We are investigators, problem solvers, brilliant thinkers, relentless explorers. We are Ultra.

Annual Report
and Accounts 2019

ULTRA

OUR TOP CUSTOMERS

We work with the US Department of Defense (DoD), the UK Ministry of Defence (MoD) and other aerospace, defence and critical infrastructure providers both directly and through prime contractors.

Our top 10 contracts accounted for 14% of our 2019 revenue and our top 10 platforms accounted for 19% of revenue.

US DoD	**22%**
UK MoD	**7%**
Lockheed Martin	**6%**
Boeing	**5%**
BAE Systems	**5%**
Northrop Grumman	**3%**
Pratt and Whitney	**3%**
General Dynamics	**2%**
US Bureau of Alcohol, Tobacco, Firearms and Explosives	**2%**
Thales	**2%**

Ultra at a glance **p8**
Our target markets **p24**

OUR MISSION AND THE REASON WE EXIST

Innovating today for a safer tomorrow.

OUR MARKETS

We operate mainly as a Tier 3 (sub-system) and occasionally a Tier 2 systems provider in the maritime, C4ISTAR-EW (command, control, communications, computers, intelligence, surveillance, acquisition and reconnaissance – electronic warfare), military and commercial aerospace, nuclear, and industrial sensors markets.

Maritime	**43%**
Intelligence & Communications	**27%**
Other critical detection and control markets	**30%**

We provide innovative, mission-specific, bespoke technological solutions to our customers' most complex problems.

Direct defence sales to the DoD and MoD accounted for 29% of Group revenue in 2019. Indirect sales to the US DoD and UK MoD accounted for an additional 24%.

OUR GLOBAL REACH

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

North America	**61%**
UK	**21%**
Rest of the World	**11%**
Mainland Europe	**7%**

OUR VISION

To deliver outstanding solutions to our customers' most complex problems.

OUR STRENGTHS

Customer reputation and relationships
A strong reputation, technical relationships and a record of delivery that make us a critical supplier to many of our customers.

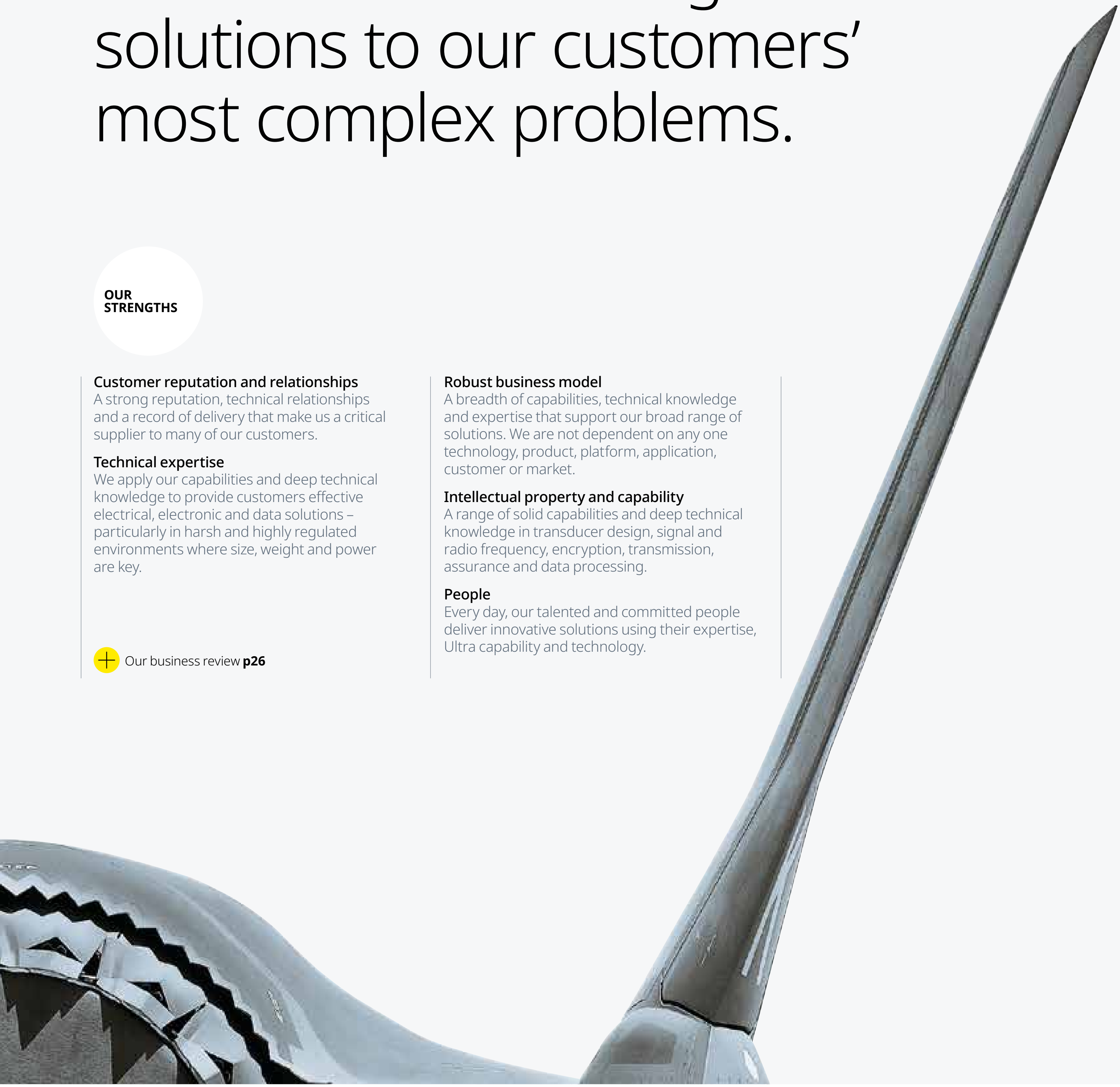
Technical expertise
We apply our capabilities and deep technical knowledge to provide customers effective electrical, electronic and data solutions – particularly in harsh and highly regulated environments where size, weight and power are key.

Our business review **p26**

Robust business model
A breadth of capabilities, technical knowledge and expertise that support our broad range of solutions. We are not dependent on any one technology, product, platform, application, customer or market.

Intellectual property and capability
A range of solid capabilities and deep technical knowledge in transducer design, signal and radio frequency, encryption, transmission, assurance and data processing.

People
Every day, our talented and committed people deliver innovative solutions using their expertise, Ultra capability and technology.



We are the smart people behind the smart people.

Every day, all over the globe, people are working to make the world safer and more secure. And behind those people is Ultra.

There is huge variety in my day-to-day job. One minute I'm working on a multimillion-dollar programme and the next we are developing our own innovations. You would never find this type of variety in other companies.

We're moving from a group of individual businesses to ONE Ultra. That's a huge change but an exciting one. We have some of the best relationships with our customers in the industry, so keeping that entrepreneurial spirit and local focus while standardising the business is a fantastic opportunity to be part of.

OUR ASPIRE VALUES

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

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

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

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

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

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

Our people and culture **p34**

> This is a business that is changing for the better. I feel like I'm a key part of that journey. At every stage of this process we have been involved in the decisions that management are taking and I truly believe what we are doing now is going to take Ultra to the next level.

Contents

Performance highlights

Order book
£1.0bn +4.0%
(2018: £938.9m)

Revenue
£825.4m +7.7%
(2018: £766.7m)

Statutory operating profit
£94.2m +44.3%
(2018: £65.3m)

Underlying operating profit*
£118.2m +4.9%
(2018: £112.7m)

Statutory basic earnings per share
105.1p +141.1%
(2018: 43.6p)

Underlying earnings per share*
119.5p +9.1%
(2018: 109.5p)

Underlying operating cash conversion*
73%
(2018: 79%)

Dividend per share
54.2p +5.0%

RETURN TO GROWTH

+ Positive order book development, robust revenue growth
+ Positive profit, earnings and ROIC (return on invested capital) progression
+ Average working capital turn improved by 12%, despite working capital normalisation

TRANSFORMATION STARTED

+ ONE Ultra strategy clarified, cultural change commenced
+ Good Focus; Fix; Grow progress
+ Technology and infrastructure investment accelerating

POSITIVE OUTLOOK

+ Good momentum
+ Healthy order book, up 10.7% organically* and strong order cover of 71% (2018: 66%)
+ Significant opportunities to drive enhanced growth and improve efficiency over time

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

* Underlying and organic measures, as quoted throughout the strategic report, are reconciled to statutory measures in note 2 (pages 112–113) and defined on pages 155 and 164

2019 was a busy year for Ultra, and one in which we made great progress. We defined and started our Focus; Fix; Grow transformation journey, made good progress on a number of our change initiatives and continued to identify longer-term opportunities for enhanced growth and improved efficiency. At the same time, we delivered a good set of results for our stakeholders.

We enter 2020 with an enhanced, engaged and motivated team and a strong order book. In addition to focusing on improved delivery as part of our change agenda, we will be accelerating investment in internal R&D and underlying IT infrastructure as well as increasing our focus on process standardisation and excellence.

Simon Pryce
Chief Executive

Ultra at a glance
Our Strategic Business Units

Maritime & Land

Became "Maritime" on 1 January 2020.

Experts in maritime mission systems, including: sonar, radar, acoustic expendables, signature management and power systems. We are a strategic partner of 'five-eyes' defence customers, focusing on mission-centric equipment, systems and support. Our innovative solutions deliver critical advantage to our customers operating in the uniquely challenging maritime environment.

Our core capabilities and strategic focus

Underwater expendables

+ World-leading provider of sonobuoys and sonobuoy receivers
+ Towed and expendable off-board countermeasure systems
+ Signal processing automatically detects, classifies and tracks anti-submarine warfare threats to surface ships, submarines and unmanned underwater vehicles

Sonar sensors & systems

+ Standalone hull mounted and towed sonar installations to fully integrate sonar suites for surface ship applications
+ Modular system fuses data from ship-board and off-board sensors to build a complete underwater tactical picture delivering a complete sonar capability
+ Experts in active and passive anti-submarine warfare sonar processing

Signature management & power systems

+ Integrated signature management capabilities
+ Underwater, fixed and portable signature measurement systems, on-board systems, and magnetic and electric sensors
+ Naval power conversion and control systems improving the reliability, efficiency and capability of naval vessels

Radar systems

+ Robust, real-time data aggregation and synchronisation radar architecture, surface search radar

Revenue
£353.0m

Organic revenue growth
+7.8%

Underlying operating profit
£52.5m

Underlying operating margin
14.9%

2020 ADDRESSABLE MARKETS AND SIZE

Underwater expendables	**£356m**
Sonar sensors & systems	**£698m**
Signature management & power	**£115m**
Radar systems	**£61m**

Communications & Security

Became "Intelligence & Communications" on 1 January 2020. Forensic Technology now reports under 'Other critical detection and control businesses'.

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

Our core capabilities and strategic focus

Communications

+ Reliable, high-capacity tactical radio and advanced waveforms for defence and security applications that enable accurate and timeline exchange of voice, video and data for military and government customers worldwide

Command, control & intelligence

+ Tactical command and control, and video data link systems, providing critical data exchange capabilities and situational awareness to naval, land and airborne users
+ Capabilities that support the planning and execution of complex and critical operations at all levels of the command structure

Cyber

+ Advanced crypto and key management solutions that allow the secure exchange of information and situational awareness for customers at both tactical and strategic levels

Specialist radio frequency

+ Small, lightweight, high integrity radio frequency sensors and components that enable flight instrumentation and electronic warfare systems
+ Capabilities that support the test and evaluation of radar and electronic warfare systems

Revenue
£267.9m

Organic revenue growth
+3.4%

Underlying operating profit
£38.6m

Underlying operating margin
14.4%

2020 ADDRESSABLE MARKETS AND SIZE

Communications	**£912m**
C2 & intelligence	**£197m**
Cyber	**£503m**
Specialist radio frequency	**£444m**

Ultra at a glance
continued

Aerospace & Infrastructure

Became 'other critical detection and control businesses' on 1 January 2020 and now comprises: PCS, Energy and Forensic Technology.

Revenue
£204.5m

Underlying operating profit
£27.1m

Organic revenue growth
+9.8%

Underlying operating margin
13.3%

Precision Control Systems (PCS)

We design and supply market-leading safety and mission-critical solutions mainly in military and commercial aerospace.

+ We provide high-integrity mission and safety-critical products and systems for the most challenging situations across air and land
+ Our manned and unmanned vehicle systems and equipment improve vehicle reliability and performance, while reducing the burden on operators and maintainers
+ We also offer innovative products optimised to support the unique challenges of the dismounted soldier

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

+ data and power management
+ position sensing and control
+ stores ejection and management
+ highly regulated industries
+ single-sourced positions on many civil and military platforms
+ harsh environments requiring flawless reliability

Growth drivers include:

+ positions on current platforms
+ continued investment in technology for future 'more electric' civil and military applications

Energy

Energy focuses on the design and supply of safety-critical sensors and control systems mainly to the nuclear industry in the UK, North America and China. We design, manufacture, supply and support safety sensors and critical systems in both nuclear and selected industrial applications worldwide.

+ We are a global engineering and design manufacturer focusing on highly regulated markets including nuclear, oil, gas and space
+ We develop sensors, instrumentation and control systems for harsh environments and mission-critical applications
+ We focus on our customers' success in every step of our process from initial sales engagement, quality and delivery to lifetime support

Competitive advantages
Safety-critical, nuclear-qualified instrumentation and control technologies

+ Sensors qualified to operate in regulated nuclear plants
+ Experts in safety-critical design, reactor physics control systems and materials science
+ Designed into the UK AGR (advanced gas-cooled reactor) fleet and the global Westinghouse AP1000 fleet
+ On 200 reactors and 500 nuclear facilities worldwide
+ Sole instrumentation and control partner of NuScale for its small modular reactor (SMR)

Growth drivers include:

+ continued SMR development, participation in new-build reactors and investment in technology for new reactor designs

Forensic Technology

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

Competitive advantages

+ Pioneers of automated ballistics identification
+ Experts in big data management comparison and machine learning algorithms
+ Firearm subject matter experts
+ Integrated Ballistic Identification System (IBIS) provides equipment and support to the US Bureau of Alcohol, Tobacco, Firearms and Explosives' National Integrated Ballistic Information Network (NIBIN)
+ Market leader

Growth drivers include:

+ objective identification for evidence in court
+ continued globalisation of installed base
+ increased functionality and automation, driving greater service and support revenue

Our new ONE Ultra strategy
Connecting our businesses and people

In January 2020 we launched our new ONE Ultra transformation. We will become a cohesive solutions provider, addressing our customers' most complex problems.

Where we've come from

We've been solving difficult problems for 100 years...

1920 Ultra's story began in 1920, when Edward Rosen set up a small electronics factory in West London

1940 During the Second World War Ultra started designing military communications and aircraft components

1960 Post-war, Ultra continued to develop defence solutions, including early sonobuoys

1996 Ultra listed on the London Stock Exchange and made first acquisition in the USA

2009 Ultra expanded to Australia

2020 As we celebrate 100 years of Ultra, we are today made up of 4,000 people in over 50 locations. Each of our businesses has a specialist expertise

Why are we transforming?

+ The world is changing. The threat and adversary balance is evolving
+ Technology and innovation are accelerating product developments and reducing solution lifecycles
+ Customer needs and procurement strategies are evolving:
  - interoperability/multi-domain capacity
  - data and information focus
  - agility in command and control
  - managing denied and contested domains
+ Stakeholder feedback that, while we have plenty to be proud of, there is more we could do to improve how and what we deliver for them, and the efficiency with which we do it

Our new ONE Ultra strategy
continued

Why we exist
Innovating today for a safer tomorrow

Our vision
To be a leading partner delivering outstanding solutions to customers' most complex problems in defence, security, critical detection and control environments

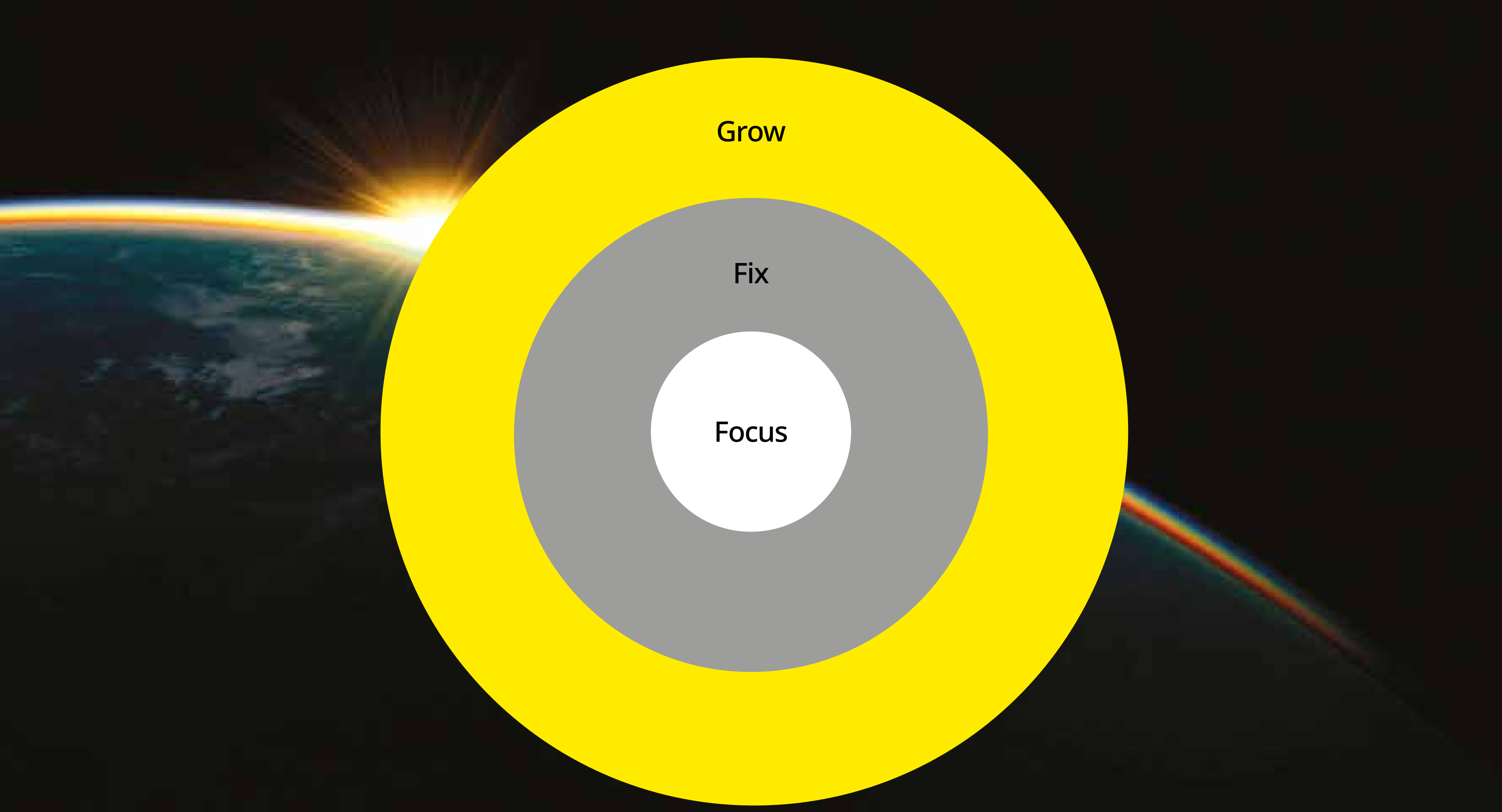
Where we're going

ONE Ultra that delivers balanced growth and long-term value creation for stakeholders:

+ A common vision and mission
+ Clear ASPIRE values that support a collaborative, agile and customer-orientated culture
+ A focused strategy
+ Realising parenting advantage that accelerates growth and improves efficiency and delivery
+ Improving and standardising processes and sharing best practice

We've spent 2019 developing a more focused strategy and defining an ambitious transformation programme:

1. Identify where we can deliver parenting advantage
2. Review portfolio to align with value creation potential
3. Create a vision for ONE Ultra
4. Build a strategy aligned to our vision
5. Design the organisation to support strategic delivery



Our transformation agenda

Focus
on our core areas of strength

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

Fix
the things holding us back

+ Culture and talent – HR processes, aligning people, development and reward
+ Operating model – organisation redesign and capability mapping
+ Operational improvement – process improvement, standardisation, commercial management, internal R&D discipline
+ Infrastructure – IT infrastructure and data architecture

Grow
value for our employees, customers, suppliers, local communities and investors

+ Improved functional operating models
+ Enhanced innovation
+ Strategic, cross-Group customer relationships
+ Technology, capability and resource sharing across Ultra
+ Capital discipline
+ Attracting and retaining the best talent

See Chief Executive's report **p14**
See Our people and culture **p34**

Chief Executive's report
Building momentum

I'm very pleased with the passion and appetite for change that I see building across the Group. I'd like to take this opportunity to say thank you to all our colleagues for their enthusiasm, determination and commitment to Ultra and our transformation journey.

We remain excited about the significant opportunity within Ultra to accelerate growth, improve delivery and generate exceptional value for all our stakeholders over time and we are increasingly confident in our ability to deliver it.

Financial summary

2019 was a successful year, with a significant number of new contract wins and opportunities including, as previously announced: a $1bn sonobuoy indefinite delivery/indefinite quantity (IDIQ) contract for ERAPSCO (our 50:50 joint venture), a $500m IDIQ for our ORION radios, a leading role in the Canadian Surface Combatant worth potentially in excess of $500m for Ultra, and the US Next Generation Surface Search Radar development programme.

Our order book grew by 10.7% organically, building on the 5.2% organic growth we saw in 2018. This reflects continued strong markets, particularly in North America, and continued customer demand for our technologies and capabilities that are core to addressing areas of perceived threat. We entered 2020 with a very high level of order cover at 71% (2019: 66%), which provides us with a good visibility for the coming year.

We delivered our second consecutive year of organic revenue growth since 2011. Group revenue was up 6.8% on an organic basis, with all three of our Business Units showing good growth. Aerospace & Infrastructure had a particularly strong year, driven by sales in our high pressure pure air generator (HiPPAG) units for the F-35.

2019 also marked our return to organic profit growth which was 2.9% in the year. The statutory operating profit growth reflected reducing amortisation costs, the completion of the S3 programme in 2018 and the non-recurrence of 2018 impairment charges. As expected, our underlying operating margin was lower than last year at 14.3% (2018: 14.7%).

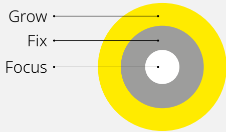
This was predominantly due to investment in our transformation programmes (including IT and R&D), increased long-term incentive accrual and the lack of the one-off gain on foreign exchange exposure recognised in 2018, which (as previously announced) is now hedged. Operating margins were also negatively impacted in our Maritime Business Unit where, following enhanced operational oversight and a more rigorous programme review process, we have recognised contract losses of £8.8m during the year.

Underlying earnings per share increased 9.1% to 119.5p, reflecting the increase in profit and reduced number of shares in issue compared with the prior year, as a result of the share buyback completed in February 2019. Statutory earnings per share increased 141.1% to 105.1p, reflecting per the above and an increase in statutory profit before tax as shown in note 2.

Underlying operating cash conversion in the year was better than originally expected at 73% (2018: 79%) despite the working capital normalisation flagged this time last year and increased capital expenditure of £21.8m (2018: £18.3m), with three more enterprise resource planning (ERP) implementations going live during 2019. Average working capital turns for the Group improved to 7.30x (December 2018: 6.52x).

