For Immediate Release 23 March 2022

Ultra Electronics Holdings plc
("Ultra" or "the Group")
Preliminary Results for the year to 31 December 2021

Another year of progress and delivery

Simon Pryce, Chief Executive, commented:

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

Effective execution of our ONE Ultra strategy is creating new opportunities, and we enter 2022 with another record £1.3bn order book(9). We continue to deliver organic growth ahead of our core markets and our Focus; Fix; Grow transformation is driving sustainable operational and financial improvement and delivering better outcomes for all of our stakeholders. Our continuous improvement focus is uncovering additional improvement opportunities.

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

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

Group performance:

£m	**Year to 31 Dec 21**	Year to 31 Dec 20	Change % Reported	Change % Organic(2)
Order book(9)	**1,300.9**	1,064.2	+22.2	+22.0
Revenue	**850.7**	859.8	-1.1	+4.2
Underlying(1)				
Operating profit	**129.6**	126.1	+2.8	+8.0
Profit before tax	**116.6**	114.5	+1.8	
EPS (p)	**135.7**	130.6	+3.9	
Statutory				
Operating profit	**105.9**	106.3	-0.4	
Profit before tax	**82.7**	103.7	-20.3	
EPS (p)	**93.8**	118.0	-20.5	
Total dividend per share (p)(5)	**16.2**	56.9	-71.5	
Net debt to adjusted EBITDA(3)	**0.48x**	1.05x		
ROIC(4)	**21.2%**	20.0%		

Highlights:

Agile player in growing markets
- Market growth driven by reality of near-peer activity and threats
- Fourth year of organic revenue growth, despite Covid-19

Focus driving order book and pipeline
- ONE Ultra strategy delivering
- Strong technology base driving record order book and sales pipeline
- Improved R&D alignment in support of strategy

Growth and transformation driving improving stakeholder outcomes
- Transformation delivering ahead of plan, increased confidence
- Continuous improvement driving additional benefits
- Operational and financial improvement being delivered

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

Recommended offer from Advent/Cobham
- CMA report delivered to Secretary of State for BEIS on 13 January 2022
- Engagement with HM Government, including the MoD, continues
- All other foreign investment and antitrust approvals received

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A presentation is now available on Ultra's investor website: www.ultra.group

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Notes:

(1) Underlying profit, cash flow and earnings per share (EPS) are used to measure the trading performance of the Group as set out in notes 2 and 8. Underlying operating margin is the underlying operating profit as a percentage of revenue. Operating cash conversion is underlying operating cash flow as a percentage of underlying operating profit.

(2) Organic movements are the change in revenue, profit and order book 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.

(3) Net debt to adjusted EBITDA: adjusted EBITDA is as set out in note 2. Net debt in this metric comprises borrowings including pension obligations and lease liabilities, less cash and cash equivalents. On a covenant basis, the net debt to adjusted EBITDA ratio is 0.0x; net debt excludes pension obligations and lease liabilities, and adjusted EBITDA is amended to remove the EBITDA generated by businesses up to the date of their disposal.

(4) 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 liabilities, pension obligations, tax and derivatives. See note 2.

(5) Under the terms and conditions set out in the announcement dated 16 August 2021 (relating to the recommended cash acquisition of Ultra by Cobham Ultra Acquisitions Limited), no final dividend will be paid to shareholders while the acquisition remains conditional on obtaining certain clearances, including UK government approval. Consequently, the total full year dividend is unchanged from the interim dividend of 16.2p (2020: 56.9p full year).

(6) C2I is Command, Control & Intelligence. C3I is Command, Control, Communication and Intelligence including Cyber.

(7) Sales pipeline is defined as new awards which we anticipate bidding on and the opportunities within the programmes we are currently delivering on.

(8) IDIQ contracts is an internal measure of the expected call off and exercise of existing IDIQ contracts not included in our order book.

(9) Order book is the value of partially satisfied and unsatisfied performance obligations from contractually committed customer orders.

(10) The Group has changed its accounting policy from 1 January 2021 relating to the capitalisation of certain Software as a Service (SaaS) costs following the IFRS Interpretation Committee's agenda decision published in April 2021. This change in accounting policy led to an increase in operating expenses of £1.5m in 2021, these costs would have been capitalised under the previous policy and amortised over five years. The impact to prior periods was not material.

Other terms used throughout this announcement are defined in note 22.

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About Ultra

Ultra provides application-engineered solutions in the key elements of mission critical and intelligent systems. 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.

www.ultra.group

PERFORMANCE UPDATE

Another year of progress and delivery

Our order book[9] grew 22.2% year on year to over £1.3bn (2020: £1.1bn), reflecting the benefits of the ONE Ultra strategy and excellent demand for Ultra's technology, capability, and innovative solutions.

We saw strong order intake on existing programmes including:

- ORION radio orders worth $140m from the US Marines, US Army and US Navy
- US Sonobuoy orders of $118m under the ERAPSCO 5-year IDIQ contract
- £31m UK MoD Sonobuoy order; and
- $23m award for MK54 lightweight torpedo array kits

We also delivered good new programme wins including:

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

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

Underlying operating profit increased organically by 8.0% to £129.6m (2020: £126.1m) with underlying operating margins improving to 15.2% (2020: 14.7%), supported by improved delivery of transformation benefits, good operational performance particularly in Intelligence & Communications and Critical Detection & Control, a favourable product mix and a £4m one-off licence of non-core IP. These were partly offset by operational challenges on some Maritime contracts, inefficiency caused by tight supply chains, increased investment into R&D, and £1.5m[10] of expensed cloud based system implementation costs which would have been capitalised under our previous accounting policy. Underlying EPS increased 3.9% to 135.7p per share.

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

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

Ultra's long-term ROIC[4] increased to 21.2% (2020: 20.0%). Excluding the impact of goodwill and acquired intangibles, ROIC was 66.1%. (2020: 62.3%), reflecting the ability of Ultra's business model to generate good returns on capital while growing organically.

STRATEGIC UPDATE

1. An agile player in growing markets

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

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

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

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

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

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

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

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

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

The total Maritime market grew by 3.0% and Intelligence & Communications market by 3.5% in 2021. Over the next five years, we expect a favourable market backdrop with compound annual growth rates of 2-5% in our core markets of Maritime, Intelligence & Communications and Critical Detection & Control. Increasing spend is forecast to be directed towards core Ultra segments; anti-submarine products and intelligent networking communications which enhance capabilities of existing defence assets.

2. Focus driving orderbook and pipeline

ONE Ultra strategy delivering

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

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

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

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

Strong technology base driving record order book and sales pipeline

The strength of our technology base is driving our record order book[(9)] of £1.3bn, up 22.2% vs 2020. Our total sales pipeline[(7)] has also grown significantly to £13.5bn (2020: £11.4bn), based on all identified opportunities which we anticipate bidding on and have greater than 50% confidence of winning over the next 9 years. In addition, our total IDIQ contract value[(8)] is £1.1bn, which measures the expected call off and exercise of existing IDIQ contracts.

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

Improved Research and Development alignment in support of strategy

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

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

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

- Development of artificial intelligence and machine learning capabilities to target key strategic developments e.g. embedding edge processing and intelligence in our deployed sensors, building

‘Course of Action’ generators in our battlespace management offerings and providing enhanced AI/ML algorithms for our submarine detection systems

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

3. **Growth and transformation driving improving stakeholder outcomes**

Transformation delivering ahead of plan, increased confidence

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

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

Workstream	Goals	Progress in 2021
Operating Model	Improved customer alignment Better functional support	We embedded the new strategic and operating business unit structure on 1 January 2021, centralised IT along functional lines and moved to a category led procurement model.
Site Excellence	Improved and optimised working environment Increased sustainability Better working practices	We successfully consolidated two operations activities in Naval Systems in North America and made excellent progress upgrading our Cheltenham facility in the UK, which will enable the consolidation of two of our PCS facilities into Cheltenham. In addition, our Forensic Technology business moved into a much improved facility in Montreal and both our Communications and Sonar businesses in Canada started projects to upgrade their facilities in preparation for anticipated growth. Finally, we have now agreed the lease for our new I&C UK site in Maidenhead, with an expected move completion date of Q4 2023.
Operational and Functional Excellence	Improved utilisation, efficiency, productivity, and delivery	We made excellent progress standardising our HR, financial consolidation and sales processes with a view to both improving their effectiveness and productivity. As a result 2021 saw the launch of our new ‘MyHR’, Finance and

