-audit services prohibited by the FRC's Ethical Standard were not provided 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; + Valuation of goodwill and intangible assets; and + Defined benefit pensions liabilities valuation. Within this report, key audit matters are identified as follows: ⇧ Increased level of risk ⇦⇨ Similar level of risk ⇩ Decreased level of risk
Materiality	The materiality that we used for the group financial statements was £5.7m which was determined on the basis of underlying profit before tax.
Scoping	We focused our group audit scope primarily on the audit work at 16 locations, 12 of these were subject to a full audit, whilst the remaining 4 were subject to specified audit procedures where the extent of our testing was based on our assessment of the risks of material misstatement. These 16 locations accounted for 91% of group revenue and 91% of underlying profit before tax.
Significant changes in our approach	Our audit has been responsive to the impact of Covid-19, for example in relation to the key audit matters as described further below and in how we have conducted our audit remotely, but otherwise there have been no significant changes to our audit approach in comparison to the prior period. All components that were subject to full scope procedures in FY19 remained so in FY20, but we made some changes to our specified scope audits for rotational purposes.

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 the following main procedures:

+ Consideration of the Group's latest financial performance and position and year on year trend;
+ Challenge of key assumptions in management's forecast model including assessment of the historical accuracy of forecasts prepared by management, reasonability with respect to the wider macroeconomic and industry conditions, and obtaining evidence of order backlog and contract wins;
+ Assessment of credit facility headroom and covenant compliance through review of the original agreements and evaluation against the year-end and forecast positions; and
+ Challenge of management's sensitivity analysis both mechanically and in the suitability of their sensitised assumptions as being reflective of reasonable worst case.

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 twelve 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.

5.1. Revenue and profit recognition ⇐ ⇒

Key audit matter description	The group recognised revenue of £859.8m in 2020 (2019: £825.4m), with sales recognised on both an over-time (£503.7m) and on a point-in-time (£356.1m) basis in accordance with 'IFRS 15: Revenue from contracts with customer'. We identified a key audit matter related to the risk that, from either error or fraud, that revenue and profit is recognised incorrectly based on judgements within the cost to complete estimate of significant contracts, or due to incorrect treatment of contracts, which include unusual or onerous terms. We consider that those contracts with a design phase have a heightened risk of cost escalation due to extended or unforeseen effort necessary to achieve contract milestones. Further, given the bespoke nature and the length of time to develop and manufacture many of Ultra's products and solutions, the contracts between Ultra and its customers can contain complex terms or contract variations and therefore there is also a risk that revenue is not recognised in accordance with such terms. Refer to page 156 (key sources of estimation uncertainty – contract revenue and profit recognition); page 157 (accounting policies – revenue recognition); page 86 (Audit Committee report – significant judgements considered; and page 124 (note 3 of the Financial Statements).
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over long-term contract accounting process. To assess whether revenue recognised to date is based on the current best estimate of the degree of work performed under the contract, for a sample of contracts we reviewed the evidence for the progress made against the contract, the key determinant being the costs to complete versus total costs incurred to date for each contract. To verify revenue for contracts recognised over time, we sought to confirm 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. We reviewed the contract risk registers to provide evidence over the judgement taken when providing for the cost of mitigating technical risks and meeting future milestones. We understood and challenged management's judgements by referring to evidence including signed contract terms and latest project status reports, and discussed contract progress and future risks with contract engineers. We also assessed the reliability of management estimates through consideration of the historical accuracy of prior period management estimates. For our sample of contracts, we made enquiries with project managers as to any unusual contract terms or side agreements separate to the original contract and verified total contract value to contract, in addition to testing a sample of billings and costs incurred to date.
Key observations	We considered the costs to complete on long-term contracts and therefore the revenue and margin recognised to be appropriate, based on the assessment of the risks remaining in the contracts and work performed to date.

5.2. Valuation of goodwill ⇐ ⇒

Key audit matter description	The group held £363.0m (2019: £365.9m) of goodwill arising on its acquisitions made as at 31 December 2020. There is a risk that inappropriate judgements relating to future cash flow forecasts and discount rates are used, leading to the overstatement of the value in use of these assets. If their recoverable amount is less than their recorded value, an impairment is required. This is particularly relevant given the volatility and uncertainty in defence spending in both new and traditional markets. We have focused this key audit matter around the key assumptions (performance forecasts and discount rates) that have been used to determine the value in use of 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. Refer to page 157 (accounting policies – goodwill); page 86 (Audit Committee report – significant judgements considered); and page 129 (note 13 of the Financial Statements).

Independent auditor's report
To the members of Ultra Electronics Holdings plc
continued

How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the monitoring of the carrying value of goodwill. Substantive procedures performed included: + Challenging the 5 year growth rate assumptions in the strategic plan period. Agreeing opportunities to evidence and assessing accuracy of management's historical forecasting accuracy; + Testing the long term growth rate assumption against the long term economic outlook and benchmarking it against the rate used by Ultra's peers; + With the involvement of our valuation specialists, benchmarking the discount rate against independently available data, together with performing peer group analysis; + Having challenged the assumptions, we assessed whether the impairment model had been prepared on the basis of management's assumptions and was arithmetically accurate. We challenged the appropriateness of management's sensitivities (both performance and WACC) based on our work performed on the key assumptions; + Calculated revised sensitised scenarios based on our own interpretation of reasonable worst case scenarios (including a severe downside sensitivity of no growth from FY20 actuals); + Assessed management's Group NPV against Enterprise Value. 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 and acquired intangibles.
Key observations	We are satisfied that headroom exists over the carrying value of the Energy division and therefore no impairment has been recognised. We raised a finding to management in relation to the discount rates applied in the impairment model which was subsequently corrected by management.

5.3. Defined benefit pension liabilities valuation ⇦⇨

Key audit matter description	The group operates defined benefit pension schemes in the UK, Switzerland and Canada. At 31 December 2020 the defined benefit pension scheme obligation was £441.1m (2019: £403.0m) which resulted in a net IAS 19: 'Employment Benefits' deficit of £71.9m (2019: £73.4m). The UK scheme accounted for 96% of this net deficit. There is a risk that the assumptions used in determining the defined benefit obligation for the UK scheme are not appropriate, resulting in an inappropriate pension valuation which would have a material impact on the financial statements. The most sensitive assumption is the discount rate, and so this is where our efforts were most heavily focussed. Additional focus areas included work around the Inflation Risk Premium, given RPI reform, and IFRIC 14 considerations. Refer to page 156 (key sources of estimation uncertainty – retirement benefit plans); page 161 (accounting policies – pensions); and page 86 (Audit Committee report – significant issues considered), and pages 148 to 152 (note 29 of the Financial Statements).
How the scope of our audit responded to the key audit matter	We obtained un understanding of the relevant controls over the accounting for defined benefit pension scheme. With the involvement of our pension specialists we assessed the appropriateness of the assumptions through benchmarking to industry data and comparison with the peer group. Discount rate, inflation risk premium and IFRIC 14 considerations were tested by understanding Ultra assumptions and methodology against IAS 19 and comparing against a reasonable range. This range was determined by comparison against 6 leading actuarial firm methodologies, or where available, third party economic data. We reviewed the suitability of the methodology used to value the defined benefit pension scheme obligation.
Key observations	Our assessment concluded that Ultra's pension assumptions overall lie within our acceptable range.

6. Our application of materiality

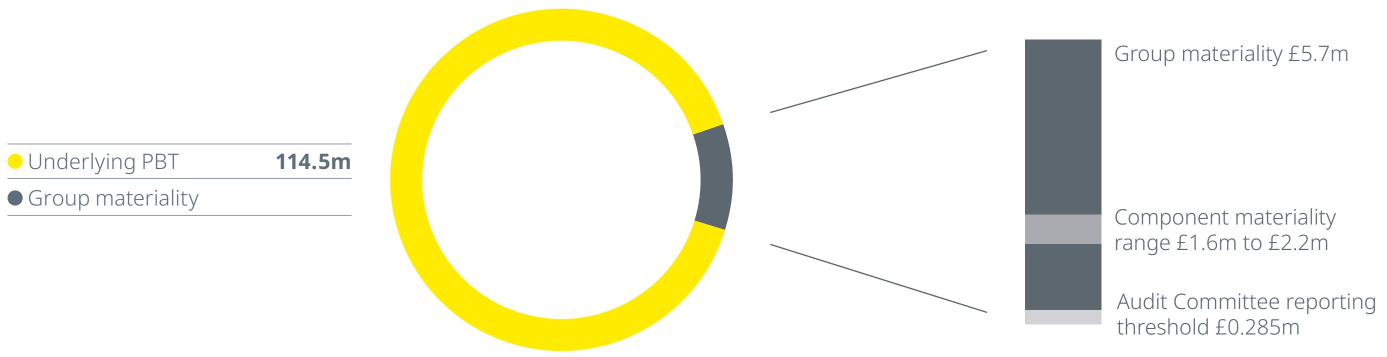
6.1. Materiality

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	£5.7m (2019: £5.1m)	£2.3m (2019: £1.4m)
Basis for determining materiality	5% (2019: 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 was determined based on 1% of company only net assets and capped at 40% of the group materiality.
Rationale for the benchmark applied	Underlying profit before tax is a key performance measure for the group and the users of the financial statements; therefore is 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	70% (2019: 70%) of group materiality	70% (2019: 70%) of parent company materiality
Basis and rationale for determining performance materiality	Factors we considered include: + our past experience of the audit and our risk assessment, including our assessment of the group's overall control environment; + there were no significant changes to the business in the period, there was limited financial impact on the business as a result of changes in the macroeconomic environment, and there was a suitable level of stability within the Company's management team; + the relatively low number of significant audit risks and fraud risks in the business identified through our detailed risk assessment; + the relatively low number of uncorrected and corrected misstatements in prior periods, and management's past 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 £285k (2019: £255k), 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.

Independent auditor's report
To the members of Ultra Electronics Holdings plc
continued

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:

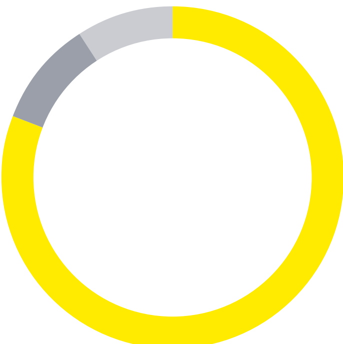
The Group is divided into 25 operating components (2019: 28) spread predominantly across four key territories – the UK, US, Canada and Australia. Each component sits within one of three operating segments, with central oversight provided from management located in the UK and all results are consolidated the Group level.

Scoping has remained broadly consistent with the prior year. Through our audit we have performed 12 (2019: 12) full scope audits, 4 specified procedure audits (2019: 4), along with 9 (2019: 12) components being reviewed centrally at the Group level. This is consistent with our prior year scoping when accounting for the reduced total components.

In addition, the Group disposed of one component during 2020 (with the 2 disposals in the previous year making up the total reduction in units from year on year) – Flightline. This was audited centrally at the Group level, consistent with our audit approach from the prior year.

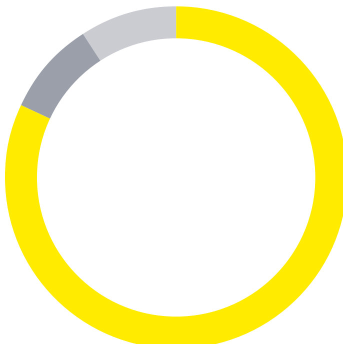
Components were selected based on their contribution to the consolidated revenue and underlying profit before tax for the Group. Of the 12 full scope audits identified, 3 were considered to be significant components to the Group based on their revenue and underlying profit before tax contribution.

Revenue



Full audit scope	**81%**
Specified audit procedures	**10%**
Review at Group level	**9%**

Profit before tax



Full audit scope	**82%**
Specified audit procedures	**9%**
Review at Group level	**9%**

7.2. Working with other auditors

Each component in scope was subject to an audit materiality level between £1.6 million and £2.2 million (2019: £1.4m and £2.1m). 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 overseas entities, 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.

In previous years the Group audit team followed a programme of planned visits that has been designed so that on a rotational basis the Senior Statutory Auditor, or a senior member of the Group audit team visited each of the primary operating component, including each of the significant components on an annual basis. However, in the current global climate and due to travel restrictions imposed as a result of Covid-19 this was not possible. This didn't impact the outcome of our work, as we still were able to perform sufficient group oversight via regular virtual communication and review of component files.

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 and the audit committee about their own identification and assessment of the risks of irregularities;
+ 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;
+ the matters discussed among the audit engagement team, including significant component audit teams and involving relevant internal specialists, including tax, pensions, valuations, industry specialists and IT 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 following area: 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 legislation, and tax 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. This included compliance with International Trade Law and International Traffic in Arms Regulations (ITAR).