A revised and simplified return on invested capital (ROIC) measure with fewer adjustments has been established for 2019. ROIC increased to 17.8% (2018: 16.2%). This measure is consistent with the measure used for LTIPs going forward.

OUR ONE ULTRA STRATEGY



ONE Ultra will enable us to become a cohesive solutions provider, delivering parenting advantages, improving discipline and processes, leveraging more opportunities across the Group and achieving greater efficiency.

Our progress so far

In addition to delivering a good financial performance, we also spent 2019 developing a more focused strategy and defining an ambitious Focus; Fix; Grow transformation programme to deliver the exciting value-creation potential we believe exists for all Ultra's stakeholders. We were objective in defining what we are really good at, what technology, skills and capabilities set us apart from our competitors, and where and how we can create value. We reviewed our portfolio against that value-creation potential to determine areas of strategic focus and we have made good progress in many areas:

Focus

We developed a vision, mission and set of values for ONE Ultra and a clear strategy for the future. We have set objectives supported by internal short and long-term goals and key performance measures to monitor delivery for all our stakeholder groups. Our vision, mission, values and ONE Ultra strategy were launched internally across the organisation and externally in January 2020.

Fix

We made good progress in most, but not all, of our Fix initiatives in 2019. To improve oversight and accelerate delivery of our Focus; Fix; Grow transformation (which is made up of a number of change programmes, many with interdependencies and conflicting resource requirements), we appointed a senior operational leader to the full-time role of Transformation Director in Q4. We are already seeing the benefits of more coordinated programme oversight which, together with better investment cases and project management discipline, is leading to improved prioritisation and better delivery.

We have delivered on our most important initiatives. We have defined the culture we want to create and the nature of transformation we are undertaking. We strengthened and enhanced the Executive Team and are building a senior management team with the capability, energy and passion to drive transformation and change. We have also made great strides in our People agenda, aligning, improving and standardising our people development and reward processes and investing in an infrastructure and tools to enable them. We are approaching completion of our organisational design process to support strategic delivery and are developing revised ways of working to allow implementation of a new organisational design from the beginning of 2021.

While resource constraints meant we got off to a slower start than anticipated, we began implementing our IT strategy in 2019. With the appointment of a Chief Information Officer in H2 to lead the function, we made great strides in standardising infrastructure, increasing connectivity and launching an effective internal collaboration and communications platform. Our IT strategy, which is a multi-year investment programme, has started 2020 with good momentum.

We commenced an ERP standardisation programme in 2016 and completed three further ERP implementations in 2019. However, our strategic review has highlighted a greater than anticipated opportunity for process standardisation and improvement. This will be an area of significant focus in 2020 and we will slow the ERP programme until this work is complete. Despite this, investment in infrastructure and applications will accelerate in 2020 as we roll out our HR Information Systems and also commence a data harmonisation and standardisation initiative.

Grow

The increased focus on capital allocation and return on investment discipline is already driving improved prioritisation and performance. Combined with greater strategic clarity, there has been a significant improvement in internal R&D discipline. While this, together with engineering resource constraints, has led to a slower than anticipated start to our internal R&D investment, we have made good progress in H2. This was seen in areas such as artificial intelligence, machine learning and unmanned surface vehicles. The increased investment in internal R&D in H2 will continue on an annualised basis in 2020.

In summary, we are very pleased with the progress we have made against our transformation agenda and overall we are ahead of where we anticipated we would be at the beginning of the year, with accelerating momentum into 2020.

Outlook

2019 was a busy year for Ultra, and one in which we made great progress. We defined and started our transformation journey, made good progress on a number of our change initiatives and continued to identify longer-term opportunities for enhanced growth and improved efficiency. At the same time, we delivered a good set of outcomes for our stakeholders.

We enter 2020 with an enhanced, engaged and motivated team and a strong order book. In addition to focusing on improved delivery, as part of our Focus; Fix; Grow change agenda we will be accelerating investment in internal R&D and underlying IT infrastructure as well as increasing our focus on process standardisation and excellence. As a result we continue to expect broadly stable margins in 2020.

We remain excited about the significant opportunity within Ultra to accelerate growth, improve delivery and generate exceptional value for all our stakeholders over time and we are increasingly confident in our ability to deliver it.

Simon Pryce
Chief Executive

Working with our stakeholders

Our approach

Our business exists to meet the needs of all stakeholders. These relationships are even more important during times of change, which is why we have invested in defining a goal for each stakeholder group that we believe defines what we should be delivering to them. These goals were set and agreed with the Board, taking all our stakeholder groups into account. The following pages provide a snapshot of some of the ways in which these goals influence our decision-making.

Resource allocation is a key focus of Ultra. This includes how to allocate our capital in order to achieve the highest returns but also where to allocate our time and people and training. While 2019 has been a year of great progress in bringing our stakeholders to the forefront of our strategy and goals, we have a lot to do in all areas.

We have tried to create value for all our stakeholders equally but we have prioritised certain actions this year in order to support our goal of creating a joined-up strategy and direction for the Group.

Our employee stakeholder group has shown the most progress this year with the launch of our first ever global employee engagement survey and HR strategy. We have made considerable progress with our shareholders, improving our communications and making our business clearer and simpler to understand. We are also starting to give a joined-up ONE Ultra message to our customers and suppliers. We launched a Corporate Social Responsibility (CSR) Committee at the end of 2019 to focus on our communities and environmental impact and we are clear that this area will be a high priority for the business in 2020.

We are also aware that these stakeholder groups represent a wide variety of people with different priorities. We have therefore tried to pull out details on differing needs where we can.

This page describes how the Directors have considered the matters set out in section 172(1) of the Companies Act 2006, as amended by the Companies (Miscellaneous Reporting) Regulations 2018, when performing their duty to promote the success of the Company. Further details on key actions in this regard are also contained within the Governance section on pages 66–67, and are incorporated into this statement by cross-reference.

Employees

Goal

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

Achieved by:

+ creating a winning culture through embedding our vision, mission and values and engaging with our employees to make Ultra a dynamic, inspiring and rewarding place to work
+ investing in and developing our people, enabling them to meet their personal and our corporate aspirations
+ building a strong talent pipeline to create effective succession
+ strengthening leadership and functional capability in support of strategic delivery
+ valuing, and succeeding through, diversity and talent pipeline

Key measures

Cultural change, investment in people, diversity and talent pipeline

How we have engaged this year

+ Our first ever global engagement survey completed in March 2019
+ Two conferences held with top leadership of every business
+ Bi-weekly newsletter and internal communications platform launched
+ Town hall meetings with Executive teams at every key business site
+ New HR strategy launch at Leadership Conference
+ Leadership framework and rewards review
+ Focus groups created to support transformation initiatives
+ Chairman and Board site visits, tours and senior management team dinners

KEY ISSUES RAISED & DISCUSSED BY THE BOARD

+ Results of the employee engagement survey, feedback and actions for 2019
+ Recommendations from transformation focus groups and feedback reports including suggested approaches to change
+ Internal communications improvements, Ultra strategy, vision, mission and values, and HR strategy (see pages 34–36)

Actions taken

+ Set a new HR strategy for the group and identified key areas of focus
+ Launched communications platform

Customers

Goal

Partner with customers as preferred suppliers delivering innovative solutions that create "win–win" outcomes for all parties.

Achieved by:

+ being the customers' supplier of choice in our areas of strategic focus
+ partnering to understand customer problems and priorities and creating valued solutions that the customer is prepared to pay for
+ delivering on our commitments and exceeding customer expectations
+ being agile, flexible and responsive to customer needs
+ valuing creative investment in strategic R&D to innovate in support of customer needs

Key measures

Delivering on our commitments, investment in internal R&D

How we have engaged this year

+ Programme of regular and accountable senior leadership engagement with key customers
+ Cross-business management of key influencer relationships
+ Group-wide customer engagement key performance indicators (KPIs) with action plans

KEY ISSUES RAISED & DISCUSSED BY THE BOARD

+ Adoption of customer feedback measures and how these would be implemented
+ Clarity on Ultra portfolio, target sectors and contact points
+ Opportunities for future engagement and teaming

Actions taken

+ More effective strategic relationship building, marketing and cross-selling to customers, influencers and end-users
+ Alignment of internal R&D with agreed future customer requirements

Suppliers

Goal

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

Achieved by:

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

Key measures

Best value solutions, supporting our technical innovations, partnership-based sourcing model

How we have engaged this year

+ UK Procurement Council meets regularly to exchange ideas and market intelligence; North America equivalent to be launched
+ Global electronics supply chain being reviewed, with new strategy in place H2 2020 and deployed through 2021

KEY ISSUES RAISED & DISCUSSED BY THE BOARD

+ Commenced review of Ultra's suppliers and methods to improve long-term partnering approach
+ Ultra behaviours in planning, responsiveness to supplier queries, mutual compliance with terms
+ Understanding what Ultra does well, and where Ultra needs to improve
+ Improving payment practices and working capital movements

Actions taken

+ We have been working to become more consistent and engaged with our suppliers where we can achieve mutual benefit

Communities

Goal

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

Achieved by:

+ developing an Ultra-wide CSR strategy that is actioned, monitored, measured and regularly reviewed
+ limiting the adverse impact of our business on the environment
+ acting at all times in an ethical, safe and sustainable way in accordance with our values
+ encouraging and supporting our employees in contributing to the communities in which we operate

Key measures

Environmental, ethical, safe, sustainable contribution to community

How we have engaged this year

+ A new CSR Committee was formed in 2019; this steering committee will direct the Group in our CSR activities, set a strategy and measure progress

KEY ISSUES RAISED & DISCUSSED BY THE BOARD

+ CSR Committee founded including approval of terms of reference
+ Environmental strategy and Group approach to charities and communities discussion started

Actions taken

+ For the first time we have a dedicated cross-Ultra working group for CSR supporting our purpose of innovating today for a safer tomorrow to align with our local initiatives

Investors

Goal

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

Achieved by:

+ clearly defining and communicating Ultra's corporate strategy for outstanding value-creation that evolves to reflect macro, market, customer, competitor and other material developments
+ clarifying and delivering Ultra's parenting advantage
+ taking understood and managed risk within strategic guidelines to deliver growth above target market
+ defining strategic KPIs and setting/communicating targets to monitor delivery
+ disciplined capital allocation (within a clear policy that includes return hurdles, leverage levels and dividend policy)

Key measures

Financial KPI measures (see page 20)

How we have engaged this year

+ Annual General Meeting
+ Events including results presentations, trading update calls and site visits, roadshows, telephone calls and meetings
+ Integrated report and financial statements
+ Questionnaires
+ Investor perception studies

KEY ISSUES RAISED & DISCUSSED BY THE BOARD

+ Focus; Fix; Grow transformation plan
+ Communication of ONE Ultra strategy, improving governance and internal controls
+ Capital allocation strategy and key risks review

Actions taken

+ New KPIs created for all stakeholder groups to measure progress

Our business model
How we create value for our stakeholders

WHAT WE DO

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

Design

Detect — Distil — Direct — Deploy

WHAT WE SPECIALISE IN

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

WHERE WE OPERATE

+ 'Five-eyes' defence – maritime, communications and intelligence
+ Other defence where we can apply modular solutions
+ Other selected, highly regulated and harsh environment detection and control markets

HOW WE WORK

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

We have high visibility of future revenues with 59% generated by long-term contracts. Typically, such contracts will progress through a development stage, then low-rate initial production, followed by either full-rate production or aftermarket sales.

'Parenting advantage' is the reason that we are more than the sum of our parts. Our subsidiary businesses are better off within Ultra than outside of it, because we offer, among other things:

+ technology and know-how investment and sharing
+ effective strategic relationship building, marketing and cross-selling to customers, influencers and end-users
+ sharing and standardising of best processes and practices
+ employee training
+ key functions such as Finance, HR, IT and Legal and Compliance
+ opportunities for profitable collaboration with other Ultra businesses
+ capital allocation that supports innovation and long-term investment
+ health and safety best practice and sharing

OUR ONE ULTRA STRATEGY ENABLES US TO GROW FASTER

We will grow faster when we deliver parenting advantage and collaborate with each other to deliver better solutions through:

1. being more disciplined, and smarter about identifying opportunities within our chosen markets
2. making better use of our assets, improving the way we operate, capitalising on economies of scale and sharing best practice consistently, while improving and standardising processes

This will enable us to create value for all our stakeholders as listed on pages 16 and 17.

External key performance indicators
Another year of organic growth

Our key performance indicators (KPIs) allow us to measure both the financial and non-financial value we create for our stakeholders and our performance delivering our strategy.

We are clear that our five stakeholder groups will be a key part of all our future decision-making. As part of our work to create our goals for each group a detailed list of measures has been created to be used internally and to measure our success against. We have identified the major KPIs to disclose publicly on the following pages.

The Group is no longer using total shareholder return as a KPI; this is because we consider that return on invested capital (ROIC) is more aligned to our internal performance measures. We have also replaced profit before tax as a KPI, with organic underlying operating profit growth, as this aligns with how we internally monitor performance.

We have provided historical data against these KPIs where available.

Organic and underlying measures are defined in the footnotes on page 164. See note 2 for reconciliations to equivalent statutory measures.

* These KPIs are considered performance targets in our Remuneration Report

FINANCIAL

KPI | What is it and how are we doing? | Associated risks | Associated stakeholders

Organic order book growth

Organic order book growth compared with the prior year was +10.7% (2018: +5.2%).

19	10.7%
18	5.2%
17	16.8%
16	0.4%
15	-12.5%

Associated risks: Bid and Contract Risk; Programme Risk; Geopolitical Risk; Defence Sector Cycle Risk

Associated stakeholders: Investors

Organic revenue growth*

Organic revenue growth compared with the prior year was +6.8% (2018: +2.2%).

19	6.8%
18	2.2%
17	-3.3%
16	-4.1%
15	-8.1%

Associated risks: Bid and Contract Risk; Delivering Change; Programme Risk; Business Interruption

Associated stakeholders: Investors

Through-cycle cash conversion

Cash conversion is a simple yet reliable measure of cash generation, which represents the major element of the Group's short-term incentive bonus scheme.

The Group achieved 73% underlying operating cash conversion in 2019. This result was better than originally expected after our focus on average working capital turn proved successful during the year.

19	73%
18	79%
17	97%
16	92%
15	68%

Associated risks: Delivering Change; Pensions; Governance, Compliance & Controls; Business Interruption

Associated stakeholders: Investors

ROIC

A revised and simplified ROIC measure was established in 2019. This is calculated as underlying operating profit as a percentage of invested capital (average of opening and closing balance sheets). Invested capital is defined as net assets of the Group, excluding net debt and lease liability, pension obligations, tax and derivatives. This allows ROIC to be calculated on the operating assets of the business within the control of management. ROIC under this new measure was 17.8% (2018: 16.2%).

19	17.8%
18	16.2%

Associated risks: Bid and Contract Risk; Delivering Change; Programme Risk; Business Interruption; Governance, Compliance & Controls

Associated stakeholders: Investors

Organic underlying operating profit growth*

Organic underlying operating growth compared with the prior year was +2.9% (2018: -4.3%).

19	+2.9%
18	-4.3%
17	-7.1%
16	+0.2%
15	-5.2%

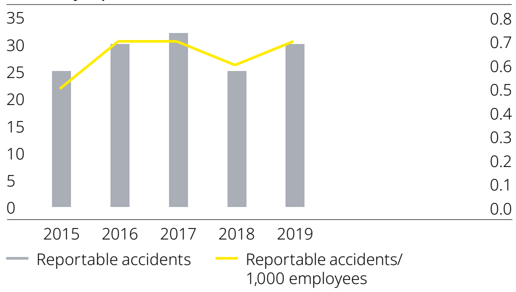
Associated risks: Bid and Contract Risk; Delivering Change; Programme Risk; Business Interruption

Associated stakeholders: Investors

OPERATIONAL

KPI	What is it and how are we doing?	Associated risks	Associated stakeholders
Employee engagement survey	The results of our engagement survey. In 2019 our engagement score was 70% (2018: 82%). We changed the method of our engagement survey this year so the results were a more focused, true Group-wide reflection rather than an average of local business scores (see page 32).	Talent Retention & Recruitment; Delivering Change; Health, Safety & Environment	Employees
Market share	Market share of our addressable markets. Our core focus is on the Maritime and Intelligence & Communications markets. Our addressable market share (measured using revenue in the year) in Maritime is 21% and in Intelligence & Communications is 8% (not measured in 2018).	Talent Retention & Recruitment; Product Risk; Bid Contract Risk	Employees
On time delivery	Percentage of production contracts delivered on time from the Group. 2019: 76.2% (not measured in 2018).	Programme Risk	Customers; Suppliers
Health and safety	The number of reportable accidents per 1,000 employees. 2019: 0.7% (2018: 0.6%). The biannual site audits conducted in 2019 indicated improving health and safety management over the 2017 audits.	Health, Safety & Environment; Governance, Compliance & Controls	Communities; Employees

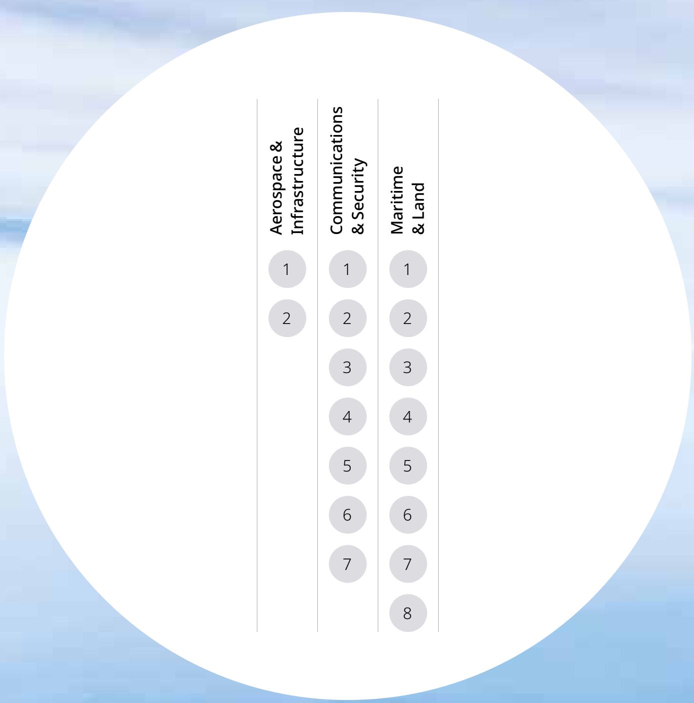
Externally reportable incidents



KPI	What is it and how are we doing?	Associated risks	Associated stakeholders
Internal R&D	The percentage of revenue invested in internal R&D. In 2019 this was 3.8% of total revenue (2018: 3.7%).	Programme Risk; Delivering Change; Talent Retention & Recruitment; Security and Cyber Risk	Customers; Suppliers; Employees; Investors; Communities

Strategic Business Unit changes
Creating ONE Ultra

Previously
17 businesses, 3 divisions

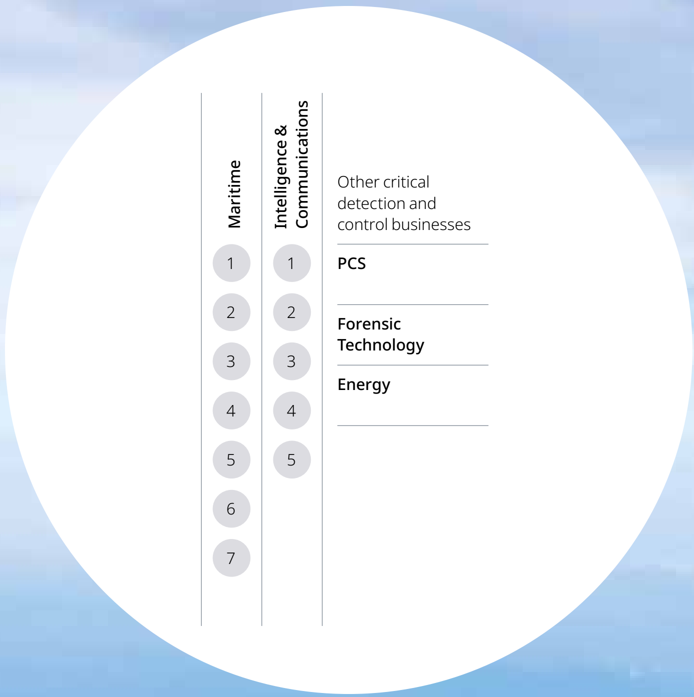


Aerospace & Infrastructure
1. Energy
2. Precision Control Systems (PCS)

Communications & Security
1. 3eTI
2. ATS
3. CIS
4. TCS
5. Herley
6. Forensic Technology
7. CORVID Protect

Maritime & Land
1. Command & Sonar Systems
2. EMS
3. Maritime Systems
4. Ocean Systems
5. PMES
6. USSI
7. Avalon Systems
8. Flightline Systems

January 2020
Our current organisation structure



What's changed?

Maritime & Land is now renamed Maritime

Communications & Security has been renamed Intelligence & Communications

Forensic Technology has moved out of Communications & Security, and is now its own Strategic Business Unit (SBU)

Aerospace & Infrastructure becomes other critical detection and control businesses

Flightline has closed as a business. Its capabilities and technologies have been split between PCS and USSI

January 2021
Our final organisation structure to support our goals (subject to approval)

What will change?
There will be five SBUs: Maritime, Intelligence & Communications, PCS, Forensic Technology and Energy

Business names no longer exist* and the SBUs are now split into Operating Business Units depending on technology and capability

Due to the scale of our three separate businesses (PCS, Forensic Technology and Energy) we will aggregate these financially as our critical detection and control businesses

Maritime and Intelligence & Communications will continue to have SBU Presidents

PCS, Forensic Technology and Energy have individual Presidents reporting into the Executive Team

Maritime
1. Sonobuoy systems
2. Sonar systems
3. Naval systems & sensors
4. Signature management & power

Intelligence & Communications
1. Command, control and intelligence
2. Communications
3. Specialist radio frequency
4. Cyber

Other critical detection and control businesses
PCS
Forensic Technology
Energy

* Although historical corporate entities will be retained

Our target markets
Large and growing addressable markets

Maritime
Total market size
£5.1bn

Addressable markets
+ Underwater expendables
+ Sonar sensors & systems
+ Signature management & power systems
+ Radar systems

Market drivers

Ongoing geopolitical disputes and naval threats continue to drive growth in naval platforms and underwater systems. Ultra is well positioned in: underwater expendables, sonar sensors and systems, anti-submarine warfare and surface radar markets.

Growth in signature and power management is also expected to combat threat development and platform evolution is driving demand for SWaP and alternative propulsion technology, all of which are areas of Ultra expertise.

Intelligence & Communications
Total market size
£3.1bn

Addressable markets
+ Communications
+ Command, control & intelligence
+ Cyber
+ Specialist radio frequency

Market drivers

Increased connectivity puts people, data, applications, devices and networks under persistent and increasing threat. In the defence market, there is increased demand for greater bandwidth and broader connectivity, coupled with a need for multi-platform and multi-user interopability.

Ultra is well positioned in specialist radio frequency, C2 and intelligence, tactical communications and cyber security to take advantage of these trends. Ultra is also well positioned to deliver solutions that incorporate future market technologies such as machine learning/artificial intelligence, analytics, intelligent networking, 5G and reduced-size weight and power for micro-electronics.

Specialist markets

Precision Control Systems (PCS) (Aerospace)
Market drivers

The defence aerospace market is projected to grow steadily, with the USA, Europe, Middle East and Asian countries looking to acquire new aircraft, upgrade ageing fleets or develop indigenous platforms.

Ultra is well positioned on major global platforms such as the Joint Strike Fighter F-35, Eurofighter Typhoon and Gripen. Although the civil aerospace sector experienced a decline in deliveries in 2019 due to production-related issues, growth is expected to recover from 2020 onwards as the long-term demand and order book for civil aircraft remains robust.