	Better collaboration to improve customer outcomes	Customer Relationship Management platforms. Our approach to project management is increasingly mature, and our business units are now supported by a harmonised global process template with coverage across the majority of our main functions.
Procurement	More reliable supply chain Better scale benefits Transparent data and standard procurement processes	The Procurement team made good progress developing a new operating model that enables Ultra to leverage its procurement spend, improving capability to drive savings across key procurement categories, with 2021 cost savings and avoidance targets exceeded. We have appointed a team of Global Category Managers in line with the updated operating model, and a new procurement leadership team has been formed, consisting of senior members from each SBU, to help accelerate procurement benefits in 2022.
ONE Ultra Culture	Investing in people Leadership and talent to support ONE Ultra strategy.	We increased investment in group-wide leadership training and diversity and inclusion initiatives for our people, to help them develop more robust and ambitious strategies while leading change and creating a continuous improvement culture and capability. This is already having tangible benefits, with more robust strategies and execution plans, improved change management, factory and functional processes. We have also launched improved systems and a culture to support the rich funnel of improvement ideas coming from our teams and a programme to build continuous improvement capability and expertise in the organisation.
Technology Enablement	More efficient IT infrastructure Improved collaboration Standard processes supported by standard applications	Our Microsoft 365 suite of products is now well embedded across the organisation and the rollout of our 'UNet' continues to progress well, providing our sites with efficient and best-practice networking solutions that allow secure information exchange. We have also finalised the design and implementation of a new innovation management platform designed to provide a space to propose, collaborate on and track new product improvement and R&D concepts. The Transformation Project Management Office completed the redesign of our ChangePoint portfolio management system, which is used to oversee, manage and execute delivery of our transformation projects. The new implementation provides our transformation community with real time monitoring of project status, alongside robust stakeholder reporting capabilities.

Continuous improvement driving additional benefits

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

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

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

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

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

4. **Continuing ONE Ultra momentum**

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

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

Cognitive Integrated Battlespace: Integrating and augmenting our market leading solutions with hybrid, cloud native, advanced AI/ML to develop enhanced solutions that reduce operator cognitive burden, process big and complex multidomain data to gain operationally-relevant insights, and prevent tactical surprise.

Cognitive Integrated ASW: Integrating Ultra's existing ASW systems to deliver a single multi-sensor, multi-domain, and multi-platform ASW force demonstrator, enabling manned and unmanned systems to work in concert to provide our customers with a mosaic of deployable ASW capability.

Modularised development platform: Rapid development of multi-application modular solutions: Creating interoperable, and reusable IP. Leverages a common Ultra UI/UX and integrating a multitude of internal and external data sources to underpin applications such as advanced geospatial anomaly detection, correlation and fusion engines, and next-generation analytics platforms.

Additional growth accelerators supporting innovation
2021 also saw the launch of a number of new growth accelerators, designed to enhance Ultra's ability to respond quickly and efficiently to emerging customer needs, and to proactively identify future needs.

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

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

Excellent visibility and strong balance sheet to accelerate strategy
In 2021 Ultra's order cover is 78% (2020:71%) demonstrating our confidence of good growth in 2022.

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

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

OPERATIONAL REVIEW

1. Maritime (46% of Group revenue)

A partner in the maritime defence domain, focusing on mission-centric equipment and systems primarily across the Five Eyes nations. We specialise in maritime sonar, radar, acoustic expendables, signature management and power systems.

£m	2021	2020	2020 for organic measure	Growth %	Organic[2] growth %
Order book	683.6	539.6	541.1	+26.7	+26.3
Revenue	395.4	391.8	372.0	+0.9	+6.3
Underlying operating profit[1]	59.4	58.6	54.7	+1.4	+8.6
Underlying operating margin[1]	15.0%	15.0%	14.7%		
Statutory operating profit	58.3	55.9		+4.3	
Statutory operating margin	14.7%	14.3%			

Market trends

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

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

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

Performance

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

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

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

2. Intelligence & Communications (28% of Group revenue)

A defence supplier engineering world-class, mission-critical, multi-domain intelligence, communications, command & control, cyber security and electronic warfare solutions.

£m	**2021**	**2020**	**2020** for organic measure	Growth %	Organic[2] growth %
Order book	323.0	237.1	238.6	+36.2	+35.4
Revenue	241.3	241.0	228.7	+0.1	+5.5
Underlying operating profit[1]	37.9	33.5	31.4	+13.1	+20.7
Underlying operating margin[1]	15.7%	13.9%	13.7%		
Statutory operating profit	30.9	23.7		+30.4	
Statutory operating margin	12.8%	9.8%			

Market trends

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

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

Performance

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

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

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

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

3. Critical Detection & Control (26% of Group revenue)

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.

£m	2021	2020	2020 for organic measure	Growth %	Organic[2] growth %
Order book	294.3	287.5	287.0	+2.4	+2.5
Revenue	214.0	227.0	215.8	-5.7	-0.8
Underlying operating profit[1]	32.3	34.0	33.9	-5.0	-4.7
Underlying operating margin[1]	15.1%	15.0%	15.7%		
Statutory operating profit	29.7	30.0		-1.0	
Statutory operating margin	13.9%	13.2%			

Aerospace market trends
Despite the impact of Covid-19, which significantly impacted the commercial aerospace industry, PCS's positions on military platforms such as the F-35 and the Eurofighter Typhoon have helped mitigate the current trough in the commercial aerospace market, which is expected to recover with a 14.5% CAGR over the next 5 years. The outlook for commercial and military aerospace remains strong given expected procurements in new aircraft, upgrading ageing fleets and the development of indigenous platforms. Ultra's innovative and high integrity control technologies are ideally suited to the growing need for highly reliable, mission and safety critical sensing and aircraft control systems in an increasingly electric and data-driven operating environment.

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

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

Performance
The order book in Critical Detection & Control grew organically by 2.5%, with strong orders in our Precision Controls business for military aircraft, particularly the F35, and for ballistic identification products. Key orders in Forensic Technology included a new contract win in Brazil and continued good orders from the US Bureau of Alcohol, Tobacco, Firearms and Explosives.

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

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

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

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

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

FINANCIAL REVIEW

Order book and revenue

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

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

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

Statutory operating profit and margin

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

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

Underlying operating profit and margins

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

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

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

Finance charges

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

Profit before tax

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

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

Amortisation costs declined from £12.6m to £9.8m as the customer relationship and technology assets created by historical acquisitions became fully amortised. Acquisition and disposal related costs in the year were £7.8m (2020: £1.1m); the bulk of this cost was incurred in relation to the previously announced recommended offer for the Group by Cobham Ultra Acquisitions Limited. A net loss of £2.4m arose from the divestment of two non-core loss making businesses within the Critical Detection & Control SBU, (see note 18). The net loss on forward foreign exchange contracts was £7.8m (2020: £3.4m gain), mainly driven by the movement in the year's opening and closing USD/GBP spot rate. Significant legal charges and expenses of £6.1m (2020: £3.3m) primarily relate to progress being made toward resolving a legacy legal matter.

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

Tax, EPS and dividends

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

Underlying EPS increased 3.9% to 135.7p (2020: 130.6p), reflecting the increase in underlying profit and reduced underlying tax rate. The weighted average number of shares in issue was 71.2m (2020: 71.0m). Basic EPS decreased to 93.8p (2020: 118.0p) reflecting the decrease in statutory profit before tax. At 31 December 2021 the number of shares in issue was 71.4m (2020: 71.1m).

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

Operating cash flow and working capital

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

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

Non-operating cash flow

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

- net cash inflow of £1.2m relating to disposals (see note 18);
- dividend payments of £41.1m (2020: £38.7m);
- tax paid of £5.7m (2020: £5.4m);
- a £6.8m (2020: £1.3m) outflow on acquisition & disposal related payments, predominantly relating to costs incurred due to the proposed acquisition of Ultra by Advent/Cobham

Net debt

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

Conduct of business investigations

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

Capital allocation

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

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

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

2022 Financial guidance

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

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

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

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

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

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

RECOMMENDED OFFER FROM ADVENT/COBHAM AND DIVIDEND STATUS

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

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

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

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

Dividend Status
The Board has a progressive dividend policy with a through-cycle target of circa two times normalised cash and earnings cover. However, in view of the terms and conditions set out in the announcement dated 16 August 2021 (relating to the recommended cash acquisition of Ultra by Advent/Cobham), the interim dividend of 16.2p per share will be the only 2021 dividend, and no final dividend will be paid to shareholders while the acquisition remains pending.[5]

SUMMARY & OUTLOOK

Ultra is well-positioned to deliver our aspiration of above market growth and mid-teens margin.

