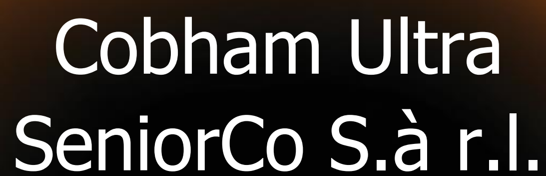



## Société à responsabilité limitée

Consolidated Financial Statements, Management Report
and Report of the Réviseur d'entreprises agréé

For the year ended 31 December 2022

2-4 rue Beck
L-1222 Luxembourg (Lëtzebuerg)
Luxembourg
R.C.S. Luxembourg: B258134

ULTRA

## Contents

| | |
|---|---|
| Consolidated Management report | 2 |
| Report of the Réviseur d'enterprises agréé | 17 |
| Consolidated income statement | 19 |
| Consolidated statement of other comprehensive expense | 20 |
| Consolidated statement of financial position | 21 |
| Consolidated statement of changes in equity | 22 |
| Consolidated cash flow statement | 23 |
| Notes | 24 |

# Consolidated Management report

## Group Overview and Management Structure

### History and ownership structure

Ultra Electronics ("Ultra") was formed in 1993 to acquire the Electronic Systems division of Dowty Group plc and was listed on the London Stock Exchange in 1996. Since then, Ultra has grown both organically and through over fifty acquisitions.

On 16 August 2021, the Ultra Electronics Holdings plc Board of Directors unanimously recommended an offer by Cobham Ultra Acquisitions Limited[1], a company incorporated in England and Wales and a wholly-owned indirect subsidiary of Cobham Group Holdings Limited ("Cobham"), an entity controlled by funds managed by Advent International Corporation ("Advent International") to acquire Ultra Electronics Holdings plc (the "Acquisition"). This offer, was subsequently approved by Ultra Electronics Holdings plc's shareholders.

On 6 July 2022, the UK Government Business Secretary cleared the acquisition to proceed. The acquisition completed on 1 August 2022 and Ultra Electronics Holdings plc was de-listed from the London Stock Exchange and renamed Ultra Electronics Holdings Limited. This report includes the consolidated financial statements of Cobham Ultra SeniorCo S.à r.l. ("the Company") and its subsidiaries ("the Group") for the period ended 31 December 2022. The results of Ultra Electronics Holdings Limited and its subsidiaries are consolidated into Cobham Ultra SeniorCo S.à r.l. from 1 August 2022, the date of acquisition, consequently these financial statements reflect only five months of Ultra trading, not the full 12 months from 1 January 2022 to 31 December 2022.

### Background on Advent International

Founded in 1984, Advent International is one of the largest and most experienced global private equity firms. With offices on four continents, it has a globally integrated team of more than 250 investment professionals, focused on buyouts and growth equity investments in five core sectors. Since initiating its private equity strategy in 1989, Advent International has invested $65bn in over 400 private equity investments across 42 countries and, as at 31 December 2022, managed $89bn in assets. The Advent International fund investing in Cobham and Ultra is Advent International GPE IX.

During the acquisition of Ultra, entities controlled by funds managed by Advent International made certain undertakings to regulatory authorities in the UK and continue to ensure full compliance with these commitments.

### Board of Managers

The composition of the Company's Board of Managers is as follows:[2]

| Board Member | Representation | Background |
|---|---|---|
| Martin Barrow (Manager)<br>Appointed:<br>29 June 2023 | Advent International<br>Advent International title: Director, Global Tax, based in Boston, United States | Martin joined Advent International in January 2021 and is responsible for overseeing Advent's tax profile with particular focus on mergers and acquisitions. Prior to joining Advent, Martin was a partner with KPMG based in New York having also worked for KPMG in London. During his career, Martin has spent 25 years advising a variety of private equity and other funds.<br>Martin holds the degrees of Bachelor of Business Administration, Masters of Professional Accounting and Doctor of Law from The University of Texas at Austin. In addition, he holds a Master of Laws from the University of |

[1] Cobham Ultra Acquisitions Limited is a 100% owned indirect subsidiary of Cobham Ultra SeniorCo S.à r.l., the entity into which Ultra results are now consolidated.

[2] Michael J Ristaino was a Manager of the Company until 29 June 2023, when he resigned and was replaced by Martin Barrow. Mr Ristaino's profile has been included in this table as he was a Manager throughout the period to which this report relates.

| Board Member | Representation | Background |
|---|---|---|
| | | London with a concentration in International Business and Commercial Law.<br><br>Other than directorships of direct and indirect affiliates of the Company, he has no other directorships. |
| Donald E. Whitt, Jr.<br><br>(Manager) | Advent International<br><br>Advent International title: Vice President of Global Tax, based in Boston, United States | Don joined Advent International in 2019 and is responsible for the firm's global tax function. Don has over 25 years of international tax experience both inhouse and in public accounting.<br><br>Don previously held tax leadership roles at Micron Technology Inc. and in the tax planning group at Pfizer. Don holds a B.A. in Economics, M.S. in Taxation, and a J.D. from the University of Toledo and is a CPA.<br><br>Other than directorships of direct and indirect affiliates of the Company, he has no other directorships. |
| Michael J. Ristaino (Manager)<br><br>Resigned:<br><br>29 June 2023 | Advent International<br><br>Advent International title: Vice President of Finance, Funds, based in Boston, United States | Michael joined Advent International in 1989 and is responsible for the firm's fund reporting and administration. During his tenure, Michael has led Advent International initiatives to improve financial reporting to their limited partners by leveraging technology and enhancing processes. He also serves on Advent International's Valuation Committee and contributed to the development of the firm's valuation policy and process. |

## Compliance statement

The Managers consider the annual report and financial statements to comply with all aspects of the Guidelines for Disclosure and Transparency in Private Equity.

## Overview of the Group's business model

Ultra is a trusted partner in the key elements of mission-critical and intelligent systems. Ultra has its headquarters in the UK and five strategic business units operating primarily in the US, UK, Canada and Australia.

Ultra employs around 4,400 people, with the largest number based in North America.

Ultra provides application-engineered solutions in the key elements of mission critical and intelligent systems that are on many of the world's long-term defence programmes.

Ultra partners with the US Department of Defense ("DoD") (DoD direct and indirect sales represented 50% of the Group's full year 2022 revenue), the UK Ministry of Defence ("MoD") (MoD direct and indirect sales represented 12% of the Group's full year 2022 revenue) and other governments, aerospace, defence and critical infrastructure providers, both directly and through prime contractors.

Through innovative problem solving, and by using evolving technologies, Ultra engages directly with its customers to design mission-led solutions aligned to their future needs. Technology design is Ultra's core capability, used to detect, distil, direct and deploy data and information where it is needed most. In the period, Ultra and its customers invested an amount equal to 13.2% of Group revenue into research and development, with the majority of customer funding coming from the DoD or US prime contractors.

Ultra's core markets are the "five-eyes" nations (Australia, Canada, New Zealand, the UK and the US) in the following sectors: maritime, C4ISR/EW (command, control, communications, computers, intelligence, surveillance, and reconnaissance / electronic warfare), military and commercial aerospace, security, nuclear energy and industrial sensors.

During the year, Ultra operated across the following Strategic Business Units, each with differentiated capabilities and many leading market positions:

*Maritime*

The Maritime business provides leading multi-mission solutions to protect our "five-eyes" navies. Maritime's market-leading mission systems deliver dominance in the maritime domain. It's broad portfolio of capabilities is operational on fleets across the allied navies worldwide. It develops advanced specialist sonar systems to deliver a tactical edge in the modern maritime and underwater battlespace. These provide critical operational advantages to Ultra's defence customers across surface, sub-surface and unmanned platforms.

*Intelligence and Communications*

The Intelligence and Communications business delivers intelligence that informs decision-making in the most challenging environments through mission-critical, multi-domain communications, command and control, cyber security and electronic warfare. Its innovative solutions provide information advantage through the intelligent application of integrated technologies combined with through-life support service, ensuring that those operating in high-threat environments have the intelligence they need to carry out their missions safely and effectively.

*Precision Control Systems*

The Precision and Control Systems business supplies high-integrity mission and safety-critical products and systems for the most challenging situations, mainly in military and commercial aerospace. Its manned and unmanned vehicle systems and equipment improve vehicle reliability and performance, while reducing the burden on operators and maintainers.

*Forensic Technology*

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

*Energy*

The Energy business designs, manufactures, supplies and supports safety sensors and systems in nuclear and selected industrial applications worldwide. As a global leader in highly regulated markets, including nuclear, oil and gas and space, it develops sensors, instrumentation and control systems for harsh environments and mission- critical applications.

## Development and Performance of the Business

Following the acquisition of Ultra, the business units have been encouraged to make decisions closer to the customer in order to allow for greater focus and to be able to unlock their full potential. Each unit has full responsibility for its own strategy, and financial and operational performance.

These units are supported by a lean corporate centre with responsibility for specialist Group Finance, Treasury, Tax and Legal matters, and some central IT provision.

## Our strategy

The Group comprises a portfolio of highly strategic defence, security, critical detection & control businesses. Through innovative problem solving, using sustainable capabilities and evolving technologies, Ultra provides the insight, technology and services its clients need to perform at their best and to help them make the world a safer place.

Ultra plays an important role in all the countries in which it operates and intends to continue to serve as an important supplier to the sector. Ultra's core markets are the "five-eyes" allied nations (Australia, Canada, New Zealand, the UK and the US) and these will remain the key focus areas for Ultra in the future. Ultra believes there are many exciting growth opportunities across the "five-eyes" nations and that Ultra's focus on these nations as its core markets, as well as its operating and research and development footprint across the "five-eyes" nations, positions the business very well for the future.

Following the acquisition by Cobham and the renewed focus on the businesses within the Group, Ultra's strategy continues to focus on how best to position each business unit to compete for greater market share whilst considering the views of key stakeholders including our employees, customers, suppliers, communities and investors across Ultra's core markets. The Group remains committed to research and development by investing in both new products and enhancements to the current product base, to allow the Group to build positions where it has technical differentiation.

Ultra takes a strategic approach to corporate responsibility and sustainability, recognising that long-term success is not just about generating shareholder value but also about creating value for all the Group's

stakeholders. Managing external impacts, capitalising on opportunities and conducting business in a responsible and sustainable way helps mitigate the Group's principal risks and strengthen business relationships. Many of Ultra's products and services provide important environmental and social benefits. The decisions and behaviours demonstrated by acting ethically, managing impacts, implementing innovative solutions and engendering positive business relationships also promote and enhance our culture and reputation. Ultra has identified and created 2024 goals for each of its five key stakeholder groups.

In conjunction with the commitments made by Cobham to the UK Government and the strategic objectives of the Group discussed above, the Group remains committed to:

- safeguarding and supporting the UK's national security, including appropriate protections for sovereign UK capability, continuity of supply and critical capabilities in the UK, and appropriate board composition and national security clearance arrangements;
- investing in Ultra's UK workforce by protecting existing and creating new UK manufacturing and engineering jobs and apprenticeships and maintaining a UK headquarters;
- increasing investment in innovation, and research and development in the UK, including by continuing to develop UK-registered intellectual property rights for use in the UK and through investment in new regional technology centres of excellence and funding of academic institutions; and
- accelerating Ultra's Environmental, Social and Governance ("ESG") ambitions, including enhanced commitments on net carbon emissions, diversity and the community investment programme.

The global Covid-19 pandemic which commenced in 2020 continued to affect businesses across the world during 2022. In this context, the Group prioritised the health, safety and security of our employees as well as the continuity of our business. The Group continued to deploy appropriate prevention and protection measures and complied with decisions and recommendations from local public authorities.

## Business review and key performance indicators

### *Key Performance Indicators ("KPIs")*

The following financial KPIs are used to measure the Group's performance:

| | **$m*** |
|---|---|
| Revenue | 539.4 |
| Adjusted EBITDA[3] | 72.1 |
| Operating cash flow | 18.4 |
| Net debt | 2,313.3 |

*The results of Ultra Electronics Holdings Limited and its subsidiaries are consolidated into Cobham Ultra SeniorCo S.à r.l. from 1 August 2022, the date of acquisition, consequently these financial statements reflect only five months of Ultra trading, not the full 12 months from 1 January 2022 to 31 December 2022.

The following non-financial KPI is used to measure the Group's performance:

| | **$m** |
|---|---|
| Order book (at year end) | 1,856 |

The order book, which represents the value of contractually committed orders still to be executed, is considered to be a KPI as it underpins future revenue of the Group. Given the diverse nature of the separate businesses and the different regulatory and business environments each operates in there are no other meaningful non-financial KPIs which can be used to further assess the Group's performance. Other non-financial KPIs are therefore not used by management at a Group level in order to understand the development, performance or position of the business although a range of metrics are used within each of the Group's businesses as appropriate.

[3] Adjusted EBITDA is Earnings Before Interest, Tax, Depreciation and Amortisation, and as adjusted for non-underlying transactions such as the costs associated with the acquisition of Ultra, subsequent restructuring costs and non-underlying credits arising from unwinding of fair value adjustments relating to the acquisition Purchase Price Allocation under IFRS 3. A reconciliation from operating loss to Adjusted EBITDA is provided in note 11. Adjusted EBITDA in these financial statements will differ from EBITDA measures calculated using other bases, such as in financing agreements.

***Revenue & Profit***

Revenue of $539.4m was generated by the Group in the five month period following the 1 August 2022 acquisition date of Ultra. Ultra revenue for the full 12 month period 1 January 2022 to 31 December 2022 was $1,223m, with strong performance across all business units and 10% like-for-like revenue growth.

Adjusted EBITDA[2] was $72.1m for the five month period and Group operating loss was $97.3m, reflecting the impact of costs associated with the take-private of Ultra and subsequent integration costs. Depreciation, amortisation and impairment charges in the period of $118.8m include amortisation of acquired intangibles of $99.1m (which relate to the acquisition of the Ultra Group). Adjusted EBITDA[3] is calculated excluding non-underlying costs of $50.4m and non-underlying net credits of $12.0m related to the unwinding of fair value adjustments required by IFRS 3, such as the fair value adjustment to inventories resulting from the acquisition accounting.

**Operating cash flow**

Operating cash flow in the year was $18.4m. This reflects the impact of non-underlying cash-outflows of $59.9m following the acquisition of Ultra on associated fees and integration costs; as well as a $30.0m outflow into the UK defined benefit pension scheme paid in the period.

***Net debt***

Shortly after the acquisition of Ultra completed, the £50m and $70m of Pricoa loan notes held by Ultra Electronics Holdings Limited were fully repaid, and the legacy Ultra £300m revolving credit facility (which was undrawn) was closed out. The purchase of Ultra was partly funded by:

- first lien seven year term-loans of $883.5m and €450m
- second lien loan of $460m with an eight year term, and
- subordinated shareholder loan (PIK) of $440m with a nine year term

The $883.5m loan amortises by 1% per annum. All other loans are repayable at maturity.

The group also has a six and a half year revolving credit facility ("RCF") of £190m ($229m), this was utilised during the period post acquisition to fund the ongoing working capital needs of the Group's businesses and fund the repayment of the Pricoa loan notes. During 2022 no capital or interest repayments were required.

As at 31 December 2022 the amount drawn on the RCF amounted to $149m. Cash on the balance sheet was $168.2m. The drawings under the RCF have been repaid in full in April 2023.

Net debt, consisting of first and second lien term loans, subordinated shareholder loan, drawn revolving credit facilities and bank overdrafts of $2,416.8m, lease obligations of $40.8m, Government loans of $23.9m net of cash of $168.2m, at 31 December 2022 was $2,313.3m. Net debt excluding lease obligations was $2,272.5m.

The first half-yearly interest payment of $73m was made on 6 February 2023.

***Equity***

The Managers do not recommend the payment of a dividend following their approval of the 2022 financial statements and no dividends were paid during 2022.

During 2022 EPCs of $1,052.2m were issued and $263.4m were repaid, funded from group cash.

***Pensions Contributions***

The Group made contributions to its sponsored UK defined benefit pension schemes of $30.0m in the period 1 August 2022 to 31 December 2022. On an IAS 19 basis the net defined benefit asset was $12.8m at the end of the year.

***Research and development and Capital Investment***

The Group is committed to research and development by investing both in new products and enhancements to the current product base, to allow the Group to build positions where it has technical differentiation. It has invested $22.5m in Group funded research and development activities during the period. In addition, there was $47.5m of customer funded research and development spending in the period. All company funded research and development expenditure is written off as it is incurred unless and until the conditions for capitalisation are met. $0.2m was capitalised during the period. The Group also invested $9.6m in physical and software assets for the long-term benefit of the Group.