Forensic Technology
Market drivers

With increasing firearm offences and gun-related fatalities around the world, the need for ballistics identification is growing steadily. We are pioneering automated ballistics identification and analysis and are a recognised market leader.

Energy

Market drivers

Increasing demand for electricity generation globally creates a need for increased investment in the civil nuclear power market. Thirty countries are considering, planning or starting nuclear power programmes.

We are positioned at the forefront of new technologies being developed for increased efficiency and decreased cost of nuclear power generation, such as small modular reactors (SMRs).

SOME INTERESTING FACTS:

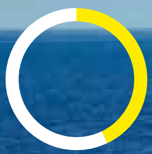
- Ultra PMES and Ultra Australia continue to support the Royal Australian Navy with a variety of offshore range facilities
- Ultra PCS exhibited on board HMS Queen Elizabeth in the USA promoting UK innovation with Ultra EMS and Ultra CSS. We also exhibited as ONE Ultra at conferences, including DSEI (UK), AUSA (USA), DSEI (Japan), IDEX (UAE) and IDEF (Turkey)
- Ultra Maritime Systems, Ultra CSS and Ultra Australia have worked together to provide several offerings to the Royal Australian Navy, including the SEA 1000 Attack Class Future Submarine Program and SEA 5000 Hunter Class Frigate Program
- Ultra ATS secured a contract with General Atomics to continue the enhancement of the ATS REAP Pod capabilities in support of the US Air National Guard. Developments will include improved C2 network integration, communications bridging from military to first responders, network range extension, critical data and video distribution to ground units, as well as 4G data and 911 Cellular services
- Ultra 3eTI provided $3M in cyber capability to secure the new building automation system for Walter Reed National Military Medical Center in Bethesda, MD

Strategic Business Unit review

Maritime & Land

Experts in maritime mission systems, including sonar, radar, acoustic expendables, signature management and power systems. We are a strategic partner of 'five-eyes' defence customers, focusing on mission-centric equipment, systems and support. Our innovative solutions deliver critical advantage to our customers operating in the uniquely challenging maritime environment.

From 1 January 2020 renamed Maritime.



43%
of Group revenue

Our vision is to become a trusted and strategic supplier in the maritime defence domain, focusing on mission-centric equipment, systems and support across the five-eye nations.

Thomas Link
President

FINANCIAL RESULTS

£m	2019 as stated	2018 as stated	2018 for organic measure	Growth %	Organic growth %
Order book	481.5	420.0	411.8	+14.6	+16.9
Revenue	353.0	317.9	327.4	+11.0	+7.8
Underlying operating profit	52.5	52.8	55.5	-0.6	-5.4
Underlying operating margin	14.9%	16.6%	17.0%	–	–
Statutory operating profit	43.9	33.0	–	+33.0	–

FY 2019: Performance summary

During the year the ERAPSCO joint venture was awarded a five-year $1bn indefinite delivery/indefinite quantity (IDIQ) contract with total Ultra orders worth $87m for sonobuoys from the US Navy. This programme supported organic order book growth of nearly 17%. Notable wins also included the Next Generation Surface Search Radar, MK54 lightweight torpedo array kits for the US Navy and Surface Ship Torpedo Defence (SSTD) system for the UK MoD, all of which helped Maritime deliver strong revenue growth of 7.8% in the year.

Operating profit decreased 5.4% organically, primarily as a result of legacy contract losses of £8.8m following enhanced operational oversight and a more rigorous programme review process through 2019. In addition, there was a more unfavourable sonobuoy sales mix compared with the prior year, which also added pressure to operating margins in this Business Unit.

ORDER BOOK

The order book increased organically by 16.9%, owing in part to:

+ **Radar systems** We were selected to design, develop and test the Next Generation Surface Search Radar (NGSSR) for the US Navy. This award has a potential value of $225m
+ **Underwater expendables** We were awarded a five-year sole-source IDIQ contract, worth up to $1bn, to produce sonobuoys via our joint venture ERAPSCO
+ **Underwater expendables** We were awarded a five-year IDIQ contract worth up to $47m to produce TR-343 Sonar Transducers for the US Navy's Arleigh Burke-class destroyers. The TR-343 is part of the AN/SQS-53 hull mounted sonar array assembly which is a component of AN/SQQ-89 acoustic sonar weapons systems
+ **Sonar sensors and systems** We received an award worth £38m from the UK MoD to provide the next 10 years of in-service support for its Surface Ship Torpedo Defence (SSTD) system. Our SSTD is the world's only in-service 'sensor-to-countermeasure' system and provides torpedo detection, classification, threat evaluation and decoy capabilities
+ **Signature management and power systems** We received $12m as part of a multi-year contract for the production of naval computer-controlled power supply systems for the Virginia-class submarine

Our strategy

We are experts in maritime mission systems and are an applications engineering solutions provider. We have strong established positions across the maritime defence domain.

We will continue to develop our core offerings and propositions for 'five-eyes' nations, where large opportunities remain, while leveraging products and offerings to meet customers' future needs. Our clear strategic focus will be on building our market share, particularly in the USA, which retains the largest defence budget in the world and is a market in which we already have strong established positions.

Our four core capabilities and areas of focus are:

1. Sonar sensors & systems

Recognised experts in the provision of hull mounted and towed sonar array components and systems for applications including anti-submarine warfare (ASW) and torpedo defence. We also remain well positioned in adjacent markets, providing speciality transducers for a variety of unmanned underwater vehicle (UUV) applications including the US Navy's Knifefish programme and both heavyweight and lightweight torpedo variants.

Looking forward, our focus will be on expanding our US presence in areas of our technological strength while continuing to leverage our strengths in 'five-eyes' surface ship sonar to our non-US 'five-eyes' export market opportunities.

2. Underwater expendables

Global supplier of sonobuoys, and the leading provider (through the ERAPSCO joint venture) of US-qualified sonobuoys for both the US and non-US markets. We continue to advance our ASW systems as a global supplier of sonobuoy receivers.

With increasing competition around the world, we will continue to make targeted investment allowing us to grow our sonobuoy market positions while developing independent sonobuoy designs where best positioned. We will leverage our strong sonobuoys market position as a thought leader for the next generation of sonobuoys, seeking to influence how they are integrated into future manned and unmanned systems for distributed ASW.

We are the primary supplier of sonar and torpedo countermeasures, enhancing our competitive advantage in torpedo defence and adding to our family of underwater expendable products. We will continue to innovate these expendables in the face of emerging threats to provide effective countermeasures for our customers.

3. Signature management & power systems

We are the primary supplier for signature management for UK submarines and have a well-established relationship with the UK MoD. We supply naval power conversion and control equipment to US ships, submarines and unmanned surface vessels, underpinning our growing position in this area.

As the only turnkey signature management supplier in the USA, we remain well positioned. There are increasing opportunities in both the UK and USA in the provision of signature management and electric cruise propulsion systems for both manned and unmanned platforms.

Our strategy will focus on expanding our global market share in signature and power management. We will also look to establish a position for our hybrid electric propulsion within the US Navy.

4. Radar systems

Our advanced navigation and surface search radar system detects and discriminates small targets in highly cluttered environments. Originally developed for and installed on US Navy carriers, our mission-critical capability has recently been selected by the US Navy for integration on both ships and submarines.

With proven attack periscope detection capability, our innovative solution satisfies an urgent need for the customer, positioning us well to secure and execute near-term programme opportunities while continuing to explore the larger radar market.

CASE STUDY

Awarded potential $101m IDIQ contract to support the AN/BPS radar software management system

Ultra Ocean Systems, based in Braintree, Massachusetts, has been awarded a $45,161,439 IDIQ, cost-plus-fixed-fee and firm-fixed price contract for engineering and technical service for the design, development, testing, integration, technology insertion/ refreshment and system support of the AN/BPS radar software management system. This contract includes options which, if exercised, would bring the cumulative value to $100,861,439, and be complete by May 2026. Naval Sea Systems Command will obligate $1.7m at the time of award which will not expire at the end of current fiscal year.

Ultra is proud to continue our partnership with the US Navy as the system and software provider on the AN/BPS submarine navigation radar. With the continued increase in global maritime traffic, the demand for safe surface navigation of the US submarine fleet has never been greater. Ultra's role to continue to provide new and improved radar processing and display capabilities for the Navy's submarine forces will bring about modern navigational displays, improved situational awareness to the operators, and safety to the fleet.

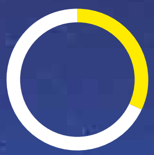
Thomas Link
President

Strategic Business Unit review
continued

Communications & Security

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

From 1 January 2020 Forensic Technology, previously reported under our Communications & Security division, will be reported under other critical detection and control businesses.



32%
of Group revenue

We are a defence business focusing on command and control communications and cyber solutions. We deliver information advantage to the warfighter through the application of intelligent technology.

Mike Baptist
Managing Director

FINANCIAL RESULTS
Including Forensic Technology

£m	2019 as stated	2018 as stated	2018 for organic measure	Growth %	Organic growth %
Order book	238.6	230.2	222.9	+3.6	+7.0
Revenue	267.9	252.6	259.2	+6.1	+3.4
Underlying operating profit	38.6	29.9	31.4	+29.1	+22.9
Underlying operating margin	14.4%	11.8%	12.1%	–	–
Statutory operating profit	26.2	13.6	–	+92.6	–

FY 2019: Performance summary

The division won a number of contracts during the year and the order book grew organically by 7.0%. This was driven by the $500m ORION radio IDIQ contract with c.$46m received this year, a $12m contract for flight instrumentation equipment for Lockheed Martin's Trident missile and a five-year contract from the US Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF), valued at over $85m for our Forensic Technology business.

Revenue grew organically by 3.4%, benefiting from strong sales of ADSI (Air Defence Systems Integrator) tactical command and control systems, and greater demand for electronic warfare and microwave products.

Underlying operating profit grew organically by 22.9% in the year, up £7.2m. This was helped by the non-repeat of development cost overruns in Herley. When these cost overrun impacts in 2018 are excluded, the growth relative to 2018 was 1.6% and operating margins are broadly consistent year on year. Margins were, however, held back by later than anticipated phasing of new orders to replace completed programmes in CIS, and the timing of the ORION radio order within the year.

ORDER BOOK

The division won a number of contracts during the year and the order book grew organically by 7.0%. The larger orders won in the year were:

+ **Communications** We were awarded a $500m IDIQ contract to provide the US Army with our ORION radio system for their sight radio (TRILOS) programme, with c.$46m received this year. We were also awarded a contract for our Litening V Pods worth £10m from prime BAE Systems
+ **C2 & intelligence** We were awarded $7m for ADSI systems and upgrades for the Japan Air Self-Defense Force (JASDF)
+ **Cyber** We received £5m from BAE Systems for data encryption systems for the Eurofighter Typhoon fighter jet

Our strategy

Our specialist command and control, surveillance and data intercept capabilities support customers around the world in making informed and timely decisions. By combining our core capabilities, we will deliver unique value propositions to our customers.

Command, control & intelligence

ADSI is a command and control, intelligence system which provides multi-domain real-time information. It is well established against primes and international government agencies.

ADSI is widely deployed and its highly differentiated functionality gives us a technical advantage. We are positioned to benefit from the application of artificial intelligence/machine learning and our focus area remains in investing in this alongside big data analytics as we establish first to market capabilities.

Communications

We have a growing position in the land and air domains through the provision of tactical radios and our communications pod for manned and unmanned aircraft. We also remain well established in the provision of specialist data links to provide secure, long-range airborne communication.

Our market-leading position in upper tier tactical radios is supported by the US DoD's review of tactical communications networks. It is further strengthened by our position as the sole source supplier for the US Army TRILOS radio program of record. Elsewhere, we continue to grow our customer relationships and have secured a contract to provide our REAP communications pod for the US Air National Guard.

Looking forward, there are significant additional opportunities. We will look at strengthening our US market share and secure a position in the mid-tier of the US Army's networks. We will also look to establish our REAP communications pod as a market-leading airborne communications pod.

Specialist radio frequency (RF)

A specialist in multi-spectral RF technologies. We provide tactical RF products, missile flight instrumentation and electronic warfare test systems to primes, with whom we have long-established relationships.

We remain well positioned through our established long-term positions on key programmes and will continue to develop our strategic customer relationships ahead of the next generation capabilities. We will continue our R&D focus and invest in the development and expansion of our autonomous systems solutions, while expanding our US market share in electronic warfare test systems.

Cyber

Our covert solutions are developed for the most demanding applications. We are also a trusted supplier for US and UK sovereign, NATO interoperability and allied national requirement solutions.

We are well positioned as an established lead in UK High Grade Link/Tactical Crypto and on the US Type 1 single-chip crypto development programme. Looking forward, our focus will be on growing our NATO market with our proven link cryptos and on establishing our positions on US military cloud-based operations.

Forensic Technology moved to other critical detection and control businesses from 1 January 2020.

CASE STUDY

Ultra ATS awarded contract to supply software sustainment support for US Marine Corps Data Link Systems

Ultra Advanced Tactical Systems (ATS) announces that it has been awarded a $39.92m, five-year, IDIQ contract to support the Program Executive Office, Land Systems (PEO LS), US Marine Corps.

This contract will provide software sustainment and upgrade of the Virtual Air Defense Systems Integrator (vADSI) used in the Common Aviation Command and Control System (CAC2S). The initial delivery order for 2019 was $2.18m.

CAC2S provides Marine Corps Marine Expeditionary Units (MEUs) and Marine Air-Ground Task Forces (MAGTFs) the ability to process and display mission-critical data while automatically correlating air and ground targets, allowing battlefield commanders the tactical advantage through enhanced decision-making.

ADSI and CAC2S provides primary tactical and mission functionality that is interoperable in a joint tactical data link environment, and meets US, UK and NATO combat mission requirements. Over the course of CAC2S development, the vADSI has been enhanced to integrate and interface with multiple tactical information systems and networks to enable CAC2S to fully support the future combat requirements of the Marine Corps.

“

ATS continues to lead the data link market with the first joint certified virtual machine family of tactical data link gateways. Our team is excited about supporting marines onshore, on afloat amphibious ships, as well as connecting data and voice to their latest generation F-35s, and we look forward to enhancing the US Marine Corps' digital interoperability initiatives throughout the lifecycle of CAC2S.

Tim Stanley
President of Ultra ATS

Strategic Business Unit review
continued

Aerospace & Infrastructure

In Precision Control Systems (PCS), we design and supply market-leading safety and mission-critical solutions to the military and commercial aerospace markets.

In Energy, we focus on the supply of nuclear safety sensors and systems and selected products for industrial applications, focusing on the UK, North American and Chinese markets.

From 1 January 2020 Forensic Technology, previously reported under our Communications & Security division, will be reported under this division. The division will be renamed other critical detection and control businesses and will comprise: Precision Control Systems, Forensic Technology and Energy.

25%
of Group revenue

FINANCIAL RESULTS
Aerospace & Infrastructure

£m	2019 as stated	2018 as stated	2018 for organic measure	Growth %	Organic growth %
Order book	302.8	333.7	289.4	-9.3	+4.6
Revenue	204.5	196.2	186.3	+4.2	+9.8
Underlying operating profit	27.1	30.0	28.0	-9.7	-3.2
Underlying operating margin	13.3%	15.3%	15.0%	–	–
Statutory operating profit	25.3	21.0	–	+20.5	–

FY 2019: Performance summary

This division's order book grew organically by 4.6%, but decreased since December 2018 due to the £36.4m Airport Systems order book removal upon disposal.

Organic revenue growth in the year was 9.8%. This growth was primarily due to increased activity on military aircraft platforms, including the build rate of our high pressure pure air generating (HiPPAG) units for the F-35. The Airport Systems business was disposed of early in the year.

Operating profit declined organically by 3.2% due to:

+ fix related costs and higher spend on R&D, as we invest in programmes to support future growth
+ product mix in our Energy business and delayed orders from key primes, and
+ in 2018, this division benefited from £2.9m of foreign exchange gains which were not repeated in 2019 following the previously announced hedging to reduce income statement volatility

As a result, the underlying operating margin was 13.3% compared with 15.3% in 2018.

ORDER BOOK

The division's order book grew organically by 4.6%. The larger orders won in the year were:

+ **PCS** We were awarded a contract worth £17m for the provision of our engine ice protection and harness sets on the F-35 aircraft, further positioning us on this long-term fighter aircraft platform
+ **Energy** We received a five-year extension contract, worth £30m, to supply and sustain EDF Generation's fleet with neutron flux detectors. This contract award builds upon our already strong and long-term relationship with EDF Energy

Our strategy

Precision Control Systems

Our core capabilities are: stores ejection and management; position sensing and control; and data and power management.

We have long-term established positions on some of the world's long-term air platforms and we are a leading and trusted supplier.

Energy

Our strategy is to drive growth through the exploitation of innovative technologies in next generation reactor control design. It also involves deploying our existing sensor capabilities into a broader range of applications while leveraging our incumbency in over 500 nuclear installations worldwide.

Forensic Technology

We will develop our leadership position in ballistics analysis by growing our global presence and offering a broader suite of services enabling faster, more accurate and more cost-effective lead generation and crime resolution to our customers.

CASE STUDY

Ultra Energy to supply neutron flux detectors to EDF Energy

Ultra Energy, located in Wimborne (Dorset, UK) has, as anticipated, been awarded a multi-year, multimillion contract to provide neutron flux detectors and associated specialist services to EDF Energy through to 2025.

This latest contract builds upon the long-term relationship that Ultra and EDF Energy have established for the supply of these safety-critical sensors in support of EDF Energy's fleet operational goals.

Over the past seven years, Ultra and EDF Energy have worked in collaboration to create the capability to ensure the long-term supply of neutron flux detectors for their advanced gas-cooled reactors. This latest contract underpins both companies' commitment to the next phase of this programme.

Ultra has established itself as a leading supplier of safety-related sensors and systems for the nuclear power industry. We are pleased to have been entrusted to continue the supply of neutron flux detectors to EDF Energy, a company dedicated to the safe operation of this vital source of clean energy.

Dan Upp
President of Ultra Energy

RECOGNITION ACROSS THE GLOBE

Ultra PCS
Were recognised by Boeing as having achieved Gold Standard delivery across all our programmes. Airbus also recognised Ultra PCS for the performance of our products and our support.

Ultra PMES
The MoD has expressed its appreciation for Ultra PMES' work on the Hunt Class DG upgrade project. Initially contracted in March 2018 following a competition to meet an 'urgent' operational requirement. The old systems were removed and a new system was designed from scratch, a total of six were built and installed within a 21-month timeframe, including two installations in Bahrain.

Ultra Maritime Systems
Was awarded the 2019 ACADA (Atlantic Canada Aerospace and Defence Association) Business Development Prize at DEFSEC for its win on the UWSU and CSC programs.

Ultra USSI
Has been an award-recognised supplier to the US Navy and holds key supplier and quality ratings with several commercial and defence prime integration customers (Johnson Controls Inc., Honeywell, Avon Protection, Siemens, Northrup Grumman, Leidos and United Technologies).

Ultra Australia
Was awarded the Pacific 2019 Innovation Award for C4ISREW, Space, Cyber and Counter-Drone Systems category, as well as one of two High Commendations in the overall category. The award was for an Airborne Signature Management System (ASMS), developed for the Royal Australian Navy and the Defence Science Technology Group, for developing a method of measuring the stealth signatures of ships and land vehicles.

Ultra CIS
Received a supplier excellence award from Raytheon for its performance to date on the US Army Troposcatter programme, and in particular the support from Ultra during the bidding stages. A couple of employees have been commended by the customer for their performance on certain classified programmes.

How we do business
Doing the right thing, matters

Corporate Social Responsibility (CSR)

Ultra is only effective if, through execution of our strategy, we create value for all of our stakeholders. We therefore define success as delivering growth and sustainable value creation for our employees, customers, suppliers, the wider community and shareholders to conduct our operations safely, responsibly and sustainably. CSR is therefore one of Ultra's objectives and a key driver of our strategy and transformation. We're making real progress in our efforts to achieve this goal, but we still have a lot more work to do.

Actions completed in 2019:

+ Initiated creating an Ultra-wide CSR strategy, with new policies and frameworks through the creation of a CSR Committee
+ Completed more academic engagement, incorporating diversity, science, technology, engineering and maths (STEM) school visits/mentoring, work experience, internships, Ultra Apprentice Scheme, Ultra Graduate Scheme and university R&D
+ Continued reducing our impact on the environment through energy consumption improvements, water usage improvement, increased recycling and a mechanism for carbon offsetting
+ Defined a winning culture, with CSR at its core, through engagement actions and embedding our vision, mission and values
+ Strengthening our leadership through individual and Group development and a focus on managerial excellence
+ Succeeding with diversity – initiated a Valuing Difference programme across the organisation

CSR Committee

In late 2019, we set up our CSR Committee and appointed a chairperson to ensure that we oversee the Group's important activities in the areas of environment, charity and community. The lead Executive Team member for this Committee is Louise Ruppel, General Counsel and Company Secretary.

The Committee will receive reports and briefings on all material corporate responsibility issues. In 2020, our core focus will be on developing a sustainable CSR strategy and programme which will be aligned to our strategy and goals across our core stakeholder groups.

The role of the CSR Committee is to set challenging targets, set standards, create a framework to work from and share best practice.

The Committee will oversee CSR policies, including commitments to local communities and the environment and will be responsible for measuring the success of the Group. It will also ensure sharing best practice and ideas across the Group, pulling together all of the local initiatives that have been ongoing for many years.

Making ethical decisions

In 2019, we created a new Code of Conduct which lays out our ethical standards, providing our people with clear direction and guidance on how we do business across the Company, including details on ethical decision-making and also how our employees can seek help.

We will be launching our new Code of Conduct to all staff in Q2 2020, which will involve mandatory training and certification. We will review the Code of Conduct annually to reflect the needs of our business, regulations and best practice.

Anti-bribery and corruption

Ultra does not tolerate bribery and corruption in any form. Our policy on this issue is summarised in our Code of Conduct and states that employees or others working on our behalf must never offer or accept any bribe. Our anti-corruption and bribery policy is consistent with the UK Bribery Act, and the US Foreign Corrupt Practices Act and any breaches can lead to dismissal or termination of contract. The policy guides our employees about what constitutes a bribe and prohibits giving or receiving any excessive or improper gifts and hospitality.

EMPLOYEE ENGAGEMENT

Creating a dynamic, diverse and inspiring work environment for everyone.

In May, we launched our first-ever global employee engagement survey, ULTRAview and achieved an engagement score of 70%. Nearly 80% of our global workforce took part, and the results helped us build a clear picture of how people are feeling about the Group, transformation plans, our leadership team and our HR initiatives. This was a key element of defining Ultra's future vision, mission, values and culture.

A report was created for all employees, including our wider workforce, which explained what we're doing to respond to their feedback and identify actions that would make Ultra an even better place to work. We organised our actions into six core sections:

+ Strategy and values
+ Leadership and change management
+ Learning and development
+ Career management
+ Pay and recognition
+ Resources

We started several initiatives to help us achieve our goal of creating a more collaborative, innovative, agile, empowering, recognition-focused and performance-oriented culture across Ultra including:

+ defining our new Group vision, mission, values and stakeholder goals in January 2020
+ delivering significant improvements in our HR process and practice, including a leadership framework and behaviours, aligning performance measurement, reward and recognition programmes to our new values and goals
+ a refreshed brand to mark a new era for the Group
+ an organisation design review to better support strategic delivery and our culture

We will continue to use engagement surveys supplemented by 'pulse engagement surveys' to monitor our progress.