Driving top line growth through technology investment, engagement and collaboration
Our Focus; Fix; Grow transformation allows us to invest at levels which will significantly differentiate us from our peers and will deliver above market growth through:

- i) improved operational performance, better competitive pricing and increased internal R&D investment
- ii) better allocation and capacity creation of scarce people and resources
- iii) attracting and retaining a high-quality workforce
- iv) greater collaboration within Ultra, enabling us to offer a far broader range of capabilities to solve increasingly complex problems

Increased confidence in Ultra's exciting future
We are making good progress on many fronts, we have great people and our focused strategy and improved execution is providing us with increased confidence that this business has a unique opportunity to deliver above market growth, meet our aspiration of delivering sustainable mid-teens margins and deliver excellent value for all our stakeholders.

Simon Pryce
Chief Executive

Jos Sclater
Chief Financial Officer

23 March 2022

RISKS AND UNCERTAINTIES

The Group faces a number of potential risks and uncertainties which may have a material impact on performance in 2022 and beyond. Consequently, actual results may differ materially from expected and/or historical results. The Group's principal risks are listed below. These risks are managed by the Executive Team and are key matters for the Board. An explanation of these risks, and the business strategies that Ultra uses to manage and mitigate such risks, can be found in the annual report which will be available for download at https://www.ultra.group/investors/results-centre/

Risks are identified, collated, assessed and managed at the most appropriate level of the business (Board, Executive or business level). Risks are regularly reviewed to ensure judgements and assumptions are unchanged, that effective risk indicators and controls are in place and that emerging risks are properly captured, evaluated and managed. Across our risk environment, Ultra places a high priority on compliance with all legislative and regulatory requirements and the maintenance of high ethical standards across the Group, which have been reflected in the embedding of our values framework into every aspect of how we work.

Principal Risks

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

Our Principal risks:

- Defence sector cycle risk
- Bid and contract risks
- Programme risk
- Geopolitical risk
- Delivering change
- Security and cyber risks
- Governance, compliance, and internal controls
- Supply chain inflation and disruption post Covid-19
- Specialist engineering recruitment and retention in the areas of our operations

Specific Risk Factors and Initiatives

Specific risk incidents and developments in 2021 include:

- Global Recovery post Covid-19. Proactive management to ensure Covid-safe workplaces, optimise remote working and effective stakeholder engagement with our suppliers and customers enabled continuity of operations and delivery of objectives for Ultra throughout the last 2 years of Covid-19 Pandemic. However, as global economies recover we have seen the emergence of 2 new principal risks in the short term in supply chain inflation / disruption, and increasing challenges in specialist recruitment and retention linked to a highly competitive labour market compounded in the near term by uncertainty over completion of the recommended acquisition of Ultra.
- Regulatory Incidents (Governance, Compliance and Internal Controls). As previously reported, Ultra is continuing to cooperate with authorities in relation to two conduct of business issues in Algeria and the Philippines.

- Climate Change. Direct risks to Ultra from climate change are limited, given the low intensity nature of our operations, the locations of our sites and markets in which we operate. In line with our values, we see climate change as an area of focus for positive change through our Corporate Social Responsibility Committee.

CONFIRMATION 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.

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

No acquisition by Advent/Cobham

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

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

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

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

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

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

Though global macro-economic conditions remain uncertain with continued uncertainty arising from impacts of the Covid-19 pandemic, the Group's ability to continue trading successfully to date throughout 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.

Completion of the acquisition of Ultra

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

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

- Advent have stated in the Scheme of Arrangement that they intend Ultra to thrive, that they have no plans to undertake any material restructurings, that they will not redeploy Ultra's fixed assets (save for some limited exceptions) and they will increase investment in research and development;
- Advent has secured long term financing which extends beyond the going concern assessment period and provides sufficient liquidity to complete the Scheme of Arrangement, and repay the Group's existing debt facilities if debt repayment obligations are triggered by the change of control provisions described above;
- the financing arranged by Advent, the terms of which are available on Ultra's website, does not include any leverage or coverage covenants; and
- the Group's cash flows modelled by management support the ability of the Group to pay its debt service costs post acquisition in both the operation of its existing strategy and in stress tested scenarios of flat revenue in 2023 onwards and 50% cash conversion, and a 15% decline in revenues in 2023 onwards and 70% cash conversion during the going concern and viability periods.

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

Going concern

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

NATURE OF ANNOUNCEMENT

The statements contained in this announcement are made as at the date of this announcement, unless some other time is specified in relation to them, and release of this announcement shall not give rise to any implication that there has been no change in the facts set out in this announcement since such date. Ultra assumes no obligation to update or correct the information contained in this announcement, whether as a result of new information, future events or otherwise, except to the extent required by law or regulation.

This announcement has been prepared solely to provide additional information to enable shareholders to assess Ultra's strategies and the potential for those strategies to succeed. It should not be relied upon by any other party or for any other purpose.

The statements contained in this announcement are not to be construed as legal, business, financial or tax advice, nor is not intended to, and does not, constitute or form part of any offer, invitation or the solicitation of an offer to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of, any securities whether pursuant to this announcement or otherwise.

This announcement contains certain statements that are or may be forward-looking with respect to the financial condition, results or operations and business of Ultra and its subsidiaries (the "Group"). These statements are sometimes, but not always, identified by the words 'may', 'anticipates', 'believes', 'expects' or 'estimates'. Such forward-looking statements are made by Ultra in good faith based on the information available at the time of this announcement; however, by their nature forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. A number of factors exist that could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to: (i) changes to the current outlook for the world market for defence, security, transport and energy systems; (ii) changes in tax laws and regulations; (iii) the risks associated with the introduction of new products and services; (iv) significant global disturbances such as terrorism or prolonged healthcare concerns; (v) the termination or delay of key contracts; (vi) long-term fluctuations in exchange rates; (vii) regulatory and shareholder approvals; (viii) unanticipated liabilities; and (ix) actions of competitors. Subject to the Listing Rules of the Financial Conduct Authority, Ultra assumes no responsibility to update any of the forward-looking statements herein.

This announcement has been prepared for the Group as a whole and therefore gives greatest emphasis to those matters which are significant to Ultra when viewed as a whole.

Certain financial data has been rounded. As a result of this rounding, the totals of data presented in this announcement may vary slightly from the actual arithmetic totals of such data.

Ultra Electronics Holdings plc

Results for the Year Ended 31 December 2021

Consolidated Income Statement

	Note	**2021 £m**	2020 £m
Revenue	3	**850.7**	859.8
Cost of sales		**(597.3)**	(609.0)
Gross profit		**253.4**	250.8
Other operating income		**6.5**	0.9
Administrative expenses		**(138.9)**	(139.5)
Other operating expenses		**(1.2)**	(1.5)
Acquisition and disposal related costs	2	**(7.8)**	(1.1)
Significant legal charges and expenses	2	**(6.1)**	(3.3)
Operating profit	1	**105.9**	106.3
(Loss)/gain on disposals	18	**(2.4)**	5.6
Investment income	4	**0.1**	3.7
Finance costs	5	**(20.9)**	(11.9)
Profit before tax	1	**82.7**	103.7
Tax	6	**(15.8)**	(19.9)
Profit for the year		**66.9**	83.8
Attributable to:			
Owners of the Company		**66.9**	83.8
Non-controlling interests		**-**	-
Earnings per ordinary share (pence)			
- basic	8	**93.8**	118.0
- diluted	8	**93.5**	117.7

All results are derived from continuing operations.