## Events after the balance sheet date

On 3 March 2023 the Group divested the US Specialist RF business ("Herley") to CAES Systems Holdings LLC, a 100% owned subsidiary of AI Convoy (Luxembourg) S.à r.l., for $250m on a cash free, debt free basis. AI Convoy (Luxembourg) S.à r.l. is a wholly owned subsidiary of the Group's ultimate parent. The assets and liabilities of Herley have been classified as held for sale in the consolidated statement of financial position at the reporting date.

## Future developments

Ultra's differentiated technology is installed in many of the leading defence platforms that are expected to be in operation for several decades, underpinning our core business. We are well-positioned in high-growth niches within our end-markets, with exposure to areas such as defence electronics and new space. These areas are experiencing increased investment providing a wide array of new business opportunities for Ultra.

## Other matters

As previously announced by Ultra Electronics Holdings, investigations associated with legacy conduct of business issues are ongoing, and Ultra continues to cooperate with the relevant authorities. Provisions have been recognised with respect of these matters.

## Principal risks and uncertainties

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

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

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

Day-to-day ownership of risk sits with businesses and function management.

The Board of Managers consider the principal risks and uncertainties facing the business to comprise the following:

### *Defence Sector Cycle Risk*

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

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

Mitigation commentary/examples

- The Group is geographically spread across the USA, UK and international defence markets.
- Investment in technology to help us access high growth segments of the market.
- Long term projects, which help mitigate against short-term changes in the defence cycle.

Comment, changes and outlook

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

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

### ***Bid and Contract Risk***

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

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

Mitigation commentary/examples

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

Comment, changes and outlook

Balanced risk appetite, with additional controls investment where justified.

We have continued to invest in specialist resources in commercial and legal spheres, improving our bid competency and ability to align new contracts with Ultra's risk appetite across business divisions.

### ***Programme Risk***

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

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

Potential impact

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

Mitigation commentary/examples

- Embedded programme management in each business unit.
- Formal review and escalation framework.
- Review and approval of key programmes.

- 'Lessons learned' and best practice sharing.
- Inspection of programmes by customers.

Comment, changes and outlook

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

### ***Geo-political Risk***

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

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

Mitigation commentary/examples

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

Comment, changes and outlook

Balanced risk appetite, with additional controls investment where justified.

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

### ***Delivering Change***

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

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

Mitigation commentary/examples

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

Comment, changes and outlook

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

### ***Security and Cyber Risks***

As a key partner to our customers and end customers, Ultra has custody of classified information and customer and its own intellectual property. In circumstances where the incidence and sophistication of cyber security crime continues to rise, the effective management and protection of information and Ultra's security

and IT systems is necessary to prevent the compromise of secure information, intellectual property or our people's personal data.

Reputational damage to Ultra as a highly regarded partner in the event of compromise of classified information or IP. This could lead to loss of business opportunities with removal of government approval to work on classified programmes.

Regulatory action or civil/contractual penalties could result from loss of personal data, a partner's IP or classified information.

Mitigation commentary/examples

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

Comment, changes and outlook

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

### *Governance, Compliance & Internal Controls*

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

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

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

Mitigation commentary/examples

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

Comment, changes and outlook

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

In 2022 we continued to invest in professional expertise and capabilities for guidance and oversight in our key industry compliance areas, including trade compliance, defence contractor compliance, offset management and ABC.

2022 has seen continued investment in professional roles and capabilities for guidance and oversight in our key industry compliance areas, including trade compliance, defence contractor compliance and ABC. While recognising the increasing demands of the compliance environment, the assessment of the net risk as reducing reflects the marked improvements in our compliance controls framework.

### *Supply Chain*

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

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

Mitigation commentary/examples

- Proactive management of sourcing and stock levels of critical materials and components
- Use of contractual terms or renegotiation to reflect increasing cost base in pricing by agreement with customers
- Supply chain analysis following events in Ukraine indicate no direct supply chain implications

Comment, changes and outlook

Risk-averse stance supports investment in standardisation, controls and tools to proactively manage supply chain risks. We expect this risk to continue to stabilise in 2023.

### *Specialist Recruitment and Retention*

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

Highly competitive labour markets as economies recover from Covid-19, is driving specialist resourcing gaps in our operations which, if enduring, could start to impact customer programme delivery.

Mitigation commentary/examples

- Embedding of specialist HR talent acquisition function to directly address Ultra's recruitment priorities
- Proactive strategies to retain critical specialist employees targeted for individual locations and circumstances

Comment, changes and outlook

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

## Financial risk management

The Group's operations expose it to a variety of financial risks that include credit risk, liquidity risk, interest rate, cash flow risk and foreign currency exchange rate risk.

The Group's policies seek to limit the adverse effects of these risks on the financial performance of the Group. This includes the use of foreign currency financial instruments, debt and other instruments. The Group does not trade in financial instruments.

***Credit risk***

The Group has policies that require appropriate credit checks on potential customers before contracts are signed and sales are made. The businesses also monitor existing customer accounts on an ongoing basis and take appropriate action where necessary to minimise any potential credit risk. Cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit rating agencies.

***Liquidity risk***

The Group retains sufficient cash to ensure it has available funds for operations and planned expansions and has access to revolving credit facilities under a Group banking arrangement as required.

***Interest rate cash flow risk***

The Group has both interest bearing assets and interest bearing liabilities. Interest bearing assets include cash and bank balances and other receivables which earn interest at a floating rate. The Group has borrowings with a range of maturities at both fixed and floating rates of interest. The Group monitors its exposure to movements in interest rates to bring greater stability and certainty to its borrowing costs, with the policy being to assess the proportion of borrowings that are fixed and floating in the context of prevailing market conditions. During the period, the Group did not use derivative financial instruments to manage interest rate costs.

***Foreign currency exchange rate risk***

The Group's aim is to reduce, or eliminate, whenever practical, foreign exchange transaction risk. The US dollar/sterling exchange rate is the most significant exposure, together with a number of other, smaller foreign exchange transaction exposures. All foreign exchange hedging transactions are approved under delegated authority from the Managers. A number of financial instruments, such as forward rate contracts, are used to manage transactional foreign exchange exposure.

## Going concern

The Group's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposures to credit, liquidity and cash flow risk are described in the Management Report. In addition, note 27 to the Group Financial Statements include the Group's objectives, policies and processes for managing its capital, financial risk management, details of financial instruments and hedging activities, and its exposure to credit liquidity and other risks.

In applying the going concern basis, the Managers have considered the Group cash flow projections and assessed the robustness of the forecast through sensitivity to model severe but plausible downside scenarios which assume forecast net cash inflows from business operations reduce by 25% for the forecast period to reflect the combined impact of potential changes to key assumptions such as reduced cash conversion, revenue growth rate and gross margin. At the year end, the Group has considerable financial resources with liquidity available on the Balance Sheet from its cash resources, with $139.1m cash balances net of overdrafts. As at 23 June 2023, reflecting the most recent data available at the time of approving these financial statements, the Group has $140m of cash on the balance sheet and $198m of committed Revolving Credit Facility headroom available.

There is a springing financial covenant applicable to the Revolving Credit Facility that is tested, subject to certain conditions, quarterly from 30 September 2023 if the facility, net of cash balances, is over 40% drawn. The covenant requires that the leverage ratio of senior secured net debt to EBITDA of the Group, being EBITDA as adjusted to give pro-forma effect to investments, acquisitions, dispositions, mergers, amalgamations, consolidations, disposed operations and allowable pro-forma cost savings and synergies, does not exceed 9.10:1. If the amount drawn on the facility, net of cash balances, is below 40% there is no covenant test applicable.

The Group has a mix of shorter and longer term programmes and a number of leading market positions with customers, including Governments and Primes, across different geographical areas. As a consequence, the Managers believe that the Group is ordinarily well placed to manage its business risks successfully. The Managers have reviewed detailed cash flow projections to the end of June 2024 and have applied stress tests on its cash position. These include severe but plausible downside scenarios which assume forecast net cash inflows from business operations are reduced by 25% for the forecast period. In this scenario the Managers have confirmed that the Group would be able to operate and service the senior debt within the level of its currently available funding over the next 12 months without breaching the covenants in place.

Accordingly, after making enquiries, the Managers have concluded at the time of approving the financial statements that it is their expectation that the Company and the Group as a whole have adequate financial

resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group Financial Statements.

## Employees

At Ultra our employee goal is to 'create a dynamic, inspiring and inclusive work environment that attracts, develops, engages and retains the best diverse talent. In 2022 we continued to invest in the people agenda whilst also ensuring that we retained and engaged critical talent throughout the lengthy Acquisition process in a buoyant external talent market. We accomplished this through delivering a number of actions within the following six key strategic HR Pillars:

### *1. Building the Talent Pipeline*

Ensuring we have the right talent in the right place at the right time has been central to our talent acquisition agenda in 2022. We have significantly improved our strategic workforce planning which is reviewed by the executive committee in the quarterly business reviews. As a result of winning a number of bids on programs the demand for talent growth has been strong in 2022 and we invested in our in-house talent acquisition team to support this, and we continued to invest in recruitment tools to support this. Additionally, we have improved our on-boarding process having completed LEAN sprints on our process and started to work on a virtual on boarding program utilising gamification. We completed an audit of our recruitment process to ensure that it enables us to appeal to the broadest and most diverse talent pools and have also started to put in place accessibility guides for candidates interviewing at our sites.

### *2. Compelling Reward & Recognition*

In 2022 we had to be agile in our compensation and benefit programs to ensure we retained and motivated our employees throughout the acquisition process. In August 2022 as a result of the acquisition a number of Ultra employees benefitted from the £35 share purchase through the legacy Ultra long-term incentive program and employee share schemes in place at the time.

In addition to the above, a retention payment program was put in place to retain critical leadership and functional talent through the acquisition process which was paid out 90 days post completion. This proved extremely successful in retaining talent with a very small number of exits in this population over the last year.

We have continued to run our annual bonus program with the majority of employees across the Group being included in a bonus plan. In 2022 we continued our efforts to harmonise the opportunity by levels to enable better mobility of talent. The bonus scheme is based on performance against profit and cash measures (85% of the opportunity) with an individual performance (15% of the opportunity) enabling us to differentiate awards for higher performance. With regards to the individual component, employees are set four to eight specific objectives that are aligned to the 'Objective and Key results' ("OKRs") of the business or function, and these are reviewed throughout the year but with a formal review in June and December. A rating is given for this, which is calibrated and then used in deriving bonus outcomes and as an input to salary increases.

2022 was the second year of our ASPIRE values recognition program which enables peer to peer recognition for performance against our Agile, Sharing, Performing, Innovating, Rewarding and Empowering values.

### *3. Building leadership and functional capability*

In 2022 our first four cohorts (c.80 participants) completed their 18 month STAR (Self, Thought, Achieve through others and Results) leadership program with an in person module in Q2 held at the Duke campus in North Carolina. As a result of the success of this program we launched the second set of cohorts in Q3 of 2022 with a module again on the Duke campus and with a completion date for the program of Q3 2023.

Our Manager fundamentals program aimed at the 700+ people managers across Ultra continued with modules on recruitment and retention and leadership complexity.

Mandatory training was allocated and completed by all employees covering Code of Conduct, Anti-bribery, IT / data security and Harassment. Additionally, we increased the number of health and safety training modules that needed to be completed by employees.

As part of our 'Aspirations, Capability and Engagement (ACE)' discussions we identify individual training and development actions for individuals and support them with this training. Additionally, all employees at Ultra have been given access to LinkedIn Learning with the content of thousands of courses being made available through our myHR learning system where in our weekly newsletter we share some of the most popular/useful courses to drive adoption rates.

### *4. Succeeding with diversity*

In 2022 we published our first Diversity & Equity Index report highlighting all of the work that we are doing in this space. Our focus has been on three areas:

- Human Moments: focussed around creating the right conversations across the Group. We have invited external speakers in to engage in discussions with us around different topics and opened this up to all employees to attend the virtual sessions. We have continued to work with our Women and BIPOC (Black Indigenous People of Colour) employee resource groups sharing issues and ideas on what we can do to make Ultra an even better place for these groups to work. In 2022 we continued with the roll out of Neuro-diversity awareness training for our senior leader group.
- Human Applications: we introduced our Global DE&I Policy committing to a number of things including equity, diversity and inclusion in the workplace; creating a working environment free of bullying, harassment, victimization and unlawful discrimination; protecting dignity and respect for all; and where individual differences and the contributions of all employees are recognized and valued. We have continued to develop our facilities in our sites so that they are in accessible and usable for all our colleagues and updated our dress code policy to simply 'dress appropriately'. We also continued the work on equity in progression and opportunity looking at how roles are designed, role descriptions and our interview and assessment process. Our successful strategies for success program aimed at senior and high potential women talent at Ultra continued with further modules for existing participants and a new program launched for 60 new participants. This program has over 150 participants within it now 94% of the talent has been retained and 25% of the talent has been promoted since being on the program. In 2021/22 we also committed to disability confident in the UK and signed up to the women in defence charter.
- Individual humans: we have increased our analysis of who we are within Ultra with the benefit of our myHR (Workday) platform. As diversity, equity and inclusion encompass so many different dimensions, we selected The Global Diversity & Inclusion Benchmark as a powerful enabler of strategic conversations and an effective planning tool to help us deliver our diversity, equity and inclusion objectives. We have shown strong progress year on year against the baseline in 2020.

The Group's current diversity statistics for year ended 31 December 2022 are set out below:

| | Male | Female | Not Declared | Total |
|---|---|---|---|---|
| Managers (Board of Managers) | 2 | - | - | 2 |
| Senior Managers | 93 | 35 | - | 128 |
| Other Employees | 2,980 | 1,299 | 2 | 4,281 |
| **Total** | **3,075** | **1,334** | **2** | **4,411** |

### *5. Creating a winning culture*

Due to the acquisition an employee engagement survey was not completed in 2022. There has therefore not yet been an update on the Ultra 2021 engagement scores which had an increase in overall favourability of +2.4% to 61.6% since the 2019 survey.

We have continued to operate a hybrid working arrangement for applicable roles that with remote employees ideally working two to three days from the office to foster greater connectivity, collaboration, innovation and to assist with employee wellbeing. Our values recognition program continues to drive awareness of and behaviour supporting our ASPIRE values and they are also an integral part of our performance management process. Our Employee Assistance programs support employees with wellbeing (health and financial) in addition to all businesses promoting their own wellbeing agendas.

### *6. Transform our operating model*

In 2022 our focus has been on supporting the organisational changes following the Acquisition. This has centred on giving greater day to day autonomy to each business unit. This has now been successfully completed such that each unit now operates on a standalone basis.

*Employee Consultation and Involvement with Management*

As part of the Acquisition, the Advent team, the Group's senior executives and their advisors embarked on a discovery tour across all of our key locations immediately upon taking control of the Group. These meetings enabled the Advent team to get to understand the business through senior leadership team discussions and also to speak to the broader employee population base.

Strategic Business Unit (SBU) leadership team regularly hold 'all hands' / 'townhall' meetings for employees to communicate business performance and priorities and to engage in Q&A sessions.

In 2022, prior to completion of the acquisition, Ultra's independent Ethics committee completed a number of visits and their reports were shared with the Ultra senior executive team and twice per year were discussed at the Ultra Electronics Holdings Board level.

We continue to support our Speak Up platform which enables employees to confidentially raise issues that they feel should be investigated by management.

## Social, community, human rights and environment

Social Value is the long-term, sustainable improvement for society that can be gained by promoting positive social, economic, and environmental impact.

### *A Positive Force*

Ultra's 'A Positive Force' framework sets measurable objectives to develop these critical areas.

These include four pillars:

- Protecting our Planet
- Supporting our People
- Giving Back
- Doing the Right Thing

Our investment in local communities across the Group demonstrates our goals of conducting our business in an ethical, safe, and sustainable way.

Our policies on delivering sustainability and Social Value are closely linked to the United Nations Sustainable Development Goals (SDGs) – these address global challenges across environment, social and economic subjects. Volunteering, Matched Funding, Charity engagement and STEM outreach are key components of Social Value activity that engages our employees, clients and suppliers, and builds the Ultra brand.

Ultra recognises that its operations, products and services have an impact on the environment. The businesses endeavour to improve efficiency in use of raw materials, energy and natural resources through product design, operations and supply chain management and logistics. A confirmation statement is obtained annually from each business unit to confirm that the relevant business has adopted a formal Environmental, Social and Governance (ESG) policy relevant to that business, including matters such as workplace safety, environmental management and product safety. Confirmation is also made by that statement that the

relevant business is in compliance with all environmental laws and all environmental permits necessary in connection with the ownership and operation of the business.