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 HMRC; 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 all 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 58);
+ 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 58);
+ the directors' statement on fair, balanced and understandable (set out on page 87);
+ the board's confirmation that it has carried out a robust assessment of the emerging and principal risks (set out on pages 54-57);
+ the section of the annual report that describes the review of effectiveness of risk management and internal control systems (set out on pages 54-59); and
+ the section describing the work of the audit committee (set out on pages 84-87).

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 18 years, covering the years ending 31 December 2003 to 31 December 2020.

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.

Alexander Butterworth ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom
9 March 2021

Consolidated income statement
For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Revenue	3	**859.8**	825.4
Cost of sales		**(609.0)**	(586.3)
Gross profit		**250.8**	239.1
Other operating income	4	**0.9**	1.0
Administrative expenses		**(140.6)**	(138.5)
Other operating expenses	5	**(1.5)**	(6.0)
Significant legal charges and expenses	2	**(3.3)**	(1.4)
Operating profit	6	**106.3**	94.2
Gain/(loss) on disposals	30	**5.6**	(0.9)
Investment income	8	**3.7**	11.3
Finance costs	9	**(11.9)**	(13.6)
Profit before tax		**103.7**	91.0
Tax	10	**(19.9)**	(16.4)
Profit for the year		**83.8**	74.6
Attributable to:			
Owners of the Company		**83.8**	74.5
Non-controlling interests		**–**	0.1
Earnings per ordinary share (pence)			
Basic	12	**118.0**	105.1
Diluted	12	**117.7**	104.9

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 2020

	Note	2020 £m	2019 £m
Profit for the year		**83.8**	74.6
Items that will not be reclassified to profit or loss:			
Actuarial loss on defined benefit pension schemes	29	**(9.3)**	(9.3)
Tax relating to items that will not be reclassified	10	**2.9**	1.6
Total items that will not be reclassified to profit or loss		**(6.4)**	(7.7)
Items that are or may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**(11.2)**	(17.5)
Transfer from profit and loss on cash flow hedge		**–**	(0.3)
Gains on loans used in net investment hedges		**1.5**	3.1
Tax relating to items that are or may be reclassified	10	**–**	0.1
Total items that are or may be reclassified to profit or loss		**(9.7)**	(14.6)
Other comprehensive expense for the year		**(16.1)**	(22.3)
Total comprehensive income for the year		**67.7**	52.3
Attributable to:			
Owners of the Company		**67.7**	52.2
Non-controlling interests		**–**	0.1

The accompanying notes are an integral part of this consolidated statement of comprehensive income.

Consolidated balance sheet
As at 31 December 2020

	Note	2020 £m	2019 (restated) £m	2018 (restated) £m
Non-current assets				
Goodwill	13	**363.0**	365.9	377.8
Other intangible assets	14	**82.2**	92.7	113.9
Property, plant and equipment	15	**66.6**	64.2	62.6
Leased assets	16	**33.6**	36.1	–
Deferred tax assets*	24	**13.6**	23.0	18.7
Derivative financial instruments	22	**2.1**	1.7	0.1
Trade and other receivables	19	**12.9**	13.7	22.6
		574.0	597.3	595.7
Current assets				
Inventories	17	**103.6**	90.7	88.6
Trade and other receivables	19	**188.5**	205.4	205.2
Current tax assets*	24	**8.8**	6.5	8.1
Cash and cash equivalents*		**114.4**	110.5	135.1
Derivative financial instruments	22	**5.8**	3.2	0.3
Assets classified as held for sale	30	**–**	11.5	30.6
		421.1	427.8	467.9
Total assets		**995.1**	1,025.1	1,063.6
Current liabilities				
Trade and other payables	20	**(199.3)**	(192.3)	(212.2)
Current tax liabilities*	24	**(5.9)**	(1.5)	(5.0)
Derivative financial instruments	22	**(0.2)**	(0.5)	(5.5)
Borrowings*	21	**(38.3)**	(36.5)	(214.6)
Liabilities classified as held for sale	30	**–**	(5.3)	(8.6)
Short-term provisions	25	**(19.6)**	(16.6)	(13.3)
		(263.3)	(252.7)	(459.2)
Non-current liabilities				
Retirement benefit obligations	29	**(73.1)**	(73.3)	(73.0)
Other payables	20	**(12.0)**	(11.8)	(14.9)
Deferred tax liabilities*	24	**(15.0)**	(19.5)	(10.5)
Derivative financial instruments	22	**(0.1)**	(0.2)	(1.0)
Borrowings	21	**(161.9)**	(228.8)	(78.0)
Long-term provisions	25	**(5.0)**	(8.2)	(6.2)
		(267.1)	(341.8)	(183.6)
Total liabilities		**(530.4)**	(594.5)	(642.8)
Net assets		**464.7**	430.6	420.8
Equity				
Share capital	26	**3.6**	3.5	3.6
Share premium account		**205.5**	203.2	201.0
Capital redemption reserve		**0.4**	0.4	0.3
Reserve for own shares		**(1.4)**	(1.4)	(2.6)
Translation reserve*		**32.5**	42.2	56.8
Retained earnings		**224.1**	182.6	161.7
Equity attributable to owners of the Company		**464.7**	430.5	420.8
Non-controlling interests		**–**	0.1	–
Total equity		**464.7**	430.6	420.8

The financial statements of Ultra Electronics Holdings plc, registered number 02830397, were approved by the Board of Directors and authorised for issue on 9 March 2021. 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

* 2019 and 2018 balances for cash and cash equivalents and borrowings have been restated to meet the presentational requirements of IAS 32 with respect to the Group's cash-pooling arrangements. The net debt and net assets position is unchanged. Certain 2019 deferred tax balances have been reclassified from current to non-current to meet the requirements of IAS 1. The previously disclosed separate hedging reserve and translation reserve have been combined and prior periods restated on a consistent basis. See note 35.

Consolidated cash flow statement
For the year ended 31 December 2020

	Note	2020 £m	2019 £m
Net cash flow from operating activities	27	**130.0**	94.6
Investing activities			
Interest received		**0.3**	0.7
Purchase of property, plant and equipment		**(13.4)**	(14.9)
Proceeds from disposal of property, plant and equipment		**0.2**	0.1
Expenditure on product development and other intangibles		**(8.7)**	(8.0)
Disposal of subsidiary undertakings	30	**5.3**	22.4
Net cash (used in)/from investing activities		**(16.3)**	0.3
Financing activities			
Issue of share capital		**2.3**	3.3
Share buy-back (including transaction costs)		**–**	(8.6)
Dividends paid		**(38.7)**	(36.7)
Dividends paid to non-controlling interest		**(0.1)**	–
Loan syndication costs		**–**	(0.3)
Repayments of borrowings		**(76.2)**	(315.2)
Proceeds from borrowings		**11.1**	259.9
Principal payment on leases		**(9.0)**	(7.8)
Net cash used in financing activities		**(110.6)**	(105.4)
Net increase/(decrease) in cash and cash equivalents	27	**3.1**	(10.5)
Net cash and cash equivalents and bank overdrafts at beginning of year	27	**82.2**	96.3
Effect of foreign exchange rate changes		**(1.2)**	(3.6)
Net cash and cash equivalents and bank overdrafts at end of year	27	**84.1**	82.2

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 2020

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 2019	**3.6**	**201.0**	**0.3**	**(2.6)**	**56.8**	**161.7**	**–**	**420.8**
Adoption of IFRS 16	–	–	–	–	–	(2.0)	–	(2.0)
Restated total equity at 1 January 2019	**3.6**	**201.0**	**0.3**	**(2.6)**	**56.8**	**159.7**	**–**	**418.8**
Profit for the year	–	–	–	–	–	74.5	0.1	74.6
Other comprehensive income for the year	–	–	–	–	(14.6)	(7.7)	–	(22.3)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(14.6)**	**66.8**	**0.1**	**52.3**
Equity-settled employee share schemes	–	2.2	–	–	–	1.9	–	4.1
Transfer from own shares	–	–	–	1.2	–	(1.2)	–	–
Tax on share-based payment transactions	–	–	–	–	–	0.7	–	0.7
Shares purchased in buyback	(0.1)	–	0.1	–	–	(8.6)	–	(8.6)
Dividend to shareholders	–	–	–	–	–	(36.7)	–	(36.7)
Balance at 31 December 2019	**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 income 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**

* The previously disclosed separate hedging reserve and translation reserve have been combined and prior periods restated on a consistent basis.

Notes to accounts – Group
For the year ended 31 December 2020

1 Segment information

For management purposes, the Group is organised into three operating segments: Maritime, Intelligence & Communications and Critical Detection & Control. These segments were changed from 1 January 2020, consequently the prior year segmental information has been restated in accordance with IFRS 8. 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 32–37 for further information.

	2020			2019		
	External revenue £m	Inter-segment £m	Total £m	External revenue £m	Inter-segment £m	Total £m
Revenue						
Maritime	391.8	18.9	410.7	353.0	14.9	367.9
Intelligence & Communications	241.0	3.5	244.5	224.8	3.5	228.3
Critical Detection & Control	227.0	9.0	236.0	247.6	8.2	255.8
Eliminations	–	(31.4)	(31.4)	–	(26.6)	(26.6)
Consolidated revenue	859.8	–	859.8	825.4	–	825.4

All inter-segment trading is at arm's length.

	2020				
	Maritime £m	Intelligence & Communications £m	Critical Detection & Control £m	Unallocated £m	Total £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

Significant legal charges and expenses are the charges arising from investigations and 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 Strategic Business Unit.

Notes to accounts – Group
For the year ended 31 December 2020
continued

1 Segment information continued

	2019				
	Maritime £m	Intelligence & Communications £m	Critical Detection & Control £m	Unallocated £m	Total £m
Underlying operating profit	52.5	30.2	35.5	–	118.2
Amortisation of intangibles arising on acquisition	(8.2)	(10.0)	(3.5)	–	(21.7)
Significant legal charges and expenses (see note 2)	–	–	(0.2)	(1.2)	(1.4)
Acquisition and disposal-related costs (see note 2)	(0.4)	(0.2)	(0.3)	–	(0.9)
Operating profit/(loss)	43.9	20.0	31.5	(1.2)	94.2
Loss on disposals and held for sale					(0.9)
Investment income					11.3
Finance costs					(13.6)
Profit before tax					91.0
Tax					(16.4)
Profit after tax					74.6

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**	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Maritime	**15.0**	13.9	**10.6**	17.9
Intelligence & Communications	**8.4**	14.9	**17.8**	19.8
Critical Detection & Control	**5.0**	7.0	**9.1**	9.9
Total	**28.4**	35.8	**37.5**	47.6

The 2020 depreciation and amortisation expense includes £18.6m of amortisation charges (2019: £28.6m), £10.4m of property, plant and equipment depreciation charges (2019: £9.7m) and £8.5m of leased asset depreciation charges (2019: £9.3m).

Total assets by segment

	2020 £m	2019 (restated) £m
Maritime	**260.2**	262.0
Intelligence & Communications	**336.2**	357.6
Critical Detection & Control	**254.0**	260.6
	850.4	880.2
Unallocated*	**144.7**	144.9
Consolidated total assets*	**995.1**	1,025.1

Unallocated assets represent current and deferred tax assets, derivatives at fair value and cash and cash equivalents.

* 2019 balances for cash and cash equivalents and borrowings have been restated to meet the presentational requirements of IAS 32 with respect to the Group's cash-pooling arrangements. Separately, certain 2019 deferred tax balances have been reclassified from current to non-current to meet the requirements of IAS 1. See note 35.