Our Board of Directors oversees our efforts to prevent bribery. They are supported by our Group Company Secretary, who has primary and day-to-day responsibility for implementing the policy and for monitoring its use and effectiveness.

In October 2019, we launched updated Group-wide anti-corruption and bribery training. We provide several challenging scenarios to help our people know what to do if they were to come across issues such as bribery, fraud and conflict of interest. We strive to create an environment in which our people feel included and confident to 'speak up' and so provide a number of routes for them to seek help or raise concerns. To date, this training been completed by over 95% of our organisation. New employees are required to complete the training as part of their induction process.

Human rights

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

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

Diversity policy

We promote equality of opportunity and aim to continue to build a workforce that is recruited from the broadest possible talent pool. We recognise that high-performing teams benefit from diversity. Selection, development, promotion and reward are based on merit without regard to race, colour, religion, sex, sexual orientation, citizenship status, national origin or disability.

Gender equality in our workplace

Ultra employs 1,197 women directly and provides employment opportunities for more across our global supplier base. We believe that achieving greater gender parity strengthens our Company significantly, giving us a better understanding of the needs of the women, men, families and businesses who rely on our networks and services. Achieving gender equality in the workplace, at all levels, remains a significant challenge for most businesses, especially those of a global nature.

EXECUTIVE TEAM GENDER BALANCE

6 male

1 female

SENIOR MANAGEMENT GENDER BALANCE*

39 male

12 female

* Defined as the Executive Team plus Executive Team's direct reports and those individuals within our mitigated businesses in respect of which they exercise strategic advice and oversight

GENDER PAY GAP 2019 DATA (TO APRIL 2019)

Gender representation (% male/female)

	Male	Female
2019	77%	33%
2018	77%	33%

Results

Gender pay gap
Mean

21.3% 2019

25.5% 2018

Gender pay gap
Median

22.3% 2019

30.7% 2018

Gender bonus gap
Mean

49.3% 2019

44.3% 2018

Gender bonus gap
Median

49.5% 2019

48.8% 2018

How we do business
continued

Our people and culture

To support Ultra's Focus; Fix; Grow transformation agenda, we shaped our HR vision to deliver business strategy and transformation by having the best diverse talent with the right capability.

To achieve this vision, we created a HR strategy and a new HR leadership team to deliver it. These include experts in talent acquisition, talent management (including learning and development), total rewards, and HR systems and analytics.

Building our talent pipeline

The right talent at Ultra is critical to our success. We have continued to invest in our internal talent acquisition team, delivering some excellent outcomes in the USA:

+ 14,000 candidates added to our talent database
+ 10% interviewed
+ 300 offers extended

We delivered these results at 50% of the US national average cost to hire, generating significant savings in recruitment fees.

Following the success of our US model, we have appointed a Global Talent Acquisition Director to provide oversight and leadership to roll this programme out across the UK in 2020.

We have also invested heavily in our internal talent management processes. We started the year by completing aspirations, capability and engagement (ACE) development discussions with all of our senior management team members. We used this information to create talent profiles for critical and high-potential staff, culminating in much higher quality talent discussions in FY19.

Strengthening our leadership team

With the scale of ambition and transformation under way at Ultra, we must have the right leaders across the business to drive change, and to support employees through change. Considerable effort and investment have been put towards this in 2019.

Through internal discussions and workshops with employees, we have defined 12 leadership competencies that will be key for Ultra leaders of the future. We have called this the Ultra 'STAR' leadership model. It focuses on four key areas: Self, Thought, Achieving through others and Delivering Results.

To develop management inventory and identify personal gaps, development needs and broader Group development needs, we have assessed over 30 of our leaders against this framework.

OUR SIX HR PILLARS

OUR ASPIRE VALUES

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

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

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

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

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

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

We have used the outputs to partner with a leading business school to design four leadership programmes spanning 18 months. These programmes will be launched in Q2 2020 with a combination of face-to-face working sessions, e-learning, coaching and project-related work.

We recognise that the leader and potential leader population is a small percentage of the total workforce across Ultra. We have over 600 employees in front-line management positions. This is a critical group in the organisation for helping us to achieve our business objectives through effective performance management, coaching and goal setting. These employees are also responsible for driving active engagement for all employees.

As a result, in FY2019, we have commenced work to define a Manager Fundamentals programme for all front-line managers. This work establishes the core areas that we expect managers to be aware of and proficient in. This programme comprises three core elements:

1. e-learning modules on the core topics in small bite-sized sessions
2. a global manager intranet community
3. face-to-face training

Our line managers received good feedback from the ULTRAview engagement survey with a 77% positivity score. Our work now is about strengthening our management team: going from good to great.

OUR REWARD PHILOSOPHY

Performance and values orientated
Drives high-performance behaviours and reinforces our company values

Career-orientated
Supporting breadth and depth of experiences

Consistent and fair
Delivers consistent and fair reward, supported by robust policies and practices

Transparent
Simple to understand and in compliance with all applicable laws and regulations

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

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

KEY EMPLOYEE NUMBERS (TO 31 DECEMBER 2019)

Full time	Male promotions
3,855	**130**
Part time	**Female promotions**
165	**48**
Apprentices/ graduates	
209	

Investing in and rewarding our people

We have been working closely with the Remuneration Committee to create a stronger strategy, framework, process and governance for pay across the Group. We hired a Global Rewards Director with extensive reward consultancy experience and partnered with an external reward consultant to define our reward philosophy.

Alongside our new reward philosophy, we have created a global banding framework to provide a consistent structure to our compensation and benefits. We evaluated 6–7% of jobs across the organisation to determine our base framework. In the final quarter of 2019, we focused our efforts on placing all senior management team roles into the structure and working on aligning the salary, bonus and long-term incentives for each of the bands with more central ownership and governance. The Remuneration Committee considered and supported the overall framework.

The full roll-out to our senior management team will take place in Q1 of 2020. The remainder of the organisation will be mapped in 2020 with implementation at the end of 2020.

To help embed our new values, we have worked on a global recognition project to create a platform for peer-to-peer recognition and reward. This will be rolled out in 2020.

Succeeding through diversity

Embedded within our culture and values are diversity and inclusion. We have continued to progress this agenda by investing time and resources in visiting schools and colleges to promote physics, STEM and women in engineering. We attend careers fairs to access a broader demographic of future employees. We are also supporting diversity and inclusion internally through programmes focused on understanding and building awareness of neurodiversity and unconscious bias.

In 2019, we completed a review of our policies across the organisation to ensure that we are competitive and support diverse groups in the workforce. As a result, we have made changes to our family-friendly policies, which we are rolling out in 2020.

We delivered a new organisation and succession development process across Ultra in 2019, with a greater focus on understanding the aspirations, capability and engagement of our employees and building that into personal development plans as well as our management of talent going forward. As a part of this process, we had a more detailed review of our engineering, commercial and female talent to identify the actions we need to put in place for these critical groups.

We also give full and fair consideration to applications for employment made by disabled persons, and promote the continued employment of employees who have become disabled. We encourage the career development, and training of all our workforce, focusing on diversity as a whole.

We have designed a specific development programme to support groups within our workforce that may need some additional and focused development for them to reach their full potential. The Strategies for Success programme will be rolled out in Q2 2020, initially supporting the development of our high-potential women.

We know we have much more work to do in this area and need to accelerate our plans. We have pulled together a small group of employees to help build our 2020+ diversity and inclusion plan for the Group.

Creating a winning culture

Creating the right culture to support our transformation is critical. In 2019 we developed our new vision, mission, strategy, values and goals for the organisation. Key to our cultural shift is our new values. Our ASPIRE values (see page 4) identify the principles that define us and drive our behaviours. They are what Ultra stands for and what we are at our best. They help us to build a common culture across our Group.

Our values are supported by a detailed communication and roll-out plan to ensure they are embedded across the organisation. They are being worked into all aspects of the employee lifecycle.

In FY19, we also launched our first-ever global engagement survey, ULTRAview, which achieved a 79% response rate. Overall we are in a good place with an engagement index score of 70%, scoring highly in areas such as:

+ our teams are committed to doing high-quality work
+ our teams work well together
+ our manager relationships, and balancing home and work life

How we do business
continued

Some core areas were identified where we need to make improvements:
+ Understanding the strategy of Ultra
+ Change management
+ Understanding our values
+ Career opportunities across the Group

The results and action plan have been communicated across the organisation at a local and Group level. Our actions are being tracked at quarterly management meetings.

In 2020 we will conduct two pulse surveys in April and November to check on progress with the next full engagement survey being planned for May 2021.

Transforming our business

To improve data-driven people decisions and to support the enablement of our HR strategy, we are implementing a Global HR Information System across Ultra. In 2019, we completed phase one of the project which has seen us:
+ build the internal programme team
+ complete a request for proposal process for the end solution and implementation partner
+ complete end-to-end process mapping of all HR processes and commence data cleansing

Phase two in 2020 will work on the detailed implementation. The full system will go live in Q1 2021.

BUILDING A COMMON CULTURE ACROSS THE GROUP

Success and internal mobility
All talent assessments are based on competencies. How our people live our values is a key part of the discussion

Exit
Employees who do not demonstrate the competencies and values are given an opportunity to improve and are exited if they do not

Attraction
The values on the Company website as part of our shared employer brand work

Assessment and selection
Competency-based questions for interviews around the values

Induction and on-boarding
Share the values to set expectations as part of the on-boarding process of new hires

Performance management
The values are embedded into our performance management process

Rewards and recognition
We reinforce the values through our recognition schemes and how we promote and reward individuals

Development
All leadership development and all talent programmes include developing the values

DIVERSITY AND INCLUSION ACTIVITIES

+ In 2019, Maritime Systems became the founding corporate partner of Women in Aerospace Canada. This has provided very strong exposure and positive reaction from our industry peers and the community. We have already hosted an event through this partnership as well as sent our own women leaders to participate in Women in Aerospace activities
+ This has also been a year for internal focus on female diversity in key roles at Maritime Systems. We now have female employees leading the Canadian Surface Combatant program (the biggest program in Ultra's history), as Commercial Director, Bids & Proposal Manager, Purchasing Team Leader, Business Systems Analyst, Continuous Improvement Specialist and Industry Programs Coordinator
+ In Australia, we have continued our participation in the South Australia Governor's Aboriginal Employment Industry Clusters Forum
+ Starting in 2020, TCS will offer a C$5,000 scholarship to a young woman in Quebec who chooses to study in STEM. The scholarship will cover one year of university tuition for any woman registering for an undergraduate or graduate programme in any engineering programme in the Montreal region.

Health and safety

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

All operating businesses are required to have a written health and safety policy, fully compliant for the jurisdictions in which we operate. Within each business, health and safety is the responsibility of all employees, and ultimately the Managing Directors/Presidents. They are also responsible for providing adequate resources to meet the requirements of the health and safety policy. The businesses manage a range of safety risks, from office and light manufacturing environments, to providing services at customer sites or units, including military bases and platforms.

The safety of the products and services provided to users and customers is also a key priority for Ultra. Each business ensures the appropriate legal and ethical levels of safety are met across a product's lifecycle, with particular emphasis on the manufacturing, in-service and disposal phases. Businesses report safety-related incidents and key performance indicators covering lost time accidents and externally reportable incidents, including rates per 1,000 employees as an embedded part of the monthly Business Performance Report which is reviewed by the Executive Team. Safety performance and strategy are reviewed by the Board annually. Ultra reports lost time accidents and rates (being an accident resulting in half a day or more off work) per 1,000 employees, as summarised in Figure 1, and externally reportable incidents and rates per 1,000 employees, summarised in Figure 2.

In addition to safety-related reviews undertaken as part of maintaining operating certifications and standards, the Group undergoes biennial independent external audits. The site audits conducted in 2019, indicated improving health and safety management over the 2017 audits, which were conducted by the same external providers.

The approach for health and safety management for 2020 under the ONE Ultra strategy will initiate a programme for greater alignment and centrally driven processes and standards while retaining the high levels of local management ownership and engagement. This has started with the creation of centre of excellence roles with oversight, training and assurance responsibilities that sit over multiple businesses, and the establishment of a cross-business and function Health, Safety and Environment Working Group, with representation for all businesses, to drive alignment and consistency in health and safety management.

FIGURE 1
LOST TIME ACCIDENTS

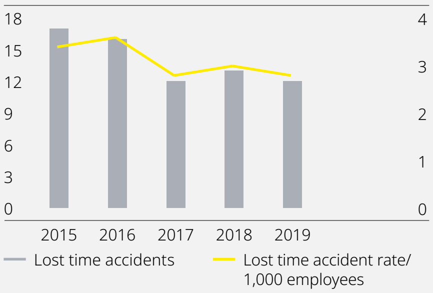
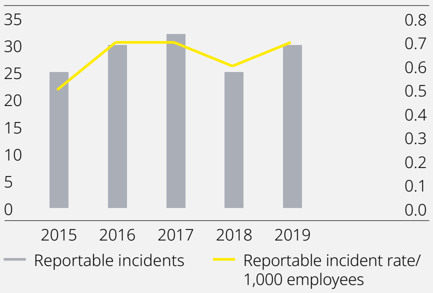


FIGURE 2
EXTERNALLY REPORTABLE INCIDENTS



CASE STUDY

800 days injury free

In summer 2019, Ultra Flightline in Victor, NY (now part of Ultra USSI) celebrated 800 days injury free. In recognition of this health and safety achievement, Voluntary Protection Programs (VPP) awarded Flightline Systems its 'Merit Worksite' award.

Flightline's health and safety initiatives have been working towards this VPP recognition. The company has:

+ organised benchmarking tours of other VPP facilities
+ implemented quarterly employee 'hazard hunts' to look for unsafe conditions
+ offered a 'safety bucks' reward programme

For example, if an employee sees and reports an unsafe condition they notify a member of the safety committee. The unsafe condition (e.g. a frayed wire on a power cord) is contained and corrected. The safety committee then awards the employee with 'safety bucks' that they can use to 'purchase' an Ultra item (shirt with logo, jacket with logo, mug with logo, etc.).

We have seen many benefits to our organisation following our implementation of these health and safety initiatives.

Achieving 800 days injury free is a huge achievement. We actively share best practice and feedback regarding our health and safety initiatives with our other global businesses.

How we do business
continued

Working with communities

We actively support the communities in which we operate. Our businesses are encouraged to make a difference in their communities through social initiatives and charitable activities.

As responsible corporate citizens we can play an active role in 'giving back' to the communities where we live and work. We believe that by working with local partners towards shared goals, and by empowering our teams to engage with local people, we can create lasting positive contributions to promote social and economic development.

Science, technology, engineering and maths (STEM) activities in schools, colleges and universities

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

Our people use their professional skills to make a positive difference. Our approach is to grow sustainable long-term relationships with local schools, colleges and universities. We believe that having an active STEM programme within Ultra creates an innovative, engaging, inclusive and high-performing culture.

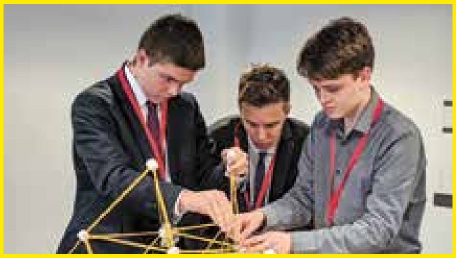
Across Ultra we have a number of charity partners chosen by our people: Soldier On, Chris Lucas Trust, Blood Bikes, Macmillan Cancer Support, New Jerusalem Church Coat Drive, St Jude's Children's Research Hospital, United Way Day and many more. In addition to fundraising for these chosen partner charities, we are currently assessing a suitable Group charity partner, which will commence in 2020 where we can organise Group-related activities and charity support.

Across our organisation, through locally organised activities in 2019, we raised over £44,000.

STEM ACTIVITIES

+ Ultra Australia established a scholarship called the Playford Trust in Australia. Each year the Trust and its partners across industry, government, the education sector and the community provide close to A$0.5m in scholarships, internships and awards to university undergraduates, Honours, Master's and PhD students. Establishing the scholarship through the Playford Trust allows Ultra access across a number of South Australian educational establishments. The first scholarship will be awarded in 2020
+ In 2019, Ultra Maritime Systems continued its close and long-standing relationship with Dalhousie University. This includes: Accepting Co-op placements: 17 Engineering, one QA, and one IT student
+ Ultra CIS has a strong relationship with South East Physics Network (SEPnet), sponsoring eight-week summer placements. One of their systems engineers has attended a SEPnet Expo event and a Women in Engineering event, and has been invited by her old university, Royal Holloway, to deliver a talk related to her career progression to students
+ Ultra Ocean Systems has relationships with George Mason University, Virginia Tech, Boston University, and University of Rhode Island. They ran career fairs and brought in a total of 10 interns in addition to hiring three full-time students to start in 2020. They also hired Co-op students into their production group in Braintree from a local vocational school – Blue Hills Regional Technical High School

Inspiring the next generation of engineers



In July, a number of fresh new faces were spotted around our Ultra CIS offices. We hosted GCSE students and undergraduates who were here to gain some valuable work experience and an understanding of what engineering product development in a business like Ultra CIS involves.

This was a great opportunity for the students to show their skills by undertaking a project to either protect or destroy a valuable asset, cleverly disguised as an egg. Through the challenge, they learned how to understand a brief, and then plan and execute a programme of work to meet that brief.

Along the way, the students gained an insight into their own abilities: working in teams, leadership, problems solving and their tenacity to get the job done.

The environment

Ultra remains committed to implementing and applying the necessary measures to ensure legal compliance in its jurisdictions and to minimise any environmental impact of its activities. All businesses are audited at least biennially. Ultra continues its commitment to investing in manufacturing facilities to offer increased efficiencies and reduce energy consumption, while improving productivity across the Company.

A key initiative in 2019 was to bring multiple UK businesses under a unified environmental management system and combine multiple accreditations under one ISO 14001 accreditation, which drives greater consistency and efficiency in the control environment.

One of the key priorities of the newly formed CSR Committee is the creation of a CSR steering committee which will propose strategy and oversee delivery across the Group.

We have worked this year to coordinate local efforts and have created a new role to manage environment, health and safety across the USA. We are targeting to create a level platform across the Group by the end of 2020 so we are operating from the same standards. Ultra is aware of the new Task Force on Climate-related Financial Disclosures which will be a focus of our new CSR Committee.

Products

Environmental considerations are taken into account throughout a product's lifecycle, from concept through to disposal. All Ultra businesses ensure their practices and processes consider the environment. Businesses work with their suppliers to reduce the impact of their products and to take account of environmental factors in the materials and components used. Controls are in place at sites to drive efficiency and minimise wastage, which is disposed of appropriately using specialist contractors where necessary.

Implementation

The businesses' Managing Directors and Presidents are primarily responsible for the implementation of Ultra's environmental policy.

Ultra's formal environmental policy addresses compliance with environmental legislation, conformity with standards for waste disposal and noise, the economical use of materials and the establishment of appropriate environmental performance standards. Progress is monitored through annual reporting. Each site plans and manages compliance with environmental requirements and the processes for the storage, handling and disposal of hazardous or pollutant materials are reviewed on a continuous basis. Where appropriate, individual businesses have ISO 14001 accreditation, and Ultra is pursuing a programme to unify the environmental management system and accreditation across businesses for greater consistency and efficiency.

Ultra caused no contamination of land in 2019, continuing the excellent track record of the previous six years. There were no environmental incidents reported in the year.

Ultra measures and reports on its UK packaging waste annually and tonnes per £m sales is shown in Figure 3. In the UK, businesses are encouraged to reduce the net amount of waste they produce.

Greenhouse gas emissions

The Group's increasing focus on sustainability and its carbon footprint is reflected in our establishment of the CSR Committee as reported in the CSR commentary above.

Energy consumption is measured annually in all our businesses and the data compared with previous years. We are registered under the UK Carbon Reduction Commitment Scheme (CRC) run by the Environment Agency (EA). We are also part of the Energy Savings Opportunities Scheme (ESOS) and we fall into the Streamlined Energy and Carbon Reporting (SECR) framework.

In 2019, for CRC, we submitted our annual report in July 2019 and paid £75.6k carbon tax for our carbon dioxide (CO_2) consumption of 4,144 tCO_2 (tonnes of carbon dioxide). This scheme was replaced by SECR from April 2019. We are implementing frameworks to collect our utilities and fuel data and other metrics for full compliance reporting under the changed requirements of the new scheme. In future, reports will not only cover the carbon footprint of our UK businesses, but for all our international subsidies as well as our supply chain.

We are committed to the systematic reduction of greenhouse gas emissions. Our Group carbon footprint continues to decrease year on year: last year it went from 5,067 tCO_2 per annum to 4,144 tCO_2, which represents a decrease of 18.2% compared with 2018 and a decrease of 35% in comparison with 2017. This has been achieved by systematic decrease of energy consumption as well as efficiency measures like simplifying our office structures, modernising the production process and using renewable electricity sources whenever possible. Historical performance data for the UK is shown in Figures 4a and 4b.

Ultra collects and consolidates information on CO_2 emissions from across its portfolio of businesses for Scope 1 and Scope 2 emissions:

Scope 1 – all direct emissions from the activities including fuel combustion on site, such as gas boilers, fleet vehicles and air-conditioning leaks.

Scope 2 – indirect emissions from electricity purchased.

FIGURE 3
PACKAGING WASTE (T/£M SALES) IN UK BUSINESSES

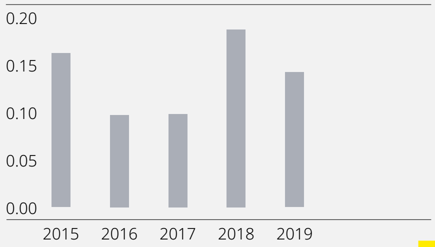


FIGURE 4A
CRC EMISSIONS (PER 1,000 CO_2 TONNES) IN UK BUSINESSES

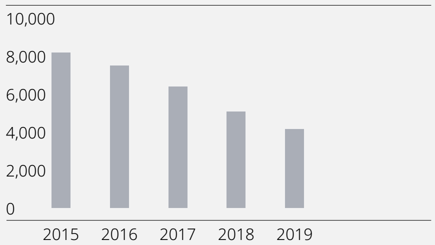


FIGURE 4B
CRC EMISSIONS (T/£M SALES) IN UK BUSINESSES

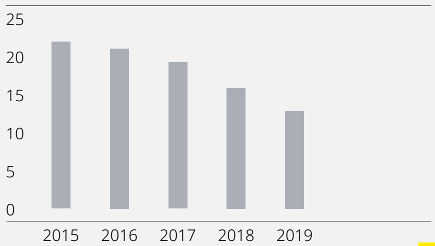
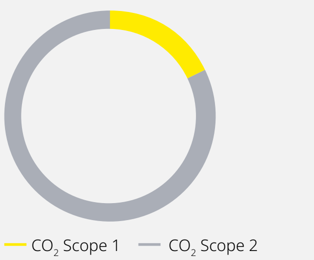


FIGURE 5
TOTAL TONNES OF CO_2 EMITTED BY ALL ULTRA BUSINESSES



Ultra's global greenhouse gas emissions for 2019 – tonnes of CO_2 (tCO_2)

Total CO_2 emitted by all Ultra businesses in 2019 was 15,010 tonnes, which includes total CO_2 from Scope 1 of 2,667 tonnes. Ultra's annual emissions of CO_2 per £m of revenue for 2019 were 18.19, a reduction on prior year of 24%. Global greenhouse gas emissions by scope are shown at Figure 5.