Ultra Electronics Holdings plc

Results for the Year Ended 31 December 2021

Consolidated Statement of Comprehensive Income

	2021 £m	2020 £m
Profit for the year	**66.9**	83.8
Items that will not be reclassified to profit or loss:		
Actuarial gain/(loss) on defined benefit pension schemes	**25.7**	(9.3)
Tax relating to items that will not be reclassified	**(3.5)**	2.9
Total items that will not be reclassified to profit or loss	**22.2**	(6.4)
Items that are or may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**3.5**	(11.2)
(Loss)/gain on loans used in net investment hedges	**(0.3)**	1.5
Total Items that are or may be reclassified to profit or loss	**3.2**	(9.7)
Other comprehensive income/(expense) for the year	**25.4**	(16.1)
Total comprehensive income for the year	**92.3**	67.7
Attributable to:		
Owners of the Company	**92.3**	67.7
Non-controlling interests	**-**	-

Ultra Electronics Holdings plc
Results for the Year Ended 31 December 2021
Consolidated Balance Sheet

	Note	**2021 £m**	2020 £m
Non-current assets			
Goodwill	9	**362.7**	363.0
Other intangible assets		**68.9**	82.2
Property, plant and equipment	10	**73.4**	66.6
Leased assets	11	**35.9**	33.6
Deferred tax assets		**14.7**	13.6
Derivative financial instruments		**1.0**	2.1
Trade and other receivables	13	**13.5**	12.9
		570.1	574.0
Current assets			
Inventories	12	**92.9**	103.6
Trade and other receivables	13	**207.6**	188.5
Current tax assets		**6.6**	8.8
Cash and cash equivalents		**138.8**	114.4
Derivative financial instruments		**1.4**	5.8
Assets classified as held for sale	18	**6.8**	-
		454.1	421.1
Total assets		**1,024.2**	995.1
Current liabilities			
Trade and other payables	14	**(215.7)**	(199.3)
Current tax liabilities		**(5.3)**	(5.9)
Derivative financial instruments		**(1.1)**	(0.2)
Borrowings		**(12.1)**	(38.3)
Short-term provisions	15	**(23.3)**	(19.6)
Liabilities classified as held for sale	18	**(1.2)**	-
		(258.7)	(263.3)
Non-current liabilities			
Retirement benefit obligations	16	**(34.8)**	(73.1)
Other payables	14	**(11.4)**	(12.0)
Deferred tax liabilities		**(21.5)**	(15.0)
Derivative financial instruments		**(1.5)**	(0.1)
Borrowings		**(166.7)**	(161.9)
Long-term provisions	15	**(2.8)**	(5.0)
		(238.7)	(267.1)
Total liabilities		**(497.4)**	(530.4)
Net assets		**526.8**	464.7
Equity			
Share capital		**3.6**	3.6
Share premium account		**208.1**	205.5
Capital redemption reserve		**0.4**	0.4
Reserve for own shares		**(0.3)**	(1.4)
Translation reserve		**35.7**	32.5
Retained earnings		**279.3**	224.1
Equity attributable to owners of the Company		**526.8**	464.7
Non-controlling interests		**-**	-
Total equity		**526.8**	464.7

Ultra Electronics Holdings plc
Results for the Year Ended 31 December 2021
Consolidated Cash Flow Statement

	Note	**2021 £m**	2020 £m
Net cash flow from operating activities	17	**121.5**	130.0
Investing activities			
Interest received		**0.1**	0.3
Purchase of property, plant and equipment		**(22.2)**	(13.4)
Proceeds from disposal of property, plant and equipment		**2.1**	0.2
Expenditure on product development and other intangibles		**(2.5)**	(8.7)
Disposal of subsidiary undertakings	18	**1.2**	5.3
Net cash used in investing activities		**(21.3)**	(16.3)
Financing activities			
Issue of share capital		**2.6**	2.3
Disposal of own shares		**1.6**	-
Dividends paid		**(41.1)**	(38.7)
Dividends paid to non-controlling interest		**-**	(0.1)
Repayments of borrowings		**(70.0)**	(76.2)
Proceeds from borrowings		**70.0**	11.1
Principal payment on leases		**(8.3)**	(9.0)
Net cash used in financing activities		**(45.2)**	(110.6)
Net increase in cash and cash equivalents	17	**55.0**	3.1
Net cash and cash equivalents and bank overdrafts at beginning of year		**84.1**	82.2
Effect of foreign exchange rate changes		**(0.4)**	(1.2)
Net cash and cash equivalents and bank overdrafts at end of year	17	**138.7**	84.1

Bank overdrafts are netted with cash and cash equivalents because they form an integral part of the Group's cash management within the cash pooling arrangements.

Ultra Electronics Holdings plc

Results for the Year Ended 31 December 2021

Consolidated Statement of Changes in Equity

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Reserve for own shares £m	Translation reserve £m	Retained earnings £m	Non-controlling interest £m	Total equity £m
Balance at 1 January 2020	**3.5**	**203.2**	**0.4**	**(1.4)**	**42.2**	**182.6**	**0.1**	**430.6**
Profit for the year	-	-	-	-	-	83.8	-	83.8
Other comprehensive 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
Minority interest distribution	-	-	-	-	-	-	(0.1)	(0.1)
Dividend to shareholders	-	-	-	-	-	(38.7)	-	(38.7)
Balance at 31 December 2020	**3.6**	**205.5**	**0.4**	**(1.4)**	**32.5**	**224.1**	**-**	**464.7**
Profit for the year	-	-	-	-	-	66.9	-	66.9
Other comprehensive income for the year	-	-	-	-	3.2	22.2	-	25.4
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**3.2**	**89.1**		**92.3**
Disposal of own shares	-	-	-	1.1	-	0.5	-	1.6
Equity-settled employee share schemes	-	2.6	-	-	-	5.9	-	8.5
Tax on share-based payment transactions	-	-	-	-	-	0.8	-	0.8
Dividend to shareholders	-	-	-	-	-	(41.1)	-	(41.1)
Balance at 31 December 2021	**3.6**	**208.1**	**0.4**	**(0.3)**	**35.7**	**279.3**	**-**	**526.8**

1. Segment information

For management purposes, the Group is organised into three operating segments: Maritime, Intelligence & Communications and Critical Detection & Control. The operating segments are consistent with the internal reporting as reviewed by the CEO who is deemed to be the Chief Operating Decision-Maker. Each segment includes businesses with similar operating and market characteristics.

(i) Revenue by segment

	2021			2020		
	External revenue	**Inter-segment**	**Total**	External revenue	*Inter-segment	Total
	£m	**£m**	**£m**	£m	£m	£m
Revenue						
Maritime	**395.4**	**0.3**	**395.7**	391.8	0.8	392.6
Intelligence & Communications	**241.3**	**0.2**	**241.5**	241.0	0.6	241.6
Critical Detection & Control	**214.0**	**0.3**	**214.3**	227.0	0.9	227.9
Eliminations	**-**	**(0.8)**	**(0.8)**	-	(2.3)	(2.3)
Consolidated revenue	**850.7**	**-**	**850.7**	859.8	-	859.8

All inter-segment trading is at arm's length.

* 2020 balances for internal revenue have been restated to only present inter-segment revenue and not internal revenue within a segment.

(ii) Profit by segment

	2021				
	Maritime £m	**Intelligence & Communications £m**	**Critical Detection & Control £m**	**Unallocated £m**	**Total £m**
Underlying operating profit	**59.4**	**37.9**	**32.3**	**-**	**129.6**
Amortisation of intangibles arising on acquisition	**(0.4)**	**(7.0)**	**(2.4)**	**-**	**(9.8)**
Significant legal charges and expenses	**-**	**-**	**-**	**(6.1)**	**(6.1)**
Acquisition and disposal-related costs	**(0.7)**	**-**	**(0.2)**	**(6.9)**	**(7.8)**
Operating profit/(loss)	**58.3**	**30.9**	**29.7**	**(13.0)**	**105.9**
Loss on disposals					**(2.4)**
Investment income					**0.1**
Finance costs					**(20.9)**
Profit before tax					**82.7**
Tax					**(15.8)**
Profit after tax					**66.9**

Significant legal charges and expenses are the charges arising from investigations and settlements, or provisions for settlements, of litigation that are not in the normal course of business. Unallocated items are specific corporate level costs that cannot be allocated to a specific operating segment; in 2021 the unallocated acquisition related costs primarily relate to those incurred in relation to the proposed acquisition of Ultra by Cobham Ultra Acquisitions Limited.

1. **Segment information (continued)**

	Maritime £m	Intelligence & Communications £m	2020 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	-	-	-	(3.3)	(3.3)
Acquisition and disposal-related costs	(0.2)	(0.9)	-	-	(1.1)
Restructuring costs related to disposal	(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

(iii) 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) **2021 £m**	2020 £m	Depreciation and amortisation **2021 £m**	2020 £m
Maritime	**17.7**	15.0	**10.7**	10.6
Intelligence & Communications	**8.2**	8.4	**15.7**	17.8
Critical Detection & Control	**10.7**	5.0	**8.6**	9.1
Total	**36.6**	28.4	**35.0**	37.5

The 2021 depreciation and amortisation expense includes £16.1m of amortisation charges (2020: £18.6m), £10.9m of property, plant and equipment depreciation charges (2020: £10.4m) and £8.0m of leased asset depreciation charges (2020: £8.5m).

(iv) Total assets by segment

	2021 £m	2020 £m
Maritime	**299.0**	260.2
Intelligence & Communications	**323.1**	336.2
Critical Detection & Control	**239.6**	254.0
	861.7	850.4
Unallocated	**162.5**	144.7
Consolidated total assets	**1,024.2**	995.1

Unallocated assets represent current and deferred tax assets, derivatives at fair value and cash and cash equivalents.