1 Segment information continued

Total liabilities by segment

	2020 £m	2019 (restated) £m
Maritime	**126.8**	122.8
Intelligence & Communications	**92.3**	93.6
Critical Detection & Control	**66.9**	68.5
	286.0	284.9
Unallocated*	**244.4**	309.6
Consolidated total liabilities*	**530.4**	594.5

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:

	2020 £m	2019 £m
North America	**546.5**	502.5
United Kingdom	**158.4**	171.1
Rest of World	**89.9**	95.9
Mainland Europe	**65.0**	55.9
	859.8	825.4

During the year, there was one direct customer (2019: one) that individually accounted for greater than 10% of the Group's total turnover. Sales to this customer in 2020 were £203.2m (2019: £182.4m) 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)	
	2020 £m	2019* £m	2020 £m	2019* £m	2020 £m	2019 £m
United Kingdom	**159.2**	157.8	**298.7**	315.6	**10.5**	11.8
USA	**309.1**	320.9	**412.0**	425.5	**14.5**	16.6
Canada	**84.3**	88.5	**131.8**	129.9	**3.1**	7.1
Rest of World	**5.7**	5.5	**7.9**	9.2	**0.3**	0.3
	558.3	572.7	**850.4**	880.2	**28.4**	35.8
Unallocated*	**15.7**	24.6	**144.7**	144.9	**–**	–
	574.0	597.3	**995.1**	1,025.1	**28.4**	35.8

Notes to accounts – Group
For the year ended 31 December 2020
continued

2 Additional non-statutory performance measures

To present the underlying 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 free cash flow definition has been revised to deduct the principal payments on leases, the 2019 comparative has been restated. The non-statutory disclosures should not be viewed in isolation or as an alternative to the equivalent statutory measure. See pages 163 – 164 for further details and definitions. The non-statutory performance measures are calculated as follows:

	2020 £m	2019 £m
Operating profit	106.3	94.2
Amortisation of intangibles arising on acquisition (see note 14)	12.6	21.7
Significant legal charges and expenses*	3.3	1.4
Acquisition and disposal-related costs	1.1	0.9
Restructuring costs related to disposal (see note 30)	2.8	–
Underlying operating profit	126.1	118.2
Depreciation of property, plant and equipment (see note 15)	10.4	9.7
Depreciation of leased assets (see note 16)	8.5	9.3
Amortisation of internally generated intangible assets (see note 14)	1.4	2.9
Amortisation of software, patents and trademarks (see note 14)	4.6	4.0
EBITDA	151.0	144.1

	2020 £m	2019 £m
Profit before tax	103.7	91.0
Amortisation of intangibles arising on acquisition (see note 14)	12.6	21.7
Acquisition and disposal related costs	1.1	0.9
Gain on fair value movements of derivatives (see note 22)	(3.4)	(10.6)
(Gain)/loss on disposals net of £2.8m restructuring costs (see note 30)	(2.8)	0.9
Significant legal charges and expenses*	3.3	1.4
Underlying profit before tax	114.5	105.3

	2020 £m	2019 £m
Cash generated by operations (see note 27)	142.6	114.9
Principal payments on finance leases	(9.0)	(7.8)
Purchase of property, plant and equipment	(13.4)	(14.9)
Proceeds on disposal of property, plant and equipment	0.2	0.1
Expenditure on product development and other intangibles	(8.7)	(8.0)
Significant legal charges and expenses*	1.5	1.9
Disposal-related restructuring costs (see note 30)	1.6	–
Acquisition and disposal-related payments	1.3	0.6
Underlying operating cash flow	116.1	86.8
Underlying operating cash conversion (KPI)	92%	73%

* Significant legal charges and expenses are the charges arising from investigations and settlement of litigation that are not in the normal course of business.

2 Additional non-statutory performance measures continued

	2020 £m	2019[†] £m
Net cash flow from operating activities	**130.0**	94.6
Interest received	**0.3**	0.7
Purchase of property, plant and equipment	**(13.4)**	(14.9)
Proceeds on disposal of property, plant and equipment	**0.2**	0.1
Expenditure on product development and other intangibles	**(8.7)**	(8.0)
Principal payments on finance leases[†]	**(9.0)**	(7.8)
Free cash flow	**99.4**	64.7

Net assets	**464.7**	430.6
Net debt (see note 27)	**85.8**	154.8
Retirement benefit obligations (see note 29)	**73.1**	73.3
Net derivative financial instruments (see note 22)	**(7.6)**	(4.2)
Net tax assets	**(1.5)**	(8.5)
Total invested capital	**614.5**	646.0
Average invested capital	**630.3**	665.0
Underlying operating profit	**126.1**	118.2
ROIC (KPI)	**20.0%**	17.8%

† The free cash flow definition has been revised to deduct the principal payments on leases, the 2019 comparative has been restated.

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
2019	1,022.9		825.4		118.2	
Currency translation	(16.9)	-1.7	(4.1)	-0.5	(0.6)	-0.5
Disposals	(0.7)	-0.1	(3.9)	-0.5	1.1	+0.9
2019 (for organic measure)	1,005.3		817.4		118.7	
Organic growth (KPI)	**58.9**	**+5.9**	**42.4**	**+5.2**	**7.4**	**+6.2**
2020	**1,064.2**	+4.0	**859.8**	+4.2	**126.1**	+6.7

Notes to accounts – Group
For the year ended 31 December 2020
continued

3 Revenue

An analysis of the Group's revenue is as follows:

	2020				2019			
	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	**100.4**	**119.0**	**136.7**	**356.1**	85.6	96.3	155.0	336.9
Over time	**291.4**	**122.0**	**90.3**	**503.7**	267.4	128.5	92.6	488.5
	391.8	**241.0**	**227.0**	**859.8**	353.0	224.8	247.6	825.4

The estimate of future costs on over-time contracts is a critical accounting estimate as set out on pages 156 – 157. Across the aggregated portfolio of over time contracts open at 31 December 2020, a 1% increase in estimated costs to complete the portfolio equates to £5.3m (2019: £5.1m). 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 £5.3m.

£Nil revenue (2019: £1.0m) was recognised during the year ended 31 December 2020 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.

	2021 £m	2022 £m	2023 and beyond £m	Total £m
Point in time revenue	**212.7**	**62.4**	**35.0**	**310.1**
Over-time revenue	**409.2**	**196.1**	**148.8**	**754.1**

4 Other operating income

Amounts included in other operating income were as follows:

	2020 £m	2019 £m
Foreign exchange gains	**0.9**	1.0
	0.9	1.0

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:

	2020 £m	2019 £m
Foreign exchange losses	**1.5**	6.0
	1.5	6.0

6 Operating profit

Operating profit is stated after charging/(crediting):

	2020 £m	2019 (restated) £m
Raw materials and other bought-in inventories expensed in the year	**303.6**	260.3
Staff costs (see note 7)	**288.0**	267.9
Depreciation of property, plant and equipment (see note 15)	**10.4**	9.7
Depreciation of leased assets (see note 16)	**8.5**	9.3
Amortisation of internally generated intangible assets (see note 14)	**1.4**	2.9
Amortisation of software, patents and trademarks (see note 14)	**4.6**	4.0
Amortisation of acquired intangible assets (see note 14)	**12.6**	21.7
Government grant income (see note 23)	**(0.2)**	(0.3)
Net foreign exchange gain	**(2.1)**	(5.9)
Loss on disposal of property, plant and equipment	**0.1**	0.1
Short-term lease rentals	**0.1**	0.3
Low-value asset lease rentals	**0.2**	0.1
Income from property subletting	**(0.7)**	(0.7)
Research and development costs*	**31.5**	28.6
Auditor's remuneration for statutory audit work (including expenses)	**1.4**	1.3

Analysis of auditor's remuneration

	2020 £m	2019 £m
Fees payable for the audit of the annual accounts	**0.5**	0.4
Fees payable for the audit of subsidiaries	**0.9**	0.9
Total for statutory Group audit services	**1.4**	1.3

Total non-audit services in 2020 were £3,000 (2019: £11,000). The Company-only audit fee included in the Group audit fee shown above was £20,000 (2019: £20,000).

* The 2019 Research and development cost has been restated to offset associated tax credits.

7 Staff costs

Particulars of employees (including Executive Directors) are shown below. Employee costs during the year amounted to:

	2020 £m	2019 £m
Wages and salaries	**250.8**	233.6
Social security costs	**24.6**	22.6
Pension costs	**12.6**	11.7
	288.0	267.9

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

	2020 Number	2019 Number
Production	**1,813**	1,690
Engineering	**1,463**	1,376
Selling	**209**	214
Support services	**768**	809
	4,253	4,089

Information on Directors' remuneration is given in the section of the 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.

Notes to accounts – Group
For the year ended 31 December 2020
continued

8 Investment income

	2020 £m	2019 £m
Bank interest	**0.3**	0.7
Fair value movement on derivatives (see note 22)	**3.4**	10.6
	3.7	11.3

9 Finance costs

	2020 £m	2019 £m
Amortisation of finance costs of debt	**0.6**	0.7
Interest on bank loans, overdrafts and other loans	**8.3**	9.5
Finance charge on leases	**1.7**	1.5
Total borrowing costs	**10.6**	11.7
Retirement benefit scheme finance cost	**1.3**	1.9
	11.9	13.6

10 Tax

	2020 £m	2019 £m
UK taxes		
Corporation tax	**5.2**	3.2
Adjustment in respect of prior years	**(0.5)**	(2.4)
	4.7	0.8
Overseas taxes		
Current taxation	**11.9**	10.1
Adjustment in respect of prior years	**(5.2)**	(1.7)
	6.7	8.4
Total current tax	**11.4**	9.2
Deferred tax		
Origination and reversal of temporary differences	**7.5**	7.0
Derecognition of deferred tax assets	**–**	0.2
Recognition of deferred tax liability on overseas retained earnings	**0.8**	–
UK tax rate change	**0.2**	–
Total deferred tax charge	**8.5**	7.2
Total tax charge	**19.9**	16.4

Corporation tax in the UK is calculated at 19.0% (2019: 19.0%) of the estimated assessable profit for the year. UK deferred tax at the balance sheet date has been calculated at 19.0% (2019: 17.0%), however the UK Government has very recently announced that the rate of UK corporation tax will rise from 19.0% to 25.0% with effect from 1 April 2023; we will provide further details of the expected impacts in future announcements. 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 2020 have been calculated at 24.0% (2019: 24.0%).

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised directly in other comprehensive income:

Deferred tax	2020 £m	2019 £m
Arising on income and expenses recognised in other comprehensive income:		
Actuarial gain on defined benefit pension schemes	**(1.8)**	(1.6)
Tax rate changes	**(1.1)**	–
Revaluation of interest rate hedge	**–**	0.1
Total income tax credit recognised directly in other comprehensive income	**(2.9)**	(1.5)

10 Tax continued

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:

	2020 £m	2019 £m
Deferred tax		
IFRS 16 adjustment	–	(0.6)
Change in estimated excess tax deductions related to share-based payments	0.2	(0.7)
Total income tax recognised directly in equity	0.2	(1.3)

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2020 £m	2019 £m
Group profit before tax	103.7	91.0
Tax on Group profit at standard UK corporation tax rate of 19.00% (2019: 19.00%)	19.7	17.3
Tax effects of:		
Income/expenses that are not taxable/allowable in determining taxable profits	1.6	2.2
Effect of change in tax rates	0.3	–
Derecognition of deferred tax assets	–	0.2
Expenses for which no deferred tax asset recognised	(0.5)	0.4
Different tax rates of subsidiaries operating in other jurisdictions	3.8	3.0
CFC exemption	(1.8)	(2.6)
Current and deferred tax on intra-group dividends	1.2	–
Deferred tax differences on temporary differences	0.4	(0.1)
Patent Box	(0.8)	(0.5)
Adjustments in respect of prior years	(4.0)	(3.5)
Tax expense for the year	19.9	16.4

Included within the tax reconciliation are a number of non-recurring items, principally non-tax deductible one-off costs which fluctuate from year to year. The prior year adjustment in 2020 relates principally to the use of deferred interest deductions in the 2019 US federal income tax return as a result of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. A deferred tax liability has been recognised for the withholding tax that will be incurred on future dividends from our Canadian subsidiaries. The differences attributable to the UK CFC exemption, Patent Box and higher overseas tax rates are expected to recur in the future (the level of profits in overseas jurisdictions and changes to the UK and overseas tax rates will affect the size of these differences).

The Group is subject to enquiries and audits by tax authorities 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 2020, the Group holds provisions for such potential issues of £3.4m (2019: £2.2m). 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.

The company has benefited in the current year, and previous years, from a certain exemption in the UK Controlled Foreign Company (CFC) rules. We have previously reported that Ultra was potentially affected by the European Commission decision that the group financing partial exemption (FCPE), in the UK controlled foreign company (CFC) rules as they applied up to 31 December 2018, could constitute illegal State Aid. On 26 February 2021, HMRC notified Ultra of their view that Ultra is not a beneficiary of State Aid, as defined in the EC decision and we believe this concludes the matter.

Various emergency Covid tax reliefs were introduced around the world that entitled Ultra to defer corporation tax and indirect tax payments and social security contributions. Payments of £6.1m were initially deferred of which £5.6m had been repaid at the balance sheet date. In addition the US Coronavirus Aid, Relief, and Economic Security Act made temporary changes to the US Internal Revenue Code which allowed the Group to deduct previously deferred US interest expense resulting in a prior year tax credit of £3.7m.