Energy Savings Opportunity Scheme

The UK Energy Savings Opportunity Scheme (ESOS) is a mandatory energy assessment and energy saving identification process for large undertakings and their corporate groups and applies throughout the UK. ESOS operates on four-yearly compliance phases. In 2019 Ultra undertook an independent ESOS energy review in compliance with phase 2 of the scheme. The assessment reviewed UK energy consumption and identified potential energy cost saving opportunities of £200k per year, subject to business case validation, across Ultra's UK sites. A prioritised programme for the implementation of viable recommendations will be undertaken in 2020. The next review for compliance under ESOS phase 3 is due by the end of 2023.

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

During the year, the Board reviewed the effectiveness of the Group's risk management and internal controls systems.

Internal risks are almost entirely within our control. They are closely monitored and discussed at management meetings on a monthly basis. External risks are driven by factors outside of our control and are reviewed on at least a quarterly basis with the Chief Risk Officer and the Business Unit management. As part of the annual internal review carried out at each Business Unit, the Chief Risk Officer completes a detailed review of each Business Unit-specific risk register.

The Executive Directors and Business Unit management are required to implement controls and processes to adequately mitigate risks, as well as maintaining their Business Unit risk registers which together, build the foundations of the Group Register. This risk framework is being reviewed in light of the new strategy and organisational structure that is currently being implemented.

Risks are classed based on their likely impact and probability resulting in an overall risk rating, against which mitigating actions are applied.

Managing risk and uncertainty

Managing risk is what Ultra management does. The identification and management of risk is a core element of the policies and processes used by Ultra's businesses in evaluating the business environment, the opportunities they assess, and in the delivery of their performance against objectives. Future emphasis is on the positive impact of embedding risk management into our key processes, which will be increasingly important as Ultra continues with its transformation plans.

Risk management and internal control

The Board has overall responsibility for establishing, monitoring and maintaining an effective system of risk management, governance and internal controls. The Board reviews risk as part of its strategy review process and, during the year, conducted a robust assessment of the Company's principal and emerging risks.

An annual specific review of key risks and the risk management framework are reviewed as part of the reporting process. Day-to-day ownership of risk sits with business management under the monthly scrutiny of the Executive Team to whom the Board have delegated principal responsibility for risk oversight.

SWOT ANALYSIS

Strengths	Weaknesses
+ World-leading domain technology + Engineering and design expertise + Established customer relationships + Proven differentiated profitability + Long-term business model	+ Historical holding company model – aggregation of diverse businesses and markets + Overlapping businesses in core markets + Disaggregated systems and processes + Historical unfocused investment strategy + Previously weak functional expertise for commercial, HR, finance + Duplication/inefficient resource usage
Opportunities	**Threats**
+ Creating ONE Ultra and associated synergies, processes, practices, technology sharing and team structures + Exploitation of parenting advantage efficiency and effectiveness + Focus on core domain expertise areas in 'five-eyes' markets + Development partner of choice for customers and end customers	+ Political change/defence spending reduction + Increasing regulation/compliance burden + Failure to deliver necessary wide-scale change for transformation + Long-term contract bid error + Execution error on large, long-term programmes + Compliance failure

Risk management framework

The risk management framework governs the approach Ultra takes to managing risk effectively. The framework facilitates the proactive review and management of existing and emerging risks through the identification, measurement, control and reporting of risk that can undermine the business model, future performance, solvency or liquidity of the Group and identifies:

+ the causes and triggers of a risk and the way in which it could impact objectives
+ the analysis of risk in terms of likelihood and consequences before and after the impact of specific controls
+ risk ownership by the individual best positioned to control/mitigate that risk
+ articulation of the specific controls and warning indicators in relation to a risk
+ allocation identification of planned mitigating actions including of resources for the management of principal and emerging risks
+ a process for review of the risk environment and reporting of key changes and emergent risk embedded in the performance reporting process

Ultra's management and Board receive independent assurance on our key financial and systems risks and controls through Internal Audit reviews which are outsourced and conducted by PWC. Outputs of the risk process are an input to the Internal Audit plan, prioritising review activity to our key risks and control dependencies.

Following the recruitment of a Chief Risk Officer in 2019, the risk management framework has been updated in advance of the 2020 strategic planning process to include:

+ management assessment ratings for the effectiveness of specific controls
+ tools to assess the potential speed to impact of a specific risk
+ a framework to identify and bring together sources of management and independent assurance of a risk and its specific controls and mitigations
+ the new Chief Risk Officer will also be focused on emerging risks including Brexit, climate change and COVID-19, which are featured in this report

Businesses review their risks and report key changes as part of the Business Performance Review Process. Major emergent risks and issues are escalated immediately.

As part of our launch of new processes for ONE Ultra in 2020, our controls framework will be reviewed and transitioned to a model grounded in the control principles of three lines of defence.

EMERGING RISKS

The Board have defined processes to identify, measure and monitor our emerging risks, which at the time of our results announcement on 10 March 2020, are detailed below:

COVID-19

The emergence of the new coronavirus and governmental responses to it bring the potential for business interruption. This could potentially include impacts on our wider supply chain and restrictions on operational capacity from the potential absence of significant numbers of employees at a site (should the virus become pandemic and affect areas where our operations are based). As a precaution, employee travel to virus-affected areas has been restricted in line with government and World Health Organization guidance and advice.

Currently, the supply chain risks are predominantly in relation to China, where Ultra has very few direct suppliers but there is some component dependency further down the supply chain. Proactive management and communication with our suppliers have so far identified areas where supplies might experience some delivery delay. Action is being taken in our businesses to manage existing stocks and identify alternative sources of supply where appropriate. Business contingency plans already exist and have been revisited to ensure that we can continue to operate in the event a site is directly impacted. This is being coordinated from our head office.

Developments in relation to COVID-19 are under constant review to ensure our mitigating actions are appropriate, proportionate and as effective as possible.

Brexit

While the UK left the European Union (EU) with a transition agreement in place in January 2020, the possibility remains that the two sides might fail to agree a comprehensive long-term trade deal by the end of 2020. The potential risk areas for Ultra for this scenario remain supply chain and growth.

From our experience of preparing for hard Brexit scenarios in 2019, we developed relationships and plans with our supply chain partners to proactively manage Brexit interruption risk. These relationships and plans will be maintained and adapted as we continue to monitor the risk through 2020. It is anticipated that timelines will allow for greater clarity and guidance from the UK and EU authorities compared with 2019, allowing for better planning and risk mitigation. Nevertheless, the potential for some logistical disruption for a period of several months remains.

There is also the potential for some short-term growth risk if the permanent trading arrangements are not agreed by the UK with the EU and other partners by the end of the year. This will be managed through proactive engagement with customers as the situation becomes clearer through 2020.

Climate change

Direct risk to Ultra from climate change is limited given the low-intensity nature of our operations, the locations of our sites and markets in which we operate.

Increased local extreme weather events could impact operations at a particular site, or lead to some disruption to our supply chain by impacting a key supplier, though we have established business continuity plans in place to mitigate this eventuality. Increasing regulation and compliance requirements in relation to climate change are expected, but in line with our values we see climate change as an area of responsible focus and management rather than just compliance. Ultra is establishing new strategies and programmes to minimise our contribution to climate change under a new Corporate Social Responsibility (CSR) Committee which will develop these strategies and oversee programme initiatives. The CSR Committee reports directly to the Executive Team.

The Group has initiated its sustainability strategy, to address more broadly the opportunities and threats related to climate change, and the need for the UK to transition to a sustainable, lower-carbon economy. This is in line with our commitment to implement the Task Force for Climate-related Financial Disclosures' recommendations. For risk management, addressing the potential impacts of climate change plays a key role in our approach to sustainability, and this year we have identified climate change as an emerging risk.

Principal risks and uncertainties
continued

Ultra's principal risks reflect the high priority it places on compliance with all legislative and regulatory requirements and the maintenance of high ethical standards across the Group, its supply chain and in its dealings with its customers. Key changes in our presentation of the principal risks over the 2018 Annual Report reflect a focus on change management and transition risk in light of the ongoing ONE Ultra transformation programme and the grouping and articulation of risks to give clearer transparency on risk themes and specific issues. These are not the only risks that may impact the Group but they are the ones that we currently believe are the most significant.

Increased risk

Geopolitical Risk

With our focus on the defence sector, geopolitical factors could lead to an unfavourable business climate for defence spending or restrict the access of overseas suppliers to national markets. Additionally, significant tensions between major trading parties or blocs could impact the Group's operations.

Examples include: changes in key political relationships; explicit trade protectionism; differing tax or regulatory regimes; potential for conflict or broader political issues; and heightened political tensions.

2018 risk comparator

1. Growth

Potential impact

Political change in a major end customer country such as the USA could impact revenue flows from cancellation of defence programmes or reduction in future programmes for political reasons, or a change of supplier selection conditions on defence contracts. Changes within or between trading blocs such as Brexit could lead to changes in trading terms or opportunities potentially impacting costs and margin.

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 contracts and domain expertise
+ Proactive risk management of bloc geopolitical issues such as Brexit

Changes and outlook

The next elections in the USA may bring a change in defence spending priorities or manufacturing policies. Additionally there is a risk that a permanent trading arrangement between the UK and EU may not be achieved by the end of 2020. Therefore, we have identified this as an increased risk.

No significant change

Defence Sector Cycle Risk

Defence spending by governments can fluctuate cyclically depending on several economic conditions, change of government policy, other political considerations, budgetary constraints, and specific threats and movements in the international oil price. There have been constraints on government expenditure in the past in a number of the Group's principal markets, such as the UK.

2018 risk comparator

1. Growth

Potential impact

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

Mitigation commentary/examples

+ The Group is geographically spread across the USA, UK and international defence markets
+ We develop and maintain strong relationships with customers, governments and stakeholders differentiating through our domain expertise

Changes and outlook

Growth in global tensions and instability is raising defence priorities for national governments in our key markets. This may be offset if, following the 2019 election in the UK, a major defence review is undertaken.

No significant change

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.

2018 risk comparator
1. Growth

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

Mitigation commentary/examples
+ Business bid and contract management processes
+ Legal and commercial technical reviews of contract terms and conditions
+ Contract-specific risk assessments
+ Clear delegation of authority/escalation criteria for approvals
+ Regular reviews of contract performance

Changes and outlook
2019 saw increased investment in our internal professional legal team and greater and more effective operational oversight. As a result, we are able to assess contract risk against Ultra's risk appetite compared with external legal reviews. The implementation of standardised bid and contract processes, the pooling of capability and the alignment of similar businesses under the ONE Ultra banner should further improve controls through 2020 and beyond.

No significant change

Programme Risk

Many of the programmes entered into by Ultra are complex and long term and are subject to various performance conditions which must be adhered to throughout the programme. Poor management of such programmes brings risks related to:
+ delays in product development or launch schedules
+ failure to meet customer specifications or predict technical problems
+ inability to deliver to contract terms, and
+ inability to manage programme costs or forecast accurately

2018 risk comparator
1. Growth

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

Mitigation commentary/examples
+ Embedded programme management in businesses
+ Formal review and escalation framework
+ Review and approval of key programmes by the Executive Team
+ 'Lessons learned' and best practice sharing
+ Inspection of programmes by customers

Changes and outlook
In 2019, Ultra executed more detailed and effective operational oversight, as well as programme risk, management and compliance. The standardisation of programme management procedures as part of the ONE Ultra implementation is due to complete in 2020 and will improve programme management visibility and capability.

The strengthening of Ultra's internal legal team also provides additional resource to assist in dealing with any contractual issues that arise on a programme.

Increased risk

Delivering Change

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

2018 risk comparator
2. Delivering Change

Potential impact
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 senior management distraction from business as usual. Structural change may impact employee morale.

Mitigation commentary/examples
+ Change programme management procedures and controls
+ Executive sponsorship of all major programmes
+ Continuous Executive Team transformation programmes oversight
+ Appointment of dedicated Transformation Director and team for professional oversight
+ Use of specialist change consultancy to support major programmes

Changes and outlook
Delivery of the ONE Ultra vision and strategy brings a period of exciting transformation and wide-scale change with several major change programmes spanning organisational restructuring, standardised systems and processes, and building key support function capabilities such as shared services. While it is recognised that the scale of change increases the potential risk for 2020, Ultra has invested in the talent and capabilities necessary to deliver the change effectively in line with plans.

Principal risks and uncertainties
continued

Slightly reducing risk

Talent Retention and Recruitment

Not recruiting and retaining the right employees in the right roles would result in Ultra being unable to fulfil its contractual obligations and would lead to operational inefficiencies and loss of productivity.

2018 risk comparator
3. People and Culture

Potential impact
Failure to recruit and retain the right individuals with the right skills and experience needed to deliver contractual obligations could lead to breached contract, increased cost penalties, losses and failure to achieve strategic objectives.

Mitigation commentary/examples
+ Strengthened in-house recruitment capability
+ Upgraded ONE Ultra systems for all key aspects of people management
+ Development of new values and culture framework aligned to our core mission and reflected in our new branding
+ New standard grading and reward framework
+ Proactive relationship programmes with local schools, colleges and universities to gain access to the best technical capabilities

Changes and outlook
With the new Chief HR Officer in place at the end of 2018, 2019 has seen Ultra embark on several HR, culture and values transformation programmes. Although not all due to complete until the end of 2020, these are already improving retention and recruitment risks, with successful recruitment to Executive Team and senior management roles in 2019. The recruitment of key people, for example in our engineering teams, will be a key focus in the coming year.

No significant change

Security and Cyber Risks

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

2018 risk comparator
4. Information Management and Security

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

Mitigation commentary/examples
+ Enhancement of Ultra's own CORVID Protect system as a specialist cyber security resource with appointment of its head as Ultra Chief Information Officer
+ Intellectual property is addressed in the bid and contract management process and protected through information security policies, procedures and systems
+ Security clearance processes are in place for all employees
+ Established physical security processes are implemented at all sites
+ US defence business governance framework in place using SSA and Proxy Board vehicles
+ Independent security reviews by defence departments and customers

Changes and outlook
Ultra's General Data Protection Regulations (GDPR) programme was successfully rolled out in 2019 and is now embedded. The Corvid Protect and Ultra approach to security continues to provide a high level of assurance.

No significant change

Business Interruption

A catastrophic event or incident could lead to a major interruption to our business operations, impacting our ability to meet contractual obligations.

2018 risk comparator
5. Supply Chain

Potential impact
Contractual penalties, reputational damage or failure to achieve revenue and profit objectives in year could result from operational disruption events including:
+ supply chain disruption of a critical single source or customer specified component
+ key Ultra site incident such as flood, fire or long-term denial of access
+ critical supporting systems failure

Mitigation commentary/examples
+ Proactive supply chain management by businesses
+ Supply chain risks coordination through a 'Procurement Council' body with business and corporate specialist representation
+ Effective and tested business continuity plans
+ Systems policies and procedures including back-up and recovery protocols
+ Cross-business incident management teams used for multi-business incidents such as Brexit and COVID-19

Changes and outlook
Business interruption plans and the planning framework were reviewed in 2019 with new tools and structures implemented.

Potential supply chain risks from the COVID-19 virus outbreak are being monitored and contingency plans prepared; while direct suppliers in currently impacted areas are very few, risk analysis is focusing on upstream risks for our wider supplier base.

Consolidation of activities and operations under ONE Ultra could lead to increased dependency on some key sites. Necessary investment in incident protection and mitigation will be undertaken as part of the change programmes.

Slightly reducing risk

Governance, Compliance & Internal Controls

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

2018 risk comparator
Governance and Internal Controls; Legislation/Regulation

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

+ Financial rules and standards compliance: failure to comply in key areas such as revenue recognition could result in adjustments that undermine results and credibility
+ Tax compliance: retrospective regulatory changes such as those relating to EU state aid (currently under legal challenge) could lead to significant unforeseen liabilities
+ Trade compliance: failure to comply with export controls or defence specific requirements such US ITAR controls could result in regulatory action and penalties
+ Anti-bribery and corruption (ABC): failure to comply with multiple jurisdiction rules in relation to public sector contracts directly or through intermediaries could result in regulatory action and penalties
+ Fraud risk resulting from internal control failure

Mitigation commentary/examples

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

Changes and outlook
Several key compliance control improvement initiatives have been undertaken in 2019 including:

+ new investment in central expertise roles in General Legal Counsel and Company Secretary, Risk Management, Finance and, in the USA, Trade Compliance
+ implementation of new and improved systems training and for the management of ABC and intermediaries

These investments and improvements have started to improve the mitigation of these risks overall with that trend continuing through 2020 as we implement wider centralised policies and controls as part of ONE Ultra.

Reducing risk

Pensions

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

2018 risk comparator
7. Pensions

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

Mitigation commentary/examples

+ Annual accounting and triennial pension valuations are in place and any issues that may arise are highlighted to the Board
+ The Pension Trustees and the Company actively consider pension risk reduction activities such as liability matching, dynamic de-risking, pension increase exchange and retirement transfer options
+ Hedging of the scheme's liabilities has continued at the increased levels agreed in 2018
+ The Board undertakes regular Pension Strategy Reviews

Changes and outlook
The pension scheme has continued to increase the hedging of its liabilities, to reduce this risk.

No significant change

Health, Safety & Environment (HS&E)

Ensuring high standards of health and safety for employees and visitors and maintaining our commitment to minimise the environmental impact of our activities are of vital importance to the Company and feature prominently in our newly launched culture, values and Code of Conduct initiatives.

2018 risk comparator
9. Health, Safety and Environment

Potential impact
Incidents may occur which could result in harm to employees and visitors, the temporary shutdown of facilities or other business disruption, exposing Ultra to reputational damage and regulatory or legal action with consequential penalties or damages.

Mitigation commentary/examples

+ Businesses' HS&E policies, procedures and management systems
+ Internal HS&E audits and reviews
+ Biannual external independent HS&E audits, conducted in 2019
+ Review and certification to relevant ISO or equivalent HS&E standards
+ HS&E KPIs embedded into the business performance reporting and management objectives processes, reviewed by the Executive Team
+ The Board undertakes an annual review of HS&E

Changes and outlook
The Board has zero appetite for HS&E risk and the Group's leadership is committed to ensuring that this remains a top priority. Central functional responsibility for the HS&E controls framework has been delegated to the new Chief Risk Officer role, to drive centralisation and standardisation of policies and procedures under ONE Ultra in 2020 and to embed a continuous improvement safety culture across the Group.

Biannual external independent HS&E audits were conducted in 2019 showing a significant improvement in the audit findings and assessments over the 2017 results.

Following the launch of the new culture, values and Code of Conduct initiatives, a CSR Committee, reporting to the Executive Team, has been established to drive forward CSR initiatives in areas including the environment and climate change.

Principal risks and uncertainties
continued

Risk appetite statement
The Group's objective to generate long-term sustainable value for all stakeholders is reflected in Ultra's appetite for risk, encouraging an entrepreneurial culture of innovation in its people by having a diverse range of skills and capabilities among the Group's employees. Ultra has a low risk appetite in situations where its culture, reputation or financial standing may be adversely affected. However, the Group does consider taking higher risks where the opportunity is seen to outweigh the potential risks, provided appropriate levels of mitigating controls are in place. Where safety may be compromised, Ultra has zero tolerance.

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

Ultra's net debt at 31 December 2019 was £154.8m (£113.6m excluding finance lease liability), compared to £157.5m in 2018 (excluding finance lease liability). The Group's committed lending facilities amount to £402.8m in total and comprise loan notes in issue to Pricoa of £50m and $70m, and a revolving credit facility (RCF) of £300m that is denominated in Sterling, US Dollars, Canadian Dollars, Australian Dollars or Euros. The RCF is provided by a group of six international banks and, in certain acquisition scenarios, permits an additional £150m 'accordion' which is uncommitted and subject to lender consent.

The Group also has access to a £5.0m and $2.5m overdraft. The financing facilities are used for balance sheet and operational needs, including the funding of day-to-day working capital requirements. The maturity profile for the Group's committed lending facilities is as follows:

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

Though global macro-economic conditions remain uncertain, and there continues to be uncertainty over the future UK landscape due to Brexit (detail on the potential risks to the Group associated with this are set out on pages 41 and 44), the long-term nature of Ultra's business and its positioning in attractive sectors of its markets, taken together with the Group's forward order book, provide a satisfactory level of confidence in respect of trading in the year to come.

LONG-TERM VIABILITY STATEMENT

In accordance with the UK Corporate Governance Code (the Code), the Directors have assessed the viability of the Company over a longer period than the 12 months required by the going concern basis of accounting. The Board conducted this review for a period of three years to December 2022, to coincide with its review of the Group's financial budgets and medium-term forecasts from its strategic plan. The certainty is lower in later years due to the inherent uncertainties in forecasting future performance. The strategic plan is underpinned by the regular Executive Team reviews of divisional performance, market opportunities and associated risks.

The following severe but plausible scenarios were modelled over the period to December 2022: (i) no growth in revenue or underlying profit beyond 2020 and underlying operating cash conversion of 50%, (ii) a 15% year-on-year decline in revenue and underlying operating profit after 2020, with underlying operating cash conversion of 70%. The added impact of very significant, unexpected, cash outflow was also modelled, to represent a scenario of simultaneous settlement of contingent liabilities or contract liabilities. Consideration was also given to the level of unexpected cash outflow or decline in profitability that would result in a breach of financial covenants.

The long-term viability assessment has taken into account the Group's robust balance sheet, including: available cash and committed borrowings; its key financial covenants and headroom; its ability to raise new finance in different financial market conditions; as well as its financial projections and the diversified nature of the key markets and programmes on which the Group operates; the long-term nature of many of these programmes; material uncertainties and the potential impact of the principal risks documented in the strategic report in severe but plausible scenarios; as well as the uncertainty arising over the future landscape due to Brexit, and the effectiveness of any mitigating actions.

This assessment has considered the potential impacts of these risks on the business model, future performance, solvency and liquidity over the period, as well as its key potential mitigating actions of restricting dividend payments and reductions in non-essential expenditure and capital expenditure.

The Board has considered the magnitude of potential impacts resulting from uncertain future events or changes in conditions, the likelihood of their occurrence and the likely effectiveness of mitigating actions that the Directors would consider undertaking.

The Directors have determined that the three-year period to December 2022 is an appropriate period to provide its viability statement. Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to December 2022.

Financial review

Our 2019 results show strong order book and revenue growth. Underlying operating profit of £118.2m was £5.5m higher than 2018 and underlying earnings per share (EPS) was up 9.1% to 119.5 pence per share. We are developing a functional strategy to support ONE Ultra and the Ultra transformation. The progress we are making gives us confidence in the opportunities within Ultra to generate value for all of our stakeholders.