1. Segment information (continued)

(v) Total liabilities by segment

	2021 £m	2020 £m
Maritime	**151.8**	126.8
Intelligence & Communications	**97.4**	92.3
Critical Detection & Control	**63.2**	66.9
	312.4	286.0
Unallocated	**185.0**	244.4
Consolidated total liabilities	**497.4**	530.4

Unallocated liabilities represent derivatives at fair value, current and deferred tax liabilities, retirement benefit obligations, overdrafts, bank loans and loan notes.

(vi) Revenue by destination

	2021 £m	2020 £m
North America	**534.7**	546.5
United Kingdom	**166.2**	158.4
Rest of World	**89.5**	89.9
Mainland Europe	**60.3**	65.0
	850.7	859.8

During the year, there was one direct customer (2020: one) that individually accounted for greater than 10% of the Group's total turnover. Sales to this customer in 2021 were £242.1m (2020: £203.2m) across all segments.

(vii) Other information (by geographic location)

	Non-current assets		Total assets		Capital expenditure and additions to leased assets and intangibles (excluding goodwill and acquired intangibles)	
	2021 £m	2020 £m	**2021 £m**	2020 £m	**2021 £m**	2020 £m
United Kingdom	**150.9**	159.2	**265.5**	298.7	**10.0**	10.5
USA	**310.3**	309.1	**445.2**	412.0	**9.9**	14.5
Canada	**85.9**	84.3	**140.0**	131.8	**15.8**	3.1
Rest of World	**7.3**	5.7	**11.0**	7.9	**0.9**	0.3
	554.4	558.3	**861.7**	850.4	**36.6**	28.4
Unallocated	**15.7**	15.7	**162.5**	144.7	**-**	-
	570.1	574.0	**1,024.2**	995.1	**36.6**	28.4

2. Additional non-statutory performance measures

To present the trading of the Group on a consistent basis year-on-year, additional adjusted performance indicators have been used. These adjusted items are non-statutory and are calculated as follows:

	2021	2020
	£m	£m
Operating profit	**105.9**	106.3
Amortisation of intangibles arising on acquisition	**9.8**	12.6
Significant legal charges and expenses*	**6.1**	3.3
Acquisition and disposal-related costs†	**7.8**	1.1
Restructuring costs related to disposal	**-**	2.8
Underlying operating profit	**129.6**	126.1
Depreciation of property, plant and equipment	**10.9**	10.4
Depreciation of leased assets	**8.0**	8.5
Amortisation of internally generated intangible assets	**1.2**	1.4
Amortisation of software, patents and trademarks	**5.1**	4.6
Adjusted EBITDA	**154.8**	151.0
Profit before tax	**82.7**	103.7
Amortisation of intangibles arising on acquisition	**9.8**	12.6
Acquisition and disposal related costs†	**7.8**	1.1
Loss/(gain) on fair value movements of derivatives	**7.8**	(3.4)
Loss/(gain) on disposals	**2.4**	(2.8)
Significant legal charges and expenses*	**6.1**	3.3
Underlying profit before tax	**116.6**	114.5
Cash generated by operations (see note 17)	**134.2**	142.6
Principal payments on finance leases	**(8.3)**	(9.0)
Purchase of property, plant and equipment	**(22.2)**	(13.4)
Proceeds on disposal of property, plant and equipment	**2.1**	0.2
Expenditure on product development and other intangibles	**(2.5)**	(8.7)
Significant legal charges and expenses*	**1.4**	1.5
Disposal-related restructuring costs	**-**	1.6
Acquisition and disposal related payments†	**6.8**	1.3
Underlying operating cash flow	**111.5**	116.1
Underlying operating cash conversion	**86%**	92%
Net cash flow from operating activities (see note 17)	**121.5**	130.0
Interest received	**0.1**	0.3
Purchase of property, plant and equipment	**(22.2)**	(13.4)
Proceeds on disposal of property, plant and equipment	**2.1**	0.2
Expenditure on product development and other intangibles	**(2.5)**	(8.7)
Principal payments on finance leases	**(8.3)**	(9.0)
Free cash flow	**90.7**	99.4

* Significant legal charges and expenses are the charges arising from investigations and settlements, or provisions for settlements, of litigation that are not in the normal course of business. The associated cash impact is reflected in the reconciliation to underlying operating cash flow.

† In 2021 this primarily relates to costs incurred, and related cash outflow, connected to the proposed acquisition of Ultra by Cobham Ultra Acquisitions Limited.

2. Additional non-statutory performance measures (continued)

	2021 £m	2020 £m
Net assets	**526.8**	464.7
Net debt	**40.0**	85.8
Retirement benefit obligations	**34.8**	73.1
Net derivative financial instruments	**0.2**	(7.6)
Net tax liabilities/(assets)	**5.5**	(1.5)
Total invested capital	**607.3**	614.5
Average invested capital	**610.9**	630.3
Underlying operating profit	**129.6**	126.1
ROIC	**21.2%**	20.0%

Organic growth for order book, revenue and underlying operating profit is calculated as follows:

	Order book		**Revenue**		**Underlying operating profit**	
	£m	% impact	£m	% impact	£m	% impact
2020	1,064.2		859.8		126.1	
Currency translation	4.9	+0.5	(37.7)	-4.4	(4.8)	-3.8
Disposals	(2.4)	-0.2	(5.6)	-0.6	(1.3)	-1.0
2020 (for organic measure)	1,066.7		816.5		120.0	
Organic growth	**234.2**	**+22.0**	**34.2**	**+4.2**	**9.6**	**+8.0**
2021	**1,300.9**	+22.2	**850.7**	-1.1	**129.6**	+2.8

Management monitors the adjusted 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 adjusted 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 related tax effects of these items, reflected when determining underlying earnings per share, are set out in note 8, along with a reconciliation between the tax charge for the year and the underlying tax charge.

Underlying profit is used by the Board to monitor and measure the underlying trading performance of the business using a measure that is comparable over time. Items excluded from underlying profit are treated consistently with the financial covenant treatment as defined in the Group's committed financing facilities. Underlying profit excludes:

- costs associated with mergers & acquisitions (M&A), including the costs associated with the proposed acquisition of the Group by Cobham Ultra Acquisitions Limited, disposals or closures: delivery of the Group's strategy has included investment in acquisitions that enhance Ultra's portfolio of capabilities, as well as disposal or closure of non-core businesses, facilities or product lines. The exclusion of significant items arising from this activity is to align short-term operational decisions with this longer-term strategy. Items excluded are directly attributable external legal and adviser costs, adjustments to the fair value of deferred consideration and acquired inventory, payment of retention bonuses, restructuring costs related to disposals and closures, and gains or losses made upon the disposal or closures. Similarly, amortisation and impairment of goodwill or intangible assets arising on acquisition are excluded from underlying profit because they are not related to the in-year operational performance of the business, being driven by the timing and amount of historical investment in acquired businesses. The directly attributable external costs

2. Additional non-statutory performance measures (continued)

associated with the proposed acquisition of the Group by Cobham Ultra Acquisitions Limited, such as advisor costs incurred on bid-defence and subsequent advisor and legal costs, have been excluded from underlying profit as these costs are not related to the in-year operational performance of the business or execution of the Group's strategy.

- significant legal charges and expenses: these are the charges arising from investigations and settlement of litigation, or provisions for settlement, that are not in the normal course of business. These costs are not related to the in-year operational performance of the business and are excluded.
- mark to market gains or losses from foreign exchange financial instruments: there is volatility in the valuation of outstanding instruments as exchange rates move over time. This has minimal impact on profit over the full term of the instruments, but can cause significant income statement volatility in particular periods. These gains or losses are excluded to ensure appropriate and timely commercial decisions are made regarding mitigating the Group's foreign currency exposures.

Underlying operating cash flow is used by the Board to monitor and measure the underlying cash performance of the business using a measure that is comparable over time. The Group is cash-generative and reinvests funds to meet its strategic objectives. Management believes that using cash generated by operations, after principal payments on leases, net expenditure on property, plant and equipment, outflows for capitalised product development and other intangibles, and adding back the operating cash impacts arising from M&A, disposals & closures, and significant legal charges & expenses is the appropriate underlying metric of the cash cost of sustaining a growing business.

Underlying operating cash conversion is the ratio of underlying operating cash flow to underlying operating profit.

Free cash flow is used by management to monitor utilisation of cash in line with the Group's capital allocation policy. It is defined as net cash flow from operating activities, after interest received, purchase of property, plant and equipment, proceeds on disposal of property, plant and equipment, expenditure on product development and other intangibles, and principal payments on leases.