Notes to accounts – Group
For the year ended 31 December 2020
continued

11 Dividends

Amounts recognised as distributions to equity holders in the year:

	2020 £m	2019 £m
Additional interim dividend of 39.2p per share (equivalent to the postponed final dividend), and final dividend for the year ended 31 December 2018 of 37.0p per share	**27.8**	26.1
Interim dividend for the year ended 31 December 2020 of 15.4p (2019: 15.0p) per share	**10.9**	10.6
	38.7	36.7
Proposed final dividend for the year ended 31 December 2020 of 41.5p (2019: 39.2p) per share	**29.5**	27.8

The 2020 proposed final dividend of 41.5p per share is proposed to be paid on 14 May 2021 to shareholders on the register at 9 April 2021. It was approved by the Board after 31 December 2020 and has not been included as a liability as at 31 December 2020.

12 Earnings per share

	2020 pence	2019 pence
Basic underlying (see below)	**130.6**	119.5
Diluted underlying (see below)	**130.3**	119.4
Basic	**118.0**	105.1
Diluted	**117.7**	104.9

The calculation of the basic, underlying and diluted earnings per share is based on the following data:

	2020 £m	2019 £m
Earnings		
Earnings for the purposes of basic earnings per share being profit for the year	**83.8**	74.5
Underlying earnings		
Profit for the period	**83.8**	74.5
Amortisation of intangibles arising on acquisition (net of tax)	**9.8**	16.9
Acquisition and disposal-related costs (net of tax)	**0.7**	0.1
Profit on fair value movements of derivatives (net of tax)	**(2.8)**	(8.8)
(Gain)/loss on disposals net of £2.8m restructuring costs, per note 30 (net of tax)	**(1.7)**	0.9
Significant legal charges and expenses (net of tax)	**3.0**	1.1
Earnings for the purposes of underlying earnings per share	**92.8**	84.7

The adjustments to profit are explained in note 2.

The weighted average number of shares is given below:

	2020 Number of shares	2019 Number of shares
Number of shares used for basic earnings per share	**71,026,681**	70,893,867
Effect of dilutive potential ordinary shares – share options	**179,001**	93,523
Number of shares used for fully diluted earnings per share	**71,205,682**	70,987,390

	2020 £m	2019 £m
Underlying profit before tax (see note 2)	**114.5**	105.3
Tax rate applied for the purposes of underlying earnings per share	**19.0%**	19.4%

During 2020, the Company purchased and cancelled nil (2019: 634,996) shares. See note 26.

13 Goodwill

	2020 £m	2019 £m
Cost		
At 1 January	**424.3**	438.5
Exchange differences	**(7.9)**	(10.6)
Disposals	**(8.9)**	(0.3)
Reclassified from/(to) held for sale (see note 30)	**3.3**	(3.3)
At 31 December	**410.8**	424.3
Accumulated impairment losses		
At 1 January	**(58.4)**	(60.7)
Disposals	**8.9**	–
Exchange differences	**1.7**	2.3
At 31 December	**(47.8)**	(58.4)
Carrying amount at 31 December	**363.0**	365.9

From 1 January 2020, the cash-generating unit (CGU) groupings were revised to reflect the new Strategic Business Unit (SBU) structure of the Group.

+ The Aerospace and Energy CGUs are unchanged.
+ Forensic Technology, which was within the C2ISR CGU grouping, is a new standalone CGU to reflect the business becoming an SBU from 1 January 2020. C$45.0m of goodwill was assigned to this CGU based on the proportion of net present value of future cash flows from Forensic Technology relative to the rest of C2ISR.
+ The remainder of C2ISR (i.e. excluding Forensic Technology) and the Communications CGU grouping were combined into one Intelligence & Communications CGU grouping to reflect that goodwill in the Intelligence & Communications SBU is now monitored at this level.
+ Maritime and Underwater Warfare were combined into one Maritime CGU grouping to reflect that goodwill in the Maritime SBU is now monitored at this level.

Consequently, the Group's SBUs, which represent CGU groupings, are: Aerospace, 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:

	2020 Pre-tax discount rate %	2019 Pre-tax discount rate %	2020 £m	2019 £m
Aerospace	**10.2 – 11.2**	10.9 – 12.1	**32.5**	32.6
Energy	**10.2 – 11.2**	10.9 – 12.1	**17.9**	18.3
Forensic Technlogy	**10.7**	12.4	**25.6**	25.9
Intelligence & Communications	**10.2 – 11.2**	10.9 – 12.4	**178.2**	178.3
Maritime	**10.2 – 11.2**	10.9 – 12.9	**108.8**	110.8
Total – Ultra Electronics			**363.0**	365.9

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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 (2019: 2.5% for the following 10 years only).

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 2020 was 10.2% for UK (2019: 10.9%), 10.7% for Canada (2019: 12.4%), 11.2% for USA (2019: 12.1%) and 11.2% for Australia (2019: 12.9%). 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% (2019: 2.5% for the following 10 years only). 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-2025 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						
	Customer relationships £m	Intellectual property £m	Profit in order book £m	Other acquired £m	Internally generated capitalised development costs £m	Software, patents and trademarks £m	Total £m
Cost							
At 1 January 2019	215.1	103.5	33.2	7.7	29.7	36.4	425.6
Foreign exchange differences	(4.6)	(2.3)	(0.6)	(0.1)	(0.6)	(0.9)	(9.1)
Additions	–	–	–	–	1.1	6.9	8.0
Reclassified as held for sale	–	–	–	–	(0.3)	–	(0.3)
Reclassification from tangible fixed assets (see note 15)	–	–	–	–	–	1.4	1.4
Disposals	(8.1)	–	(3.2)	–	–	(0.2)	(11.5)
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 (see note 30)	–	–	–	–	0.3	–	0.3
Reclassification from tangible fixed assets (see note 15)	–	–	–	–	–	0.4	0.4
Disposals	–	–	–	–	(0.4)	(2.1)	(2.5)
At 31 December 2020	**199.0**	**99.4**	**29.0**	**7.5**	**29.6**	**49.7**	**414.2**
Accumulated amortisation							
At 1 January 2019	(155.3)	(73.0)	(33.2)	(4.8)	(20.1)	(25.3)	(311.7)
Foreign exchange differences	3.6	1.9	0.6	0.1	0.5	0.7	7.4
Reclassified as held for sale	–	–	–	–	0.2	–	0.2
Disposals	8.1	–	3.2	–	–	0.2	11.5
Reclassification from tangible fixed assets (see note 15)	–	–	–	–	–	(0.2)	(0.2)
Charge	(12.2)	(8.6)	–	(0.9)	(2.9)	(4.0)	(28.6)
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 (see note 30)	–	–	–	–	(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 31 December 2020	**(160.3)**	**(82.8)**	**(29.0)**	**(6.1)**	**(23.1)**	**(30.7)**	**(332.0)**
Carrying amount							
At 31 December 2020	**38.7**	**16.6**	**–**	**1.4**	**6.5**	**19.0**	**82.2**
At 31 December 2019	46.6	21.5	–	2.0	7.6	15.0	92.7

Of the £38.7m net book value within customer relationships, £21.3m related to Herley and £9.4m related to Forensic Technology, with estimated weighted average remaining lives of 10.1 years and 7.5 years respectively. Of the £16.6m net book value within intellectual property, £8.4m related to Herley and £4.0m related to Forensic Technology, with estimated weighted average remaining lives of 5.0 years and 6.0 respectively. Of the £19.0m (2019: £15.0m) net book value within the software, patents and trademarks category, £0.1m (2019: £0.2m) 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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15 Property, plant and equipment

	Land and buildings			
	Freehold £m	Short leasehold £m	Plant and machinery £m	Total £m
Cost				
At 1 January 2019	43.2	22.5	93.3	159.0
Foreign exchange differences	(0.5)	(0.4)	(2.2)	(3.1)
Additions	0.7	2.1	12.1	14.9
Disposals	–	(0.1)	(2.3)	(2.4)
Reclassified to software (see note 14)	–	–	(1.4)	(1.4)
Reclassification	(0.7)	0.6	0.1	–
Reclassified to held for sale	–	(0.2)	(2.7)	(2.9)
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 (see note 30)	–	0.1	1.5	1.6
At 31 December 2020	**42.6**	**25.5**	**94.9**	**163.0**
Accumulated depreciation				
At 1 January 2019	(9.5)	(16.5)	(70.4)	(96.4)
Foreign exchange differences	0.1	0.2	1.5	1.8
Charge	(1.1)	(1.8)	(6.8)	(9.7)
Disposals	–	0.1	2.3	2.4
Reclassified to software (see note 14)	–	–	0.2	0.2
Reclassification	0.7	(0.6)	(0.1)	–
Reclassified to held for sale	–	0.2	1.6	1.8
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 (see note 30)	–	–	(0.5)	(0.5)
At 31 December 2020	**(10.6)**	**(19.9)**	**(65.9)**	**(96.4)**
Carrying amount				
At 31 December 2020	**32.0**	**5.6**	**29.0**	**66.6**
At 31 December 2019	32.9	6.1	25.2	64.2

Freehold land amounting to £7.4m (2019: £7.6m) has not been depreciated. Included within Land and Buildings is £nil (2019: £nil) of assets in the course of construction.

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 2019	–	–	–
Adoption of IFRS 16	34.4	1.4	35.8
Foreign exchange differences	(0.9)	–	(0.9)
Additions	12.9	–	12.9
Disposals	(1.8)	–	(1.8)
Reclassified to held for sale	(1.4)	–	(1.4)
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 (see note 30)	1.4	–	1.4
At 31 December 2020	**48.4**	**1.6**	**50.0**
Accumulated depreciation			
At 1 January 2019	–	–	–
Foreign exchange differences	0.1	–	0.1
Charge	(8.7)	(0.6)	(9.3)
Disposals	0.4	–	0.4
Reclassified to held for sale	0.3	–	0.3
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 (see note 30)	(0.3)	–	(0.3)
At 31 December 2020	**(15.4)**	**(1.0)**	**(16.4)**
Carrying amount			
At 31 December 2020	**33.0**	**0.6**	**33.6**
At 31 December 2019	35.3	0.8	36.1

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.

17 Inventories

	2020 £m	2019 £m
Raw materials and consumables	**58.3**	51.9
Work in progress	**35.0**	31.4
Finished goods and goods for resale	**10.3**	7.4
	103.6	90.7

The amount of any write-down of inventory recognised as an expense in the year was £3.1m (2019: £2.1m).

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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 2019	103.6
Foreign exchange differences	(1.1)
Revenue earned net of billings	(11.2)
Reclassified to held for sale	(0.6)
As at 1 January 2020	**90.7**
Foreign exchange differences	**(1.5)**
Revenue earned net of billings	**(6.5)**
Other	**(3.3)**
As at 31 December 2020	**79.4**

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 2019	(63.5)
Foreign exchange differences	1.0
Cash advances net of revenue recognised	(14.1)
Other	1.0
Reclassified to deferred income	2.4
Reclassified to held for sale	5.9
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 31 December 2020	**(76.4)**

Within the opening 2020 balance of £67.3m, £59.7m was utilised during the period.

19 Trade and other receivables

	2020 £m	2019 £m
Non-current		
Amounts receivable from over-time contract customers (see note 18)	**12.9**	13.7
	12.9	13.7

	2020 £m	2019 £m
Current		
Trade receivables	**101.5**	108.4
Loss allowance against receivables	**(1.4)**	(1.8)
Net trade receivables	**100.1**	106.6
Amounts receivable from over-time contract customers (see note 18)	**66.5**	77.0
Other receivables	**6.2**	7.7
Prepayments	**10.6**	10.1
Accrued income	**5.1**	4.0
	188.5	205.4

Trade receivables do not carry interest. The average credit period on sale of goods is 27 days (2019: 30 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:

	2020 £m	Related loss allowance £m	Total £m	2019 £m	Related loss allowance £m	Total £m
Current	**78.3**	**–**	**78.3**	89.4	–	89.4
1 to 3 months	**20.2**	**–**	**20.2**	13.4	–	13.4
4 to 6 months	**1.1**	**–**	**1.1**	2.8	–	2.8
7 to 9 months	**0.4**	**(0.1)**	**0.3**	0.6	(0.1)	0.5
Over 9 months	**1.5**	**(1.3)**	**0.2**	2.2	(1.7)	0.5
Total	**101.5**	**(1.4)**	**100.1**	108.4	(1.8)	106.6

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 and other receivables the expected credit loss allowance is immaterial.