Jos Sclater
Chief Financial Officer

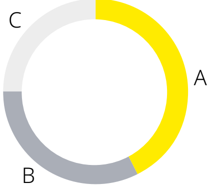
How the finance function has supported our ONE Ultra strategy:

+ Working capital normalisation to normalise trade creditors
+ Upgrading finance talent
+ Continued common enterprise resource planning (ERP) implementation

Key areas of focus for 2020 will include:

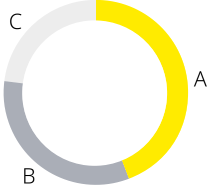
+ Improve management information systems and balanced scorecard reporting
+ Programme oversight and contract management
+ Standardisation of business processes
+ Improvement of Group-wide systems
+ Continuous improvement of the control environment

REVENUE BY DIVISION



A. Maritime & Land	**£353.0m**
B. Communications & Security	**£267.9m**
C. Aerospace & Infrastructure	**£204.5m**

UNDERLYING OPERATING PROFIT BY DIVISION



A. Maritime & Land	**£52.5m**
B. Communications & Security	**£38.6m**
C. Aerospace & Infrastructure	**£27.1m**

GROUP PERFORMANCE

	Underlying		Organic	Statutory		
	2019	2018	growth %	**2019**	2018	Growth %
Order book £m	**1,022.9**	924.1	+10.7	**1,022.9**	983.9	+4.0
Revenue £m	**825.4**	772.9	+6.8	**825.4**	766.7	+7.7
Operating profit £m	**118.2**	112.7	+2.9	**94.2**	65.3	+44.3
Operating margin %	**14.3**	14.7	-40bps			
Profit before tax £m	**105.3**	101.4	+3.8	**91.0**	42.6	+113.6
Earnings per share (p)	**119.5**	109.5	+9.1	**105.1**	43.6	+141.1
Total dividend per share (p)				**54.2**	51.6	+5.0
Operating cash flow £m	**86.8**	89.3	-2.8	**114.9**	102.4	+12.2
Free cash flow £m	**72.5**	67.6	+7.2			
Net debt to EBITDA	**1.58x**	2.00x				

Alternative performance measures

In the analysis of the Group's operating results, earnings per share and cash flows, 'underlying' information is presented to provide readers and stakeholders with additional performance indicators that are prepared on a non-statutory basis. These non-statutory performance measures are consistent with how business performance is reported within the internal management reporting. See page 155 for further information. A reconciliation is set out in note 2 between operating profit, underlying operating profit and EBITDA, between profit before tax and underlying profit before tax, between cash generated by operations and underlying operating cash flow and between net cash flow from operating activities and free cash flow. The calculation for return on invested capital (ROIC) is also set out in note 2. The calculation for underlying earnings per share is set out in note 12. 'Organic' growth measures compare current and prior year results at constant exchange rates, remove the impact of acquisitions and disposals and eliminate the impact of IFRS 16 adoption to underlying operating profit. See note 2.

Financial review
continued

Ultra's 2019 results

Orders

The order book grew by 4.0% to £1,022.9m (2018: £983.9m); this represents organic growth of 10.7% reflecting improving defence budgets, notably in the USA, and key wins on new and existing programmes. Order book growth was partially offset by the impact of the Airport Systems disposal which removed £36.4m from the order book.

Revenue

Revenue grew by 7.7% to £825.4m (2018: £766.7m). This represents organic growth of 6.8%, reflecting improved conditions in our US market and growth on specific contracts and programmes. These include the Next Generation Surface Search Radar (NGSSR) development contract, sales of tactical command and control systems and product deliveries on military aircraft platforms. Sterling weakened during the year, increasing reported revenue by 2.9%. The disposal of the Airport Systems and CORVID PayGate businesses reduced revenue by 2.1%.

REVENUE

	£m	% impact
2018	766.7	
Currency translation	22.2	+2.9
Disposals	(16.0)	-2.1
2018 (for organic measure)	772.9	
Organic growth	**52.5**	**+6.8**
2019	**825.4**	+7.7

Maritime & Land's revenue (see pages 26–27) grew organically by 7.8%, driven by the recently won NGSSR development contract and maritime propulsion system activity. During the year, the ERAPSCO joint venture was awarded a five-year $1bn indefinite delivery/indefinite quantity (IDIQ) contract for sonobuoys to the US Navy; demand remains strong for Ultra's US sonobuoys.

Communications & Security's revenue (see pages 28–29) grew organically by 3.4%, benefiting from strong sales of ADSI (Air Defence Systems Integrator) tactical command and control systems, and greater demand for electronic warfare and microwave products.

Aerospace & Infrastructure's revenue (see pages 30–31) grew, despite the disposal of the Airport Systems business early in the year, reflecting organic revenue growth in the year of 9.8%. The growth was primarily due to increased activity on military aircraft platforms including the build rate of our high pressure pure air generating (HiPPAG) units for the F-35.

STATUTORY OPERATING PROFIT

£m	2019	2018
Statutory operating profit	**94.2**	65.3
Amortisation of intangibles arising on acquisition	21.7	28.3
Acquisition and disposal related costs	0.9	2.7
Significant legal charges and expenses	1.4	2.3
S3 programme	–	6.5
Impairment charges	–	7.6
Underlying operating profit	**118.2**	112.7

Statutory operating profit increased by 44.3% to £94.2m (2018: £65.3m). This reflects reducing amortisation costs as assets created by historical acquisitions become fully amortised, the completion of the S3 (Standardisation & Shared Services) programme in 2018 and the non-recurrence of impairment charges booked in 2018 prior to the disposal of Airport Systems. Costs on the Focus; Fix; Grow transformation programme are being taken through underlying operating profit but will be identified separately where material.

UNDERLYING OPERATING PROFIT AND MARGINS

Underlying operating profit	£m	% impact
2018	112.7	
Currency translation	3.0	+2.7
Impact of IFRS 16 adoption	1.1	+1.0
Disposals	(1.9)	-1.7
2018 (for organic measure)	114.9	
Organic growth	**3.3**	**+2.9**
2019	**118.2**	+4.9

Underlying operating profit was £118.2m (2018: £112.7m), an increase of 4.9% on the prior year. The weakening of Sterling increased reported profit by 2.7%. The new lease accounting standard (IFRS 16) was adopted from 1 January 2019; there was a 1.0% increase in 2019 operating profit relative to previous accounting standards. Business disposals resulted in a 1.7% reduction. The organic profit growth was 2.9%.

The underlying operating margin as expected was lower than 2018 and declined to 14.3% (2018: 14.7%), due to:

+ 'Fix'-related transformation investment including redundancy and restructuring costs of £3.0m
+ £8.8m of contract losses in our Maritime division following enhanced operational and programme oversight and a more rigorous cost to complete process
+ delayed contract timing in the Energy sector
+ mix of sonobuoy sales
+ increased incentive costs, and
+ lack of the one-off £2.9m foreign exchange gain obtained in 2018, which is now hedged

Maritime & Land's underlying operating profit (see pages 26–27) declined organically by 5.4%, primarily as a result of contract losses of £8.8m on certain legacy contracts following enhanced operational oversight and a more rigorous programme review process through 2019. In addition, there was an adverse sonobuoy sales mix compared with prior year.

Communications & Security's underlying operating profit (see pages 28–29) grew organically by 22.9% in the year; however, when the cost overrun impact at Herley in 2018 is excluded, the growth relative to 2018 was 1.6% and operating margins are broadly consistent year on year. Margins were however held back by later than anticipated phasing of new orders to replace completed programmes in CIS and the timing of the ORION radio order within the year.

Aerospace & Infrastructure's underlying operating profit (see pages 30–31) declined organically by 3.2% due to restructuring costs, higher spend on R&D as we invest in programmes to support future growth, product mix, particularly in our Energy business, and delayed orders from key primes. Furthermore, the £2.9m forex gain in 2018, mentioned above, impacted this division.

Ultra continued its programme of R&D, with total spend in the year of £155.0m (2018: £145.8m). Company-funded investment increased to £31.2m (2018: £28.1m) which represents 3.8% of revenue (2018: 3.7%), while customer funding increased to £123.8m (2018: £117.7m). The overall level of R&D investment in the year was 18.8% of revenue (2018: 19.0%). The increase in company-funded spend was more modest than originally envisaged due to engineering resource constraints at the beginning of the year, a more rigorous assessment of investment and return discipline being applied, and an increased focus on strategic rationale for investment.

Finance charges

Net financing charges increased by £1.6m to £12.9m (2018: £11.3m). There was a £1.5m increase due to the adoption of IFRS 16 from 1 January 2019 and a £1.9m increase due to the previously announced change to the Group's allocation of pension finance charges; these were previously classified as non-underlying items and from 1 January 2019 are included within our underlying finance charges. These increases were partially offset by a £1.8m decrease arising from lower US interest rates and lower average net debt compared with 2018. The interest payable on borrowings was covered 12 times (2018: 10 times) by underlying operation profit.

Profit before tax

Statutory profit before tax increased 113.6% to £91.0m (2018: £42.6m). As expected, there are fewer non-underlying items than the prior year, consequently underlying profit before tax was £105.3m (2018: £101.4m), as set out below:

£m	2019	2018
Statutory profit before tax	**91.0**	42.6
Amortisation of intangibles arising on acquisition	**21.7**	28.3
Acquisition and disposal related costs	**0.9**	2.7
Loss on disposals and held for sale	**0.9**	0.7
(Gain)/loss on derivatives	**(10.6)**	5.6
Significant legal charges and expenses	**1.4**	2.3
Impairment charges	**–**	7.6
Net finance charge on defined benefit pensions*	**–**	1.9
S3 programme	**–**	6.5
Guaranteed Minimum Pensions (GMP) equalisation	**–**	3.2
Underlying profit before tax	**105.3**	101.4

* As set out in the Finance charges section above, the pension finance charge is included within underlying finance costs from 1 January 2019

Acquisition and disposal related costs in the year were £0.9m (2018: £2.7m). A £0.9m loss arose upon sale of our Airport Systems business from the Aerospace & Land division in February 2019, sale of our CORVID PayGate business from the Communications & Security division in June 2019 and an impairment in relation to the disposal of the Communications & Security division's small Ottawa-based electronic intelligence business, which completed on 31 January 2020. The net gain on forward foreign exchange contracts and interest rate swap was £10.6m (2018: £5.6m loss). Significant legal charges and expenses include £1.2m (2018: £2.3m) of conduct of business investigation costs. Net financing charge on defined benefit pensions and, as noted above, transformation costs are now included in underlying profit.

The net impact to statutory profit before tax from the adoption of IFRS 16 was a £0.3m increase relative to previous accounting standards. The balance sheet impact of IFRS 16 adoption is set out in note 36.

Tax, EPS and dividends

The Group's underlying tax rate in the year decreased slightly to 19.4% (2018: 19.7%). The statutory tax rate on IFRS profit before tax is 19.0% (2018: 19.0%).

Underlying EPS increased 9.1% to 119.5p (2018: 109.5p), reflecting the increase in profit and reduced number of shares in issue compared with the prior year. The weighted average number of shares in issue was 70.9m (2018: 74.4m). Basic EPS increased to 105.1p (2018: 43.6p). The Group spent £8.6m to repurchase 0.6m ordinary shares at an average of £13.41 per share. The re-purchase programme was completed in Q1 2019. At 31 December 2019 the number of shares in issue was 70,964,527.

Ultra's progressive dividend policy has a through-cycle target of circa two times normalised cash and earnings cover. The 2019 proposed final dividend of 39.2p (2018: 37.0p) per share is proposed to be paid on 18 May 2020 to shareholders on the register at 24 April 2020 subject to approval at the Annual General Meeting. This will result in a final full year dividend of 54.2p (2018: 51.6p), which will be covered 2.2 times by underlying EPS.

Return on invested capital (ROIC)

A revised and simplified ROIC measure was established in 2019. For 2019 this was 17.8% (2018: 16.2%). The calculation is set out in note 2. ROIC under the previous measure, as still used in the Long-Term Incentive Plan (LTIP) targets for the 2017–2019 issuances, was 22.0% (2018: 19.6%) and is calculated as underlying operating profit expressed as a percentage of invested capital (average of opening and closing balance sheets). Invested capital is calculated as net assets of the Group (after adjusting for exchange rate fluctuations and to eliminate the impact of the 2017 equity raise and subsequent buyback) adjusted for amortisation and impairment charges arising on acquired intangible assets and goodwill, and the add-back of other non-underlying performance items, such as tax, fair value movements on derivatives, the S3 programme, acquisition and disposal related costs and the Ithra (Oman) contract, impacting the balance sheet.

Operating cash flow and working capital

Statutory cash generated by operations was £114.9m (2018: £102.4m). Underlying operating cash flow was £86.8m (2018: £89.3m) resulting in underlying operating cash conversion of 73% (2018: 79%). Working capital and provisions increased by £17.0m. The working capital increase was principally due to reduced payables as trade creditor payments have been normalised during 2019 with the days payable more consistent throughout the year. This reflects the previously announced working capital normalisation. However, the normalisation impact was not as high as anticipated due to a significant increase in contract specific advance payments and customers paying faster than expected around the year end. Our focus on improving working capital turn has been successful with the average working capital turn for the Group improving to 7.30x (December 2018: 6.52x). Capital expenditure, including continuing ERP systems implementation, increased to £21.8m (2018: £18.3m) with three more ERP implementations going live during 2019. Inventory increased during the year, reflecting revenue growth.

Financial review
continued

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

+ £8.6m was spent in the year to repurchase 634,996 ordinary shares. In total, Ultra has bought back and cancelled c.£100m of Ultra shares at an average cost of £14.42. In 2018, £91.9m was spent on the share buyback with 6.3m shares repurchased
+ proceeds of £22.4m were received in the year from disposals, primarily the Airport Systems and CORVID PayGate businesses
+ dividend payments of £36.7m (2018: £36.9m)
+ tax paid of £9.5m (2018: £4.6m)
+ a £1.9m (2018: £1.5m) outflow on significant legal charges and expenses relating to the anti-bribery and corruption investigation costs and Oman-related fees

Funding and liquidity
The Group's committed banking facilities amount to £402.8m (2018: £526.4m) in total. These comprise the £300m revolving credit facility (RCF) and £50m and $70m of Pricoa loan notes. £250m of the RCF has a maturity to November 2024 and £50m has a maturity to November 2023. The facility is denominated in Sterling, US Dollars, Canadian Dollars, Australian Dollars or Euros. The facility also permits an additional £150m 'accordion' which is uncommitted and subject to lender consent and can be used in certain acquisition scenarios. The $70m of loan notes were issued by Prudential Investment Management Inc ('Pricoa') in January 2019, on the same date $60m of expiring Pricoa debt was repaid. The $70m notes expire in January 2026 and January 2029. £50m of the Pricoa notes have an expiry date of October 2025. The remaining £129m of our Term Loan was fully repaid during the year.

As at 31 December 2019, the total borrowings drawn from the RCF were £85.5m (2018: £20m), giving headroom of £214.5m (2018: £280.0m) in addition to £5m and $2.5m of uncommitted overdrafts. The Group also held £82.2m (2018: £96.3m) of cash for working capital purposes. The facilities are used for balance sheet and operational needs, including the funding of day-to-day working capital requirements.

The Group's main financial covenants are that the ratio of net consolidated total borrowings/EBITDA is less than three, and that the net interest payable on borrowings is covered at least three times by EBITA. In certain acquisition scenarios the ratio of net consolidated total borrowings/EBITDA is permitted to be up to 3.5x for two consecutive six-month periods. The covenants are under a frozen GAAP basis i.e. excluding the impact of IFRS 16 leases.

Ultra's net debt at the end of the year was £154.8m (2018: £157.5m), this includes £41.2m of lease liability following the adoption of IFRS 16 from 1 January 2019. Net debt/EBITDA when including pension liabilities and IFRS 16 lease liabilities was 1.58x (2018: 2.00x). On a covenant basis, which excludes pension liabilities and IFRS 16 lease liabilities, the figure is 0.86x (2018: 1.25x). Net interest payable on borrowings was covered 12.4x (2018: 9.9x) by underlying operating profit.

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

Interest rate management
To reduce the risks associated with interest rate fluctuations and the associated volatility in reported earnings, Ultra holds a mix of fixed rate and floating rate debt. The amount of fixed-term debt and the associated interest rate policy is kept under regular review and the Group targets that between 40% and 60% of forecast debt is at a fixed rate of interest at each year end.

Foreign exchange
Ultra's results are affected by both the translation and transaction effects of foreign currency movements. The average US Dollar translation rate in 2019 was $1.28 (2018: $1.34). By their nature, currency translation risks cannot be mitigated, but the transaction position is actively managed.

The majority of sales made by Ultra's businesses are made in local currency, thus avoiding transaction risk. However, this risk does arise when businesses make sales and purchases which are denominated in foreign currencies, most often in US Dollars. To reduce the potential volatility, Ultra attempts to source in US Dollars a high proportion of the products sold in US Dollars. For the remaining net expense, the Group's policy is to hedge forward the foreign currency trading exposure in order to increase certainty. The expected flows are reviewed on a regular basis and additional layers of cover are taken out so that, for 2020, 100% of the expected exposure is covered, reducing to 78% of the exposure for 2021 and 27% of the exposure for 2022. Exposure to other currencies is hedged as it arises on specific contracts.

From 1 January 2019 the Group revised its hedging strategy under IFRS 9 to reduce income statement volatility from revaluation of US Dollar assets and liabilities held on the UK balance sheet. The UK balance sheet, which has carried increasing US Dollar denominated assets from certain long-term programmes, had not been hedged prior to the conversion of those assets into cash. From 1 January 2019 the net investment hedge has been revised to eliminate this volatility, and the £2.9m gain made in 2018 will not recur.

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

The Ultra Electronics Limited defined benefit scheme was a contributory scheme in which the Company made the largest element of the payments, which were topped up by employee contributions up until the 2016 closure of the scheme to future accrual. The scheme was actuarially assessed using the projected unit method in 31 December 2019 when the net scheme deficit, calculated in accordance with IAS 19, was £59.1m (2018: £59.1m). The present value of the liabilities increased by £33.3m to £386.4m in 2019 primarily due to the decrease in the discount rate. There was a £33.5m increase in scheme assets, mainly driven by increases in investment values in funds and equities.

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

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

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

Certain employees at TCS in Canada participate in a defined benefit scheme. This scheme is closed to new employees and had an IAS 19 net deficit of £0.3m at the end of the year (2018: £0.4m). Regular payments continue to be made, with both Company and employees making contributions, so as to maintain a satisfactory funding position. The Group's remaining Canadian employees participate in a number of defined contribution pension plans. Certain employees at the Swiss subsidiary of Forensic Technology, Projectina, also participate in a defined benefit pension scheme. The scheme had an IAS 19 net deficit of £1.4m at the end of the year (2018: £0.9m).

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

Conduct of business investigations update

As previously announced, the Serious Fraud Office (SFO) is continuing to investigate a conduct of business issue in Algeria by Ultra Electronics Holdings plc ('Ultra'), its subsidiaries, employees and associated persons. The investigation commenced in April 2018 following a voluntary self-report made by Ultra to the SFO. In addition, Ultra is investigating another conduct of business issue associated with the Philippines and is keeping the relevant authorities informed.

Capital allocation

We have implemented a more disciplined approach to capital allocation which will support our future strategic delivery. We aim to have an asset light, high capital return model which will, in turn, drive strong free cash flow. Our priorities for capital discipline are listed in order below:

1. organic investment to fix and deliver operational improvement and growth
2. inorganic M&A investment to accelerate strategy delivery, if it generates additional value
3. sustainable through-cycle dividend. As announced in 2019, our policy remains around 2x through-cycle cash/earnings cover ratio
4. any excess, through-cycle capital to be returned to shareholders, but only if it can't be deployed within Ultra to generate strong returns

Our net debt target remains between 1.5x and 2.5x net debt (including pension liability and IFRS 16) to EBITDA. At 31 December 2019 this ratio was 1.58x.

Jos Sclater
Chief Financial Officer
10 March 2020

2020 FINANCIAL GUIDANCE

Our internal R&D spend is expected to be in the range of 4–4.5% of revenue in 2020.

Due to a slower than anticipated start, our transformation costs in 2019 were £3m, some £2m lower than anticipated at the beginning of the year. We expect some catch up in 2020, with transformation costs in the £8–12m range. Capital expenditure will also increase by £3–8m, from £21.8m in 2019 to £25m–£30m in 2020. As previously flagged, we expect underlying operating margin to remain stable in the mid-teens range during this period of investment.

Operating cash conversion is expected to be in the 60–75% range for 2020, as we increase capital expenditure to support our Focus; Fix; Grow initiatives. 2020 net debt/EBITDA is therefore expected to be around 1.4x (including pension liability and IFRS 16).

Although the duration of the COVID-19 virus and its impact is uncertain at this stage, our preliminary assessment of the associated risks is that we don't currently believe it will have any material short or long-term impact, but we continue to monitor the situation closely.

NON-FINANCIAL INFORMATION STATEMENT

In compliance with sections 414CA and 414CB of the Companies Act 2006, a non-financial information statement summarising the nature and location of non-financial disclosure is included within the Directors' report on page 93.

Our Board
The right team to lead us


Tony Rice N


Simon Pryce


Jos Sclater


Geeta Gopalan A R N


Martin Broadhurst A R N


Victoria Hull A R N


Sir Robert Walmsley A R N


Daniel Shook A R N

A Audit Committee
R Remuneration Committee
N Nomination Committee
Chair

Tony Rice
Chairman

Appointed to the Board 18 December 2018

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

Committees
Nomination (Chair)

Other key appointments
+ Chair of Dechra Pharmaceuticals plc
+ Senior Independent Director of Halma plc
+ Non-Executive Director of the Whittington Hospital Trust

Skills and experience
Senior business management in the aeronautical and electronics engineering sectors. Senior non-executive roles in UK listed companies.

Simon Pryce
Chief Executive

Appointed to the Board 18 June 2018

Prior to his appointment, Simon was Group Chief Executive of BBA Aviation plc for 10 years. Simon qualified as a Chartered Accountant before working at the global investment banking firms of Lazards and JP Morgan, and then at GKN plc. Simon is a Fellow of the Royal Aeronautical Society and a member of the Chartered Institute for Securities and Investment. He is also a member of the Council of the University of Reading.

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

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

Jos Sclater
Chief Financial Officer

Appointed to the Board 9 December 2019

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

Skills and experience
Extensive experience in finance, strategic planning, transformation, M&A and driving operational and commercial performance.

Geeta Gopalan
Independent
Non-Executive Director

Appointed to the Board 28 April 2017

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

Committees
Audit, Nomination and Remuneration

Other key appointments
+ Non-Executive Director of CYBG plc
+ Non-Executive Director of Funding Circle Holdings plc
+ Non-Executive Director of Wizink Bank S.A.

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

Martin Broadhurst
Independent
Non-Executive Director

Appointed to the Board 2 July 2012

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

Committees
Audit, Nomination and Remuneration (Chair)

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

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

Victoria Hull
Independent
Non-Executive Director

Appointed to the Board 28 April 2017

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

Committees
Audit, Nomination and Remuneration

Other key appointments
+ Non-Executive Director of Rosenblatt Group plc
+ Non-Executive Director and Chair of the Remuneration Committee at Network International Holdings plc

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

Sir Robert Walmsley
Senior Independent
Non-Executive Director

Appointed to the Board 22 January 2009

Sir Robert was Chief of Defence Procurement at the UK Ministry of Defence (MoD), a post which he held from 1996 until his retirement from public service in 2003. Prior to his MoD appointment, Sir Robert had a distinguished career in the Royal Navy, where he rose to the rank of Vice Admiral in 1994 and served for two years as Controller of the Navy.

Committees
Audit, Nomination and Remuneration

Other key appointments
+ Non-Executive Director of Cohort plc

Skills and experience
Defence, security, transport and energy. Knowledge of Ultra's main geographic markets. Substantial experience of government procurement.

Daniel Shook
Independent
Non-Executive Director

Appointed to the Board 1 September 2019

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

Committees
Audit (Chair), Nomination and Remuneration

Other key appointments
+ Finance Director of IMI plc

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

Strong international perspective, having worked in a number of key geographies during his time with two leading global businesses.

Our Executive Team
Helping deliver ONE Ultra


Simon Pryce


Jos Sclater


Richard Cashin


Steve Izquierdo


Louise Ruppel


Mike Baptist OBE


Thomas Link

Simon Pryce
Chief Executive

See bio on page 52.

Jos Sclater
Chief Financial Officer

See bio on page 52.

Richard Cashin
President, Strategy & Corporate Development

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

Steve Izquierdo
Chief Human Resources Officer

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

Louise Ruppel
Group General Counsel and Company Secretary

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

Mike Baptist OBE
President, Intelligence & Communications

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

Thomas Link
President, Maritime

Thomas Link has worked for Ultra for over 25 years, focusing his career on anti-submarine warfare systems and maritime domain missions. He leads a diverse portfolio of operating businesses located in the USA, Canada, the UK and Australia, which deliver innovative solutions for customers around the world. Thomas holds a BS in Electrical Engineering from Purdue University and an MS in Electrical Engineering from the University of Washington.