***Forces Charter***

An important element of our community commitment is our Forces Charter: ONE Ultra Forces Charter. We at Ultra endeavour in our business dealings to uphold the key principles of our Charter, which are:

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

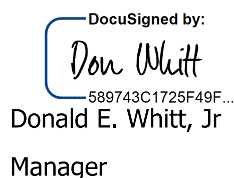
For UK Government departments and their industrial partners, Social Value underpins post-Covid recovery with associated sustainability and prosperity goals. As partner to the UK Government, we have supported the Social Value initiative and our 2022 activities have contributed to the following associated themes:

- Equal opportunities
- Wellbeing
- Covid-19 recovery
- Tackling economic inequality
- Fighting climate change

***Human Rights and Bullying***

Ultra believes in our obligation to respect core human rights, protect individuals against abuse of human rights and take positive action to facilitate enjoyment of basic human rights. This means respecting and observing equality and human rights legislation and introducing policies that promote rights and freedoms for all. We value and encourage diversity within our workforce and our talent acquisition pipelines support increased representation and inclusion. Ultra has zero-tolerance of bullying, harassment, and discrimination towards workers, including all forms of physical, verbal or psychological abuse and we expect our suppliers to adopt the same stance. We work collaboratively with our suppliers to ensure that like our own employees and contingent workers, theirs are protected from bullying, harassment and discrimination and they and their supply chain can compete fairly and have an equal chance of success.

Signed on behalf of the board




Donald E. Whitt, Jr

Manager

30 June 2023

Deloitte.

Deloitte Audit
Société à responsabilité limitée
20 Boulevard de Kockelscheuer
L-1821 Luxembourg
B.P. 1173
L-1011 Luxembourg

Tel: +352 451 451
www.deloitte.lu

To the Board of Managers of
Cobham Ultra SeniorCo S.à r.l.
2-4, rue Beck
L-1222 Luxembourg

**REPORT OF THE *RÉVISEUR D'ENTREPRISES AGRÉÉ***

***Opinion***

We have audited the consolidated financial statements of Cobham Ultra SeniorCo S.à r.l. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2022, and the consolidated income statement, consolidated statement of other comprehensive expense, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

***Basis for Opinion***

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "*Commission de Surveillance du Secteur Financier*" (CSSF). Our responsibilities under the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "*réviseur d'entreprises agréé*" for the Audit of the Consolidated Financial Statements" section of our report. We are also independent of the *Group* in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

***Other matter***

The comparative figures as at 31 December 2021 and for the period from 5 August 2021 (date of incorporation) to 31 December 2021 presented in the consolidated financial statements of the Group have not been audited.

***Other information***

The Board of Managers is responsible for the other information. The other information comprises the information stated in the consolidated management report but does not include the consolidated financial statements and our report of the "*réviseur d'entreprises agréé"* thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

***Responsibilities of the Board of Managers for the Consolidated Financial Statements***

The Board of Managers is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Managers determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Société à responsabilité limitée au capital de 360.000 €
RCS Luxembourg B67.895
Autorisation d'établissement 10022179

© Deloitte Audit, SARL

In preparing the consolidated financial statements, the Board of Managers is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Managers either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

***Responsibilities of the "réviseur d'entreprises agréé" for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the *"réviseur d'entreprises agréé"* that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Managers.
- Conclude on the appropriateness of the Board of Managers use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "*réviseur d'entreprises agréé*" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "*réviseur d'entreprises agréé*". However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

For Deloitte Audit, *Cabinet de révision agréé*

Nick Tabone, *Réviseur d'entreprises agréé*
Partner

30 June 2023

# Consolidated income statement

## For the year ended 31 December 2022

| | Note | Year ended 31 December 2022[4] $m | Unaudited period from 5 August 2021 to 31 December 2021 $m |
|---|---|---|---|
| **Revenue** | *5* | **539.4** | - |
| Cost of sales | | **(397.8)** | - |
| Gross profit | | **141.6** | - |
| Operating expenses | | **(87.8)** | - |
| Acquisition and other non-underlying items[5] | *7* | **(50.4)** | |
| Acquired assets related amortisation and impairment | *7* | **(100.7)** | - |
| Operating loss | | **(97.3)** | - |
| Investment income | *8* | **2.3** | - |
| Finance costs | *9* | **(96.6)** | - |
| Loss before tax | | **(191.6)** | - |
| Tax | *10* | **52.1** | - |
| Loss for the period | | **(139.5)** | - |

The accompanying notes are an integral part of these consolidated financial statements. All results are derived from continuing operations.

The amounts reported in the prior period were below $0.1m and are therefore not visible due to rounding.

[4] The results of Ultra Electronics Holdings Limited and its subsidiaries are consolidated into Cobham Ultra SeniorCo S.à r.l. from 1 August 2022, the date of acquisition, consequently these financial statements reflect only five months of Ultra trading, not the full 12 months from 1 January 2022 to 31 December 2022.

[5] Refer to note 2.21 for further details on the definition of non-underlying items.

# Consolidated statement of other comprehensive expense

## For the year ended 31 December 2022

| | Note | Year ended 31 December 2022 $m | Unaudited period from 5 August 2021 to 31 December 2021 $m |
|---|---|---|---|
| Loss for the period | | **(139.5)** | - |
| | | | |
| Other comprehensive expense | | | |
| *Items that will not be reclassified to profit or loss:* | | | |
| Actuarial loss on defined benefit pension schemes | *24* | **(14.5)** | - |
| Tax relating to items that will not be reclassified | *10* | **2.2** | - |
| | | **(12.3)** | - |
| | | | |
| *Items that are or may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences on translation of foreign operations | | **(0.1)** | - |
| | | **(0.1)** | - |
| | | | |
| Other comprehensive expense for the period, net of income tax | | **(12.4)** | - |
| | | | |
| Total comprehensive expense for the period | | **(151.9)** | - |

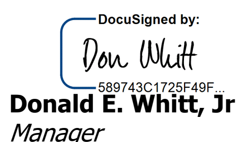
The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated statement of financial position

## As at 31 December 2022

| | Note | 2022 $m | Unaudited 2021 $m |
|---|---|---|---|
| **Assets** | | | |
| Non-current assets | | | |
| Goodwill | *14* | **1,040.8** | - |
| Other intangible assets | *14* | **2,077.8** | - |
| Property, plant and equipment | *12* | **118.6** | - |
| Right-of-use assets | *13* | **38.0** | - |
| Retirement benefit assets | *24* | **12.8** | - |
| Trade and other receivables | *20* | **12.9** | - |
| | | **3,300.9** | - |
| Current assets | | | |
| Investments in financial assets | *15* | **4.5** | - |
| Inventories | *19* | **150.6** | - |
| Trade and other receivables | *20* | **283.0** | - |
| Current tax assets | | **16.4** | - |
| Cash and cash equivalents | *21* | **168.2** | - |
| Assets held for sale | *18* | **274.1** | - |
| | | **896.8** | - |
| Total assets | | **4,197.7** | - |
| **Liabilities** | | | |
| Current liabilities | | | |
| Trade and other payables | *23* | **(329.9)** | - |
| Current tax liabilities | | **(5.4)** | - |
| Derivative financial instruments | *27* | **(23.3)** | - |
| Interest-bearing loans and borrowings | *22* | **(127.0)** | - |
| Provisions | *25* | **(30.0)** | - |
| Liabilities held for sale | *18* | **(44.1)** | - |
| | | **(559.7)** | - |
| Non-current liabilities | | | |
| Other payables | *23* | **(13.8)** | - |
| Deferred tax liabilities | *17* | **(487.7)** | - |
| Interest-bearing loans and borrowings | *22* | **(2,354.5)** | - |
| Provisions | *25* | **(8.8)** | - |
| | | **(2,864.8)** | - |
| Total liabilities | | **(3,424.5)** | - |
| **Net assets** | | **773.2** | - |
| **Equity** | | | |
| Share capital | *26* | **2.6** | - |
| Share premium | *26* | **133.7** | - |
| Equity preferred certificates | *26* | **788.8** | - |
| Translation reserve | *26* | **(0.1)** | - |
| Retained earnings | | **(151.8)** | - |
| **Total equity** | | **773.2** | - |

The accompanying notes are an integral part of these consolidated financial statements. The financial statements were approved by the Board of Managers on 30 June 2023 and signed on its behalf by:




**Donald E. Whitt, Jr**
*Manager*

# Consolidated statement of changes in equity

**For the year ended 31 December 2022**

| | *Note* | **Share capital $m** | **Share premium $m** | **Equity preferred certificates $m** | **Translation reserve $m** | **Retained earnings $m** | **Total equity $m** |
|---|---|---|---|---|---|---|---|
| At incorporation (5 August 2021) | | - | - | - | - | - | - |
| Total profit and comprehensive income for the period | | - | - | - | - | - | - |
| Issue of shares | *26* | - | - | - | - | - | - |
| Balance at 31 December 2021 (Unaudited) | | - | - | - | - | - | - |
| Loss for the period | | - | - | - | - | (139.5) | (139.5) |
| Other comprehensive income/(expense) | | - | - | - | (0.1) | (12.3) | (12.4) |
| Total comprehensive income/(expense) for the period | | **-** | **-** | **-** | **(0.1)** | **(151.8)** | **(151.9)** |
| Issue of Ordinary shares | *26* | 2.6 | 133.7 | - | - | - | 136.3 |
| Issue of equity preferred certificates | *26* | - | - | 1,052.2 | - | - | 1,052.2 |
| Repayment of equity preferred certificates | *26* | - | - | (263.4) | - | - | (263.4) |
| **Balance at 31 December 2022** | | **2.6** | **133.7** | **788.8** | **(0.1)** | **(151.8)** | **773.2** |

The accompanying notes are an integral part of these consolidated financial statements.

# Consolidated cash flow statement

## For the year ended 31 December 2022

| | Note | Year ended 31 December 2022 $m | Unaudited period from 5 August 2021 to 31 December 2021 $m |
|---|---|---|---|
| Cash flows from operating activities | | | |
| Loss for the year | | **(139.5)** | - |
| *Adjustments for:* | | | |
| Taxation | *10* | **(52.1)** | - |
| Acquired assets related amortisation and impairment | *7* | **100.7** | - |
| Acquisition and other non-underlying items | *7* | **50.4** | - |
| Underlying amortisation of intangible assets | *14* | **4.3** | - |
| Underlying depreciation of property, plant and equipment | *12* | **9.0** | - |
| Underlying depreciation of right-of-use assets | *13* | **4.8** | - |
| Defined benefit pension scheme funding | *24* | **(30.0)** | - |
| Investment income | *8* | **(2.3)** | |
| Finance expenses | *9* | **96.6** | - |
| Foreign exchange gains/losses | *6* | **12.2** | |
| Write down of inventories | *19* | **3.4** | |
| Decrease in provisions | | **(8.8)** | - |
| Underlying operating cash flow before movements in working capital | | **48.7** | - |
| Decrease in inventories | | **(0.4)** | - |
| Increase in receivables | | **(23.4)** | - |
| Increase in payables | | **58.0** | - |
| Underlying cash generated by operations | | **82.9** | - |
| Non-underlying cash flows | | **(59.9)** | - |
| Income taxes paid | | **(4.6)** | - |
| Net cash from operating activities | | **18.4** | - |
| | | | |
| Cash flows from investing activities | | | |
| Interest received | *8* | **1.2** | - |
| Acquisition of subsidiary, net of cash received | *4* | **(2,922.4)** | - |
| Acquisition of property, plant and equipment | *12* | **(8.3)** | - |
| Acquisition of other intangible assets | *14* | **(1.5)** | - |
| Proceeds from sale of property, plant and equipment | | **1.9** | - |
| Net cash used in investing activities | | **(2,929.1)** | - |
| | | | |
| Liabilities arising from financing activities | | | |
| Proceeds from issue of Ordinary share capital | *26* | **136.3** | - |
| Proceeds from issue of equity preference certificates | *26* | **1,052.2** | - |
| Redemption of equity preference certificates | *26* | **(263.4)** | - |
| Loan arrangement fees | *22* | **(103.0)** | - |
| Repayment of borrowings | *22* | **(134.0)** | - |
| Proceeds from borrowings | | **2,373.2** | - |
| Principal payment on leases | *22* | **(4.7)** | - |
| Interest paid | | **(2.0)** | - |
| Net cash arising from financing activities | | **3,054.6** | - |
| | | | |
| Net increase in cash and cash equivalents | | **143.9** | - |
| Cash and cash equivalents at start of the period | | **-** | - |
| Effect of exchange rate fluctuations on cash held | | **(4.8)** | - |
| Cash and cash equivalents at end of the period | *21* | **139.1** | - |

The accompanying notes are an integral part of these consolidated financial statements.

# Notes

*(forming part of the financial statements)*

## 1 Authorisation of financial statements and statement of compliance with IFRS as adopted by the European Union

The consolidated financial statements of Cobham Ultra SeniorCo S.à r.l. (hereafter the "Company") or the "Parent Company") and all its subsidiaries (together referred to as the "Group") for the year ended 31 December 2022 were authorised for issue by the Board of Managers on 30 June 2023 and the consolidated statement of financial position was signed on the Board's behalf by Donald E. Whitt, Jr.

The Company was incorporated on 5 August 2021 as Société à responsabilité limitée in accordance with Luxembourg Law and its principal activity is that of a holding company. The Company is registered with the Trade and Companies Register of Luxembourg with the number B258134 and has its registered office at 2-4 Rue Beck L-1222 Luxembourg.

On 1 August 2022 Ultra Electronics Holdings plc ("Ultra") was acquired by the Group (note 4). Ultra is a trusted partner in the key elements of mission-critical and intelligent systems. Ultra operates mainly as a Tier 3 (sub-system) and occasionally a Tier 2 systems provider, in the Maritime, C4ISR/EW (Command, Control, Communications, Computers (C4) Intelligence, Surveillance and Reconnaissance (ISR)/Electronic Warfare (EW)), military and commercial aerospace, nuclear energy and industrial sensors markets. Ultra's core markets are the 'five-eyes' nations; the USA, Canada, UK, Australia and New Zealand. Ultra's cutting-edge processing capabilities will then distil these data points into relevant, often mission-critical parcels of information. Ultra use secure, encrypted forms of proprietary communication to direct the parcels of information between the data source to users at central locations and operators at the tactical edge where Ultra's suite of competencies will help identify the most appropriate response to deploy. Ultra is also a world leader in automated ballistic identification through our Forensic Technology business, a trusted and strategic partner for criminal justice agencies around the world in helping with the prevention and solving of gun crime.

The Group is ultimately owned by funds managed by Advent International Corporation, a global private equity investor. Information on the Group's structure is provided in note 16. The Group's financial year starts on the first day of January and ends on the last day of December of each Year, except for the first financial period from 5 August 2021 to 31 December 2021 which was unaudited.

## 2 Accounting policies

### *2.1 Basis of preparation*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and interpretations of the IFRS Interpretations Committee ("EU-IFRS").

The Group has not prepared consolidated financial statements in the past and the financial statements as at 31 December 2022 are the first set of consolidated financial statements that comply with EU-IFRS applicable as at 31 December 2022.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these group financial statements.

Judgements made by the Board of Managers, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 3.

### *2.2 Measurement convention*

The financial statements are prepared on the historical cost basis except certain financial assets and financial liabilities (including derivatives) measured at fair value.

### *2.3 Going concern*

These financial statements have been prepared on the going concern basis under the historical cost convention, unless otherwise stated.

In applying the going concern basis, the Managers have considered the Group cash flow projections and assessed the robustness of the forecast through sensitivity to model severe but plausible downside scenarios which assume forecast net cash inflows from business operations reduce by 25% for the forecast period to reflect the combined impact of potential changes to key assumptions such as reduced cash conversion, revenue growth rate and gross margin. At the year end, the Group has considerable financial resources with liquidity available on the Balance Sheet from its cash resources, with $139.1m cash balances net of overdrafts. As at 23 June 2023, reflecting the

**Notes (continued)**

## 2 Accounting policies *(continued)*

### *2.3 Going concern (continued)*

most recent data available at the time of approving these financial statements, the Group has $140m of cash on the balance sheet and $198m of committed Revolving Credit Facility headroom available.

There is a springing financial covenant applicable to the Revolving Credit Facility that is tested, subject to certain conditions, quarterly from 31 September 2023 if the facility, net of cash balances, is over 40% drawn. The covenant requires that the leverage ratio of senior secured net debt to EBITDA of the Group, being EBITDA as adjusted to give pro-forma effect to investments, acquisitions, dispositions, mergers, amalgamations, consolidations, disposed operations and allowable pro-forma cost savings and synergies, does not exceed 9.10:1.

The Group has a mix of shorter and longer term programmes and a number of leading market positions with customers, including Governments and Primes, across different geographical areas. As a consequence, the Managers believe that the Group is ordinarily well placed to manage its business risks successfully. The Managers have reviewed detailed cash flow projections to the end of June 2024 and have applied stress tests on its cash position. These include severe but plausible downside scenarios which assume forecast net cash inflows from business operations are reduced by 25% for the forecast period. In this scenario the Managers have confirmed that the Group would be able to operate and service the senior debt within the level of its currently available funding over the next 12 months without breaching the covenants in place.