Movement in the loss allowance for trade receivables was as follows:

	2020 £m	2019 £m
Current		
Balance at beginning of year	**1.8**	3.9
Foreign exchange differences	**–**	–
Increase in loss allowance for trade receivables regarded as potentially uncollectable	**0.4**	0.5
Decrease in loss allowance for trade receivables recovered during the year or provision utilised	**(0.8)**	(2.6)
Balance at end of year	**1.4**	1.8

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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; 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

	2020 £m	2019 £m
Amounts included in current liabilities:		
Trade payables	**44.4**	49.9
Amounts due to over-time contract customers (see note 18)	**68.2**	57.5
Other payables	**19.9**	22.2
Accruals	**46.2**	37.8
Deferred income	**20.6**	24.9
	199.3	192.3
Amounts included in non-current liabilities:		
Amounts due to over-time contract customers (see note 18)	**8.2**	9.8
Deferred income	**3.8**	2.0
	12.0	11.8

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

21 Borrowings

	2020 £m	2019 (restated) £m
Amounts due in less than one year:		
Bank loans and overdrafts*	**30.3**	28.3
Lease liability	**8.0**	8.2
	38.3	36.5
Amounts due after more than one year:		
Bank loans	**19.0**	83.8
Unsecured loan notes	**101.0**	102.5
Government loans (see note 23)	**12.2**	9.5
Lease liability	**29.7**	33.0
	161.9	228.8
Total borrowings:		
Amount due for settlement within 12 months*	**38.3**	36.5
Amount due for settlement after 12 months	**161.9**	228.8
	200.2	265.3

Included in total borrowings are syndication costs of £1.4m (2019: £2.0m), which are amortised over the duration of the loan. The Group's main financial covenants are that the ratio of net consolidated total borrowings/EBITDA is less than three, and that the net interest payable on borrowings is covered at least three times by EBITA.

* 2019 balances for cash and cash equivalents and borrowings have been restated to meet the presentational requirements of IAS 32 with respect to the Group's cash-pooling arrangements. See note 35.

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**	**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 loan (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**

	Level 3 £m	Level 2 £m	2019 Total £m
Financial assets at fair value			
Foreign exchange derivative financial instruments (through profit and loss)	–	4.9	4.9
Total	–	4.9	4.9
Financial liabilities at fair value			
Government loan (see note 23)	9.5	–	9.5
Foreign exchange derivative financial instruments (through profit and loss)	–	0.7	0.7
Total	9.5	0.7	10.2

	Current assets/(liabilities)		**Non-current assets/(liabilities)**	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Financial assets/(liabilities) carried at fair value through profit or loss				
Foreign exchange currency liabilities	**(0.2)**	(0.5)	**(0.1)**	(0.2)
Foreign exchange currency assets	**5.8**	3.2	**2.1**	1.7

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22 Financial instruments and financial risk management continued

Financial assets

The financial assets of the Group were as follows:

	2020 £m	2019 (restated) £m
Cash and cash equivalents*	**114.4**	110.5
Currency derivatives used for hedging and interest rate swap	**7.9**	4.9
Trade receivables	**100.1**	106.6
Accrued income	**5.1**	4.0

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:

	2020 £m	2019 (restated) £m
Currency derivatives used for hedging	**0.3**	0.7
Bank loans and overdrafts*	**49.3**	112.1
Unsecured loan notes	**101.0**	102.5
Government loans	**12.2**	9.5
Lease liabilities	**37.7**	41.2
Trade payables	**44.4**	49.9
Deferred consideration	**2.3**	2.3
Accruals	**46.2**	37.8
Other payables	**19.9**	22.2

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 £110.6m (2019: £108.0m) which compares to the carrying amount of £101.0m (2019: £102.5m). 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. The Group repaid a US$165m term loan in the prior year.

All bank loans are unsecured. Interest was predominantly charged at 0.65% (2019: 0.90%) over base or contracted rate. At 31 December 2020, the Group had available £280m (2019: £214m) of undrawn, committed revolving credit facilities.

At 31 December 2020, the Group also has unsecured loan notes in issue to Prudential Investment Management Inc (Pricoa) of £50m with an expiry date of October 2025 (2019: £50m), and US$70m with an expiry date of January 2026 and January 2029 (2019: 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 subsidiary Ultra Electronics Tactical Communication Systems (TCS), participates in two 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 a net £5m overdraft (gross £75m) across its UK GBP bank accounts, as well as a separate US$2.5m overdraft. These 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. Cash is deposited across a number of different banks in the main territories in which the Group is based.

* 2019 balances for cash and cash equivalents and borrowings have been restated to meet the presentational requirements of IAS 32 with respect to the Group's cash-pooling arrangements. See note 35. The contractual maturity of currency derivatives has been restated to reflect the gross cash outflow in accordance with IFRS 7 paragraph B11D.

22 Financial instruments and financial risk management continued

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
2020					
Bank loans and overdrafts	**30.4**	**0.1**	**19.0**	**–**	**49.5**
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	**46.2**	**–**	**–**	**–**	**46.2**
Other payables	**19.9**	**–**	**–**	**–**	**19.9**

(restated)	Within 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
2019					
Bank loans and overdrafts*	29.8	1.5	87.3	–	118.6
Unsecured loan notes	3.8	3.8	11.5	109.3	128.4
Government loans	–	2.2	3.9	3.4	9.5
Trade payables	49.9	–	–	–	49.9
Currency derivatives used for hedging – cash outflow*	24.2	12.1	2.9	–	39.2
Currency derivatives used for hedging – cash (inflow)	(23.7)	(12.0)	(2.8)	–	(38.5)
Deferred consideration	–	–	2.3	–	2.3
Accruals	37.8	–	–	–	37.8
Other payables	22.2	–	–	–	22.2

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
2020					
Lease liabilities	**(9.6)**	**(8.0)**	**(17.6)**	**(7.2)**	**(42.4)**
Subletting income	**0.5**	**0.2**	**–**	**–**	**0.7**
2019					
Lease liabilities	(10.0)	(9.1)	(19.0)	(9.8)	(47.9)
Subletting income	0.7	0.6	0.2	–	1.5

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, Euros and Canadian Dollars.

At 31 December 2020, the net fair value of the Group's currency derivatives is estimated to be an asset of approximately £7.6m (2019: asset £4.2m), comprising £7.9m assets (2019: £4.9m) and £0.3m liabilities (2019: £0.7m). The gain on derivative financial instruments included in the Group's consolidated income statement for the period was £3.4m (2019: gain £10.6m).

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22 Financial instruments and financial risk management continued

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
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**
2019					
Sell US Dollars, purchase GBP	**1.29**	104.0	53.9	–	157.9
Other currencies	**n/a**	(0.1)	(6.9)	–	(7.0)
Total		103.9	47.0	–	150.9

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, $29m (2019: $23m) 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 gain taken to other comprehensive income in the year was £1.5m (2019: £3.1m). The total cumulative amount recorded within the translation reserve at 31 December 2020 in respect of ongoing net investment hedges is £(55.0)m (2019: (£56.5m)). 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
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**
2019						
Cash and cash equivalents net of bank overdrafts	0.70%	82.2	82.2	–	–	–
Loan notes	3.73%	102.5	–	–	–	102.5
Unsecured bank loans	1.74%	83.8	–	–	83.8	–
Government loans	4.43%	9.5	–	2.2	3.9	3.4

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.

Market risk sensitivity analysis
Interest rate risk

During 2020, 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 2020. There is no significant difference between the amount recharged to the income statement and equity in the year.

22 Financial instruments and financial risk management continued

	Profit before tax £m
2020	1% change
Interest rate sensitivity	**(0.7)**
2019	
Interest rate sensitivity	(1.4)

Currency risks

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.

	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
2020								
Transaction	**11.8**	**11.8**	**(11.8)**	**(11.8)**	**35.3**	**35.3**	**(35.3)**	**(35.3)**
P&L translation	**9.2**	**7.6**	**(9.2)**	**(7.6)**	**23.0**	**22.8**	**(23.0)**	**(22.8)**
Foreign exchange derivatives	**(3.3)**	**(3.3)**	**16.6**	**16.6**	**(25.1)**	**(25.1)**	**27.4**	**27.4**
Total foreign exchange	**17.7**	**16.1**	**(4.4)**	**(2.8)**	**33.2**	**33.0**	**(30.9)**	**(30.7)**
2019								
Transaction	7.6	7.6	(7.6)	(7.6)	22.9	22.9	(22.9)	(22.9)
P&L translation	7.8	7.3	(7.8)	(7.3)	19.5	21.9	(19.5)	(21.9)
Foreign exchange derivatives	(6.3)	(6.3)	12.8	12.8	(27.2)	(27.2)	23.2	23.2
Total foreign exchange	9.1	8.6	(2.6)	(2.1)	15.2	17.6	(19.2)	(21.6)

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 and reimbursed over the period 2021 to 2033. 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.

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 between zero and x1.5 of the amounts received up to a maximum of C$47.7m. For UEMS, the amount repayable depends on future revenue growth of the UEMS business from 2021 to 2033 and will be between x1.0 and x1.5 of the amounts received up until the end of the funding period. As at 31 December 2020, C$4.0m (2019: C$3.5m) had been received by UEMS. UEMS is requesting a four-year extension to the programme, which has been agreed in principle and is pending execution of the extension.

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 2032/2033, and (ii) the specific years in which revenue will grow. There are significant inherent uncertainties in management's ability to forecast revenue over the following 13 years, particularly in later years. For TCS, if the compound annual revenue growth rate over the period from 2020 to 2032 was 3.0% higher than assumed in the valuation model, then the net present value of the liability as at 31 December 2020 would increase by C$3.7m (£2.1m). 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 2020 would increase by C$1.4m (£0.8m).

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 is repayable under a royalty arrangement over the period of 2014 to 2021, based on sales of specified products. As there is no minimum repayment, funding received in respect of the IQ programme has been included in the income statement. Royalties repaid have also been included as costs in the income statement in the period where they have been incurred.

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23 Government grants and loans continued

Amounts recognised in the financial statements in respect of these programmes were as follows:

	2020 £m	2019 £m
Fair value of loan brought forward	**9.5**	10.4
Contributions	**–**	(2.8)
Amounts charged to finance costs	**2.9**	1.8
Foreign exchange differences	**(0.2)**	0.1
Fair value of loan carried forward	**12.2**	9.5

Government grants credited to profit in the year

	2020 £m	2019 £m
Canadian Government	**0.2**	0.3

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 2019	(4.5)	–	1.0	12.6	(11.6)	10.7	8.2
Credit/(charge) to income	(1.9)	0.6	(1.7)	(1.7)	(1.4)	(1.0)	(7.1)
Credit/(charge) to other comprehensive income	–	–	–	1.6	–	–	1.6
Credit direct to equity	(0.6)	0.7	–	–	–	1.2	1.3
Exchange differences	0.2	–	–	–	0.1	(0.6)	(0.3)
Reclassification	–	–	–	–	–	(0.2)	(0.2)
At 1 January 2020	**(6.8)**	**1.3**	**(0.7)**	**12.5**	**(12.9)**	**10.1**	**3.5**
Credit/(charge) 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/(charge) 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 31 December 2020	**(7.0)**	**1.7**	**(1.4)**	**14.0**	**(16.1)**	**7.4**	**(1.4)**

	2020 £m	2019 £m
Non-current assets	**13.6**	23.0
Non-current liabilities	**(15.0)**	(19.5)
	(1.4)	3.5

* Relates to property, plant and equipment and intangible assets.

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so.

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 (2019: £2.1m) have not been recognised as their recovery is uncertain. The unrecognised US deferred tax asset at 31 December 2019 (£3.7m) has been fully utilised as a result of the US Coronavirus Aid, Relief, and Economic Security (CARES) Act.

24 Deferred tax continued

Current tax assets in the consolidated balance sheet consist of:

	2020 £m	2019 (restated) £m
Current tax	**8.8**	6.5
Deferred tax	**–**	–
	8.8	6.5

Current tax liabilities in the consolidated balance sheet consist of:

	2020 £m	2019 (restated) £m
Current tax	**(5.9)**	(1.5)
Deferred tax	**–**	–
	(5.9)	(1.5)

In 2019, we set out to improve clarity for readers over our deferred tax balances and classified elements of deferred tax asset and deferred tax liabilities to current from non-current. However, we erroneously did not take into consideration a requirement of IAS 1.56, which requires deferred tax assets and liabilities to not be presented as current. For presentational purposes, in accordance with IAS 8: 'Accounting Policies, Change in Accounting Policies and Errors', we have therefore restated the prior year Group balance sheet to reflect a reclassification of £13.0m deferred tax asset from current assets to non-current assets and a reclassification of £(3.2)m deferred tax liability from current liabilities to non-current liabilities. See note 35.

25 Provisions

	Warranties £m	Contract-related provisions £m	Other £m	Total £m
At 1 January 2020	4.8	13.9	6.1	24.8
Created	4.4	4.4	3.9	12.7
Reversed	(0.8)	(2.4)	(0.3)	(3.5)
Utilised	(1.0)	(5.7)	(2.5)	(9.2)
Exchange differences	–	(0.3)	(0.1)	(0.4)
Reclassified from held for sale (see note 30)	0.1	–	0.1	0.2
At 31 December 2020	**7.5**	**9.9**	**7.2**	**24.6**
Included in current liabilities	6.0	9.1	4.5	19.6
Included in non-current liabilities	1.5	0.8	2.7	5.0
	7.5	**9.9**	**7.2**	**24.6**

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 provisions 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, contingent consideration and dilapidation costs. Reorganisation costs will be incurred over the period of the reorganisation, which is typically up to two years. Contingent 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

	2020		2019	
	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	**71,122,599**	**3.6**	70,964,527	3.5

During 2020, the Company did not purchase and cancel any shares.