Organic growth (of revenue, profit or orders) excludes the impact of currency translation, acquisitions, disposals and closures of businesses. It is calculated as the annual rate of increase that was achieved at constant currency exchange rates, assuming that acquisitions made during the prior-year were only included for the same proportion of the current year, and adjusted for closures or disposals to reflect the comparable period of operation or ownership. The constant exchange comparison retranslates the prior year reported results from the prior year's average exchange rates into the current year's average exchange rates. See note 2 for reconciliations between absolute growth and organic growth.

See note 22 for details of other metrics and definitions.

3. Revenue

An analysis of the Group's revenue is as follows:

	2021			
	Maritime £m	**Intelligence & Communications £m**	**Critical Detection & Control £m**	**Total £m**
Point in time	**84.5**	**97.8**	**124.9**	**307.2**
Over time	**310.9**	**143.5**	**89.1**	**543.5**
	395.4	**241.3**	**214.0**	**850.7**

	2020			
	Maritime £m	Intelligence & Communications £m	Critical Detection & Control £m	Total £m
Point in time	100.4	119.0	136.7	356.1
Over time	291.4	122.0	90.3	503.7
	391.8	241.0	227.0	859.8

The table below notes the revenue expected to be recognised in the future that is related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date.

	2022 £m	**2023 £m**	**2024 and beyond £m**	**Total £m**
Point in time revenue	**252.1**	**84.8**	**34.3**	**371.2**
Over time revenue	**460.3**	**230.3**	**239.1**	**929.7**

4. Investment income

	2021 £m	2020 £m
Bank interest	**0.1**	0.3
Fair value movement on derivatives	**-**	3.4
	0.1	3.7

5. Finance costs

	2021 £m	2020 £m
Amortisation of finance costs of debt	**0.6**	0.6
Interest on loans and overdrafts	**5.4**	5.4
Financial liabilities at FVTPL - net change in fair value	**4.7**	2.9
Finance charge on leases	**1.4**	1.7
Total borrowing costs	**12.1**	10.6
Retirement benefit scheme finance cost	**1.0**	1.3
Fair value movement on derivatives	**7.8**	-
	20.9	11.9

The Canadian Government loans are measured at fair value to profit and loss (FVTPL). Bank loans, loan notes and overdrafts are recorded at amortised cost.

6. Tax

	2021 £m	2020 £m
Current tax		
United Kingdom	**(0.4)**	4.7
Overseas	**13.7**	6.7
	13.3	11.4
Deferred tax		
Origination and reversal of temporary differences	**1.9**	7.5
Recognition of deferred tax liability on overseas retained earnings	**-**	0.8
UK tax rate change	**0.6**	0.2
	2.5	8.5
Total tax charge	**15.8**	19.9

Corporation tax in the UK is calculated at 19% (2020: 19%) of the estimated assessable profit for the year. UK deferred tax at the balance sheet date has been calculated at 25% (2020: 19%) on those temporary differences that are expected to reverse after 1 April 2023; this has added £0.6m to the deferred tax charge for the year. In other territories current tax is calculated at the rates prevailing in the respective jurisdictions and deferred tax has been calculated at enacted tax rates that are expected to apply to the period when assets are realised or liabilities are settled. US deferred tax balances at 31 December 2021 have been calculated at 24% (2020: 24%).

7. Dividends

	2021 £m	2020 £m
Final dividend for the year ended 31 December 2020 of 41.5p per share, additional interim dividend of 39.2p per share (equivalent to the postponed final dividend) for the year ended 31 December 2019	**29.5**	27.8
Interim dividend for the year ended 31 December 2021 of 16.2p (2020: 15.4p) per share	**11.6**	10.9
	41.1	38.7
Proposed final dividend for the year ended 31 December 2021 of nil (2020: 41.5p) per share	**-**	29.5

Under the terms and conditions set out in the announcement dated 16 August 2021 (relating to the recommended cash acquisition of Ultra by Cobham Ultra Acquisitions Limited), no final dividend will be paid to shareholders while the acquisition remains conditional on obtaining certain clearances, including UK government approval. Consequently, the total full year dividend is unchanged from the interim dividend of 16.2p (2020: 56.9p full year).

8. Earnings per share

	2021 Pence	2020 Pence
Basic underlying (see below)	**135.7**	130.6
Diluted underlying (see below)	**135.2**	130.3
Basic	**93.8**	118.0
Diluted	**93.5**	117.7

The calculation of the basic, underlying and diluted earnings per share is based on the following data:

	2021 £m	2020 £m
Earnings		
Earnings for the purposes of earnings per share being profit for the year	**66.9**	83.8
Underlying earnings		
Profit for the year	**66.9**	83.8
Amortisation of intangibles arising on acquisition (net of tax)	**7.5**	9.8
Acquisition and disposal-related costs (net of tax)	**7.5**	0.7
Loss/(gain) on fair value movements of derivatives (net of tax)	**6.3**	(2.8)
Loss/(gain) on disposals (net of tax)	**2.3**	(1.7)
Significant legal charges and expenses (net of tax)	**6.1**	3.0
Earnings for the purposes of underlying earnings per share	**96.6**	92.8

Reconciliation of tax charge for the year to underlying tax charge as used in the determination of underlying earnings per share:

	2021 £m	2020 £m
Tax charge for the year (see note 6)	**15.8**	19.9
Amortisation of intangibles arising on acquisition	**2.4**	2.8
Acquisition and disposal-related costs	**0.3**	0.4
Loss/(gain) on fair value movements of derivatives	**1.5**	(0.6)
Loss/(gain) on disposals (net of restructuring costs in 2020)	**-**	(1.1)
Significant legal charges and expenses	**-**	0.3
Tax charge for the purposes of underlying earnings per share	**20.0**	21.7

	2021	2020
Underlying profit before tax (see note 2)	**116.6**	114.5
Tax rate applied for the purposes of underlying earnings per share	**17.1%**	19.0%

The adjustments to profit are explained in note 2.

The weighted average number of shares is given below:	2021 Number of shares	2020 Number of shares
Number of shares used for basic earnings per share	**71,234,315**	71,026,681
Effect of dilutive potential ordinary shares – share options	**244,736**	179,001
Number of shares used for fully diluted earnings per share	**71,479,051**	71,205,682

During 2021, the company purchased and cancelled nil shares (2020: nil).

9. Goodwill

	2021	2020
	£m	£m
Cost		
At 1 January	**410.8**	424.3
Exchange differences	**2.5**	(7.9)
Disposals	**-**	(8.9)
Reclassified (to)/from held for sale	**(2.4)**	3.3
At 31 December	**410.9**	410.8
Accumulated impairment losses		
At 1 January	**(47.8)**	(58.4)
Disposals	**-**	8.9
Exchange differences	**(0.4)**	1.7
At 31 December	**(48.2)**	(47.8)
Carrying amount at 31 December	**362.7**	363.0

The Group's SBUs, which represent cash generating unit (CGU) groupings, are: PCS, Energy, Forensic Technology, Intelligence & Communications and Maritime. These represent the lowest level at which the goodwill is monitored for internal management purposes. Goodwill is allocated to CGU groupings as set out below:

	2021 Pre-tax Discount rate	2020 Pre-tax Discount Rate	**2021 £m**	2020 £m
PCS	**10.6 - 10.7**	10.2 - 11.2	**30.2**	32.5
Energy	**10.6 - 10.7**	10.2 - 11.2	**18.0**	17.9
Forensic Technology	**10.7**	10.7	**26.1**	25.6
Intelligence & Communications	**10.6 - 10.7**	10.2 - 11.2	**179.2**	178.2
Maritime	**10.6 - 10.9**	10.2 - 11.2	**109.2**	108.8
Total – Ultra Electronics			**362.7**	363.0

The recoverable amounts of CGUs are determined from value-in-use calculations. In determining the value-in-use for each CGU, the Group prepares cash flows derived from the most recent financial budgets and strategic plans, representing the best estimate of future performance. These plans, which have been approved by the Board, include detailed financial forecasts and market analysis covering the expected development of each CGU over the next five years. The cash flows into perpetuity are also included and assume a growth rate of 2.0% per annum (2020: 2.0%).