Accordingly, after making enquiries, the Managers have concluded at the time of approving the financial statements that it is their expectation that the Company and the Group as a whole have adequate financial resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Group Financial Statements.

### *2.4 Basis of consolidation*

*Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

*Change in subsidiary ownership and loss of control*

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Where the Group loses control of a subsidiary, the assets and liabilities are derecognised along with any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

*Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transactions gains or losses), arising from intra-group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### *2.5 Foreign currency*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

**Notes** *(continued)*

## 2 Accounting policies *(continued)*

### *2.5 Foreign currency (continued)*

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, US Dollars, at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the year where this rate approximates to the foreign exchange rates ruling at the dates of the transactions.

Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve. When a foreign operation is disposed of, such that control is lost, the entire accumulated amount in the translation reserve, is recycled to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests.

Exchange differences arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the translation reserve. Foreign currency differences arising on the translation of a hedge of a net investment in a foreign operation are recognised directly in equity, in the translation reserve, to the extent that the hedge is effective. When the hedged part of a net investment is disposed of, the associated cumulative amount in equity is recycled to profit or loss as an adjustment to the profit or loss on disposal.

### *2.6 Financial instruments*

#### *(i) Recognition and initial measurement*

Trade receivables are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

#### *(ii) Classification and subsequent measurement*

***Financial assets***

*(a) Classification*

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity investment; or FVTPL. Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model. A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis. All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

**Notes** *(continued)*

## 2 Accounting policies *(continued)*

### *2.6 Financial instruments (continued)*

### *(ii) Classification and subsequent measurement (continued)*

***Financial assets*** *(continued)*

*(a) Classification (continued)*

*Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts which are repayable on demand and form an integral part of the Group's cash management. Such overdrafts are presented as short-term borrowings in the statement of financial position.

*(b) Subsequent measurement and gains and losses*

*Financial assets at FVTPL* - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

*Financial assets at amortised cost* - these assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

*Equity instruments designated as at FVOCI* – these assets are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income. Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the 'Investment Revenue' line item in profit or loss.

*Interest rate benchmark reform*

When the basis for determining the contractual cash flows of a financial asset or financial liability measured at amortised cost changed as a result of interest benchmark reform, the Group updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by the reform. A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if the following conditions are met:

- The change is necessary as a direct consequence of the reform; and
- The new basis for determining the contractual cash flows is economically equivalent to the previous basis – i.e., the basis immediately before the change.

When the changes were made to a financial asset or a financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first updated the effective interest rate of the financial asset or financial liability to reflect the change that is required by interest rate benchmark reform. After that, the Group applied the policies on accounting for modifications to the additional changes.

***Financial liabilities and equity***

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

**Notes** *(continued)*

## 2 Accounting policies *(continued)*

### *2.6 Financial assets* *(continued)*

#### *(ii) Classification and subsequent measurement* *(continued)*

***Financial liabilities and equity (continued)***

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Group's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

#### *(iii) Derivative financial instruments*

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

#### *(iv) Impairment*

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost and contract assets (as defined in IFRS 15).

The Group measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition which are measured as 12 month ECL.

Loss allowances for trade receivables and contract assets that do not contain a significant financing component are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12 month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

*Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

*Write-offs*

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

**Notes** *(continued)*

## 2 Accounting policies *(continued)*

### 2.6 *Financial assets* *(continued)*

#### *(v) Derecognition*

*Financial assets*

The Group derecognises a financial asset when:
– the contractual rights to the cash flows from the financial asset expire; or
– it transfers the rights to receive the contractual cash flows in a transaction in which either:
- substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

*Financial liabilities*

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

### 2.7 *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land and assets under construction are not depreciated. The estimated useful lives are as follows:

- buildings — 40 to 50 years
- plant and machinery — 3 to 20 years
- short leasehold improvements — over remaining period of lease

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

### 2.8 *Business combinations*

All business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

For business combinations, the Group has determined whether a particular set of activities and assets is a business by assessing whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. This election can be applied on a transaction-by-transaction basis. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

**Notes** *(continued)*

## 2 Accounting policies *(continued)*

### *2.8 Business combinations (continued)*

All business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

For business combinations, the Group has determined whether a particular set of activities and assets is a business by assessing whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Group has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. This election can be applied on a transaction-by-transaction basis. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquiree in the event of liquidation, either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date. All other non-controlling interests are measured at their fair value at the acquisition date.

### *2.9 Intangible assets and goodwill*

*Goodwill*

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment.

*Research and development*

Expenditure on research activities is recognised in the income statement as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

Costs associated with producing or maintaining computer software programmes for sale are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, that will generate economic benefits exceeding costs beyond one year and that can be measured reliably, are recognised as intangible assets.

**Notes** *(continued)*

## 2 Accounting policies *(continued)*

### 2.9 Intangible assets and goodwill *(continued)*

*Other intangible assets*

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Acquired computer software licences for use within the Group are capitalised as intangible assets on the basis of the costs incurred to acquire and bring to use the specific software.

Patents and trademarks are stated initially at historical cost. Patents and trademarks have definite useful lives and are carried at cost less accumulated amortisation and impairment losses.

*Amortisation*

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Customer relationships 5 to 21 years
- Intellectual property 5 to 10 years
- Profit in acquired order book 1 to 4 years
- Other acquired intangible assets 1 to 5 years
- Capitalised development costs 2 to 10 years
- Other intangibles:
  - Software 3 to 5 years
  - Patents and trademarks 10 to 20 years

The amortisation charge is included within operating expenses.

### 2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. Provision is made for any obsolete, slow-moving or defective items.

### 2.11 Employee benefits

*Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

*Defined benefit plans*

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans and other post-employment benefits is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Group determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Group's obligations and that are denominated in the currency in which the benefits are expected to be paid.

**Notes** *(continued)*

## 2 Accounting policies *(continued)*

### *2.11 Employee benefits (Continued)*

*Defined benefit plans (continued)*

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Group recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

*Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.  A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### *2.12 Provisions*

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

### *2.13 Revenue*

The Group recognises revenue from the sales of goods and from long-term contracts. Revenue is measured based on the consideration specified in a contract. Revenue is recognised either when the performance obligation in the contract has been performed, i.e. 'point in time' recognition, or, over time, as control of the performance obligation is transferred to the customer. Under a book-and-hold agreement with a customer, the Group may have physical possession of an asset that the customer controls, therefore the revenue is recognised when the customer has control of the asset. The Group follows the 'five step' model as set out in IFRS 15 to ensure that revenue is recognised at the appropriate point whether over time or at a point in time; the five steps are:

- Identify the contract(s) with a customer.
- Identify the performance obligations.
- Determine the transaction price.
- Allocate the transaction price to the performance obligations.
- Recognise revenue as performance obligations are satisfied.

For each performance obligation, the Group determines if revenue will be recognised over time or at a point in time.

The Group has a number of contracts with government bodies, particularly in the Maritime and Intelligence and Communications businesses, for which control is typically transferred to the customer as the product is being manufactured or as the services are being provided. For these contracts, revenue is recognised over time with reference to the stage of completion, using cost to measure progress. For 'cost-plus' contracts (typically with government departments and agencies), revenue is recognised to the extent of reimbursable costs incurred, plus a proportionate amount of the estimated fee earned.

The Group has a number of long term development programmes, particularly within the Maritime business. For the majority of these contracts revenue is recognised over time on a percentage of completion basis. This is where a portion of the contract revenue is recognised based on contract costs incurred to date compared with total estimated costs at completion. This method is considered to most faithfully depict the transfer of goods and services to the customer over the life of the performance obligation. As these products come out of the development phase and into full rate production, revenue is recognised at a point in time where there is an alternative use.

**Notes** *(continued)*

## 2 Accounting policies *(continued)*

### *2.13 Revenue (Continued)*

Each of the Group's five businesses, Maritime, Intelligence and Communications, PCS, Energy and Forensic Technology has a mix of over time and point in time revenue. The majority of revenue in Maritime and Intelligence and Communications is over time. The majority of revenue in PCS and Energy is point in time. The majority of the revenue in the Forensic Technology business is generated from providing services to customers, and is recognised over time.

***Over time***

Performance obligations are satisfied over time if one of the following criteria is satisfied:

- The customer simultaneously receives and consumes the benefits provided by the Group's performance as it performs.
- The Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
- The Group's performance does not create an asset with an alternative use to the Group and it has an enforceable right to payment for performance completed to date.

Revenue that is recognised over time is determined by reference to the stage of completion of the performance obligation. For each performance obligation to be recognised over time, revenue and attributable margin are calculated by reference to reliable estimates of transaction price and total expected costs, after making suitable allowances for technical and other risks, except in limited scenarios where the proportion of costs incurred would not be representative of the stage of completion. Owing to the complexity of some of the contracts undertaken by the Group, the cost estimation process and the allocation of costs and revenue to each performance obligation are carried out using the experience of the Group's engineers, project managers and finance and commercial professionals. Cost estimates are reviewed and updated on a regular basis. Some of the factors impacting cost estimates include the availability of suitably qualified labour, the nature and complexity of the work to be performed, the technology readiness level, the availability of materials and the performance of sub-contractors. Revenue and associated margin are recognised progressively as costs are incurred and as risks have been mitigated or retired.

For contracts with multiple activities or deliverables, management considers whether those promised goods and services are: (i) distinct – to be accounted for as separate performance obligations; (ii) not distinct – to be combined with other promised goods or services until a bundle is identified that is distinct; or (iii) part of a series of distinct goods and services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct if the customer can benefit from them on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract. For example, certain Ultra contracts might be to design and build a system as one performance obligation when the criteria above are assessed. Other Ultra contracts might contain one performance obligation to design a system and a separate obligation to build them: these are required to be treated as separate performance obligations if, for example, the customer obtains control of the design and could ask another contractor to build them.

At the start of a contract, the total transaction price is estimated as the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods and services to the customer, excluding sales taxes. The transaction price is allocated to each performance obligation based on relative standalone selling prices of all items in the contract. This could be based on list prices, external market evidence or, where individual tailored products are concerned, based on the estimated expected costs to produce the item or deliver the services, plus a reasonable margin to reflect the risk of delivering the product or service. Variable consideration (for example, discounts dependent on sales levels, returns, refunds, rebates and other incentives) is included based on the expected value, or most likely amount, only to the extent that it is highly probable that there will not be a reversal in the amount of cumulative revenue recognised.

The transaction price does not include estimates of consideration resulting from contract modifications, such as change orders, until they have been approved by the parties to the contract. A contract modification exists when the parties to the contract approve a modification that either changes existing or creates new enforceable rights and obligations.

**Notes** *(continued)*

## 2 Accounting policies *(continued)*

### *2.13 Revenue (continued)*

***Over time*** *(continued)*

Payment terms vary from contract to contract but will typically be 30 days from the date of invoice. The Group's contracts are not considered to include significant financing components on the basis that there is no difference between the consideration and the cash selling price.

Incremental costs of obtaining a contract are capitalised to the extent that they are recoverable from the customer and the anticipated contract period will be more than one year. Incremental costs are those that would not have arisen if the contract had not been obtained. Unconditional bid or proposal costs would not be capitalised as costs to obtain a contract because they are incurred whether the contract is obtained or not. Ultra has not capitalised any such costs to date. The effect of a contract modification on the transaction price and the Group's measure of progress towards the satisfaction of the performance obligation is recognised either as: (i) an additional separate contract; (ii) as a termination of the existing contract and creation of a new contract; or (iii) as part of the original contract using a cumulative catch-up.

Where the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. Under IFRS 15, an option to acquire additional goods or services gives rise to a separate performance obligation, if the option provides a material right that the customer would not receive without entering into that contract. IFRS 15 requires management to estimate the transaction price to be allocated to the separate performance obligations and to recognise a contract liability for the performance obligations that will be satisfied in the future. The Group recognises revenue for the option when those future goods or services are transferred to the customer.

***Point in time***

If performance obligations do not meet the criteria to recognise revenue over time, then revenue from the sale of goods or services is recognised at a point in time. This is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods or services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue is normally recognised when control of the goods or services has transferred to the customer. This may be:

- At the point of physical delivery of goods and acceptance by the customer;
- When the customer has legal title to the asset;
- When the customer has the significant risks and rewards of ownership of the asset; or
- When customer-specific acceptance criteria have been met, e.g. when product testing has been completed.

In the majority of cases, revenue is recognised at the point of physical delivery and acceptance by the customer, and the Group has the right to payment.

***Contract assets and liabilities***

The timing of payments received from customers, relative to the recording of revenue, can have a significant impact on the contract-related assets and liabilities recorded on the Group's balance sheet.

The majority of development programmes have payment terms based on contractual milestones, which are not necessarily aligned to when revenue is recognised, particularly for those contracts with revenue recognised over time by reference to the stage of completion. This can lead to recognition of revenue in advance of customer billings; 'amounts receivable from over-time contract customers' relates to work performed and revenue recognised on agreed contracts prior to the customer being invoiced. On other development programmes, a proportion of the transaction price is received in advance and consequently a contract liability arises; 'amounts payable to over-time contract customers' relates to payments received from customers in relation to the contract prior to the work being completed and the revenue recognised.

For contracts where revenue is recognised at a point in time, 'deferred income' recorded on the balance sheet represents payments received from customers prior to the work being completed and the revenue recognised, and 'accrued income' recorded on the balance sheet represents any revenue recognised on agreed contracts prior to the customer being invoiced.

**Notes** *(continued)*

## 2 Accounting policies *(continued)*

### 2.13 Revenue *(continued)*

***Contract assets and liabilities*** *(continued)*

When a good or service provided is returned or to be refunded the revenue is reversed equal to the amount originally recognised as revenue for that good or service. Consideration of returns and refunds is made when calculating the transaction price to be allocated to the performance obligation.

A warranty may represent a separate performance obligation if it is distinct from the other elements of the contract (i.e. it can be sold separately and provides additional goods and services beyond the agreed-upon specifications), otherwise it is treated as a provision. Most warranties are treated as provisions. If it is a separate performance obligation, then the revenue is recognised when the control of the additional good or service under the warranty is passed to the customer.

For a contract recognised over time under IFRS 15 the control of the product may be passed to the customer before the customer is invoiced. At this point, revenue is recognised, and an asset is recorded on the balance sheet as an amount receivable from over-time contract customers. The amount receivable from over-time contract customers is classified as a current asset when it is to be invoiced within 12 months, otherwise it is recorded as a non-current asset. This asset is transferred to trade receivables once the customer is invoiced, following which cash is expected to be received per the agreed contractual terms.

Conversely, a payment may be received from the customer before the control of the product is passed to them. At this point a liability is recorded on the balance sheet as an amount due to over-time contract customers, which is recognised net of any refunds expected to be paid. This liability is derecognised when the control is passed to the customer and revenue can be recorded. Amounts due to overtime contract customers is recorded as a current liability when the revenue is expected to be recognised within the next 12 months, otherwise it is classified as a non-current liability.

### Expenses

*Finance expenses*

Financing expenses include interest payable and finance charges on lease liabilities recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and fair value movements on financial instruments measured at FVTPL. Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset.

### 2.14 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

**Notes** *(continued)*

## 2 Accounting policies *(continued)*

### *2.15 Leases*

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*As a lessee*

At commencement or on modification of a contract that contains a lease component, along with one or more other lease or non-lease components, the Group accounts for each lease component separately from the non-lease components. However, for the leases of properties, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component. The Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise,
- lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and
- penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

*Short-term leases and leases of low-value assets*

The Group has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets (<$5,000) and short-term leases (less than one year). The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

**Notes** *(continued)*

## 2 Accounting policies *(continued)*

### 2.15 Leases *(continued)*

*Subletting*

The Group sublets some property space to third parties. For these sublets, the Group first determines if the sublet lease is an operating or finance lease. This is determined as a finance lease if substantially all of the risks and rewards of the property are transferred to the lessee through the lease, otherwise it is classified as an operating lease.

When the sublease is considered as a finance lease, the discounted value of the cash income from the sublet is deducted from the right-of-use asset and liability of the Group's lease ("head lease") for that property unless the head lease is a short lease or a low value asset lease.

If the sublease is considered an operating lease, then the payments received from the lease are recognised as income on a straight-line basis.

*Lease acquired in a business combination*

For leases acquired in a business combination, the Group measures the acquired lease liability at the present value of the remaining lease payments, as if the acquired lease were a new lease at the acquisition date. The right-of-use asset is measured at acquisition at the same amount as the lease liability, adjusted to reflect favourable or unfavourable terms of the lease when compared with market terms.

### 2.16 Government grants

Government grants are recognised in the income statement so as to match them with the expenditure towards which they are intended to contribute, to the extent that the conditions for receipt have been met and there is reasonable assurance that the grant will be received.

Government assistance provided in the form of below-market rate of interest loans are treated as Government grants. The benefit of the below-market rate of interest is calculated as the difference between the proceeds received and the fair value of the loan and is matched against the related expenditure.