During 2019, the Company purchased and cancelled 634,996 shares. The shares were acquired at an average price of £13.41 per share, with prices ranging from £12.80 to £14.02. The total cost of £8.6m, including fees and stamp duty of £0.1m, was transferred to retained earnings. The total reduction in paid-up capital was £32,000.

158,072 ordinary shares having a nominal value of £7,904 were allotted during the year under the terms of the Group's various share option schemes. The aggregate consideration received was £2.3m.

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 2020, the number of own shares held was 108,494 (2019: 131,542).

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 £2,596,000 (2019: £1,980,000) in relation to equity-settled share-based payment transactions. Expected volatility was determined by calculating the historical volatility of the Group's share price.

During the year to 31 December 2020, 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 and Canadian employees and provides for a purchase price equal to the average of the daily average market price before the grant less 10%. 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 (£) 2020	Number of options 2020	Weighted average exercise price (£) 2019	Number of options 2019
Beginning of year	**16.53**	**970,757**	16.81	1,046,659
Granted during the year	**–**	**–**	16.08	324,784
Exercised during the year	**16.94**	**(161,655)**	16.92	(258,038)
Expired during the year	**16.32**	**(91,322)**	16.87	(142,648)
Outstanding at the end of the year	**16.44**	**717,780**	16.53	970,757
Exercisable at the end of the year	**19.04**	**190,626**	17.34	198,208

	2020	2019
Range of exercise price of outstanding options (£)	**14.45 – 21.91**	14.45 – 21.91
Weighted average remaining contracted life (years)	**3.73**	4.28
Weighted average fair value of options granted (£)	**–**	3.22

26 Share capital and share options continued

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 88–101. In April 2020, 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 2022 upon achievement of those performance targets and are conditional upon continued employment.

The number of the LTIPs are as follows:

	Number of options 2020	Number of options 2019
Beginning of year	**903,632**	683,006
Granted during the year	**426,153**	403,612
Exercised during the year	**(32,946)**	(3,692)
Expired during the year	**(190,417)**	(179,294)
Outstanding at the end of the year	**1,106,422**	903,632

	2020	2019
Weighted average remaining contracted life (years)	**1.39**	1.60
Weighted average fair value of options granted (£)	**15.09**	12.60

The weighted average contracted life in 2020 is less than three years due to the 2018 issuances upon appointment of the new Chief Executive and expiration of LTIPs granted in 2017 following changes to the executive management team.

27 Notes to the cash flow statement

	2020 £m	2019 £m
Operating profit	**106.3**	94.2
Adjustments for:		
Depreciation of property, plant and equipment	**10.4**	9.7
Amortisation of intangible assets	**18.6**	28.6
Amortisation of leased assets	**8.5**	9.3
Cost of equity-settled employee share schemes	**2.5**	0.8
Defined benefit pension scheme funding	**(11.0)**	(10.8)
Loss on disposal of property, plant and equipment	**0.1**	0.1
(Decrease)/increase in provisions	**0.2**	5.5
Operating cash flow before movements in working capital	**135.6**	137.4
Increase in inventories	**(13.8)**	(5.7)
Decrease/(increase) in receivables	**19.3**	(2.9)
Increase/(decrease) in payables	**1.5**	(13.9)
Cash generated by operations	**142.6**	114.9
Income taxes paid	**(5.4)**	(9.5)
Interest paid	**(5.5)**	(9.3)
Lease liability interest paid	**(1.7)**	(1.5)
Net cash from operating activities	**130.0**	94.6

The total cash outflow in 2020 relating to leases was £10.7m (2019: £9.2m), of which £0.2m (2019: £0.2m) related to low-value or short-term leases not recognised on the balance sheet.

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27 Notes to the cash flow statement continued

Reconciliation of net movement in cash and cash equivalents to movements in net debt:

	2020 £m	2019 £m
Net increase/(decrease) in cash and cash equivalents	3.1	(10.5)
Cash inflow from movement in debt and finance leasing	65.1	55.3
Change in net debt arising from cash flows	68.2	44.8
Loan syndication costs	–	0.3
Lease liability movement	3.5	(41.2)
Other non-cash movements	(2.7)	–
Amortisation of finance costs of debt	(0.6)	(0.7)
Translation differences	0.6	(0.5)
Movement in net debt in the year	69.0	2.7
Net debt at start of year	(154.8)	(157.5)
Net debt at end of year	(85.8)	(154.8)

Net cash and cash equivalents and overdrafts comprised the following:

	2020 £m	2019 (restated) £m
Cash and cash equivalents*	114.4	110.5
Overdrafts*	(30.3)	(28.3)
Net cash and cash equivalents and bank overdrafts	84.1	82.2

Cash and cash equivalents comprise cash at bank and short-term deposits with an original maturity date of three months or less.

Net debt comprised the following:

	2020 £m	2019 (restated) £m
Cash and cash equivalents*	114.4	110.5
Borrowings*	(200.2)	(265.3)
	(85.8)	(154.8)

Reconciliation of changes in financing liabilities:

	2020 £m	2019 (restated) £m
Borrowings at start of year*	(265.3)	(292.6)
Repayments of borrowings	76.2	315.3
Proceeds from borrowings	(11.1)	(259.9)
(Increase)/decrease in overdraft	(2.0)	10.5
Loan syndication costs	–	0.3
Other non-cash movements	(2.7)	–
Amortisation of finance costs of debt	(0.6)	(0.7)
Principal payment on leases	9.0	7.8
Lease liability non-cash movements	(5.5)	(49.0)
Translation differences	1.8	3.0
Borrowings at end of year*	(200.2)	(265.3)

* 2019 balances for cash and cash equivalents and borrowings have been restated to meet the presentational requirements of IAS 32 with respect to the Group's cash-pooling arrangements. See note 35.

28 Other financial commitments

Capital commitments

At the end of the year capital commitments were:

	2020 £m	2019 £m
Contracted but not provided	**2.8**	1.3

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 and the Swiss business of the Forensic Technology group has a defined benefit scheme.

Defined contribution schemes

The total cost charged to income in respect of the defined contribution schemes was £10.8m (2019: £9.9m).

Defined benefit schemes

All the defined benefit schemes were actuarially assessed at 31 December 2020 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.

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 Trustee 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 Trustee's and Company's attitude to risk.

The Trustee's 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 Trustee, its 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 Trustee, and the Trustee 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 Trustee has appointed with the help of its 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 2019 or 2020.

29 Retirement benefit schemes continued

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 2020 by a qualified, independent actuary. The figures in the following disclosure were measured using the projected unit method.

Key financial assumptions used in the valuation of these schemes were as follows:

	UK 2020	Canada 2020	Switzerland 2020	UK 2019	Canada 2019	Switzerland 2019
Discount rate	**1.45%**	**2.25%**	**0.20%**	1.95%	3.00%	0.00%
Inflation rate – RPI	**2.95%**	**3.00%**	**0.60%**	3.00%	3.00%	0.90%
Inflation rate – CPI	**2.35%**	**2.20%**	**0.60%**	2.20%	2.20%	0.90%
Expected rate of salary increases	**n/a**	**3.45%**	**1.00%**	n/a	3.45%	1.00%
Future pension increases (pre 6/4/08)	**2.85%**	**n/a**	**0.00%**	2.85%	n/a	0.00%
Future pension increases (post 6/4/08)	**1.95%**	**n/a**	**0.00%**	1.85%	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 3.45% and a 1.0% decrease in the discount rate to 0.45% would increase the scheme's liabilities by 6.2% and 19.2% respectively. If the life expectancy of members was to increase by one year, the scheme liabilities would increase by 4.7%. The average duration of the scheme liabilities is 18 years (2019: 17 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 of 18 years.

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 2019 projections and a 1.25% floor from 2013 (UK only)
Current pensioners – females	101% of SAPS S3PFA with CMI 2019 projections and a 1.25% floor from 2013 (UK only)
Future pensioners – males	95% of SAPS S3PMA with CMI 2019 projections and a 1.25% floor from 2013 (UK only)
Future pensioners – females	101% of SAPS S3PFA with CMI 2019 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:

	2020	2019
Current pensioners (at 65) – males	**22 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**	25 years

Amounts recognised in the income statement in respect of the Group's defined benefit schemes were as follows:

	UK 2020 £m	Canada 2020 £m	Switzerland 2020 £m	Total 2020 £m	UK 2019 £m	Canada 2019 £m	Switzerland 2019 £m	Total 2019 £m
Current service cost	**–**	**0.1**	**0.4**	**0.5**	–	0.1	0.3	0.4
Administration expenses	**–**	**0.1**	**–**	**0.1**	–	0.1	–	0.1
Interest on pension scheme liabilities	**7.4**	**0.2**	**–**	**7.6**	9.7	0.4	0.1	10.2
Past service cost	**0.1**	**–**	**–**	**0.1**	–	–	(0.2)	(0.2)
Expected return on pension scheme assets	**(6.1)**	**(0.2)**	**–**	**(6.3)**	(7.8)	(0.4)	(0.1)	(8.3)
Charge	**1.4**	**0.2**	**0.4**	**2.0**	1.9	0.2	0.1	2.2

29 Retirement benefit schemes continued

Of the current service cost for the year, £0.1m (2019: £0.1m) has been included in cost of sales, and £0.4m (2019: £0.3m) 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 2020 £m	Canada 2020 £m	Switzerland 2020 £m	Total 2020 £m	UK 2019 £m	Canada 2019 £m	Switzerland 2019 £m	Total 2019 £m
Fair value of scheme assets	353.3	8.1	8.1	369.5	315.2	8.0	6.5	329.7
Present value of scheme liabilities	(423.2)	(9.0)	(10.4)	(442.6)	(386.4)	(8.4)	(8.2)	(403.0)
Scheme deficit	(69.9)	(0.9)	(2.3)	(73.1)	(71.2)	(0.4)	(1.7)	(73.3)
Related deferred tax asset	13.3	0.3	0.4	14.0	12.1	0.1	0.3	12.5
Net pension liability	(56.6)	(0.6)	(1.9)	(59.1)	(59.1)	(0.3)	(1.4)	(60.8)

Movements in the present value of defined benefit obligations during the year were as follows:

	UK 2020 £m	Canada 2020 £m	Switzerland 2020 £m	Total 2020 £m	UK 2019 £m	Canada 2019 £m	Switzerland 2019 £m	Total 2019 £m
Present value of obligation at 1 January	(386.4)	(8.4)	(8.2)	(403.0)	(353.1)	(10.1)	(7.5)	(370.7)
Current service cost	–	(0.1)	(0.4)	(0.5)	–	(0.1)	(0.3)	(0.4)
Interest cost	(7.4)	(0.2)	–	(7.6)	(9.7)	(0.4)	(0.1)	(10.2)
Actuarial gains and losses	(43.3)	(0.8)	(0.1)	(44.2)	(38.7)	(0.6)	(1.2)	(40.5)
Exchange difference	–	0.1	(0.6)	(0.5)	–	–	0.2	0.2
Past service cost	(0.1)	–	–	(0.1)	–	–	0.2	0.2
Liabilities extinguished on settlements	–	–	–	–	–	2.3	–	2.3
Benefits paid	14.0	0.4	(1.1)	13.3	15.1	0.5	0.5	16.1
Present value of obligation at 31 December	(423.2)	(9.0)	(10.4)	(442.6)	(386.4)	(8.4)	(8.2)	(403.0)

Movements in the fair value of scheme assets during the year were as follows:

	UK 2020 £m	Canada 2020 £m	Switzerland 2020 £m	Total 2020 £m	UK 2019 £m	Canada 2019 £m	Switzerland 2019 £m	Total 2019 £m
Fair value at 1 January	315.2	8.0	6.5	329.7	281.7	9.6	6.4	297.7
Expected return on scheme assets	6.1	0.2	–	6.3	7.8	0.4	0.1	8.3
Actuarial gains and losses	35.1	0.1	(0.3)	34.9	30.4	0.5	0.3	31.2
Exchange differences	(0.1)	(0.1)	0.4	0.2	–	–	(0.1)	(0.1)
Employer contributions	11.0	0.4	0.4	11.8	10.4	0.4	0.3	11.1
Assets distributed on settlements	–	–	–	–	–	(2.3)	–	(2.3)
Administration expenses	–	(0.1)	–	(0.1)	–	(0.1)	–	(0.1)
Benefits paid	(14.0)	(0.4)	1.1	(13.3)	(15.1)	(0.5)	(0.5)	(16.1)
Fair value at 31 December	353.3	8.1	8.1	369.5	315.2	8.0	6.5	329.7

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29 Retirement benefit schemes continued

Scheme assets were as follows:

	UK 2020 £m	Canada 2020 £m	Switzerland 2020 £m	Total 2020 £m	UK 2019 £m	Canada 2019 £m	Switzerland 2019 £m	Total 2019 £m
Fair value:								
Equities	**82.5**	**2.4**	**2.7**	**87.6**	73.0	2.6	2.2	77.8
Bonds	**–**	**5.5**	**2.0**	**7.5**	–	5.0	1.7	6.7
Property	**38.1**	**–**	**1.6**	**39.7**	26.0	–	0.9	26.9
Other assets	**9.4**	**0.2**	**1.4**	**11.0**	15.3	0.4	1.4	17.1
Other investment funds:								
Absolute return	**89.2**	**–**	**0.4**	**89.6**	86.8	–	0.3	87.1
LDI	**101.9**	**–**	**–**	**101.9**	96.1	–	–	96.1
Multi-asset credit	**31.9**	**–**	**–**	**31.9**	18.0	–	–	18.0
	353.0	**8.1**	**8.1**	**369.2**	315.2	8.0	6.5	329.7

The scheme's investments are in pooled funds which are unquoted.