The key assumptions used in the value-in-use calculations are those regarding the discount rate, future revenues, growth rates, forecast gross margins, underlying operating profit and underlying operating cash conversion. Management estimates the discount rate using pre-tax rates that reflect current market assessments of the time value of money and risks specific to the Group, being the Weighted Average Cost of Capital (WACC). The WACC is then risk adjusted to reflect risks specific to each business. The pre-tax discount rate used during 2021 was UK: 10.6% (2020: 10.2%), Canada: 10.7% (2020: 10.7%), USA 10.7% (2020: 11.2%) and Australia: 10.9% (2020: 11.2%). Future revenues are based on orders already received, opportunities that are known and expected at the time of setting the budget and strategic plans and future growth rates. Budget and strategic plan growth rates are based on a combination of historical experience, available Government spending data, and management and industry expectations of the growth rates that are expected to apply in the major markets in which each CGU operates, and included consideration of Covid-19 impacts during the budget review cycle. Forecast gross margins reflect past experience, factor in expected efficiencies to counter inflationary pressures, and also reflect likely margins achievable in the period. Longer-term growth rates, applied into perpetuity at the end of the strategic planning period, are set at 2.0% (2020: 2.0%). Ultra considers the long-term growth rate to be appropriate for the sectors in which it

9. Goodwill (continued)

operates, taking into consideration greater defence spending uncertainty and the possible impacts of climate change.

Within each of the strategic plans, a number of assumptions are made about business growth opportunities, contract wins, product development and available markets. A key assumption is that there will be continued demand for Ultra's products and expertise from a number of US Government agencies and prime contractors during the strategic plan period, and hence continued profit and cash generation.

Sensitivity analysis, which included consideration of the potential impacts of Brexit, has been performed on the value-in-use calculations to:

(i) reduce the post-2026 growth assumption from 2.0% to nil;
(ii) increase the discount rates by 3.0%
(iii) apply a 20% reduction to forecast operating profits in each year of the modelled cash inflows; and
(iv) consider specific market factors as noted above.

The value-in-use calculations exceed the CGU carrying values after applying sensitivity analysis.

10. Property, plant and equipment

During 2021, the Group spent £22.2m on the acquisition of property, plant and equipment. The Group did not make any significant disposals during the year.

11. Leased assets

During 2021, the Group recognised an additional £11.9m of leased assets. The Group did not make any significant disposals during the year.

12. Inventories

	2021 £m	2020 £m
Raw materials and consumables	**56.4**	58.3
Work in progress	**29.1**	35.0
Finished goods and goods for resale	**7.4**	10.3
	92.9	103.6

13. Trade and other receivables

	2021 £m	2020 £m
Non-current:		
Amounts receivable from over time contract customers	**13.5**	12.9
	13.5	12.9

	2021 £m	2020 £m
Current:		
Trade receivables	**106.5**	101.5
Loss allowance against receivables	**(2.0)**	(1.4)
Net trade receivables	**104.5**	100.1
Amounts receivable from over time contract customers	**73.7**	66.5
Other receivables	**3.6**	6.2
Prepayments	**18.6**	10.6
Accrued income	**7.2**	5.1
	207.6	188.5

14. Trade and other payables

	2021	2020
	£m	£m
Current:		
Trade payables	**31.6**	44.4
Amounts due to over-time contract customers	**71.1**	68.2
Other payables	**15.4**	19.9
Accruals	**71.8**	46.2
Deferred income	**25.8**	20.6
	215.7	199.3

	2021	2020
	£m	£m
Non-current:		
Amounts due to over-time contract customers	**7.8**	8.2
Deferred income	**3.6**	3.8
	11.4	12.0

15. Provisions

	Warranties	**Contract related provisions**	**Other**	**Total**
	£m	**£m**	**£m**	**£m**
At 1 January 2021	7.5	9.9	7.2	24.6
Reclassifications	-	(2.2)	2.2	-
Created	1.9	3.1	6.3	11.3
Reversed	(1.9)	(3.5)	(1.3)	(6.7)
Utilised	(0.6)	(1.7)	(1.0)	(3.3)
Exchange differences	-	-	0.2	0.2
At 31 December 2021	**6.9**	**5.6**	**13.6**	**26.1**
Included in current liabilities	6.7	4.7	11.9	23.3
Included in non-current liabilities	0.2	0.9	1.7	2.8
	6.9	**5.6**	**13.6**	**26.1**

Warranty provisions are based on an assessment of future claims with reference to past experience. Such costs are generally incurred within two years after delivery. Contract-related provisions – for example, including provisions for agent fees and costs relating to contract execution and delivery – are utilised over the period as stated in the contract to which the specific provision relates. Other provisions include reorganisation costs, costs in relation to settlement of legal matters, deferred consideration and dilapidation costs. Reorganisation costs will be incurred over the period of the reorganisation, which is typically up to two years. Deferred consideration is payable when earnings targets are met. Dilapidations will be payable at the end of the contracted life, which is up to 15 years.

16. Retirement benefit schemes

The amount included in the balance sheet arising from the Group's obligation in respect of its defined benefit retirement schemes is as follows:

	2021	2020
	£m	£m
Fair value of scheme assets	**377.5**	369.5
Present value of scheme liabilities	**(412.3)**	(442.6)
Retirement benefit obligations	**(34.8)**	(73.1)
Related deferred tax asset	**8.9**	14.0
Net pension liability	**(25.9)**	(59.1)

A full actuarial assessment of the UK defined benefit scheme was carried out as of April 2019; Ultra reached agreement with the pension scheme trustee board to maintain the £11m per annum payment to eliminate the deficit over the period to March 2025. The next valuation will take place as of April 2022.

The UK defined benefit pension scheme was closed to new members in 2003 and to future benefit accrual from 5 April 2016.

The discount rate used in the actuarial assessment of the UK defined benefit scheme at 31 December 2021 was 1.90% (2020: 1.45%).

£2.3m of retirement benefit obligation was de-recognised in the year when the non-core Forensic Technology business in Switzerland was sold (see note 18).

17. Cash flow information

	2021	2020
	£m	£m
Operating profit	**105.9**	106.3
Adjustments for:		
Depreciation of property, plant and equipment	**10.9**	10.4
Amortisation of intangible assets	**16.1**	18.6
Amortisation of leased assets	**8.0**	8.5
Cost of equity-settled employee share schemes	**5.9**	2.5
Defined benefit pension scheme funding	**(11.2)**	(11.0)
Loss on disposal of property, plant and equipment	**0.1**	0.1
Increase in provisions	**1.3**	0.2
Operating cash flow before movements in working capital	**137.0**	135.6
Decrease/(increase) in inventories	**3.5**	(13.8)
(Increase)/decrease in receivables	**(19.0)**	19.3
Increase in payables	**12.7**	1.5
Cash generated by operations	**134.2**	142.6
Income taxes paid	**(5.7)**	(5.4)
Interest paid	**(5.6)**	(5.5)
Lease liability interest paid	**(1.4)**	(1.7)
Net cash from operating activities	**121.5**	130.0

The total cash outflow in 2021 relating to leases was £9.7m (2020: £10.7m), of which £0.1m (2020: £0.2m) related to low-value or short-term leases not recognised on the balance sheet.

17. Cash flow information (continued)

Reconciliation of net movement in cash and cash equivalents to movements in net debt:

	2021 **£m**	2020 £m
Net increase in cash and cash equivalents	**55.0**	3.1
Cash inflow from movement in debt	**-**	65.1
Change in net debt arising from cash flows	**55.0**	68.2
Lease liability movement	**(3.0)**	3.5
Fair value adjustments and changes in interest accruals	**(4.6)**	(2.7)
Amortisation of finance costs of debt	**(0.6)**	(0.6)
Disposal of business	**0.2**	-
Translation differences	**(1.2)**	0.6
Movement in net debt in the year	**45.8**	69.0
Net debt at start of year	**(85.8)**	(154.8)
Net debt at end of year	**(40.0)**	(85.8)

Net cash and cash equivalents and overdrafts comprised the following:

	2021 **£m**	2020 £m
Cash and cash equivalents	**138.8**	114.4
Overdrafts	**(0.1)**	(30.3)
	138.7	84.1

Cash and cash equivalents comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

Net debt comprised the following:	**2021** **£m**	2020 £m
Cash and cash equivalents	**138.8**	114.4
Borrowings	**(178.8)**	(200.2)
	(40.0)	(85.8)

Reconciliation of changes in financing liabilities:	**2021** **£m**	2020 £m
Borrowings at start of year	**(200.2)**	(265.3)
Less overdraft at start of year	**30.3**	28.3
Liabilities arising from financing activities at start of year	**(169.9)**	(237.0)
Repayments of borrowings	**70.0**	76.2
Proceeds from borrowings	**(70.0)**	(11.1)
Other non-cash movements	**(4.6)**	(2.7)
Amortisation of finance costs of debt	**(0.6)**	(0.6)
Principal payment on leases	**8.3**	9.0
Lease liability non-cash movements	**(11.3)**	(5.5)
Disposal of business	**0.2**	-
Translation differences	**(0.8)**	1.8
Liabilities arising from financing activities at end of year	**(178.7)**	(169.9)
Add overdraft at end of year	**(0.1)**	(30.3)
Borrowings at end of year	**(178.8)**	(200.2)

18. Disposals

In June 2021 certain non-core assets from our contract electronics manufacturing business in the Critical Detection & Control SBU were disposed of and in August 2021 certain non-core assets from our Forensic Technology business in Switzerland, also part of the Critical Detection & Control SBU, were disposed of.