Corporate governance report

OUR PURPOSE

Innovating today for a safer tomorrow
Developing the technologies that protect what matters is what drives each and every one of our employees at Ultra. It is the driving force behind everything we do.

My first year as Chair has been an exciting and transformational year for Ultra. 2019 was a journey of discovery, looking at the heart of Ultra and building foundations for success, including a new strategy and brand to enable us to fulfil the enormous potential that the Board and management team can see in our business.

Tony Rice
Chair

QUICK LINKS

Board leadership and company purpose
Read more on pages 16 to 17, 34 to 36 and 55 to 67

Division of responsibilities
Read more on pages 57 and 62 to 64

Composition, succession and evaluation
Read more on pages 61, 64 to 65 and 68 to 69

Audit, risk and internal control
Read more on pages 40 to 46 and 70 to 73

Remuneration
Read more on pages 74 to 91

Chairman's Letter

Dear Shareholder,
I was delighted to be appointed Chair on 28 January 2019 following Douglas Caster's retirement from the Board. During the year, I spent time engaging with our key stakeholders including investors and colleagues and it was very interesting to listen to their views and understand their perspectives. It was apparent that there is great belief in Ultra, its technology and its people, yet there is a huge opportunity to build a better business that delivers for all of our stakeholders.

Since Simon Pryce's appointment as Chief Executive in June 2018 there have been significant changes to the Group including strengthening the Executive Team and redefining the Company's purpose and strategy as outlined in our strategic report on pages 7 to 51.

I should emphasise that, while we have made great strides, this is work in progress, we are at the beginning of a transformation journey, and there is much to do before we see the accelerated growth and enhanced performance we all believe Ultra is capable of delivering.

Strategy
One of the key areas of focus for the Board throughout 2019 was repurposing our strategy. Through our corporate governance framework we provided appropriate challenge, feedback and guidance throughout the strategic development phases during the course of the year. This culminated in a full-day strategy workshop in December 2019, and we are pleased to present the new strategy in the this Annual Report.

Our purpose, values and culture
The Board recognises the importance of a clearly defined purpose, supported by a meaningful set of values. As described in our strategic report, a significant amount of work was completed in 2019 in reviewing and redefining the Company's purpose and values aimed at creating a unified culture at Ultra businesses and locations across the world. We believe our purpose is a clear representation of who we are and what we do as a business, and is the foundation for everything we do at Ultra.

We are fortunate to have some brilliant thinkers and innovators within Ultra and we need to ensure we have a strong and healthy culture to retain our great people and attract new talent to our teams. To build a unified culture, we launched our new vision, mission and values earlier this year. We believe our new values will enable us to move one step closer to ONE Ultra. We look forward to seeing, and reporting on, the progress made on how our vision, mission and values have become embedded across the Group, and the impact it has had on our culture, in future Annual Reports.

Putting strategy into action
Led by our Chief Executive, the Executive Team is the driving force for strategy implementation and transformational change within the business. As we look forward, we are confident as a Board that we have the right Executive Team to drive Ultra's operational and financial performance to create long-term, sustainable value for our stakeholders.

Our new strategy, brand and values were launched at a Group leadership conference in London in January 2020 which I had the pleasure to attend. I met many of our senior managers who lead our businesses globally and it was encouraging to see such energy and enthusiasm among them about the future for Ultra. That is not to say there is not an element of caution also, as within change lie risks and uncertainty, which the Board will need to be rigorous in monitoring. Our newly appointed Transformation Director, Executive Team and senior management are prioritising, and measuring, all strategic initiatives appropriately and mitigating risks while recognising the need to continue to deliver on our existing contractual

Corporate governance report
continued

commitments and business plans. We are making changes in a collaborative and communicative manner and everyone is committed to working together, as one team, to take Ultra forward and build an even better company that we can all be proud of.

Board composition

On behalf of the Board, I would like to extend our gratitude to John Hirst, who stepped down from the Board as Non-Executive Director and Chair of the Audit Committee on 1 September 2019, and Amitabh Sharma who stepped back from his role as Finance Director on 1 December 2019. John and Amitabh both made valuable contributions to the Board throughout their tenures and we wish them all the best in their future endeavours.

We welcomed Daniel Shook, who was appointed as a Non-Executive Director and Chair of the Audit Committee on 1 September 2019. Daniel chaired his first Audit Committee meeting in December 2019 and I am confident of his ability to lead the Audit Committee through our period of reform, and in a changing regulatory environment, in a proactive and challenging manner, as well as contributing fully in the wider role of being a Non-Executive Director.

We are also delighted that Jos Sclater joined Ultra as Chief Financial Officer on 9 December 2019. Jos brings with him a wealth of skill and relevant experience in strategic, operational and finance transformation and will be one of the key leaders of our Focus; Fix; Grow transformation programme.

We will say farewell to Sir Robert Walmsley at the forthcoming Annual General Meeting 2020 as he has exceeded the recommended nine-year tenure under the Code and will step down as Non-Executive Director and Senior Independent Director. At the Board's request, Sir Robert remained in his role to ensure continuity on the Board throughout several changes to the Board and Executive Team. I would personally like to thank Sir Robert for his enormous contribution over many years on the Board, including his extended tenure, which has provided a valuable bridge during a period of significant change. Victoria Hull will take over as Senior Independent Director upon Sir Robert's departure from the Board.

A search is under way for a new Non-Executive Director to replace Sir Robert Walmsley. His experience and industry knowledge will be extremely difficult to replace and the Board has been keen to ensure that any new addition to the Board has the right experience, skills and contacts to assist Ultra in achieving its strategic goals in the future.

Corporate governance

We welcome the new principles and provisions of the UK Corporate Governance Code 2018 ('the Code'), recognising that a robust corporate governance framework is essential within a successful company. The enhanced emphasis on stakeholder engagement and diversity reflects Ultra's own renewed focus in these areas and I am pleased to report that we have made good progress this year.

Corporate governance will always be a key focal point for us. We are committed to maintaining high standards as an essential factor that underpins our new strategy.

Looking ahead

We will be looking at how we better coordinate our environmental, social and governance (ESG) initiatives during 2020. As described earlier in this report, the Company has established a Corporate Social Responsibility (CSR) Committee to oversee the Group's activities in this area and develop a Group-wide CSR strategy, which we will be reporting further on in next year's Annual Report.

We entered 2020 with confidence. This year will focus on implementation of our strategic objectives, transforming them into tangible results. The ways of working at Ultra are changing, for the better, and I am both excited and honoured to Chair the Company through this period of transformation.

Tony Rice
Chair
10 March 2020

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE 2018

The Board believes a solid corporate governance framework is essential to the long-term sustainability of our business. We are committed to upholding high governance standards to maintain trust and business integrity with our stakeholders, and ensure our ethical business practices are consistent across the group. As such, insofar as is practical, the Company seeks to uphold the principles of the Code in meetings its objectives to promote the long-term sustainable success of the business and to generate value for all its stakeholders, contributing to wider society.

Sir Robert Walmsley has been a Non-Executive Director of Ultra since 22 January 2009 and has therefore exceeded the recommended nine-year tenure set out in the Code. Accordingly, there is a presumption that he may not be regarded as independent under the Code. The Board nonetheless considers that Sir Robert Walmsley demonstrates independence of character and judgement and constructively challenges the Board and the Executive Team when considering matters discussed at Board meetings, and that he should therefore be considered as an Independent Non-Executive Director for Code purposes. Furthermore, Sir Robert's distinguished Royal Navy and UK Ministry of Defence career, and continued engagement with the industry since his retirement, has brought valuable, current and relevant experience and industry knowledge to the Board and he has demonstrated the utmost integrity throughout his role as Non-Executive Director and Senior Independent Director.

In the Company's 2018 Annual Report and Accounts we reported that the Board had extended Sir Robert's tenure until the end of January 2020 to ensure continuity on the Board through a period of continued transition in the Board and Executive Team. In January 2020 Sir Robert kindly agreed to remain in his role until the conclusion of the Annual General Meeting 2020 while the Company completes the recruitment process for finding a suitable replacement.

Douglas Caster, who was Chair until 28 January 2019, previously held an interim position as Executive Chair from November 2017 to June 2018 as a temporary arrangement pending the appointment of a new Chief Executive, therefore he did not meet the independence criteria in the Code although the Board believes he always demonstrated independence and constructive challenge during the one month in which he acted as Chair during the year.

Throughout the financial year ended 31 December 2019, the Board considers that it, and the Company, has complied with the provisions of the Code with the exception of the Non-Executive Director independence criteria as described above. The Code is issued by the Financial Reporting Council and is publicly available on its website (www.frc.org).

Further details demonstrating how the principles and relevant provisions of the Code have been applied can be found throughout the corporate governance report, the Directors' report, each of the Board Committee reports and the strategic report.

Leadership

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

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

ultra.group

DIVISION OF RESPONSIBILITIES

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

Our governance structure

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

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

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

Read more about our Board on pages 61 to 65.

Executive Team

The role of the Executive Team is to provide assistance to Ultra's Chief Executive in the development and execution of the Group's strategy, policies, procedures and culture.

The Executive Team also monitors the strategic, operating and financial performance of the Group and the development of talent and succession, ensuring that the Group has coordinated strategic plans as well as the diverse mix of experience, skills and capabilities needed to support effective delivery of the strategy.

The Executive Team meet formally at least eight times a year across a range of geographical locations. At least three meetings are held in North America and at least one visit is made to a UK business site as an Executive Team each year.

Executive Team site visits generally involve a site tour, an all-employee presentation and Q&A session and meetings with the senior management teams at the relevant location. This provides opportunities to hear from, and engage with, the workforce at each business, as discussed on page 66.

OUR BOARD AND ITS COMMITTEES

BOARD

AUDIT COMMITTEE

Daniel Shook
Martin Broadhurst
Geeta Gopalan
Victoria Hull
Sir Robert Walmsley

REMUNERATION COMMITTEE

Martin Broadhurst
Geeta Gopalan
Victoria Hull
Daniel Shook
Sir Robert Walmsley

NOMINATION COMMITTEE

Tony Rice
Martin Broadhurst
Geeta Gopalan
Victoria Hull
Daniel Shook
Sir Robert Walmsley

The role of the Board

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

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Ethics Oversight Committee

To assist the Board and the Executive Team in fulfilling their duties in respect of ethical matters, the Company has an Ethics Oversight Committee. This is an advisory committee, currently comprising two independent consultants, Tim Cross (Chair) and David Shattock, who are highly experienced in ethics and culture. Neither of the independent consultants have any other connection with the Company or individual Directors. A search is under way for a further independent member to join the Committee.

Our Ethics Oversight Committee members individually visit Ultra's sites globally and talk to our people at their place of work on a rolling cycle. Employees from different levels and functions of the business are invited to meet the Committee members, independent of their managers, to ascertain the cultural ways of working in the workplace including, but not limited to, how our Code of Conduct is adhered to, how our values are lived and embedded throughout the group and how our whistleblowing and anti-bribery and corruption policies are complied with.

The Committee meets at least twice a year with the Chief Executive, Company Secretary and the Chief HR Officer to review the objective feedback and insight gained from site visits. The Committee then reports back to the Executive Team and the Board regarding the culture and ethics within the Group as a whole on a periodic basis where honest feedback is reported and discussed. The Committee has an important role within our corporate culture framework to listen to the employee voice (see workforce engagement on page 32 for further information).

Ethics Oversight Committee Members

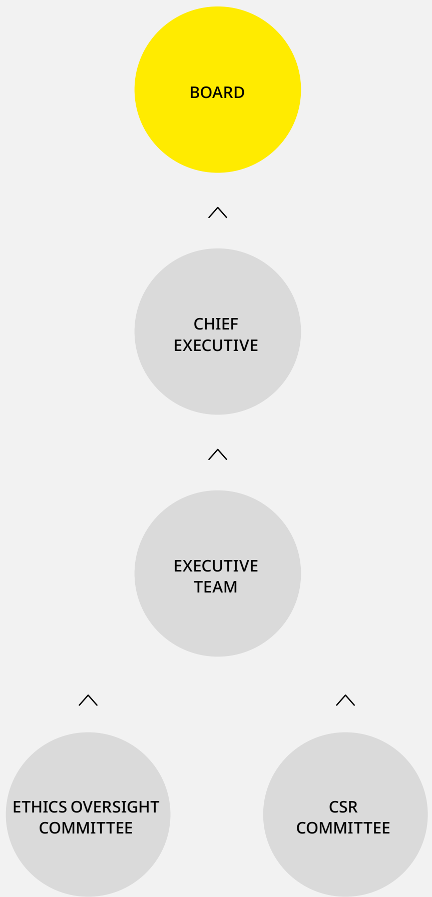
Tim Cross CBE

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

David Shattock CBE, O.St.J, QPM, LLD, MA

David Shattock served in the National Service Royal Navy, Police Service for 42 years, 21 of those as a Chief Officer. He attended Royal College of Defence Studies in 1980. At request of HM Government, he was Personal Adviser to the Prime Minster of Mauritius – reorganisation of police and the fight against bribery and corruption 1999 to 2001.

THE ROLE OF OUR EXECUTIVE TEAM



Corporate Social Responsibility (CSR) Committee

Ultra established a CSR Committee in Q4 2019 to develop a CSR strategy and to coordinate and oversee the Group's activities in this area to ensure we conduct our business in an ethical and sustainable way, acting as a positive force and making an active contribution to the communities in which we operate. We will report on the CSR Committee's progress in next year's Annual Report. See page 32 for further information.

Corporate governance report
continued

INTERVIEW WITH GEETA GOPALAN

The Board from a Non-Executive Director's perspective

Q: How has the culture of the Board changed over the past year?
A: The Board's culture has evolved a lot and I feel we've made real progress to be more diverse, open and involved. We've become more focused on developing strategic plans with the management team and we certainly have a wider cross-section of views with more varied and challenging perspectives. The Board, led by Tony Rice, has supported Simon Pryce our Chief Executive as he put together his new management team. These very positive changes have enabled fresh thinking and positive debate at the Board. We have also been involved in championing the building of the Group's culture by encouraging our colleagues to be honest and open about their views, particularly as we developed our five-year Group strategy.

Q: How has the Board engaged over different challenges?
A: We have been on a journey over the past three years; it was a real focus to create a Board that could support the business during this period of transformation and making sure we had the right skills and diversity of thinking to be able to do that. We were heavily involved in finding the right Chief Executive to take the Company to the next stage in our history and we believe Simon is a first-class resource we are very pleased to have on board. We also supported Douglas Caster with his retirement and bringing Tony Rice in as Chair, who has added considerable value in the year he has been here. To help with this process we have conducted a number of Board evaluations and had a number of good conversations about how we can become better, not just at a fiduciary governance level but also from a stewardship perspective.

Q: What are the Board dynamics like?
A: The dynamics are good. Tony Rice places great emphasis on openness and honesty in our discussions and his personal style enables good, constructive sessions. The Board and the new management team work well together especially through the creation of the new strategic plan. We have also created more opportunities to interact outside the formal Board setting and this has furthered our collective understanding of each other.

Q: How do site visits help you to better understand the business?
A: I love site visits as they give me a much better, visceral understanding of our products, services and the market and how we help support customer's needs, challenges notwithstanding. You also get to meet our very talented people. It's really important to give the opportunity for our teams to speak to us directly, ask us questions and for us to hear their thoughts and concerns. This goes to the heart of the cultural change that's being driven across the Group.

Q: How has the Ultra governance framework improved this year?
A: We have continued to improve the governance processes by strengthening our decision-making frameworks through greater deliberation and transparency and a focus on data-driven discussions. Last year we worked on improving the overall governance framework and building the right team to enhance parenting advantage at the Group level. We have and will be spending more time this year supporting the development and roll-out of our people management frameworks/systems, talent and succession planning, workforce training and development.

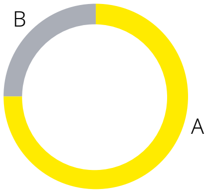
Q: What actions have the Board taken to make sure they effectively engage with all our stakeholder groups this year?
A: With finite resources and time you have to prioritise the actions that will support your strategic goals for the year, so we've been focusing a lot on our employees and how our transformation has impacted our people and shareholders this year. We've also refreshed our regulatory processes with rigorous anti-bribery and corruption training. We are very aware we need to increase our support for local communities and the environment and we are starting the journey to consider how we support these wider initiatives from 2020 onwards.

Q: What initiatives are the Board supporting to encourage greater diversity?
A: The Board recognises that, as a Group, Ultra has work to do on diversity – gender, ethnicity and cognitive diversity. As mentioned before, the Board has been refreshed and work is commencing through the Company. I'm also personally delighted we are creating a woman's mentoring network in 2020 alongside our broader leadership development programme which Victoria Hull, my fellow Board Director, and I will have the opportunity to participate in.

Q: What excited you the most about Ultra?
A: We launched an ambitious strategy at our Capital Markets Event in January 2020. We are developing the people, skills and talent to enable us to deliver for our stakeholders. For me, the focus on innovating for a safer tomorrow is an exciting driver of purpose behind our business. We are a very specialised, solutions-driven business and innovation is key to keep us forging ahead. We are just starting the exciting journey to achieving more success as a Group. I am personally delighted to be part of this team and very proud of the progress made by the whole team thus far.

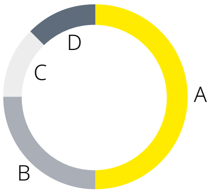
Board composition

BOARD GENDER DIVERSITY



A. Male	6
B. Female	2

BOARD TENURE DIVERSITY



A. 0–2 years	4
B. 2–4 years	2
C. 4–9 years	1
D. 9 years+	1

Board diversity policy
A Board composed of the right balance of skills, experience and diversity of views is best placed to support a company in its strategic objectives. The Board recognises the benefits of diversity. Diversity of skills, background, knowledge, international and industry experience, and gender, amongst many other factors, will be taken into consideration when seeking to appoint a new Director to the Board and all Board appointments will always be made on merit.

Our Board diversity
Our Board of Directors consists of six male Directors, two Executive and four Non-Executive, and two female Non-Executive Directors with varied backgrounds, skills and experience across the sectors and geographies in which we do business. Our Non-Executive Directors are carefully selected to promote diversity of gender, social and ethnic backgrounds in addition to their business acumen which promotes diversity of thinking and encourages effective debate so that no one person, or group, dominates decision-making.

Half of our Board of Directors has been with the Company less than two years, including the Chair, bringing fresh direction, ideas and perspectives to the Board, which complements the depth of knowledge of the business from our longer-standing Non-Executive Directors. This diversity of tenure and expertise was extremely advantageous throughout the strategy, change and transformation discussions and debates that took place throughout 2019.

Each Board member brings a breadth of core skills and experience to the Board which is relevant for the successful operation of the Company and is advantageous when addressing Group risks and monitoring compliance with ongoing regulatory changes. The particular skills and experience each Director offers are described in their biographies on pages 52 and 53 and are summarised below.

The balance of diversity overall leverages collective knowledge, experience and personalities among the Board and its Committees and leads to interesting and constructive boardroom dialogues. The composition of the Board has been most effective in challenging the senior management team in developing and setting the strategy to take Ultra forward into 2020 and beyond.

BOARD SKILLS, KNOWLEDGE AND DIVERSITY

	Sectors				Geographies			Experience				
	Defence & Aerospace	Security & Cyber	Transport Markets	Energy Markets	UK & Europe	North America	Rest of World	Finance & Legal	Capital Markets & Public Companies	Public Sector & Procurement	Leadership in Large Organisations	Corporate Governance
Executive Directors:												
Simon Pryce	●	●	●	●	●	●	●	●	●	●	●	●
Jos Sclater	●	●		●	●	●	●	●	●		●	●
Non-Executive Directors:												
Tony Rice	●				●	●	●	●	●	●	●	●
Sir Robert Walmsley	●	●	●		●	●	●			●	●	
Geeta Gopalan		●			●			●	●		●	
Martin Broadhurst	●	●	●		●	●	●			●	●	
Victoria Hull					●	●	●	●	●		●	●
Daniel Shook	●	●	●	●	●	●	●	●	●		●	

Corporate governance report
continued

How the Board operates

An annual programme is set to ensure the Board considers all matters necessary to discharge its duties effectively and that the Directors receive updates on key areas of the business in a periodic and timely manner.

In 2019 there were eight scheduled Board meetings. Board members make every effort to attend Board meetings in person and non-attendance is on an exceptional basis. Where possible, the Board endeavours to meet as a full Board in person, yet attendance via tele conference and/or video conference is encouraged when physical presence is not viable. Board members also meet informally several times a year to keep well informed of business and industry matters and to discuss and share views of key issues in advance of Board meetings to ensure the time spent within the boardroom is efficient.

High-quality, clear and timely Board and Committee papers are prepared and distributed well in advance of each meeting to allow sufficient time for the Board to thoroughly review the management information and to ensure that there is time for any questions or further information to be provided, if necessary, in advance of any scheduled meeting. When a scheduled Board meeting is not held within a month, the Board receives a finance report for the Group comprising consolidated financial and business information with commentary, including performance against forecasts for the full and half year.

As previously highlighted, 2019 has been a year of transformation and strategy planning at Ultra; therefore, there has been significant engagement with the Executive Team throughout the phases of strategy development. Presentations were made by Ultra's Executive Team, and others, to update the Board on progress and to give the Board members the opportunity to contribute and challenge based on their diverse knowledge. The divisional Presidents provide an annual deep-dive presentation on the businesses for which they have primary responsibility to review divisional performance and their business environments, highlight new business opportunities and challenges, discuss future budgets and leverage the Board's expertise. This also provides the Board with the opportunity to engage in open and constructive dialogue with the Presidents to delve deeper into the businesses and learn more about the culture and business practices within the divisions to better inform decision-making.

BOARD AND BOARD COMMITTEE MEETING ATTENDANCE 2019

	Board	Audit Committee	Remuneration Committee	Nomination Committee	AGM	Board Strategy Day
Total no. of meetings in 2019[1]	8	3	3	5	1	1
Executive Directors:						
Simon Pryce	8/8	n/a	n/a	n/a	1/1	1/1
Amitabh Sharma[2]	7/7	n/a	n/a	n/a	1/1	1/1
Jos Sclater[3]	1/1	n/a	n/a	n/a	n/a	1/1
Non-Executive Directors:						
Tony Rice	8/8	3/3	3/3	5/5	1/1	1/1
Sir Robert Walmsley	8/8	3/3	3/3	5/5	1/1	1/1
Geeta Gopalan	7/8	2/3	2/3	4/5	1/1	1/1
Martin Broadhurst	8/8	3/3	3/3	5/5	1/1	1/1
Victoria Hull	8/8	3/3	3/3	5/5	1/1	1/1
Daniel Shook[4]	3/3	1/1	1/1	n/a	n/a	1/1
John Hirst[5]	4/5	2/2	1/1	4/5	1/1	n/a
Douglas Caster[6]	1/1	n/a	n/a	1/1	n/a	n/a

1 The total number of scheduled meetings held during the year
2 Amitabh Sharma stepped down from the board on 1 December 2019
3 Jos Sclater was appointed to the board on 9 December 2019
4 Daniel Shook was appointed to the Board on 1 September 2019
5 John Hirst stepped down from the Board on 1 September 2019
6 Douglas Caster stepped down from the Board on 28 January 2019

Minutes of meetings are circulated as soon as practicable after the Board meeting for review and are approved at the next meeting. Any concerns that a Director may have which have not been resolved would be recorded in the Board minutes, together with necessary actions to resolve the situation. Upon resignation, if any Director has any concerns about the business, the Chair would ensure active engagement with the resigning Director and would ensure that the Board as a whole would receive feedback of those concerns in the form of a letter addressed to the Chair.