The analysis of the actuarial loss in the consolidated statement of comprehensive income was as follows:

	UK 2020 £m	Canada 2020 £m	Switzerland 2020 £m	Total 2020 £m	UK 2019 £m	Canada 2019 £m	Switzerland 2019 £m	Total 2019 £m
Actual return less expected return on pension scheme assets	**41.4**	**0.8**	**(0.3)**	**41.9**	30.4	0.5	0.3	31.2
Experience gains arising on scheme liabilities	**1.9**	**–**	**0.5**	**2.4**	(7.3)	0.1	(0.1)	(7.3)
Changes in assumptions underlying the present value of the scheme liabilities	**(35.1)**	**(0.1)**	**0.2**	**(35.0)**	(31.4)	(0.7)	(1.1)	(33.2)
	8.2	**0.7**	**0.4**	**9.3**	(8.3)	(0.1)	(0.9)	(9.3)

Cumulative actuarial losses, net of deferred tax, recognised in the consolidated statement of comprehensive income at 31 December 2020 were £87.5m (2019: £78.2m). The five-year history of experience adjustments is as follows:

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Present value of defined benefit obligations	**(442.6)**	(403.0)	(370.7)	(389.0)	(400.5)
Fair value of scheme assets	**369.5**	329.7	297.7	306.3	287.3
Scheme deficit	**(73.1)**	(73.3)	(73.0)	(82.7)	(113.2)
Experience adjustments on scheme liabilities	**2.4**	(7.3)	(3.8)	(0.8)	4.0
Percentage of scheme liabilities	**0.5%**	(1.8%)	(1.0%)	(0.2%)	1.0%
Experience adjustment on scheme assets	**41.9**	31.2	(12.1)	15.3	40.7
Percentage of scheme assets	**11.3%**	9.5%	(4.1%)	5.0%	14.2%

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

Former Flightline business

Agreement was reached in April 2020 to dispose of certain non-core aircraft product lines from the former Flightline business, within the Maritime SBU, to Ontic Engineering and Manufacturing Inc. The disposal completed in November 2020. Consideration received in the year totalled US$9.5m (£7.5m), the net assets disposed of were £1.7m and the directly attributable costs of disposal were £0.2m; consequently the gain on disposal was £5.6m.

Non-underlying restructuring costs of £2.8m were incurred closing, relocating and re-certifying the remainder of the former Flightline business and product lines that had not been divested. However, these costs are not 'directly' attributable to the divestment as required by IFRS 5 and consequently cannot form part of the IFRS 5 gain on disposal calculation. However, to fully understand the net income statement impact of the divestment, restructuring, closure, relocation and re-certfication activity the table below sets out the net impact:

	2020 £m
Inventories	1.5
Trade and other receivables	0.2
Total	1.7
Proceeds received	7.5
Directly attributable costs of disposal	(0.2)
Gain on disposal	5.6
Restructuring costs	(2.8)
Gain on disposal net of related restructuring costs	2.8

Further consideration of US$0.5m (£0.4m) could be received dependent on the number of certain aircraft sold by a third party; no receivable or profit has been recognised in the year for this deferred consideration due to the uncertainty over this being achieved.

Other

In October 2019, agreement was reached to dispose of the Intelligence & Communications SBU's small Ottawa-based electronic intelligence business to private investors. A loss of £1.5m was recognised in the 2019 income statement when the assets were written down to their recoverable amount. The disposal completed in January 2020; there was no residual gain or loss to recognise in 2020. The cash outflow in 2020 was £1.9m.

	2020 £m
Property, plant and equipment	–
Trade and other receivables	0.7
Trade and other payables	(1.1)
Cash	1.9
Total	1.5
Proceeds received	–
Loss on disposal in 2019	1.5

As disclosed in the prior year, certain assets from the Intelligence & Communications SBU were classified as held for sale at 31 December 2019. During 2020, the decision was taken to cease classifying these assets as held for sale due to uncertainty over the likelihood of disposal; there was no impact to the current period or prior year financial results. In 2019 there was also a £0.6m gain arising from the disposals of Airport Systems and Corvid Paygate Limited.

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 92.

	2020 £m	2019 £m
Short-term employee benefits	5.5	5.1
Post-employment benefits	0.3	0.4
Termination benefits	0.4	0.2
Share-based payments	3.1	4.3
	9.3	10.0

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For the year ended 31 December 2020
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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 £2.7m (2019: £3.7m), the gain was £5,000 (2019: £1.4m gain) and the net assets were £4.1m (2019: £3.8m). Sales to Group companies were £2.1m (2019: £2.4m).

During 2020, dividends totalling £820,000 were issued. £41,000 in dividends was paid to the non-controlling interest holder.

During 2019, Corvid Paygate Limited was disposed of, which formed part of the Corvid Holdings Limited group.

33 Contingent liabilities

Contingent liabilities are potential future cash outflows which are either not probable or cannot be measured reliably.

The Group has entered into a number of guarantee and performance bond arrangements in the normal course of business, totalling £37.3m (2019: £55.1m).

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. It is not yet possible to estimate the time scale in which these investigations might be resolved, or to reliably predict their outcomes. As at 31 December 2020, taking account of all available evidence, Ultra concluded that, for the above matters, it is not deemed probable that a present obligation existed which would result in a probable outflow of economic resources. Consequently, the timing and amount, if any, of financial effects (such as fines, penalties or damages, which could be material) or other consequences, including external costs, from any of the investigations is not possible to predict or estimate.

The Oman Airport IT contract between the Sultanate of Oman, Ministry of Transport & Communications and Ithra (Ultra Electronics in collaboration with Oman Investment Corporation LLC, the legal entity established with the sole purpose of delivering that contract and which was placed into voluntary liquidation in March 2015) was terminated in February 2015 and there were various proceedings in relation to that contract and its termination, which have now all been concluded with no liability arising out of these proceedings for Ultra.

We have previously reported that Ultra was potentially affected by the European Commission decision that the group financing partial exemption (FCPE), in the UK controlled foreign company (CFC) rules as they applied up to 31 December 2018, could constitute illegal State Aid. On 26 February 2021, HMRC notified Ultra of their view that Ultra is not a beneficiary of State Aid, as defined in the EC decision and we believe this concludes the matter.

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 102
+ Contractual arrangements – see Directors' Report on page 102
+ Details of independent Directors – see Chairman's governance report on pages 68–69
+ Substantial shareholders – see Directors' Report on page 102

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 Prior year restatement

Cash pooling

During the year it was determined that the Group's cash and overdrafts within its cash-pooling arrangements did not meet the requirements for offsetting in accordance with IAS 32: 'Financial Instruments: Presentation'. For presentational purposes, cash and cash equivalents and borrowings in the prior year have been restated in accordance with IAS 8: 'Accounting Policies, Change in Accounting Policies and Errors' resulting in an additional £28.3m within borrowings, and cash balances increased by an equal and opposite amount. There is no impact on net assets or net debt.

Deferred tax balances

In 2019, we set out to improve clarity for readers over our deferred tax balances and classified elements of deferred tax asset and deferred tax liabilities to current from non-current. However, we erroneously did not take into consideration a requirement of IAS 1.56, which requires deferred tax assets and liabilities to not be presented as current. For presentational purposes, in accordance with IAS 8: 'Accounting Policies, Change in Accounting Policies and Errors', we have therefore restated the prior year Group balance sheet to reflect a reclassification of £13.0m deferred tax asset from current assets to non-current assets and a reclassification of £(3.2)m deferred tax liability from current liabilities to non-current liabilities. See note 24.

Reserves

The previously disclosed separate hedging reserve and translation reserve have been combined. The amounts in the hedging reserve incorrectly related to net investment hedges of foreign operations. Prior periods have been restated on a consistent basis.

35. Prior year restatement continued

	2019 As previously reported £m	Reserves combination £m	Deferred tax re- classification adjustment £m	Cash offsetting adjustment £m	2019 As restated £m
Non-current assets					
Goodwill	365.9				365.9
Other intangible assets	92.7				92.7
Property, plant and equipment	64.2				64.2
Leased assets	36.1				36.1
Deferred tax assets	10.0		13.0		23.0
Derivative financial instruments	1.7				1.7
Trade and other receivables	13.7				13.7
	584.3		13.0	–	597.3
Current assets					
Inventories	90.7				90.7
Trade and other receivables	205.4				205.4
Current tax assets	19.5		(13.0)		6.5
Cash and cash equivalents	82.2			28.3	110.5
Derivative financial instruments	3.2				3.2
Assets classified as held for sale	11.5				11.5
	412.5		(13.0)	28.3	427.8
Total assets	996.8		–	28.3	1,025.1
Current liabilities					
Trade and other payables	(192.3)				(192.3)
Current tax liabilities	(4.7)		3.2		(1.5)
Derivative financial instruments	(0.5)				(0.5)
Borrowings	(8.2)			(28.3)	(36.5)
Liabilities classified as held for sale	(5.3)				(5.3)
Short-term provisions	(16.6)				(16.6)
	(227.6)		3.2	(28.3)	(252.7)
Non-current liabilities					
Retirement benefit obligations	(73.3)				(73.3)
Other payables	(11.8)				(11.8)
Deferred tax liabilities	(16.3)		(3.2)		(19.5)
Derivative financial instruments	(0.2)				(0.2)
Borrowings	(228.8)				(228.8)
Long-term provisions	(8.2)				(8.2)
	(338.6)		(3.2)	–	(341.8)
Total liabilities	(566.2)		–	(28.3)	(594.5)
Net assets	430.6		–	–	430.6
Equity					
Share capital	3.5				3.5
Share premium account	203.2				203.2
Capital redemption reserve	0.4				0.4
Reserve for own shares	(1.4)				(1.4)
Hedging reserve	(56.8)	56.8			–
Translation reserve	99.0	(56.8)			42.2
Retained earnings	182.6				182.6
Equity attributable to owners of the Company	430.5	–	–	–	430.5
Non-controlling interests	0.1				0.1
Total equity	430.6	–	–	–	430.6

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For the year ended 31 December 2020
continued

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 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)
Projectina AG	Switzerland	100%	Direct
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 Financial Reporting Standards ("IFRSs"). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore comply with Article 4 of the EU IAS regulations.

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

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:

+ Amendments to References to the Conceptual Framework in IFRS Standards
+ Amendments to IFRS 3 Definition of a business
+ Amendments to IAS 1 and IAS 8 Definition of material

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 Insurance Contracts
+ IFRS 10 and IAS 28 (amendments) 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

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 page 58.

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.

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 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 accounting judgements and key sources of estimation uncertainty continued

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

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 main assumptions used in determining the defined benefit post-retirement obligation include the discount rate used in discounting scheme liabilities, the inflation rate, the expected rate of future pension increases, expected returns on scheme assets 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 2020 are provided in note 29.

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.

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.

Statement of accounting policies in respect of the Group's consolidated financial statements
continued

Business combinations continued

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 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 obligation 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.

Revenue recognition continued

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 have 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.

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, North America 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.

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. In order to align with the requirements of IAS 32, the Group has reviewed the cash pooling arrangement and has revised the presentation of this for both the prior year and the current year. This results in a Group cash position for the current year of £114.4m and an overdraft of £30.3m, please see note 35 for further detail. Cash and overdrafts are only presented net when there is a right and intention to settle on a net basis, otherwise otherdrafts 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 IFRSs 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.