The fair value of the loan is calculated using prevailing market interest rates.

### 2.17 Equity preferred certificates

Under the terms and conditions of the preference shares issued by the Group, the shares are redeemable in cash only at the option of the issuer and therefore do not satisfy the definition of a financial liability in IAS 32. In addition, they are interest and dividend free, and redemption of the shares is at the discretion of the issuer. As a result, preference shares are classified as equity and recognised at nominal value.

### 2.18 Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction that is highly probable within one year from the date of classification and the asset or disposal group is available for immediate sale in its present condition.

When the Group is committed to a sale plan involving the loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the recognition criteria are met, irrespective of whether the Group will retain a non-controlling interest in its former subsidiary subsequent to the sale.

### 2.19 Adoption of new and revised standards

The Group has adopted the following in these financial statements:

- Amendments to IAS 37 (Onerous contracts – cost of fulfilling a contract) from 1 January 2022. This resulted in a change in accounting policy for performing an onerous contracts assessment. Previously, the Group included only incremental costs to fulfil a contract when determining whether that contract was onerous. The revised policy is to include both incremental costs and an allocation of other direct costs.

  The amendments apply prospectively to contracts existing at the date when the amendments are first applied. The Group has analysed all contracts existing at 1 January 2022 and determined that none of them would be identified as onerous applying the revised accounting policy i.e. there is no impact on the opening equity balances as at 1 January 2022 as a result of the change.

**Notes** *(continued)*

## 2 Accounting policies *(continued)*

### 2.19 *Adoption of new and revised standards (continued)*

- Amendments to References to the Conceptual Framework in IFRS 3 (effective 1 January 2022). The amendment refers to the Conceptual Framework issued in 2018 under which the definition of liabilities is broader than that in the previous versions. As a result, for acquisitions made during the year, the Group has recorded assets and liabilities that meet the definition in the Conceptual Framework and applied IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' and IFRIC 21 'Levies' to identify the liabilities it has assumed in the business combinations.
- Amendments to IAS 16: Property, Plant and Equipment—Proceeds before Intended Use (effective date 1 January 2022). The amendments prohibit the deduction from the cost of an item of PPE any proceeds from selling items produced while making that item of PPE available for its intended use. There is no material effect of this amendment on the items of PPE recorded during the year.

The following Annual Improvements to IFRS Standards 2018-2020 (effective 1 January 2022) had no material impact on the Group's financial statements:

- IFRS 1 – Subsidiary as a first- time adopter.
- IFRS 9 – Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities.
- IFRS 16 – Leases – Lease incentives.

### 2.20 *IFRS not yet applied*

The following IFRSs have been issued but have not been applied by the Group in these consolidated financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 17 Insurance Contracts, Amendments to IFRS 17 and Initial Application of IFRS17 and IFRS 9 – Comparative Information (effective date 1 January 2023).
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current and Classification of Liabilities as Current or Non-current (effective date to be confirmed).
- Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to introduce a new definition for accounting estimates (effective date 1 January 2023).
- Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statements 2 Making Materiality Judgements (effective date 1 January 2023).
- Amendments to IAS 12 Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (effective date 1 January 2023).

### 2.21 *Non-underlying items*

Non-underlying items are income or expenses that are material by their size and/or nature and are not considered to arise in the normal course of business. The Board of Managers consider that these items should be disclosed separately on the face of the income statement to allow a more comparable view of underlying trading performance.

Such non-underlying items include the costs associated with the acquisition of Ultra and subsequent integration costs including items such as retention and restructuring costs.

## 3 Accounting estimates and judgements

In the application of the Group's accounting policies, the Board of Managers are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Notes** *(continued)*

## 3 Accounting estimates and judgements *(continued)*

### *Critical judgements in applying the Group's accounting policies*

In the course of preparing the financial statements, judgements have been made in the process of applying the Group's accounting policies, other than those involving estimates, that have had a significant effect on the amounts recognised in the financial statements. The most significant are:

*Equity preferred certificates*
Under the terms and conditions of the preference shares issued by the Group, the shares are redeemable in cash only at the option of the issuer and therefore do not satisfy the definition of a financial liability in IAS 32. In addition, they are interest and dividend free, and redemption of the shares is at the discretion of the issuer. As a result, the preference shares are classified as equity and recognised at nominal value.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed on the following page.

*Contract revenue and profit recognition*

A significant proportion of the Group's activities are conducted under long-term contract arrangements and are accounted for in accordance with IFRS 15 Revenue from Contracts with Customers. This revenue is derived from a large number of individual contracts across the Group. Revenue and profit recognition on these contracts is based on estimates of future costs as well as an assessment of contingencies for technical risks and other risks; for example, assessment of the time and cost required to design, build, integrate and test a new product where the technology involved is currently at a low technology readiness level, and other risks such as the ability to obtain the necessary customer specification approval, or regulatory approvals. There are no individual contracts where the estimation uncertainty is considered to have a significant risk of resulting in a material adjustment within the next financial year; however, a quantification of the impact across the aggregated portfolio of over-time contracts of a 1% increase in estimated costs to complete is included in note 5.

**Notes** *(continued)*

## 4 Acquisition of subsidiaries

On 1 August 2022, the Group acquired all of the ordinary shares in Ultra Electronics Holdings plc ("Ultra") for $3,112.2m, satisfied in cash. In the five months to 31 December 2022, Ultra contributed a net loss before tax of $88.0m to the consolidated net loss for the year. If the acquisition had occurred on 1 January 2022, Group revenue would have been an estimated $1,223.0m and consolidated net loss before tax would have been an estimated $49.2m. In determining these amounts, management has assumed that the fair value adjustments that arose on the date of acquisition would have been the same if the acquisition occurred on 1 January 2022.

*Effect of acquisition*

The acquisition had the following effect on the Group's assets and liabilities.

| | Fair value recognised on acquisition $m |
|---|---|
| **Acquiree's net assets at the acquisition date:** | |
| Property, plant and equipment | 151.5 |
| Right-of-use assets | 45.4 |
| Intangible assets | 2,304.3 |
| Deferred tax assets | 6.2 |
| Inventories | 166.4 |
| Trade and other receivables | 293.7 |
| Current tax assets | 13.5 |
| Cash and cash equivalents | 189.8 |
| Derivative financial instruments | (23.7) |
| Interest-bearing loans and borrowings | (238.4) |
| Trade and other payables | (305.1) |
| Current tax liabilities | (17.0) |
| Deferred tax liabilities | (576.9) |
| Provisions | (54.1) |
| Retirement benefit obligations | (4.5) |
| Net identifiable assets and liabilities | 1,951.1 |
| | |
| Consideration paid: | |
| Initial cash price paid | 3,112.2 |
| | |
| Goodwill on acquisition | 1,161.1 |

Goodwill represents the premium paid in anticipation of future economic benefits from assets that are not capable of being separately identified and separately recognised, such as the value of the workforce. Goodwill is not anticipated to be deductible for tax purposes.

*Acquisition related costs*

The Group incurred direct acquisition related costs of $15.4m related to stamp duty payable on the purchase of shares. Additional costs related to the acquisition include professional advisor fees ($18.3m) and exceptional employment related payments ($18.9m). These costs have all been included in non-underlying expenses in the Group's Consolidated Income Statement.

*Acquired receivables*

The fair value of acquired receivables was $114.2m. The gross contractual amounts receivable are $116.6m and, at the acquisition date, $2.4m of contractual cash flows were not expected to be received.

**Notes** *(continued)*

## 5 Revenue from contracts with customers

### *(i) Disaggregation of revenue*

In the following tables, revenue is disaggregated by primary geographical market, major products/service lines and timing of revenue recognition.

| Year ended 31 December 2022 | Point in time $m | Over time $m | Total $m |
|---|---|---|---|
| Maritime | **51.9** | **199.1** | **251.0** |
| Intelligence and Communications | **67.4** | **98.6** | **166.0** |
| Precision Control Systems | **49.9** | **18.9** | **68.8** |
| Forensic Technology | **13.2** | **16.0** | **29.2** |
| Energy | **14.5** | **9.9** | **24.4** |
| | **196.9** | **342.5** | **539.4** |

| | Year ended 31 December 2022 $m | Unaudited period from 5 August 2021 to 31 December 2021 $m |
|---|---|---|
| Primary geographical markets | | |
| North America | **357.3** | - |
| United Kingdom | **101.0** | - |
| Rest of World | **52.0** | - |
| Mainland Europe | **29.1** | - |
| | **539.4** | - |

The estimate of future costs on over-time contracts is a critical accounting estimate as set out in note 3. Across the aggregated portfolio of over-time contracts open at 31 December 2022, a 1% increase in estimated costs to complete the portfolio equates to $8.5m. The impact on revenue would depend on the margin and percentage of completion of any given contract within the portfolio; however, when taken in aggregate, it is not likely to exceed $8.5m.

### *(ii) Contract balances*

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers.

| | *Note* | 31 December 2022 $m | 31 December 2021 $m |
|---|---|---|---|
| Trade receivables | *20* | **139.1** | - |
| Contract assets | *20* | **105.7** | - |
| Contract liabilities | *23* | **137.1** | - |

Contract assets relate to work performed and revenue recognised on agreed contracts prior to the customer being invoiced. Contract liabilities relate to payments received from customers in relation to the contract prior to the work being completed and the revenue recognised.

**Notes** *(continued)*

## 5 Revenue from contracts with customers *(continued)*

### *(ii)* ***Contract balances*** *(continued)*

Significant changes in the contract assets and the contract liabilities balances during the period are as follows:

| | **Year to 31 December 2022 $m** | Unaudited period from 5 August 2021 to 31 December 2021 $m |
|---|---|---|
| Contract assets | | |
| At start of the period | **-** | - |
| Recognised on the acquisition of Ultra | **118.6** | - |
| Foreign exchange differences | **0.9** | - |
| Revenue earned net of billings | **(4.3)** | - |
| Adjustments to revenue recognised in a prior period | **(1.9)** | - |
| Transfer to assets held for sale | **(7.6)** | |
| At end of the period | **105.7** | - |
| | | |
| Contract liabilities | | |
| At start of the period | **-** | - |
| Recognised on the acquisition of Ultra | **116.9** | - |
| Foreign exchange differences | **(1.0)** | - |
| Cash advances net of revenue recognised | **21.9** | - |
| Other | **(0.7)** | - |
| At end of the period | **137.1** | - |

### *(iii)* ***Transaction price allocated to the remaining performance obligations***

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

| **As at 31 December 2022** | **2023 $m** | **2024 $m** | **2025 and beyond $m** | **Total $m** |
|---|---|---|---|---|
| Point in time revenue | **369.9** | **173.0** | **107.1** | **650.0** |
| Over time revenue | **696.6** | **324.6** | **184.4** | **1,205.6** |
| | **1,066.5** | **497.6** | **291.5** | **1,855.6** |

## 6 Operating loss

Operating loss is stated after charging:

| | **Year to 31 December 2022 $m** | Unaudited period from 5 August 2021 to 31 December 2021 $m |
|---|---|---|
| Wages and salaries | **128.8** | - |
| Social security costs | **14.7** | - |
| Pension costs | **6.0** | - |
| Other staff related costs | **36.0** | - |
| Acquired assets related amortisation and impairment (*note 7*) | **100.7** | - |
| Underlying amortisation of intangible assets (*note 14*) | **4.3** | - |
| Underlying depreciation of property, plant and equipment (*note 12*) | **9.0** | - |
| Underlying depreciation of right-of-use assets (*note 13*) | **4.8** | - |
| Foreign currency translation losses | **12.2** | - |
| Audit fees | **1.6** | - |
| Acquisition and other non-underlying items (*note 7*) | **65.0** | - |

**Notes** *(continued)*

## 7 Non-underlying items

| | Year to 31 December 2022 $m | Unaudited period from 5 August 2021 to 31 December 2021 $m |
|---|---|---|
| Included within operating expenses before depreciation and amortisation | | |
| Acquisition of Ultra including integration costs | 51.1 | - |
| Other non-underlying income and expenses | (0.7) | - |
| | 50.4 | - |
| Included within amortisation and impairment | | |
| Amortisation of acquired intangible assets (*note 14*) | 99.1 | - |
| Impairment of right-of-use assets (*note 13*) | 1.6 | - |
| | 100.7 | - |
| | 151.1 | - |

## 8 Investment income

| | Year to 31 December 2022 $m | Unaudited period from 5 August 2021 to 31 December 2021 $m |
|---|---|---|
| Bank interest | 1.2 | - |
| Financial liabilities at FVTPL – net change in fair value (*note 28*) | 0.6 | - |
| Retirement benefit scheme finance income | 0.3 | - |
| Fair value movement on derivatives (*note 27*) | 0.2 | - |
| | 2.3 | - |

## 9 Finance costs

| | Year to 31 December 2022 $m | Unaudited period from 5 August 2021 to 31 December 2021 $m |
|---|---|---|
| Interest expense on financial liabilities measured at amortised cost | 80.5 | - |
| Foreign exchange on borrowings | 11.2 | - |
| Amortisation of finance costs of debt | 4.4 | - |
| Interest expense on lease liabilities | 0.5 | - |
| | 96.6 | - |

**Notes** *(continued)*

## 10 Taxation

### Recognised in the income statement

| | Year to 31 December 2022 $m | Unaudited period from 5 August 2021 to 31 December 2021 $m |
|---|---|---|
| Current year | (6.1) | - |
| Adjustments for prior years | 0.7 | - |
| Current tax | (5.4) | - |
| | | |
| Origination and reversal of temporary differences | (46.9) | - |
| Change in tax rate | 0.2 | - |
| Deferred tax | (46.7) | - |
| | | |
| Total tax expense | (52.1) | - |

### Income tax recognised in other comprehensive income

| | Year to 31 December 2022 $m | Unaudited period from 5 August 2021 to 31 December 2021 $m |
|---|---|---|
| Remeasurements of defined benefit liability/asset | (2.2) | - |

### Reconciliation of effective tax rate

| | Year to 31 December 2022 $m | Unaudited period from 5 August 2021 to 31 December 2021 $m |
|---|---|---|
| Loss for the period | (139.5) | |
| Total tax expense | 52.1 | |
| Loss before tax for the period | (191.6) | - |
| | | |
| Tax using the Luxembourg tax rate of 25% *(2021: 25%)* | (47.9) | - |
| Reduction in tax rate on deferred tax balances | (0.7) | |
| Non-deductible expenses – non-recurring | 2.3 | - |
| Non-deductible expenses – recurring | (1.0) | |
| CFC exemption | (2.6) | - |
| Over provided in prior years | (2.2) | - |
| Total tax expense | (52.1) | - |

Corporation tax in Luxembourg is calculated at 25% of the estimated assessable profit for the year. No deferred taxes arise in Luxembourg. 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 2022 have been calculated at 24.2% and UK deferred tax balances at 31 December 2022 have been calculated at 25% which is the enacted UK rate of corporation tax from April 2023.

Within non-recurring, non-deductible expenses there are significant UK non-deductible sell-side costs. These are related to the acquisition of Ultra Electronics Holdings plc by the Group during the period, and are offset by significant US and UK deductions for employee share awards. The operations of the CFC have ceased and no CFC benefit will arise in 2023. Several factors including the level of profits in overseas jurisdictions, changes to the Luxembourg and overseas tax rates, the possible implementation of international tax reforms in 2023–2025, and other factors not under our control will affect the size of these differences in future.

**Notes** *(continued)*

## 10 Taxation *(continued)*

The Group is subject to enquiries and audits by tax authorities in the jurisdictions in which it operates. The Group considers material tax uncertainties on their individual merits in accordance with IFRIC 23 and, where appropriate, makes provisions in respect of the potential tax liabilities or restriction of tax benefits that may arise. As at 31 December 2022, the Group holds provisions for such potential issues of $1.2m. These provisions relate to multiple issues, across the jurisdictions in which the Group operates. As the outcome relating to tax matters can be uncertain until a conclusion is reached with the relevant tax authority or through a legal process, the amount ultimately paid may differ materially from the amount accrued.