The assets and liabilities disposed of were as follows:

	2021
	£m
Other intangible assets	**0.9**
Property, plant and equipment	**1.8**
Inventories	**3.7**
Trade and other receivables	**0.4**
Net cash	**0.4**
Trade and other payables	**(1.3)**
Retirement obligation	**(2.3)**
Total	**3.6**
Proceeds received	**(1.2)**
Loss on disposal	**2.4**

Classified as held for sale

As at 31 December 2021, assets and liabilities have been classified as held for sale for net assets planned to be disposed of in the following 12 months, which are shown in the table below at their fair value. All of these assets and liabilities related to non-core aerospace assets to be divested to help facilitate the closure of our Greenford PCS site and were held within the Critical Detection & Control SBU. The disposal of these assets completed on 24 January 2022, for cash consideration of £34.8m; the gain on disposal recorded in FY22 was £29.2m.

	2021
	£m
Goodwill	2.4
Inventories	4.4
Total assets classified as held for sale	**6.8**
Trade and other payables	(1.2)
Total liabilities classified as held for sale	**(1.2)**
Net assets classified as held for sale	**5.6**

19. Contingent liabilities

Contingent liabilities are potential future cash outflows which are either not probable or cannot be measured reliably, or will be confirmed only by the occurrence of an uncertain future event not wholly within the control of the Group.

The Group has entered into a number of guarantee and performance bond arrangements in the normal course of business, totalling £41.5m (2020: £37.3m).

As previously announced, investigations associated with conduct of business issues are ongoing, and Ultra continues to cooperate with the relevant authorities. A provision has been booked with respect to one matter where the IAS 37 provision recognition criteria have been deemed to have been met. On the other matter, taking into account all available evidence, Ultra concluded that the amount of any possible obligation cannot be measured with sufficient reliability. Consequently, the timing and amount, if any, of financial effects (such as fines, penalties or damages) or other consequences from the investigation is not possible to reliably predict or estimate.

19. Contingent liabilities (continued)

Future liabilities contingent on deal completion: costs already incurred in relation to the proposed acquisition of the Group by Cobham Ultra Acquisitions Limited have been expensed in 2021. However, certain costs associated with the proposed acquisition are contingent upon the acquisition becoming effective, an uncertain future event not wholly in the control of the Group, consequently they do not meet the IAS 37 criteria to be provided for as at 31 December 2021. These costs will comprise financial and corporate broking advice of £26.0m and retention bonuses for certain employees of £5.5m.

20. Five-year review

	2017*† £m	2018† £m	2019 £m	2020 £m	**2021 £m**
Revenue					
Maritime	329.5	317.9	353.0	391.8	**395.4**
Intelligence & Communications	200.5	211.1	224.8	241.0	**241.3**
Critical Detection & Control	245.4	237.7	247.6	227.0	**214.0**
Total revenue	775.4	766.7	825.4	859.8	**850.7**
Underlying operating profit[a]					
Maritime	59.3	52.8	52.5	58.6	**59.4**
Intelligence & Communications	18.8	21.6	30.2	33.5	**37.9**
Critical Detection & Control	42.0	38.3	35.5	34.0	**32.3**
Total underlying operating profit[1]	120.1	112.7	118.2	126.1	**129.6**
Underlying operating margin[1]	15.5%	14.7%	14.3%	14.7%	**15.2%**
Profit before tax	60.6	42.6	91.0	103.7	**82.7**
Profit after tax	48.9	32.4	74.6	83.8	**66.9**
Underlying operating cash flow[2]	116.5	89.3	86.8	116.1	**111.5**
Free cash flow[3]	65.3	67.6	64.7	99.4	**90.7**
Net debt at year-end[4]	(74.5)	(157.5)	(154.8)	(85.8)	**(40.0)**
Underlying earnings per share (p)[5]	116.7	109.5	119.5	130.6	**135.7**
Dividends per share (p)	49.6	51.6	54.2^	56.9	**16.2****
Average employee numbers	4,172	4,119	4,089	4,253	**4,531**

Notes:

The operating segment split for 2017 to 2019 has been restated to reflect the new segments that became effective from 1 January 2020.

1 Underlying operating profit is before amortisation of intangibles arising on acquisition, acquisition and disposal related costs, significant legal charges and expenses and, for 2018 and earlier, the S3 programme and impairments. See note 2. Underlying operating margin is the underlying operating profit as a percentage of revenue

2 Underlying operating cash flow is cash generated by operations and dividends from associates, less net capital expenditure, 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.

3 Free cash flow is before dividends paid, acquisitions, disposals and financing.

4 Net debt is loans, overdrafts and finance lease liabilities less cash and cash equivalents.

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.

^ the 2019 total dividend per share of 54.2p includes the 2019 final dividend that was withdrawn as a precautionary measure due to the Covid-19 pandemic and paid on 18 September 2020 as an additional interim dividend.

**Under the terms and conditions set out in the announcement dated 16 August 2021 (relating to the recommended cash acquisition of Ultra by Cobham Ultra Acquisitions Limited), no 2021 final dividend will be paid to shareholders while the acquisition remains conditional on obtaining certain clearances, including UK government approval. Consequently, the total full year dividend is unchanged from the interim dividend of 16.2p.

* Not prepared under IFRS 15 † Not prepared under IFRS 16

21. Financial information

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2021 or 2020, but is derived from those accounts. Statutory accounts for 2020 have been delivered to the Registrar of Companies and those for 2021 will be delivered following the company's annual general meeting. The auditor has reported on those accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under s498(2) or (3) Companies Act 2006.

Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards (“IFRS”), this announcement does not itself contain sufficient information to comply with IFRS.

The Group has changed its accounting policy from 1 January 2021 relating to the capitalisation of certain Software as a Service (SaaS) costs following the IFRS Interpretation Committee’s agenda decision published in April 2021. This change in accounting policy led to an increase in operating expenses of £1.5m in 2021, these costs would have been capitalised under the previous policy and amortised over five years. The impact to prior periods was not material.

Copies of the annual report will be sent to shareholders who have elected to receive a copy of the annual report in due course and will also be available from the Company’s registered office at 35 Portman Square, London, W1H 6LR. The report will also be available on the Company’s website: www.ultra-electronics.com.

22. Other metrics and definitions

Adjusted EBITDA is the underlying operating profit for the year, before depreciation charges and before amortisation arising on non-acquired intangible assets. Net debt used in the 'net debt to EBITDA’ metric comprises borrowings including pension obligations and lease liabilities, less cash and cash equivalents. For covenant purposes, net debt does not include pension obligations and all impacts of IFRS 16 are removed from adjusted EBITDA and net debt, and adjusted EBITDA is amended to remove the EBITDA generated by businesses up to the date of their disposal.

Return on Invested Capital (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.

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 costs associated with borrowings, excluding lease finance charges (total borrowing costs per note 5, excluding the finance charge on leases, adding back bank interest per note 4).

Underlying tax is the tax charge on underlying profit before tax. The underlying tax rate is underlying tax expressed as a percentage of underlying profit before tax. This metric is used to calculate the underlying earnings per share.

22. Other metrics and definitions (continued)

Order intake is the value of new contractually committed customer orders (and amendments to existing orders) booked in the year.

Order book is the value of partially satisfied and unsatisfied performance obligations from contractually committed customer orders.

Order cover is the ratio of the 31 December 2021 closing order book due for execution in 2022, to consensus revenue for 2022.

Five Eyes nations include Australia, Canada, New Zealand, UK & USA

ADSI Air Defence Systems Integrator

ORION Ultra's software-defined, multi-channel, multi-band, MIMO radio platform that provides a Unified Heterogeneous Wireless Network (HetNet) capable of supporting a diversity of user requirements and resilient network operations in contested and congested environments.

REAP Rosetta Echo Advanced Payloads

RAIN Rapid Application of Information: automates the integration of national information with tactical data providing more clarity and depth of knowledge for Command and Control (C2) in the Find, Fix, Track, Target, Engage & Assess (F2T2EA) process.

Athena cloud-based advanced analytics for sifting through all-source data and delivering it through an active, near-real-time query system and through Machine Learning as a Service (MLaaS)