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 USD 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.

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.

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 and non-statutory performance measures continued

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 covenant requirements defined in the Group's committed financing facilities. Underlying profit excludes:

+ costs associated with mergers & acquisitions (M&A), 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.
+ 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.

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

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/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 EBITDA and net debt, and EBITDA is adjusted 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 still 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.

Free cash flow is 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.

Interest cover is the ratio of underlying operating profit to finance charges associated with borrowings (excluding lease finance charges).

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.

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 2020 closing order book due for execution in 2021, to consensus revenue for 2021.

Company balance sheet
For the year ended 31 December 2020

	Note	**2020 £m**	2019 £m
Fixed assets			
Property, plant and equipment	37	**2.5**	1.8
Investments	38	**751.0**	749.5
Leased assets	39	**2.1**	2.5
		755.6	753.8
Current assets			
Debtors: amounts falling due after more than one year	40	**1.5**	–
Debtors: amounts falling due within one year	41	**1.5**	7.9
Cash and cash equivalents		**5.2**	3.8
		8.2	11.7
Creditors: amounts falling due within one year	43	**(113.5)**	(140.0)
Net current liabilities		**(105.3)**	(128.3)
Total assets less current liabilities		**650.3**	625.5
Creditors: amounts falling due after more than one year	44	**(122.7)**	(188.8)
Net assets		**527.6**	436.7
Capital and reserves			
Share capital	46	**3.6**	3.5
Share premium account	47	**205.5**	203.2
Capital redemption reserve	47	**0.4**	0.4
Retained earnings brought forward	47	**231.0**	223.2
Profit and loss account movement for year	47	**88.5**	7.8
Own shares	47	**(1.4)**	(1.4)
Shareholders' funds		**527.6**	436.7

The Company only profit for the year was £123.7m (2019: £52.3m). The financial statements of Ultra Electronics Holdings plc, registered number 02830397, were approved by the Board of Directors and authorised for issue on 9 March 2021.

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.

Company statement of changes in equity
For the year ended 31 December 2020

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Own shares £m	Total £m
Balance at 1 January 2019	3.6	201.0	0.3	223.3	(2.6)	425.6
Retained profit for the year	–	–	–	52.3	–	52.3
Total comprehensive income for the year	–	–	–	52.3	–	52.3
Issue of share capital	–	–	–	–	–	–
Equity-settled employee share schemes	–	2.2	–	1.9	–	4.1
Transfer from own shares	–	–	–	(1.2)	1.2	–
Shares purchased in buyback	(0.1)	–	0.1	(8.6)	–	(8.6)
Dividends paid	–	–	–	(36.7)	–	(36.7)
Balance at 31 December 2019	**3.5**	**203.2**	**0.4**	**231.0**	**(1.4)**	**436.7**
Balance at 1 January 2020	**3.5**	**203.2**	**0.4**	**231.0**	**(1.4)**	**436.7**
Retained profit for the year	–	–	–	123.7	–	123.7
Total comprehensive income for the year	**–**	**–**	**–**	**123.7**	**–**	**123.7**
Issue of share capital	–	–	–	–	–	–
Equity-settled employee share schemes	0.1	2.3	–	2.6	–	5.0
Transfer from own shares	–	–	–	–	–	–
De-recognition of deferred tax on share based payments	–	–	–	0.9	–	0.9
Dividends paid	–	–	–	(38.7)	–	(38.7)
Balance at 31 December 2020	**3.6**	**205.5**	**0.4**	**319.5**	**(1.4)**	**527.6**

Notes to accounts – Company
For the year ended 31 December 2020

37 Property, plant and equipment

	Total £m
Cost	
At 1 January 2019	2.2
Additions	1.3
Disposals	(0.9)
At 1 January 2020	**2.6**
Additions	1.0
Disposals	–
At 31 December 2020	**3.6**
Accumulated depreciation	
At 1 January 2019	(1.6)
Charge	(0.1)
Disposals	0.9
At 1 January 2020	**(0.8)**
Charge	(0.3)
Disposals	–
At 31 December 2020	**(1.1)**
Net book value	
At 31 December 2020	**2.5**
At 31 December 2019	1.8

38 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 2020	749.5
Additions	1.5
At 31 December 2020	**751.0**

Notes to accounts – Company
For the year ended 31 December 2020
continued

39 Leased assets

	Total £m
Cost	
At 1 January 2019	–
Additions	2.8
At 1 January 2020	**2.8**
Additions	–
At 31 December 2020	**2.8**
Accumulated depreciation	
At 1 January 2019	–
Charge	(0.3)
At 1 January 2020	**(0.3)**
Charge	(0.4)
At 31 December 2020	**(0.7)**
Carrying amount	
At 31 December 2020	**2.1**
At 31 December 2019	2.5

40 Debtors: amounts falling due after more than one year

	2020 £m	2019 £m
Deferred tax assets (see note 42)	**1.5**	–
	1.5	–

41 Debtors: amounts falling due within one year

	2020 £m	2019 £m
Amounts due from subsidiary undertakings	**0.4**	5.3
Deferred tax assets (see note 42)	**–**	0.9
Other receivables	**0.4**	1.3
Prepayments	**0.7**	0.4
	1.5	7.9

42 Deferred tax

Movements in the deferred tax asset were as follows:

	2020 £m	2019 £m
Beginning of year	**0.1**	0.8
Credit/(charge) to the profit and loss account	**0.6**	(0.7)
End of year	**0.7**	0.1

The deferred tax balances are analysed as follows:

	2020 £m	2019 £m
Other temporary differences relating to current assets and liabilities	**0.7**	0.1
Deferred tax	**0.7**	0.1

These balances are shown as follows:

	2020 £m	2019 £m
Debtors: amounts falling due after more than one year	**1.5**	–
Debtors: amounts falling due within one year	**–**	0.9
Creditors: amounts falling due within one year	**–**	(0.8)
Creditors: amounts falling due after more than one year	**(0.8)**	–
Deferred tax	**0.7**	0.1

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 (2019: £2.1m) that have not been recognised as their recovery is uncertain.

43 Creditors: amounts falling due within one year

	2020 £m	2019 £m
Borrowings (see note 45)	**10.7**	4.1
Amounts owed to subsidiary undertakings	**82.5**	122.3
Deferred tax liability	**–**	0.8
Other payables	**1.4**	1.4
Accruals	**18.9**	11.4
	113.5	140.0

The bank loans held in borrowings above are unsecured. Interest was predominantly charged at 0.65% (2019: 0.90%) over base or contracted rate.

Notes to accounts – Company
For the year ended 31 December 2020
continued

44 Creditors: amounts falling due after more than one year

	2020 £m	2019 £m
Borrowings (see note 45)	**121.9**	188.8
Deferred tax liability	**0.8**	–
	122.7	188.8

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 Borrowings

Borrowings fall due as analysed below:

	2020 £m	2019 £m
Amounts due within one year		
Bank loans and overdrafts	**10.1**	3.7
Lease liability	**0.6**	0.4
	10.7	4.1
Amounts due after more than one year		
Bank loans	**18.8**	83.8
Unsecured loan notes	**101.0**	102.5
Lease liability	**2.1**	2.5
	121.9	188.8

Interest was charged at 3.71% (2019: 3.73%). Included in the above, £51.0m (2019: £102.5m) is repayable after five years. Refer to note 22 for more details.

46 Called-up share capital

The movements are disclosed in note 26.

47 Equity reserve

The profit and loss account includes £65.4m (2019: £65.4m) which is not distributable. A net foreign exchange loss of £2.1m was taken to reserves in the year (2019: £4.4m 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 108,494 own shares (2019: 131,542).

48 Related parties

Transactions with Corvid Holdings Limited are set out in note 32.

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.

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.

Statement of accounting policies
For the Company accounts
continued

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 page 58.

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 92.

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 EBITDA, between profit before tax and underlying profit before tax and 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 163 – 164.

Underlying operating profit is before amortisation of intangibles arising on acquisition, acquisition and disposal related costs and significant legal charges and expenses. IFRS operating profit was £106.3m (2019: £94.2m). See note 2.

Underlying operating margin is the underlying operating profit as a percentage of revenue.

Net finance charges exclude fair value movements on derivatives.

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.

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/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).

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 2020 closing order book due for execution in 2021, to consensus revenue for 2021.

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. Basic EPS was 118.0p (2019: 105.1p). 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 Defense 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
C2I	Command, Control and Intelligence
C3	Command, Communication and Control, including Cyber
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
EBITDA	Underlying operating profit
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
MIMO	Multiple input/multiple output
MIS	Management information systems
MDIS	Multi-domain intelligence systems
ML	Machine learning

Acronym	Definition
MSC/ECP	Main static Converter/electric cruise propulsion
NATO	North Atlantic Treaty Organization
NCSC	National Computer Security Center
NGSSR	Next Generation Surface Search Radar
OBU	Operating Business Unit
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
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 modernization programme, Terrestrial Transmission Line of Sight Radio
UAV	Unmanned aerial vehicle
UGV	Unmanned ground vehicle
UI/UX	User experience/user interface
µIFF	Micro identifier friend or foe
USAF	United States Air Force
USMC	United States Marine Corps
US MSA	United States Missile Defense Agency
USN S&T	United States Navy Science and Technology
VDS	Variable depth sonar
VMV	Vision, Mission, Values

Shareholder information
Five-year review

Financial highlights

	2016*† £m	2017*† £m	2018† £m	2019 £m	**2020 £m**
Revenue					
Maritime	322.1	329.5	317.9	353.0	**391.8**
Intelligence & Communications	221.2	200.5	211.1	224.8	**241.0**
Critical Detection & Control	242.5	245.4	237.7	247.6	**227.0**
Total revenue	785.8	775.4	766.7	825.4	**859.8**
Underlying operating profit[1]					
Maritime	59.0	59.3	52.8	52.5	**58.6**
Intelligence & Communications	30.5	18.8	21.6	30.2	**33.5**
Critical Detection & Control	41.6	42.0	38.3	35.5	**34.0**
Total underlying operating profit[1]	131.1	120.1	112.7	118.2	**126.1**
Underlying operating margin[1]	16.7%	15.5%	14.7%	14.3%	**14.7%**
Profit before tax	67.6	60.6	42.6	91.0	**103.7**
Profit after tax	58.3	48.9	32.4	74.6	**83.8**
Underlying operating cash flow[2]	120.4	116.5	89.3	86.8	**116.1**
Free cash flow[3]	86.0	65.3	67.6	64.7	**99.4**
Net debt at year end[4]	(256.7)	(74.5)	(157.5)	(154.8)	**(85.8)**
Underlying earnings per share (p)[5]	134.6	116.7	109.5	119.5	**130.6**
Dividend per share (p)	47.8	49.6	51.6	54.2^	**56.9**
Average employee numbers	4,466	4,172	4,119	4,089	**4,253**

The operating segment split for 2016 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. The definition has been revised to deduct the principal payments on leases, the 2019 comparative has been restated. See note 2
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.

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 from 1 January 2021

Simon Pryce
Chief Executive Officer

- **Jos Sclater** – Chief Financial Officer
- **Steve Izquierdo** – Chief Human Resources Officer
- **Richard Cashin** – President, Strategy & Corporate Development
- **Louise Ruppel** – General Counsel & Company Secretary
- **Andrew Puryear** – Group Chief Technology Officer

Maritime & Land
Thomas Link – President
- **Sonobuoy Systems** – Eric Webster – President (S)
- **Sonar Systems** – Bernard Mills – President
- **Naval Systems & Sensors** – Martin Lewis – President (S)
- **Signature Management & Power** – Peter Crawford – President (S)

Intelligence & Communications
Mike Baptist – President
- **Communications** – Alan Cohen – President
- **Specialist Radio Frequency** – Dan Pikora – President (S)
- **C2I** – Jill Daiber – President (P)
- **Cyber** – Michael Murray – President (S) (P)

Critical Detection & Control
- **Precision Control Systems** – Mike Clayton – President
- **Forensic Technology** – Alavaro Venegas– President
- **Energy** – Dan Upp – President

Other Group support functions
- **Global Business Services** – Lead: Scott Meyers
- **Corvid – ICT** – Lead: Andrew Nanson
- **CEMS** – Lead: Richard McKay

Strategic Business Unit
Operating Business Unit
S – Businesses operate under a US Special Security Agreement (SSA)
P – Businesses operate under the US Proxy Board

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MHP
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Financial Calendar

2021	Date
2020 Preliminary Results Announcement	9 Mar 2021
Preliminary Record date	9 April 2021
AGM	12 May 2021
2020 Final dividend payment date	14 May 2021
2021 Interim Announcement	3 Aug 2021
Q3 Trading Statement	Nov 2021

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