## 11 Reconciliation of Operating loss to Adjusted EBITDA

Adjusted EBITDA in these financial statements will differ from Adjusted EBITDA measures calculated using other bases, such as in financing agreements. This additional information is not uniformly defined by all companies and may not be comparable with similarly titled measures and disclosures.

| | *Note* | **Year ended 31 December 2022 $m** | Unaudited period from 5 August 2021 to 31 December 2021 $m |
|---|---|---|---|
| Operating loss | | **(97.3)** | - |
| Add back: | | | |
| Acquired assets related amortisation and impairment | *7* | **100.7** | - |
| Acquisition and other non-underlying items | *7* | **50.4** | - |
| Depreciation of property, plant and equipment | *12* | **9.0** | - |
| Underlying depreciation of right-of-use assets | *13* | **4.8** | - |
| Underlying amortisation of intangible assets | *14* | **4.3** | - |
| Unwind of IFRS 3 fair value adjustments | | **(12.0)** | - |
| Foreign currency translation losses | *6* | **12.2** | - |
| Adjusted EBITDA | | **72.1** | - |

## 12 Property, plant and equipment

| | Land and buildings Freehold $m | Short leasehold $m | Plant and machinery $m | Assets Under construction $m | Total $m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 January 2022 | **-** | **-** | **-** | **-** | **-** |
| Acquisitions through business combinations | **66.5** | **11.2** | **56.3** | **17.5** | **151.5** |
| Additions | **0.2** | **1.3** | **6.3** | **0.5** | **8.3** |
| Disposals | **-** | **(0.9)** | **(1.0)** | **-** | **(1.9)** |
| Reclassifications from assets under construction | **-** | **-** | **2.7** | **(2.7)** | **-** |
| Reclassification to assets held for sale | **(15.4)** | **(0.1)** | **(17.4)** | **(0.1)** | **(33.0)** |
| Effect of movements in foreign exchange | **(0.9)** | **(0.2)** | **(0.4)** | **(0.8)** | **(2.3)** |
| At 31 December 2022 | **50.4** | **11.3** | **46.5** | **14.4** | **122.6** |
| **Accumulated Depreciation** | | | | | |
| At 1 January 2022 | **-** | **-** | **-** | **-** | **-** |
| Depreciation charge for the period | **(1.1)** | **(0.9)** | **(7.0)** | **-** | **(9.0)** |
| Disposals | **-** | **0.4** | **0.7** | **-** | **1.1** |
| Reclassification to assets held for sale | **0.1** | **0.1** | **3.7** | **-** | **3.9** |
| Effect of movements in foreign exchange | **(0.2)** | **-** | **0.2** | **-** | **-** |
| At 31 December 2022 | **(1.2)** | **(0.4)** | **(2.4)** | **-** | **(4.0)** |
| **Carrying Amount** | | | | | |
| At 31 December 2022 | **49.2** | **10.9** | **44.1** | **14.4** | **118.6** |
| At 31 December 2021 (unaudited) | - | - | - | - | - |

Freehold land amounting to $8.7m is not depreciated.

**Notes** *(continued)*

## 13 Right-of-use assets

The Group's leases relate to real estate, vehicles, printers & copiers, and other equipment. The Group therefore splits the leases between the following categories: land and buildings, and plant and machinery.

| | Land and buildings $m | Plant and machinery $m | Total $m |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2022 | - | - | - |
| Acquisitions through business combinations | **44.9** | **0.5** | **45.4** |
| Additions | **0.1** | **0.2** | **0.3** |
| Reclassification to assets held for sale | **(0.9)** | **-** | **(0.9)** |
| Foreign exchange difference | **(1.1)** | **0.1** | **(1.0)** |
| At 31 December 2022 | **43.0** | **0.8** | **43.8** |
| | | | |
| **Accumulated depreciation** | | | |
| At 1 January 2022 | **-** | **-** | **-** |
| Depreciation charge for the period | **(4.7)** | **(0.1)** | **(4.8)** |
| Impairment | **(1.6)** | **-** | **(1.6)** |
| Reclassification to assets held for sale | **0.6** | **-** | **0.6** |
| Foreign exchange difference | **-** | **-** | **-** |
| At 31 December 2022 | **(5.7)** | **(0.1)** | **(5.8)** |
| | | | |
| **Carrying amount** | | | |
| At 31 December 2022 | **37.3** | **0.7** | **38.0** |
| At 31 December 2021 (unaudited) | - | - | - |

The total cash outflow in the year ended 31 December 2022 relating to leases was $5.3m, of which $0.1m related to low-value or short-term leases not recognised on the balance sheet.

**Notes** *(continued)*

## 14 Intangible assets

| | Acquired intangibles | | | | Internally generated capitalised development costs | Software, patents and trademarks | Total |
|---|---|---|---|---|---|---|---|
| | Goodwill | Customer relationships | Order book and trade names | Other acquired intangibles | | | |
| | $m | $m | $m | $m | $m | $m | $m |
| **Cost** | | | | | | | |
| At 1 January 2022 | - | - | - | - | - | - | - |
| Acquisitions through business combinations | 1,161.1 | 1,491.2 | 187.2 | 601.3 | - | 18.9 | 3,459.7 |
| Additions | - | - | - | - | 0.2 | 1.3 | 1.5 |
| Disposals | - | - | - | - | - | (1.0) | (1.0) |
| Reclassification to assets held for sale | (111.9) | (76.8) | (14.4) | (12.3) | - | (5.7) | (221.1) |
| Effect of movements in foreign exchange | (8.4) | (11.2) | (1.2) | (3.9) | - | (0.8) | (25.5) |
| At 31 December 2022 | 1,040.8 | 1,403.2 | 171.6 | 585.1 | 0.2 | 12.7 | 3,213.6 |
| | | | | | | | |
| **Accumulated Amortisation** | | | | | | | |
| Balance at 1 January 2022 | - | - | - | - | - | - | - |
| Charge for the year | - | (40.1) | (37.9) | (21.1) | - | (4.3) | (103.4) |
| Disposals | - | - | - | - | - | 0.1 | 0.1 |
| Reclassification to assets held for sale | - | 2.4 | 3.0 | 0.5 | - | 3.6 | 9.5 |
| Effect of movements in foreign exchange | - | (0.4) | (0.3) | (0.1) | - | (0.4) | (1.2) |
| At 31 December 2022 | - | (38.1) | (35.2) | (20.7) | - | (1.0) | (95.0) |
| | | | | | | | |
| **Carrying Amount** | | | | | | | |
| At 31 December 2022 | 1,040.8 | 1,365.1 | 136.4 | 564.4 | 0.2 | 11.7 | 3,118.6 |
| At 31 December 2021 (unaudited) | - | - | - | - | - | - | - |

### *Impairment testing*

The Group has five CGUs – Maritime, Intelligence & Communications, PCS, Forensic Technology and Energy. These represent the lowest level at which the goodwill is monitored for internal management purposes. Goodwill is allocated to CGUs as set out below:

| | 31 December 2022 $m |
|---|---|
| Maritime | 481.5 |
| Intelligence and Communications | 378.9 |
| PCS | 88.2 |
| Forensic Technology | 70.3 |
| Energy | 21.9 |
| **Total** | 1,040.8 |

Goodwill is initially allocated, in the year a business is acquired, to the CGU group expected to benefit from the acquisition. Subsequent adjustments are made to this allocation to the extent that operations, to which goodwill relates, are transferred between CGU groups. The size of a CGU group varies but is never larger than a reportable operating segment.

The recoverable amounts of CGUs are determined from value-in-use calculations. In determining the value-in-use for each CGU, the Group prepares cash flows derived from the most recent financial budgets and strategic plans, representing the best estimate of future performance. These plans 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 2.5% per annum for each CGU.

**Notes** *(continued)*

## 14 Intangible assets *(continued)*

*Impairment testing (continued)*

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 pre-tax Weighted Average Cost of Capital ("WACC"). The WACC is then risk-adjusted to reflect risks specific to each business. The pre-tax discount rates used during 2022 were Maritime: 9.75%, I&C: 9.0%, PCS: 10.3%, Energy 14.3% and Forensics: 13.8%.

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. 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 2.5%. The long-term growth rate is considered to be appropriate for the sectors in which it operates, taking into consideration greater defence spending uncertainty and the possible impacts of climate change.

Within each of the strategic plans, a number of assumptions are made about business growth opportunities, contract wins, product development and available markets. A key assumption is that there will be continued demand for Ultra's products and expertise from a number of US Government agencies and prime contractors during the strategic plan period, and hence continued profit and cash generation. Sensitivity analysis has been performed on the value-in-use calculations to: (i) reduce the post-2027 growth assumption from 2.5% to nil; (ii) increase the discount rates by 2%; (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.

## 15 Investments in financial assets

The Group has minority shareholding in a listed entity, Nuscale Power, incorporated in the United States. The investment is recognised as a financial asset measured at fair value through profit and loss. The carrying value of this investment at the end of the year was $4.5m.

This is a level 1 valuation under the fair value hierarchy and the fair value is determined using valuation techniques that are based on observable inputs. As a result, the carrying amount is considered to be a reasonable estimate of fair value.

**Notes** *(continued)*

## 16 Investment in subsidiaries

The Company owns either directly or indirectly the ordinary share capital of the following undertakings:

| Company | Country incorporated | % Owned |
|---|---|---|
| 3e Technologies International Inc. | United States | 100% |
| AEP Networks Limited | Ireland | 100% |
| CORVID Holdings Limited | Guernsey | 95% |
| CORVID Protect Holdings Limited | Guernsey | 95% |
| DF Group Limited | United Kingdom | 100% |
| EMS Development Corporation | United States | 100% |
| ERAPSCO | United States | 50% |
| Flightline Electronics Inc. | United States | 100% |
| Forensic Technology (Europe) Limited | Ireland | 100% |
| Forensic Technology AEC Thailand Limited | Thailand | 100% |
| Forensic Technology Inc. | United States | 100% |
| Forensic Technology Mexico S. de RL. de C.V | Mexico | 100% |
| Forensic Technology-Tecnologia Forense Ltda | Brazil | 100% |
| Giga Communications Limited | United Kingdom | 100% |
| GIGASAT, INC. | United States | 100% |
| Gigasat. Asia Pacific Pty Limited | Australia | 100% |
| Herley Industries Inc. | United States | 100% |
| Herley-CTI Inc. | United States | 100% |
| Prologic Inc. | United States | 100% |
| Ultra Electronics (USA) Group Inc. | United States | 100% |
| Ultra Electronics Advanced Tactical Systems Inc. | United States | 100% |
| Ultra Electronics Aneira Inc. | United States | 100% |
| Ultra Electronics Australia Pty Limited | Australia | 100% |
| Ultra Electronics Avalon Systems Pty Limited | Australia | 100% |
| Ultra Electronics Canada Inc. | Canada | 100% |
| Ultra Electronics Connecticut LLC | United States | 100% |
| Ultra Electronics Defense Inc. | United States | 100% |
| Ultra Electronics DNE Technologies Inc. | United States | 100% |
| Ultra Electronics Enterprises (USA) LLC | United States | 100% |
| Ultra Electronics Finance Limited | Jersey | 100% |
| Ultra Electronics Forensic Technology Inc./ Les Technologies Ultra Electronics Forensic Inc. | Canada | 100% |
| Ultra Electronics Hong Kong Holdings Limited | Hong Kong | 100% |
| Ultra Electronics ICE, Inc. | United States | 100% |
| Ultra Electronics in collaboration with Oman Investment Corporation LLC (in liquidation) | Oman | 70% |
| Ultra Electronics Inc. | United States | 100% |
| Ultra Electronics Investments (USA) LLC | United States | 100% |
| Ultra Electronics Limited | United Kingdom | 100% |
| Ultra Electronics Maritime Systems Inc. | Canada | 100% |
| Ultra Electronics Measurement Systems Inc. | United States | 100% |
| Ultra Electronics Ocean Systems Inc. | United States | 100% |
| Ultra Electronics Pension Trustee Company Limited | United Kingdom | 100% |
| Ultra Electronics Precision Air and Land Systems Inc. | United States | 100% |
| Ultra Electronics Secure Intelligence Systems Inc. | United States | 100% |
| Ultra Electronics Swiss Holdings Company Limited | United Kingdom | 100% |
| Ultra Electronics TCS Inc. | Canada | 100% |
| Ultra Electronics TopScientific Aerospace Limited | Hong Kong | 50% |
| UnderSea Sensor Systems Inc. | United States | 100% |
| Weed Instrument Company Inc. | United States | 100% |

**Notes** *(continued)*

## 17 Deferred tax liabilities

*Recognised deferred tax assets and liabilities*

| | **2022 $m** | 2021 (unaudited) $m |
|---|---|---|
| Deferred tax liabilities | **(487.7)** | - |

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so.

*Movement in deferred tax during the year*

| | Property, plant and equip-ment $m | Intan-gible assets $m | Deriv-atives $m | Retire-ment benefit oblig-ations $m | Share options $m | Other $m | Total $m |
|---|---|---|---|---|---|---|---|
| **At 1 January 2022** | - | - | - | - | - | - | - |
| Business combinations | (23.3) | (579.5) | 5.0 | 1.8 | 5.8 | 19.5 | (570.7) |
| (Credit)/ Charge to income statement | (0.1) | 19.4 | 0.1 | (2.5) | (5.8) | 35.6 | 46.7 |
| Credit to other comprehensive income | - | - | - | 2.2 | - | - | 2.2 |
| Effect of change in tax rates | (0.1) | - | | (0.2) | - | 0.1 | (0.2) |
| Foreign exchange differences | 0.2 | 5.7 | 0.4 | - | - | 0.7 | 7.0 |
| Reclassification to held for sale | 3.7 | 23.6 | - | - | - | - | 27.3 |
| At 31 December 2022 | **(19.6)** | **(530.8)** | **5.5** | **1.3** | **-** | **55.9** | **(487.7)** |

### Unrecognised deferred tax assets

Deferred tax assets, in excess of offsetting deferred tax liabilities, are recognised for loss carry forwards and deductible temporary differences to the extent that the utilisation against future taxable profits is probable. There are no deferred tax assets in excess of deferred tax liabilities. UK Deferred tax assets of $2.1m have not been recognised as their recovery is uncertain.

### Unremitted earnings

The unprovided tax on unremitted earnings as at 31 December 2022 is considered to be immaterial.

## 18 Non-current assets classified as held for sale

As at 31 December 2022, 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. They were measured on a non-recurring basis at amortised cost. All of these assets were part of the Intelligence and Communications division and relate to the US Specialist RF business, Herley. The disposal completed in March 2023.

| | **2022 $m** | 2021 (unaudited) $m |
|---|---|---|
| Property, plant and equipment | **29.1** | - |
| Intangible assets | **211.5** | - |
| Right-of-use assets | **0.3** | - |
| Inventories | **13.7** | - |
| Trade and other receivables | **19.5** | - |
| Total assets classified as held for sale | **274.1** | - |
| | | |
| Trade and other payables | **(15.1)** | - |
| Borrowings | **(0.3)** | - |
| Provisions | **(1.4)** | - |
| Deferred tax liabilities | **(27.3)** | - |
| Total liabilities classified as held for sale | **(44.1)** | - |
| **Total held for sale** | **230.0** | - |

**Notes** *(continued)*

## 18 Non-current assets and disposal groups classified as held for sale *(continued)*

The Herley business is not treated as a separate Cash Generating Unit nor considered by the Group as a separate major line of business. Accordingly, the Herley business has not been presented as a discontinued operation in the Consolidated Income Statement.

## 19 Inventories

| | 2022 $m | 2021 (unaudited) $m |
|---|---|---|
| Raw materials and consumables | 88.1 | - |
| Work in progress | 57.0 | - |
| Finished goods and goods for resale | 5.5 | - |
| | 150.6 | - |

Included within cost of sales is a charge of $3.4m related to the write-down of inventories to net realisable value and inventories used for internal development.

## 20 Trade and other receivables

| | 2022 $m | 2021 (unaudited) $m |
|---|---|---|
| **Non-current** | | |
| Contract assets (*note 5*) | 12.9 | - |
| | 12.9 | - |
| | | |
| **Current** | | |
| Trade receivables | 140.9 | - |
| Loss allowance against receivables | (1.8) | - |
| Trade receivables | 139.1 | - |
| Contract assets (*note 5*) | 92.8 | - |
| Other receivables | 5.8 | - |
| Accrued income | 11.7 | - |
| Prepayments | 33.6 | - |
| | 283.0 | - |

Trade receivables do not carry interest.

The ageing profile of trade receivables was as follows:

| | 2022 | | | 2021 (unaudited) | | |
|---|---|---|---|---|---|---|
| | Trade receivables $m | Loss allowance $m | Total $m | Trade receivables $m | Loss allowance $m | Total $m |
| Current | 108.7 | - | 108.7 | - | - | - |
| 1 to 3 months | 23.7 | - | 23.7 | - | - | - |
| 4 to 6 months | 3.2 | - | 3.2 | - | - | - |
| 7 to 9 months | 1.6 | - | 1.6 | - | - | - |
| Over 9 months | 3.7 | (1.8) | 1.9 | - | - | - |
| Total | 140.9 | (1.8) | 139.1 | - | - | - |

The Group makes loss allowances against its trade receivables and amounts receivable from over-time contract customers based on expected credit losses at an amount equal to lifetime expected credit losses based on prior experience and relevant forward-looking factors.

The Group recognises a loss allowance of 100% against all receivables over a year past due. For amounts receivable from over-time contract customers, accrued income, and other receivables the expected credit loss allowance is immaterial.

**Notes** *(continued)*

## 20 Trade and other receivables *(continued)*

Movement in the loss allowance for trade receivables was as follows:

| | 2022 $m | 2021 (unaudited) $m |
|---|---|---|
| At 1 January | - | - |
| Acquired in business combinations | (2.4) | |
| Increase in loss allowance for trade receivables regarded as potentially uncollectable | (0.7) | - |
| Reclassification to assets held for sale | 0.9 | |
| Decrease in loss allowance for trade receivables recovered during the year or provision utilised | 0.4 | - |
| **At 31 December** | **(1.8)** | **-** |

### Credit risk

Credit risk is defined as the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group mitigates this risk of financial loss by only dealing with creditworthy counterparties. While the Group has elements of concentration of credit risk, with exposure to a number of large counterparties and customers, the customers are mainly Government agencies or multinational organisations with whom the Group has long-term business relationships. The Group's assessment is that credit risk in relation to 'five-eyes' Government customers and leading defence primes or subcontractors to Governments is extremely low as the probability of default is not significant, for example the non-current portion of amounts receivable from over-time contract customers. The provision for expected credit losses is immaterial in respect of receivables from these customers.

Ongoing credit evaluation is performed on the financial condition of accounts receivable and, when appropriate, action is taken to minimise the Group's credit risk.

## 21 Cash and cash equivalents/ bank overdrafts

| | 2022 $m | 2021 (unaudited) $m |
|---|---|---|
| Cash and cash equivalents per consolidated statement of financial position | 168.2 | - |
| Bank overdraft (*note 22*) | (29.1) | - |
| Cash and cash equivalents per cash flow statement | 139.1 | - |

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.

## 22 Other interest-bearing loans and borrowings

| | 2022 $m | 2021 (unaudited) $m |
|---|---|---|
| **Non-current liabilities** | | |
| Bank loans (*note 27*) | 1,446.1 | - |
| Related party loans (*note 27*) | 860.8 | - |
| Lease liabilities | 30.7 | - |
| Government loans (*note 28*) | 16.9 | - |
| | 2,354.5 | - |
| **Current liabilities** | | |
| Bank overdrafts | 29.1 | - |
| Bank loans | 38.9 | - |
| Related party loans (*note 27*) | 41.9 | - |
| Lease liabilities | 10.1 | - |
| Government loans (*note 28*) | 7.0 | - |
| | 127.0 | - |
| Total borrowings | 2,481.5 | - |

**Notes** *(continued)*

## 22 Other interest-bearing loans and borrowings *(continued)*

### Bank loans and related party loans

The principal amounts of bank and related party loans outstanding excluding unamortised loan arrangement fees of $100.3m and accrued interest comprise the following:

| | Agreement Date | Maturity Date | 2022 $m | 2021 (unaudited) $m |
|---|---|---|---|---|
| **Floating rates** | | | | |
| 1st Lien €450m term loan | August 2022 | August 2029 | **481.3** | - |
| 1st Lien $883.5m term loan | August 2022 | August 2029 | **881.3** | - |
| 2nd Lien $460m loan notes | August 2022 | August 2030 | **460.0** | - |
| $440m shareholder loan notes | August 2022 | August 2031 | **440.0** | - |
| £190m revolving credit facility | August 2022 | February 2029 | **149.0** | - |
| | | | **2,411.6** | - |

In September 2022, borrowings held by Ultra pre-acquisition of $70m and £50m were repaid.

Floating rate bank loans accrue interest at USD LIBOR, EURIBOR or other appropriate benchmark plus margin. A reform of major interest rate benchmarks is being undertaken globally, including the replacement of certain interbank offered rates (IBORs) with alternative reference rates. The Group will move to the new benchmark rates in accordance with timelines as per the regulatory guidelines, and do not expect the impact of the reform to be material to the results of the Group upon transition.

Bank overdrafts are repayable on demand and accrue interest at floating rates.

### Reconciliation of movements in net debt

Net debt comprises bank overdrafts; bank, related party and government loans; and lease liabilities less cash and cash equivalents.

| | | | Liabilities from financing activities | | | | |
|---|---|---|---|---|---|---|---|
| **$m** | Cash and cash equivalents | Bank overdrafts | Bank loans | Related party loans | Lease liabilities | Government loans | Net debt |
| At 5 August 2021 and 31 December 2021 (unaudited) | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| Acquired in business combination | **189.8** | **(34.6)** | **(132.4)** | **-** | **(45.6)** | **(25.8)** | **(48.6)** |
| Net flows cash and cash equivalents and bank overdrafts | **(16.3)** | **5.5** | **-** | **-** | **-** | **-** | **(10.8)** |
| New borrowings | **-** | **-** | **(1,490.6)** | **(900.0)** | **-** | **-** | **(2,390.6)** |
| Finance costs of debt capitalised | **-** | **-** | **63.2** | **39.8** | **-** | **-** | **103.0** |
| Repayment of borrowings | **-** | **-** | **134.0** | **-** | **-** | **-** | **134.0** |
| Amortisation of finance costs of debt | **-** | **-** | **(2.5)** | **(0.6)** | **-** | **-** | **(3.1)** |
| Other non-cash movement | **-** | **-** | **(34.4)** | **(41.9)** | **(0.5)** | **0.6** | **(76.2)** |
| Principal payments on leases | **-** | **-** | **-** | **-** | **4.7** | **-** | **4.7** |
| Foreign exchange differences | **(5.3)** | **-** | **(22.3)** | **-** | **0.6** | **1.3** | **(25.7)** |
| At 31 December 2022 | **168.2** | **(29.1)** | **(1,485.0)** | **(902.7)** | **(40.8)** | **(23.9)** | **(2,313.3)** |

**Notes (continued)**

## 23 Trade and other payables

| | 2022 $m | 2021 (unaudited) $m |
|---|---|---|
| **Current** | | |
| Trade payables | **(54.7)** | - |
| Contract liabilities (*note 5*) | **(133.2)** | - |
| Other payables | **(16.6)** | - |
| Accruals | **(106.8)** | - |
| Deferred income | **(18.6)** | - |
| | **(329.9)** | - |
| **Non-current** | | |
| Contract liabilities (*note 5*) | **(3.9)** | - |
| Other payables | **(0.5)** | - |
| Deferred income | **(9.4)** | - |
| | **(13.8)** | - |

## 24 Employee benefits

### *Pension plans*

Some UK employees of the Group are members of the Ultra Electronics Limited defined benefit scheme which was established on 1 March 1994. The scheme was closed to new members in 2003. The scheme is a final salary scheme with the majority of members accruing 1/60th of their final pensionable earnings for each year of pensionable service; however, the scheme was closed to future benefit accrual from 5 April 2016. A defined contribution plan was introduced for other employees and new joiners in the UK. The latest full actuarial valuation of the defined benefit scheme was carried out as at 5 April 2022. The Group also operates two defined contribution schemes for overseas employees. In addition to these schemes, the Group's Tactical Communication Systems business based in Montreal, Canada, has three defined benefit schemes.

*Defined contribution schemes*

The total cost charged to income in respect of the defined contribution schemes was $5.6m.

*Defined benefit schemes*

All of the defined benefit schemes were actuarially assessed at 31 December 2022 using the projected unit method.

In the UK, Ultra Electronics Limited sponsors the Ultra Electronics Pension Scheme, a funded defined benefit pension scheme. The scheme is administered within a trust which is legally separate from the Group. Trustees are appointed by both the Group and the scheme's membership and act in the interests of the scheme and all relevant stakeholders, including the members and the Group. The Trustees are also responsible for the investment of the scheme's assets.

This scheme provides pensions and lump sums to members on retirement and to their dependants on death.

The Trustees are required to use prudent assumptions to value the liabilities and costs of the scheme whereas the accounting assumptions must be best estimates.

Responsibility for making good any deficit within the scheme lies with the Group and this introduces a number of risks for the Group. The major risks are: interest rate risk, inflation risk, investment risk and longevity risk. The Group and Trustees are aware of these risks and manage them through appropriate investment and funding strategies. The Trustees manage governance and operational risks through a number of internal controls policies, including a risk register.

**Notes** *(continued)*

## 24 Employee benefits *(continued)*

### *Investment strategy*

The investment strategy is set by the Trustees of the scheme. The investment strategy is targeting a level of investment return above that assumed under the Recovery Plan and slightly higher than the required return to achieve full funding on a self-sufficiency basis by 31 March 2030, with an appropriate level of diversification across assets and interest rate and inflation hedging to manage investment risks.

The UK Scheme's investment strategy is to invest broadly 54% in return-seeking assets and 46% in matching assets, with the aim of moving to 20% growth and 80% matching by 2030. This strategy reflects the UK Scheme's liability profile and the Trustees' and Group's attitude to risk.

The Trustees' investment strategy includes investing in liability driven investment ('LDI'), the value of which will increase with decreases in interest rates, and will move with inflation expectations. LDI primarily involves the use of Government bonds and derivatives such as interest rate and inflation swaps. The main risk is that the investments held move differently to the liability exposures; this risk is managed by the Trustees, their advisers and the scheme's LDI manager, who regularly assess the position.

The assets held are also well diversified, across asset classes and investment managers. This reduces the risk of drops in the value of individual asset classes, or a particular manager underperforming its investment objectives, having a negative impact on the funding position of the scheme. The investment performance and liability experience are regularly reviewed by the Trustees, and the Trustees will consult with the Group over any changes to the investment strategy.

Rather than holding the underlying assets directly, the scheme invests in pooled investment vehicles managed by professional external investment managers, whom the Trustees have appointed with the help of their investment advisers.

### *GMP equalisation*

Following a High Court judgment on 26 October 2018, it became apparent across the UK pension industry that equalisation was required with respect to Guaranteed Minimum Pensions ('GMP's). Scheme benefits earned in the period 17 May 1990 to 5 April 1997 may be affected by the requirement to equalise GMPs.

It will take a considerable time for trustees and employers to decide on the approach for GMP equalisation, gather data, calculate the new benefits and cost, and ultimately make payments to members. There have been no material changes in estimates since acquisition.

### *Valuation*

The scheme is subject to regular actuarial valuations, which are usually carried out every three years. The last actuarial valuation of the scheme was carried out as at 5 April 2019. The next actuarial valuation is due to be carried out with an effective date of 5 April 2022, which as at the date of signing this report is still being finalised. These actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004 and so include deliberate margins for prudence. This contrasts with these accounting disclosures, which are determined using best estimate assumptions.

The results of the draft 5 April 2022 valuation have been projected to 31 December 2022 by a qualified, independent actuary. The figures in the following disclosure were measured using the projected unit method.

| | | **2022** | | | 2021 (unaudited) | |
|---|---|---|---|---|---|---|
| | **UK** | **Canada** | **Total** | UK | Canada | Total |
| | **$m** | **$m** | **$m** | $m | $m | $m |
| Defined benefit asset | **324.7** | **8.7** | **333.4** | - | - | - |
| Effect of net asset ceiling | **(4.3)** | **(0.3)** | **(4.6)** | - | - | - |
| Total defined benefit asset | **320.4** | **8.4** | **328.8** | - | - | - |
| Total defined benefit liability | **(307.6)** | **(8.4)** | **(316.0)** | - | - | - |
| **Net defined benefit asset** | **12.8** | **-** | **12.8** | - | - | - |

**Notes** *(continued)*

## 24 Employee benefits *(continued)*

*Movement in net defined benefit liability/asset*

| | Defined benefit obligation | | Fair value of plan assets | | Net defined benefit (liability) / asset | |
|---|---|---|---|---|---|---|
| | **2022** | 2021 (unaudited) | **2022** | 2021 (unaudited) | **2022** | 2021 (unaudited) |
| | **$m** | $m | **$m** | $m | **$m** | $m |
| At 1 January | **-** | - | **-** | - | **-** | - |
| Pension scheme assumed on acquisition | **(390.2)** | - | **387.3** | - | **(2.9)** | - |
| Interest (income)/cost | **(5.4)** | - | **5.6** | - | **0.2** | - |
| Amounts recognised in profit or loss | **(5.4)** | - | **5.6** | - | **0.2** | - |
| Remeasurements loss/(gain): | | | | | | |
| Actuarial loss (gain) arising from | | | | | | |
| - Changes in demographic assumptions | **6.1** | - | **-** | - | **6.1** | - |
| - Change in financial assumptions | **71.6** | - | **-** | - | **71.6** | - |
| - Experience adjustment | **(11.9)** | - | **-** | - | **(11.9)** | |
| Return on plan assets excluding interest income | **-** | - | **(75.3)** | - | **(75.3)** | - |
| Effect of net asset ceiling | **-** | - | **(4.6)** | - | **(4.6)** | - |
| Effect of movements in exchange rates | **5.8** | - | **(6.2)** | - | **(0.4)** | - |
| Amounts recognised in OCI | **71.6** | - | **(86.1)** | - | **(14.5)** | - |
| Contributions paid by the employer | **-** | - | **30.0** | - | **30.0** | - |
| Amounts recognised in cash flow statement | **-** | - | **30.0** | - | **30.0** | - |
| Benefits paid | **8.0** | - | **(8.0)** | - | **-** | - |
| Other | **8.0** | - | **(8.0)** | - | **-** | - |
| At 31 December | **(316.0)** | - | **328.8** | - | **12.8** | - |

*Scheme Assets*

The fair value of major categories of scheme assets is as follows:

| | **2022** | 2021 (unaudited) |
|---|---|---|
| | **$m** | $m |
| Equities | **15.9** | - |
| Bonds | **4.8** | - |
| Property | **46.8** | - |
| Other assets | **33.9** | - |
| Investment funds: | | |
| - Absolute return | **30.4** | - |
| - LDI | **105.9** | - |
| - Multi-asset credit | **95.7** | - |
| | **333.4** | - |

The scheme's investments are in pooled funds which are unquoted.

**Notes** *(continued)*

## 24 Employee benefits *(continued)*

### *Actuarial assumptions*

The following are the principal actuarial assumptions at the reporting date:

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | **UK** | **Canada** | UK | Canada |
| Discount rate | **4.95%** | **5.00%** | n/a | n/a |
| Inflation rate - RPI | **3.25%** | **n/a** | n/a | n/a |
| Inflation rate - CPI | **2.65%** | **n/a** | n/a | n/a |
| Expected rate of salary increases | **n/a** | **3.45%** | n/a | n/a |
| Future pension increases (pre 6/4/08) | **3.05%** | **n/a** | n/a | n/a |
| Future pension increases (post 6/4/08) | **2.00%** | **n/a** | n/a | n/a |

For each of these assumptions there is a range of possible values. Relatively small changes in some of these variables can have a significant impact on the level of the total obligation. For the UK scheme, a 0.5% increase in the inflation assumption to 3.75% and a 0.5% decrease in the discount rate to 4.25% would increase the scheme's liabilities by $12.3m and $20.9m respectively. If the life expectancy of members was to increase by one year, the scheme liabilities would increase by $10.4m.

The average duration of the scheme liabilities is 13 years.

The assumptions used are provided by Willis Towers Watson as Group advisers, and also by reference to the Bank of England gilt curve, at a duration appropriate to the scheme's liabilities.

The key demographic assumption used was in relation to the mortality rates of current and future pensioners. Due to the size of the scheme the mortality rates were based on standard tables, namely:

| | |
|---|---|
| Current pensioners – males | 100% of SAPS S3PMA with CMI 2021 projections and a 1.25% floor from 2013 (UK only) |
| Current pensioners – females | 97% of SAPS S3PFA with CMI 2021 projections and a 1.25% floor from 2013 (UK only) |
| Future pensioners – males | 100% of SAPS S3PMA with CMI 2021 projections and a 1.25% floor from 2013 (UK only) |
| Future pensioners – females | 97% of SAPS S3PFA with CMI 2020 projections and a 1.25% floor from 2013 (UK only) |

The mortality assumptions used in the valuation of the UK scheme make appropriate allowance for future improvements in longevity and are set out below:

| | **2022** **years** | 2021 (unaudited) years |
|---|---|---|
| Current pensioners (at 65) – males | **22** | n/a |
| Current pensioners (at 65) – females | **25** | n/a |
| Future pensioners (at 65) – males | **23** | n/a |
| Future pensioners (at 65) – females | **26** | n/a |

The amount of contributions expected to be paid to defined benefit schemes per annum is $13.3m until March 2025, $14.5m until March 2028. In addition, there will be a one-off payment of $25.4m in 2023.

**Notes** *(continued)*

## 25 Provisions

| | Warranties $m | Contract-related provisions $m | Other provisions $m | Total $m |
|---|---|---|---|---|
| Balance at 1 January 2022 (unaudited) | - | - | - | - |
| Acquired with business combinations | **7.2** | **23.4** | **23.5** | **54.1** |
| Provisions made during the period | **1.2** | **2.7** | **0.6** | **4.5** |
| Provisions used during the period | **(0.7)** | **(9.6)** | **(0.3)** | **(10.6)** |
| Provisions reversed during the period | **(0.7)** | **(1.6)** | **(3.4)** | **(5.7)** |
| Exchange differences | **(0.1)** | **(1.7)** | **(0.3)** | **(2.1)** |
| Reclassified to liabilities held for sale | **(1.3)** | **(0.1)** | **-** | **(1.4)** |
| **Balance at 31 December 2022** | **5.6** | **13.1** | **20.1** | **38.8** |
| | | | | |
| Non-current | 1.0 | 3.5 | 4.3 | 8.8 |
| Current | 4.6 | 9.6 | 15.8 | 30.0 |
| **Balance at 31 December 2022** | 5.6 | 13.1 | 20.1 | 38.8 |

Provision is made for the anticipated cost of repair and rectification of products under warranty, based on known exposures and historical occurrences. Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

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, typically 2-5 years.

Other provisions include reorganisation costs, dilapidation costs and costs in relation to settlement of legal matters*. Reorganisation costs will be incurred over the period of the reorganisation, which is typically up to two years. Dilapidations will be payable at the end of the contracted life, which is up to 15 years.

*Investigations associated with Ultra legacy conduct of business issues are ongoing, and Ultra continues to cooperate with the relevant authorities. Provisions have been booked with respect to these matters where the provision recognition criteria have been deemed to have been met.

## 25 Capital and reserves

### Ordinary Shares

| In thousands of shares | **2022** | 2021 (unaudited) |
|---|---|---|
| At the beginning of the period | **20** | - |
| Issued for cash | **2,580** | 20 |
| At 31 December – fully paid | **2,600** | 20 |

| | **2022 $m** | 2021 $m |
|---|---|---|
| ***Allotted, called up and fully paid*** | | |
| 2,600,000 *(2021: 20,000)* Ordinary shares of $1 each | **2.6** | - |
| **Total** | **2.6** | - |

During the year the Company issued 2,580,000 Ordinary shares with a nominal value of $1 each, settled in cash for total consideration of $136.3m. The difference between the nominal value of the shares and the cash received has been recognised within share premium.

**Notes** *(continued)*

## 26 Capital and reserves (continued)

### Equity preference capital

| | 2022<br>$m | 2021<br>(unaudited)<br>$m |
|---|---|---|
| **Issued and fully paid** | | |
| 788,821,659 shares of $1each | **788.8** | - |
| | | |
| At the beginning of the period | **-** | - |
| Issued in the period | **1,052.2** | - |
| Repaid in the period | **(263.4)** | - |
| At 31 December | **788.8** | - |

During the year the Company issued 1,052,227,317 equity preferred certificates with a nominal value of $1 each with no yield, settled in cash. These certificates are mandatorily redeemable at par after ninety years in August 2112. The certificates are only redeemable by the Company and can be redeemed at par at any time or converted into conversion shares. The Company redeemed 263,405,658 shares at par during the year.

*Translation reserve*

The translation reserve comprises all foreign exchange differences arising, from the translation of the financial statements of foreign operations, as well as from the translation of liabilities that hedge the Company's net investment in a foreign subsidiary.

*Legal reserve*

In accordance with Law of 10 August 1915 on commercial companies as amended, the Company must allocate a minimum of 5% of the net profit to the legal reserve, until such reserve reaches 10% of the share capital. Distribution of the legal reserve is restricted. The amount allocated to the legal reserve as at 31 December 2022 was $0.

## 27 Financial instruments

### *i) Financial assets*

The financial assets of the Group are as follows:

| | 2022<br>$m | 2021<br>(unaudited)<br>$m |
|---|---|---|
| Cash and cash equivalents | **168.2** | - |
| Investments in financial assets | **4.5** | |
| Trade receivables | **139.1** | - |
| Other receivables | **5.8** | - |
| Accrued income | **11.7** | - |
| | **329.3** | **-** |

The Board of Managers consider that the carrying amount of all financial assets approximates to their fair value.

Derivative financial instruments are measured at fair value through profit and loss. All other financial assets are measured at amortised cost.

**Notes** *(continued)*

## 27 Financial instruments *(continued)*

### *ii) Financial liabilities*

The financial liabilities of the Group were as follows:

| | 2022<br>$m | 2021<br>(unaudited)<br>$m |
|---|---|---|
| Derivative financial instruments | **(23.3)** | - |
| Trade payables | **(54.7)** | - |
| Other payables | **(17.1)** | - |
| Accruals | **(106.8)** | - |
| Bank loans and overdrafts | **(1,514.1)** | - |
| Related party loans | **(902.7)** | - |
| Lease liabilities | **(40.8)** | - |
| Amounts due to over-time contract customers | **(137.1)** | |
| Government loans | **(23.9)** | - |
| | **(2,820.5)** | **-** |

The Board of Managers consider that the carrying amount for all financial liabilities, except for the bank and related party loans, approximates to their fair value. For the bank and related party loans, the derived fair value has been determined as $2,287.4m which compares to the carrying amount of $2,387.7m. The fair value of the bank loans and overdrafts has been derived from indicative quotes for borrowings of similar amounts, terms and maturity periods and is classified as level 2 within the fair value hierarchy.

Derivative financial instruments and government loans are measured at fair value through profit and loss. Lease liabilities are measured in accordance with IFRS 16. All other financial liabilities are measured at amortised cost.

### *iii) Fair values of financial instruments*

The fair value hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Listed equity investments are classified as level 1, derivative financial instruments are classified as level 2 and government loans are classified as level 3 in the fair value hierarchy. Further details on the government loans are set out in note 28.

### *iii) Fair values of financial instruments* (continued)

The derivative financial instruments held by the Group are as follows:

| | Current (liabilities)/assets | | Non-current (liabilities)/assets | |
|---|---|---|---|---|
| | 2022<br>$m | 2021<br>(unaudited)<br>$m | 2022<br>$m | 2021<br>(unaudited)<br>$m |
| Foreign exchange currency liabilities | **(12.6)** | **-** | **(10.7)** | **-** |
| Foreign exchange currency assets | **-** | **-** | **0.3** | **-** |

### *iv) Credit risk*

The credit risk on liquid funds and derivative financial instruments is considered to be limited because the counterparties are banks with investment-grade ratings assigned by international credit rating agencies. Cash is deposited across a number of different investment-grade banks in the main territories in which the Group is based.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk.

## 27 Financial instruments *(continued)*

### *iv) Credit risk (continued)*

Credit risk disclosures for trade receivables are set out in note 20. The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- When there is a breach of financial covenants by the debtor; or
- Information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group), including historic experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

Irrespective of the above analysis, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

The table below sets out the credit ratings of the counterparties for the Group's derivative assets and cash and cash equivalents:

| 2022 | Derivative assets $m | Cash and cash equivalents $m |
|---|---|---|
| AA | - | **19.9** |
| AA- | - | **57.5** |
| A+ | - | **7.5** |
| A | - | **83.3** |
| | - | **168.2** |

### *v) Liquidity risk*

The Group maintains committed banking facilities with core banks to provide prudent levels of borrowing headroom.

The Group's debt structure was established to fund the acquisition of Ultra in August 2022. The debt structure consists of a €450m term loan and $883.5m term loan with an expiry date of August 2029, $460m notes with an expiry date of August 2030 and $440m notes with an expiry date of August 2031. The $460m and $440m notes were provided by the Group's immediate parent company, Cobham Ultra SunCo S.à r.l. The Group also has a £190m revolving credit facility, of which £34.8m has been allocated to support bank guarantee issuance. The remaining balance of the facility of £155.2m is available to be drawn in Sterling, US Dollars, Canadian Dollars, Australian Dollars and Euros.

The term loans and revolving credit facility are secured against certain of the Group entities' shares, intercompany receivables, bank accounts and other assets. The $460m notes are secured over the shares of the Company, and the $440m notes are unsecured within the Group. Interest was charged at 3.75% over the benchmark rate for the term loans, 7.25% above benchmark for the $460m notes and 9% over benchmark for the $440m notes.

The Group is strongly cash-generative, and the funds generated by operating companies are managed regionally to fund short-term local working capital requirements. Where additional funding is required, this is provided centrally through the Group's committed banking facilities.

The Group, through its Canadian subsidiary Ultra Electronics Tactical Communication Systems (TCS), participates in two Canadian programmes that provide government support in relation to the development of certain of its products. Further disclosure is provided in note 28.

The following table details the Group's remaining undiscounted contractual maturity for its financial liabilities and leases.

**Notes** *(continued)*

## 27 Financial instruments *(continued)*

### *v) Liquidity risk (continued)*

The contractual maturity of currency derivatives stated below is the gross outflow relating to the derivative liabilities, per the requirements of IFRS 7 paragraph B11D. To enable readers to understand the overall position, the gross cash inflow associated with these liabilities is also presented. Additionally, the cash inflow from lease subletting is also presented.

| | Within 1 year $m | 1 to 2 years $m | 2 to 5 years $m | Over 5 years $m | Total $m |
|---|---|---|---|---|---|
| Trade payables | **(54.7)** | **-** | **-** | **-** | **(54.7)** |
| Other payables | **(16.6)** | **(0.5)** | **-** | **-** | **(17.1)** |
| Accruals | **(106.8)** | **-** | **-** | **-** | **(106.8)** |
| Bank overdraft | **(29.1)** | **-** | **-** | **-** | **(29.1)** |
| Bank loans | **(102.9)** | **(98.8)** | **(293.7)** | **(1,663.4)** | **(2,158.8)** |
| Related party loans | **(48.6)** | **(48.7)** | **(145.8)** | **(1,896.5)** | **(2,139.6)** |
| Government loans | **(7.7)** | **(10.2)** | **(12.0)** | **(1.2)** | **(31.1)** |
| Currency derivatives used for hedging – cash outflow | **(12.6)** | **(8.7)** | **(2.2)** | **-** | **(23.5)** |
| Lease liabilities | **(12.6)** | **(10.9)** | **(17.3)** | **(6.4)** | **(47.2)** |
| At 31 December 2022 | **(391.6)** | **(177.8)** | **(471.0)** | **(3,567.5)** | **(4,607.9)** |

### *vi) Market risk*

#### *Financial risk management*

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments

#### *Currency risk*

The Group uses currency derivatives in the form of forward currency contracts to hedge its foreign currency transaction risk. The currencies giving rise to this risk are primarily Sterling and Canadian Dollars.

At 31 December 2022, the net fair value of the Group's currency derivatives is estimated to be a liability of approximately $23.1m, comprising $0.3m assets and $23.4m liabilities. The gain on derivative financial instruments included in the Group's consolidated income statement for the period was $0.2m.

*Sensitivity analysis*

The Group's main sensitivity is to changes in the exchange rate between US Dollars and Sterling. The Group has estimated the impact on the income statement and equity of a 10% and 25% strengthening or weakening of average actual and transactional currency rates applicable during the year and a 10% and 25% change in the foreign exchange rates applicable for valuing foreign exchange derivative instruments. The analysis covers only financial assets and liabilities held at the balance sheet date and is made on the basis the net investment hedge remains effective.

| **31 December 2022** | 10% weakening of US dollar | | 10% strengthening of US dollar | | 25% weakening of US dollar | | 10% strengthening of US dollar | |
|---|---|---|---|---|---|---|---|---|
| | Profit before tax $m | Equity $m | Profit before tax $m | Equity $m | Profit before tax $m | Equity $m | Profit before tax $m | Equity $m |
| P&L translation | **8.4** | **-** | **(8.4)** | **-** | **21.0** | **-** | **(21.0)** | **-** |
| Foreign exchange derivatives | **26.1** | **-** | **(26.1)** | **-** | **65.1** | **-** | **(65.1)** | **-** |
| | **34.5** | **-** | **(34.5)** | **-** | **86.1** | **-** | **(86.1)** | **-** |

**Notes** *(continued)*

## 27 Financial instruments *(continued)*

### *vi)* ***Market risk*** *(continued)*

***Interest rate risk***

All of the Group's loans are subject to floating interest rates and are repayable between 2029 and 2031.

*Sensitivity analysis*

A change of 100 basis points in interest rates at the balance sheet date would have increased (decreased) equity and profit or loss by $10.0m. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instrument at fair value through profit or loss with fixed interest rates and the fixed rate element of interest rate swaps.

***Capital management***

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 22, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity. The Group is not subject to externally imposed capital requirements.

## 28 Government grants and loans

The Group, through its Canadian subsidiaries Ultra Electronics Tactical Communication Systems ("TCS") and Ultra Electronics Maritime Systems ("UEMS"), participates in three Canadian programmes that provide Government support in relation to the development of certain of its products.

Under the Strategic Aerospace and Defence Initiative ("SADI"), the Canadian Federal Government provides a long-term funding arrangement in respect of certain eligible research and development project costs. Under this arrangement:

- C$31.8m was provided to TCS and will be reimbursed over the period to 2032.
- Up to C$8.2m will be provided to UEMS up to the end of 2023 and reimbursed over the period 2024 to 2039. The benefit of the below-market rate of interest has been calculated as the difference between the proceeds received and the fair value of the loans and has been credited to profit in the year. As at 31 December 2022, C$5.5m had been received by UEMS.

The fair value of the loans has been calculated using a market interest rate for a similar instrument. The valuation used the discounted cash flow method and considered the value of expected payments using a risk-adjusted discount rate; the discount rate used was 18% for TCS and 15% for UEMS.

For TCS, the amount repayable depends on future revenue growth of the TCS business to 2032 and will be up to 1.5x the amounts received up to a maximum of C$47.7m. C$11.7m has been repaid to date, with a further C$9.5m repaid in early 2023.

For UEMS, the amount repayable depends on future revenue growth of the UEMS business from 2024 to 2039 and will be between 1.0x and 1.5x the amounts received up until the end of the funding period.

The significant unobservable inputs for this Level 3 financial instrument are: (i) whether, and by how much, TCS and UEMS revenues will grow during the periods to 2032 and 2039 respectively, and (ii) the specific years in which revenue will grow. There are significant inherent uncertainties in management's ability to forecast revenue over future years, particularly in later years. For TCS, if the compound annual revenue growth rate over the period from 2023 to 2032 was 3.0% higher than assumed in the valuation model, then the net present value of the liability as at 31 December 2022 would increase by C$0.1m. If the forecast revenue growth occurs in earlier years than envisaged, then the net present value of the liability will increase; if the revenue growth increases were to occur one year earlier than assumed in the valuation model, then the net present value of the liability as at 31 December 2022 would increase by C$3.9m.

**Notes** *(continued)*

## 28 Government grants and loans *(continued)*

Amounts recognised in the financial statements in respect of these programmes were as follows:

| | **2022** **$m** | 2021 (unaudited) $m |
|---|---|---|
| At the beginning of the period | **-** | - |
| Recognised on acquisition of Ultra | **(25.7)** | - |
| Contributions | **-** | - |
| Net change in fair value to profit and loss (FVTPL) – (*note 8*) | **0.6** | - |
| Foreign exchange differences | **1.2** | - |
| At 31 December | **(23.9)** | - |

The government grant credited to the consolidated income statement in the period was $nil.

## 29 Contingencies

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 $50.7m.

## 30 Capital commitments

There were no financial commitments (i.e. certain contractual requirements to make cash payments in the future) that are not recorded within our balance sheet as the contract is not yet due for delivery as at 31 December 2022.

## 31 Related parties

During the year, Cobham Ultra SunCo S.à r.l., the Group's immediate parent company provided $440m (PIK) and $460m (SUN) loan notes to the Group and charged the Group $42.0m interest on these loan notes. At the year end, the total of $42.0m interest on loan notes is owed by the Group to Cobham Ultra SunCo S.à r.l.. For further detail on the related party loans, please refer to note 22.

Loan arrangement fees totalling $39.8m were paid to related parties in relation to the PIK and SUN debt issued by the Group.

Subsequent to the year end, the Group divested the US Specialist RF business ("Herley") to CAES Systems Holdings LLC, a 100% owned subsidiary of AI Convoy (Luxembourg) S.à r.l.. For further detail, please refer to note 33.

### *Transactions with key management personnel*

During the year, no remuneration was paid to key management personnel from within this Group and therefore no key management personnel compensation is disclosable.

## 32 Parent and ultimate parent undertaking

The Company's immediate parent undertaking is Cobham Ultra SunCo S.à r.l., a company incorporated in Luxembourg. The ultimate controlling party is Advent International Corporation, a global private equity investor.

At 31 December 2022, Cobham Ultra SeniorCo S.à r.l., was the holding Company of the largest and smallest group for which consolidated financial statements were prepared.

## 33 Subsequent events

On 3 March 2023 the Group divested the US Specialist RF business ("Herley") to CAES Systems Holdings LLC, a 100% owned subsidiary of AI Convoy (Luxembourg) S.à r.l., for $250m on a cash free, debt free basis. AI Convoy (Luxembourg) S.à r.l. is a wholly owned subsidiary of the Group's ultimate parent. This represents a premium of $28.4m over the net assets held for sale as at the date of disposal.