How the Board spent its time

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

Strategy

+ Reviewed progress on the Focus; Fix; Grow transformation plan
+ Received regular feedback reports on strategy development including organisational design, succession planning, mission, vision and values and considered several potential strategic initiatives
+ Reviewed and approved the final 10-year strategic plan for implementation
+ Received updates on potential acquisitions
+ Considered divestment opportunities including the sale of Airport Systems, Corvid Paygate and the disposal of the Ottawa-based Electronic Warfare business from TCS
+ Received an update on the implementation of the new enterprise resource planning (ERP) systems
+ Received a briefing on the US defence market

Financial and operational performance

+ Received detailed and transparent operational updates from the Chief Executive at each scheduled Board meeting
+ Reviewed and discussed financial performance against budget including exceptional items and any deviations from expectations
+ Reviewed key performance indicators (KPIs) and agreed new metrics to measure the success of the new strategic plans across the Group
+ Reviewed and approved the Company's tax strategy
+ Reviewed and approved:
  - the Annual Report and Accounts and preliminary results announcement
  - the interim results and press release
  - the dividend policy
+ Received presentations from Divisional Presidents
+ Received updates on the Group's defined benefit pension scheme and related governance, including the triennial valuation and proposed funding levels for the year

Market analysis and major bids

+ Received reports on market development and industry trends
+ Reviewed significant current and future bids
+ Considered feedback from customers

Governance and risk

+ Monitored health and safety performance across the Group (at each scheduled Board meeting)
+ Reviewed the Group's internal control and risk management framework and approved:
  - an updated delegation of authorities schedule for the Group
  - an enhanced risk management framework to be rolled out and embedded throughout Ultra
  - the Group's principal risks and uncertainties
+ Discussed the risk appetite of the Board and how the risks of the proposed strategy could be mitigated
+ Received reports from the Chairs of the Audit, Remuneration, Nomination and Ethics Oversight Committees
+ Received regular updates on litigation matters, regulatory compliance and corporate governance developments and approved a governance enhancement plan from the new Company Secretary
+ Reviewed the Company's anti-bribery and corruption policy compliance/training programme and received updates on progress
+ Considered the Company's whistleblowing procedure processes
+ Discussed the Board evaluation and agreed actions as a result of the feedback
+ Approved certain Committee terms of reference and Company policies including the Group's modern slavery statement
+ Met the SSA and Proxy Boards

Board changes

+ Noted the resignation of Douglas Caster as Chair and appointed Tony Rice as Chair
+ Appointed the Company Secretary
+ Noted the resignation of John Hirst from the Board and appointed Daniel Shook as Non-Executive Director and Chair of Audit Committee
+ Noted the departure of Amitabh Sharma as Group Finance Director and appointed Jos Sclater as Chief Financial Officer

People and reward

+ Discussed and approved the gender pay gap report
+ Considered the approach to workforce reward and recognition and approved the implementation of a new reward strategy
+ Monitored culture and received feedback regarding culture and the employee voice from the Ethics Oversight Committee and employees
+ Noted the first global employee engagement survey and received feedback on the results and resulting action plan
+ Approved the investment to implement a new Human Resources Information System in 2020 and 2021

Please see pages 16–17 for further information on key topics discussed by the Board including section 172 disclosures.

BOARD SITE VISITS

In October 2019 the Board met in Boston, USA, to combine a Board meeting with site visits to Ocean Systems and Herley. The Managing Directors of both businesses took the Board on a guided tour of their respective manufacturing facilities and offices and the Board received a detailed presentation on the Maritime division on-site at Ocean Systems, allowing the Board to get a true feel for the business' operations.

The visits presented the Board with an opportunity to see the ways of working at Ocean Systems and Herley to better understand the business, culture and talent pipeline. The Board met business leaders and a range of employees from all the businesses to hear, first hand, the 'employee voice' to ascertain how employees felt about working for the business and hear what employees believed to be the key opportunities for both the businesses, and themselves, at Ultra.

Introductions were made for the Board to meet with high-potential employees at both businesses in line with the succession planning development programme during the year to see and understand the leadership pipeline at both businesses.

The visit also gave employees the opportunity to understand the function of the Board and enabled people to ask the Board questions regarding strategy, leadership and development opportunities and the Group's technology capabilities. See page 66 for further details on how the Board engaged with the workforce.

The visits were a resounding success for all parties. The Board was particularly impressed with the quality and cohesiveness of the teams and the sense of energy, enthusiasm and commitment at the facilities.

Corporate governance report
continued

Board independence

Non-Executive Directors have an important role to play in providing a solid foundation for good corporate governance. Through independent and constructive challenge of the Executive Team on behalf of all stakeholders, our Non-Executive Directors ensure there is transparent corporate accountability.

The Board monitors independence on an ongoing basis and is confident that each of the Non-Executive Directors remains independent (noting Sir Robert Walmsey's tenure of more than nine years as explained on page 56) and are free of judgement and conflicts of interest which enables them to discharge their duties as Directors effectively.

Led by the opinion of the Nomination Committee, the Board as a whole believes that the Company complies with the Code requirement that at least half the Board, excluding the Chair, are Independent Non-Executive Directors.

Tony Rice, who was independent upon his appointment as Chair in January 2019, had regular discussions with Non-Executive Directors without Executive Directors being present to ensure the views of the Independent Non-Executive Directors are fully understood and that there were no matters of concern. During the year Sir Robert Walmsley, as Senior Independent Director, met with the other Non-Executive Directors without Tony Rice present to discuss the Chair's performance, noting feedback on the new Chairman was very positive.

Conflicts of interest

The Board takes necessary actions to identify any potential conflicts of interest as part of the risk management process to ensure that independent judgements are not compromised in the decision-making process. Directors are required to report actual or potential conflicts of interest to the Board for consideration and, if appropriate, authorisation. If such conflicts exist, Directors excuse themselves from consideration of the relevant matter and any conflict of interest discussion and decision is recorded appropriately.

Time commitment

Non-Executive Directors must be able to devote sufficient time to the role in order to discharge their responsibilities effectively. The Board is satisfied that the number of appointments held by each Director outside Ultra is appropriate and that all Directors, both Executive and Non-Executive, have the requisite time to fulfil their obligations to the Company. In addition, the Board reviews requests by Directors wishing to undertake new responsibilities or directorships and considers both the time commitments involved and any potential conflicts.

During the year Daniel Shook was appointed to the Board as an Independent Non-Executive Director. Further to the initial interview by the Nomination Committee, the Board considered the demands of the role in addition to the skills and experience he would bring recognising, in particular, that he is a serving Executive Director in another listed company. The Board was satisfied that he had sufficient time to devote to the role.

Directors' induction

There is a structured programme to on-board new Directors of the Company to the Board which is tailored to individual needs, giving due regard to their role and responsibilities upon joining the Board. The core induction programme includes receiving historical management information, including recent minutes of meetings, and meetings are scheduled to meet the Executive Team and visit Ultra sites to facilitate their better understanding of the business.

Following Tony Rice's appointment as Chair he visited many Ultra sites across the UK and North America to better understand the business and meet with employees and management teams across the Group. As described on page 67 he also met with Ultra's top shareholders to understand investors' views.

Succession planning

There have been a number of changes to the Board in recent years with more than half of the current Board of Directors having been appointed within the last two years. As its membership has been refreshed, the Board has been mindful of succession planning giving due regard to the structure, size and composition, including diversity, of the Board.

External search firms are generally used where necessary to ensure the Company has a diverse candidate pool to select the best person for an available Board position.

INDUCTION CASE STUDY

Daniel Shook
Non-Executive Director

Daniel Shook joined the Board as Non-Executive Director and Chair of the Audit Committee on 1 September 2019 and has undertaken a tailored and structured induction programme over a six-month period. Upon appointment, Daniel received an induction pack which included a broad range of information including Board and Committee papers including Board minutes, operational and financial performance reports, investor relations updates, and legal and company secretarial updates.

A timetable of introductory meetings was held for Daniel to meet with the Chair and the Executive Team to learn more about our governance, operational and financial matters. Reflecting the ongoing strategic review, his induction also focused on progress on that strategic review and also on its work on developing a new purpose, organisational design, mission, vision, values and culture.

As Chair of the Audit Committee, Daniel met with Alex Butterworth, Audit Partner at Deloitte, for a one-to-one induction meeting and he also met with the recently appointed Chief Risk Officer who provided an overview of the new risk management framework and internal controls within the Group.

Daniel also joined the Board for the site visits at Ocean Systems and Herley in Boston and will visit further Ultra sites in 2020.

Succession planning throughout the Executive and senior management team has been a key focus area in 2019. The Board has received several updates on succession planning throughout the year and is satisfied that good progress was made on the Executive leadership pipeline in 2019.

Succession planning and leadership development continues to be an area of focus for 2020 to build on the last year's achievements, recognising that effective succession planning improves Company performance for all stakeholders.

The Nomination Committee leads succession planning and further information can be found in the Nomination Committee report on page 68.

Board evaluation

Board evaluation is an effective tool to stimulate Board members to reflect on how the Board is working as a whole, what its strengths are and identifying areas for improvement. Acknowledging there have been many recent changes to the Board and that new Directors are settling into their roles, it was decided that an internal Board evaluation would be carried out in 2019 with a view to conducting an externally facilitated Board evaluation in 2020.

The 2019 Board evaluation was led by the Chair in conjunction with the Company Secretary. The Company engaged the services of Independent Audit Limited* using their online portal to produce an anonymous online Board evaluation. The Chair subsequently held one-to-one meetings with each of the Directors to discuss individual performance including Board performance as a whole. The review was designed to encourage Directors to provide honest feedback in a confidential manner online to optimise the effectiveness of the Board, and create focal points for one-to-one discussions to develop priorities to focus on for 2020.

A report was produced and distributed to the Nomination Committee and Board for discussion. Overall feedback was positive, noting that the Company had made vast progress in 2019 and that momentum should be maintained in 2020. The Board was deemed to be chaired well, with good trust and openness and debate in the boardroom. In addition, good progress was made on processes and governance during the period. Non-Executive Directors felt their contributions and questions are fully considered and addressed, and that the relationship between the Chief Executive and Chair is working effectively.

* Independent Audit Limited has no other connection with the Company or any individual Director

The evaluation identified some opportunities for the Board; therefore the following areas are key focus areas for 2020:

+ Review of risk management: linking risk reporting to the new strategic objectives and looking at interconnectivity of risks
+ Culture: receiving feedback on the roll-out of the new ASPIRE values and overall culture, for example, through our independent Ethics Oversight Committee
+ Training: a broader training agenda is being developed for Directors' training for 2020
+ Customers: greater insight into how customers' needs and expectations are changing and consideration of how changes in market dynamics could impact our strategy

Accountability

We have a prudent approach to risk but appreciate that there will always be risks associated with doing business. Our role as a Board is to understand the risks associated with our business activities and take the necessary actions to mitigate risks when creating stakeholder value. The Board is responsible for ensuring the Company has appropriate internal controls and risk management systems in place and for reviewing their effectiveness.

The Board conducted a comprehensive assessment of the Company's principal risks and internal controls during the year, including the effectiveness of the management and control systems in place. A Chief Risk Officer was appointed in 2019 and, in conjunction with the Audit Committee and the Board, conducted a thorough review of the Group's risk management procedures and practices which included consultation with the Executive Team, divisions and businesses. As a result of the review, a revised risk management framework was approved by the Board and launched in the latter half of 2019. This is in the process of being embedded throughout the businesses.

Jos Sclater, the Company's new Chief Financial Officer who joined Ultra in December 2019, will be working closely with the Chief Risk Officer on the Company's risk management framework and will also conduct a thorough review of the internal controls processes and procedures throughout the Company to ensure that the internal controls and risk management systems are robust for our new strategy as ONE Ultra. This will be a key focus area for 2020.

Investigations

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

Corporate governance report
continued

Stakeholder engagement

We provide an overview of our stakeholder engagement programme throughout the year in our strategic report on pages 16 and 17.

Employee engagement

Our brilliant people are what makes Ultra special and we recognise the importance of listening to, and understanding, the views of our employees throughout the Group. We considered the three suggestions set out in Provision 5 of the Code regarding workforce engagement and concluded that, at this stage, the proposals may not be the most effective way of engaging with our people given the number of businesses throughout the Group and the geographical spread of those businesses. For the purpose of employee engagement we define our workforce as employees with formal contracts of employment.

Our workforce engagement during the year has taken a number of forms. We have been listening to the employee voice through our independent Ethics Oversight Committee (EOC) for a number of years.

The EOC, as described on page 59, is an advisory committee currently comprising two independent consultants who individually visit Ultra's sites globally and talk to our people at their place of work on a rolling cycle. Employees from different levels and functions of the business are meet with EOC members, independent of their managers, to ascertain the cultural ways of working in the workplace including, but not limited to, how our Code of Conduct is adhered to, how our values are lived and embedded throughout the Group and how our whistleblowing and anti-bribery and corruption policies are complied with.

The EOC provides honest feedback reports to the Company subsequent to its sites visits. The reports, including any applicable recommendations, are discussed at biannual EOC meetings which the Chief Executive, Company Secretary and HR Director usually attend.

The EOC then meets the Executive Team and, in turn, the Board at least once a year to enable the consultants to present their findings in detail. However, any matters of particular concern observed during any EOC site visit would be escalated more quickly if considered necessary.

The Board also meets employees during site visits as described on page 63. The Board has a forward-looking agenda that includes two site visits in North America each year and one site visit in the UK. Meetings are scheduled for the Board with a selection of employees as part of the agenda for the site visit. This gives the Board the opportunity to see and better understand, first-hand, the culture within different businesses and obtain employee feedback directly at different business locations.

Our Executive Team also visits Ultra sites globally. Each time the team visits a business, time is set aside to meet employees and a dinner is arranged with local managers to understand their views and listen to suggestions they may have.

Town hall meetings are also held to keep employees updated on developments at Ultra and employees are invited to ask the Executive questions at the meeting, or informally afterwards. Executive Team roadshows are being held at each site during the first quarter of 2020 to explain the new strategy including organisational design changes and give the employees the opportunity to raise any questions or concerns.

To increase collaboration and communication throughout the Group we created a new internal communications platform in the year which for the first time allows two-way engagement with all our employees and senior management. There are also new communication channels including a Chief Executive blog and bi-weekly newsletters which are sent to all our employees to keep everyone informed of what is happening around the Group and progress with our Focus; Fix; Grow change initiatives. If employees have any questions or suggestions they can email the Chief Executive as we have established a special 'ask the Chief Executive' email address for use by any employee who has any questions or concerns.

We also launched our first whole-Group employee engagement survey in 2019 which provided employees with the opportunity to provide anonymous feedback regarding different aspects of the business. The findings were presented back to the Executive Team and Board by the Chief HR Officer and feedback was used for discussions developing the Company's mission, vision and values. Each business site has a detailed plan to address the issues raised in the survey at that business location.

In addition, a significant amount of employee feedback was gained from employee focus groups throughout the course of the year as described in the adjacent case study. Employees have been highly engaged in our transformation plans and have helped to shape our strategy, refresh our brand, redefine our mission, vision and values, and consider our organisational design.

The combination of direct Board and Executive Team interaction with employees, reports from the EOC, and feedback from focus groups and our employee survey has proven to be an effective means for engaging with our workforce throughout a period of change and transformation. This has been demonstrated by the positive transformation changes made throughout 2019 as a result of listening to the employee voice, as described in our case study. We will continue to monitor the appropriateness of this collaborative approach.

CASE STUDY

Our approach to transformation

The majority of the transformation projects launched by Ultra in 2019 have been supported by employee focus groups. These teams had representatives from our different stakeholder groups and all parts of our businesses to ensure we had stakeholder and in particular employee feedback and input throughout the development of our change initiatives.

Examples of focus groups over 2019:

+ **Branding refresh and launch** 12 employees from 10 different parts of our business. Each representative was assigned a stakeholder to represent during this process
+ **Organisation design** This group included 14 employees from 14 different parts of our business and continues to remain a key part of this ongoing project
+ **Our group vision, mission, values and stakeholder goals were launched in early 2020** A number of workshops were held with different employee stakeholder groups to understand what Ultra meant to them and what we are at our best over the year. Groups were also created to act as spokespeople for each of our five stakeholder groups
+ **Project and programme management** A focus group of six senior programme managers and engineers engaged project teams across our businesses to identify best practice
+ **Finance transformation and shared services** A group of employees from across business, divisional and head office teams reviewed how our shared services have developed and identified ways to achieve further value

Members from these focus groups have also supported the roll-out of different projects and acted as ambassadors across the Group. This has allowed Ultra to get a wide variety of opinions all the way through these key projects and buy-in from the different businesses within our Group.

Investor engagement

HOLDERS BY GEOGRAPHY
AS AT 10 FEBRUARY 2020

	10 February 2020	
	Shares	% invested capital
UK	46,393,780	65.38
Europe (excl. UK)	5,530,086	7.79
North America	17,648,862	24.87
Asia	188,396	0.27
Rest of World	55,021	0.08
Unidentified holdings	51,941	0.07
Unanalysed (holdings below threshold)	1,095,042	1.54
Total	70,963,128	100.00

TOP 10 HOLDERS
AS AT 10 FEBRUARY 2020

	10 February 2020		
Shareholder	Shares	% invested capital	Cum% invested capital
Fidelity Mgt & Research	6,127,456	8.63	8.63
FIL Investment International	4,699,531	6.62	15.26
Heronbridge Investment Mgt	3,722,171	5.25	20.50
Baillie Gifford & Co	3,624,568	5.11	25.61
Legal & General Investment Mgt	3,036,934	4.28	29.89
Mondrian Investment Partners	2,764,832	3.90	33.79
Invesco (1)	2,516,449	3.55	37.33
Invesco (2)	2,117,244	2.98	40.32
Vanguard Group	2,014,032	2.84	43.15
Dimensional Fund Advisors	1,870,161	2.64	45.79

Ultra is committed to communicating openly with our shareholders and building long-term relationships with all our stakeholders to ensure that its strategy and performance are clearly understood. At the end of 2018, an independent investor perception audit was completed which formed the basis of 2019's investor activities and the communications that were completed during the year. In 2019 we hired a full-time Investor Relations Director to create a programme to engage with holders on a more proactive basis.

The investor relations programme includes presentations of full year and interim results, investor roadshows, quarterly updates and meetings with individual investors. The Executive Team and Investor Relations Director make themselves available to investors on an ongoing basis in order to maintain an open dialogue, resulting in a number of ad hoc meetings and calls taking place throughout the year. The Chief Executive, Chief Financial Officer and Investor Relations Director have met over 100 different investors in 2019, a third of these being introductory meetings for non-holders. At the beginning of 2020 we hosted our first Capital Markets Day since 2015 with over 150 investors and analysts in attendance. This event launched our new strategy and areas of focus which enables the investor relations programme to accelerate in 2020.

Further to his appointment as Chair in January 2019, Tony Rice met with our top 10 shareholders to hear their views, listen to any areas of concern they may have and ensure that the Board as a whole has a clear understanding of the views of shareholders.

Furthermore, in accordance with Provision 3 of the Code, all of our Committee Chairs are encouraged to seek engagement with our major shareholders.

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

The Board is kept up to date with changes in shareholdings, analyst research reports, the current short position on the stock and recent industry news by the Investor Relations Director at every Board meeting. The Board is also presented with uncensored analyst and investor feedback twice a year after the full year and interim results investor roadshows.

The primary means of communicating with the Company's shareholders are the Company's Annual Report and Financial Statements and the Interim Report. Both are available on the Company's website and the Annual Report is sent to all shareholders who elect to receive it in hard copy. Copies are available upon request and can be downloaded from the website. A new Group website was launched in January 2020 along with our new branding and strategy. Investors can find webcasts for all previous results meetings, top shareholder information and analyst consensus on this new website as well as details on Ultra.

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

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

Our Capital Markets Day was held after year end in January 2020. There was an impressive attendance of over 150 investors and analysts to hear about the launch of our new ONE Ultra strategy.

Nomination Committee report

MEMBERS

Tony Rice (Chair)
Martin Broadhurst
Geeta Gopalan
Victoria Hull
Daniel Shook
Sir Robert Walmsley

Attendance at meetings is detailed in the table on page 62. The Committee's terms of reference are available at ultra.group

Dear Shareholder,

On behalf of the Board, I am pleased to present the Nomination Committee report for the year ended 31 December 2019.

The purpose of the Committee is to:

+ keep under review the structure, size and composition of the Board as well as succession planning for Directors
+ oversee the development of a diverse pipeline for succession to both the Board and senior management positions
+ lead the process for identifying and nominating for approval by the Board, candidates to fill Board and Committee vacancies

The main priorities of the Nomination Committee throughout the year have been Board composition and succession planning as there have been many changes to our Board and Executive Team throughout 2019. Focus has also been on wider matters regarding succession planning, talent management, diversity and Board evaluation, as set out below.

Our key priorities for the year were:

+ to scope the skills, knowledge, experience and softer characteristics required for two new Non-Executive Directors to replace John Hirst and Sir Robert Walmsley, and for a new Chief Financial Officer to replace Amitabh Sharma
+ to ensure that diversity of thought, expertise and personalities were considered while drafting roles and responsibilities of Board and senior hires
+ to recommend to the Board suitable candidates to fill Board vacancies
+ to continue to maintain oversight of Board and Executive succession planning throughout a period of many leadership changes
+ to review the leadership and development strategies for key talent management throughout the Group to ensure Ultra has the continued ability to compete effectively in the marketplace
+ to monitor progress made regarding diversity among senior leaders and the workforce as a whole
+ to ensure that an appropriate performance evaluation is carried out for the Board and its Committees
+ to review the memberships of Committees of the Board and make recommendations to the Board regarding composition of Committees

Board composition and succession planning

As explained on page 56, Sir Robert Walmsley will be stepping down as a Non-Executive Director of the Company at the conclusion of the Company's Annual General Meeting 2020.

A search has been under way for a new Non-Executive Director to replace Sir Robert Walmsley. His valuable experience and industry knowledge will be extremely difficult to replace and the Board has been keen to ensure that any new addition to the Board has the right experience, skills and networks to assist Ultra in achieving its strategic goals in the future. The Nomination Committee identified that suitable candidates for the position should have defence and/or military experience in addition to being the right fit for the Board.

When the Board was informed of John Hirst's resignation, the Nomination Committee discussed the existing composition of the Board, giving due regard to the size, structure and diversity of the Board and a role specification based on the Board's needs was drafted. As John Hirst chaired the Audit Committee it was felt that someone with solid financial expertise would be valuable to the Board to join, and Chair, the Audit Committee.

An external search firm, Lygon Group*, was engaged to assist with the search to ensure that the Board could select the right person to fill the Board vacancy from a diverse pool of candidates. A thorough interview process was undertaken with a shortlist of candidates including meetings with the Chair, Chief Executive, Company Secretary and other Non-Executive Directors before the Board decision was made to appoint Daniel Shook to the role. As well as his extensive financial and industry experience, he also holds dual US/UK nationality, which is of added value given our significant presence in North America. Daniel is also a member of the Nomination and Remuneration Committees.

Amitabh Sharma stepped down as Finance Director during the year, with an effective date of resignation as a Board Director of 1 December 2019. With the Group entering a new phase of development and strategic evolution, the Nomination Committee engaged Korn Ferry* as external search agents to source a talented pool of potential candidates with significant financial and transformational experience to replace Amitabh. The Chief Executive initially met the shortlist of candidates, before introducing the shortlisted candidates to the full Board. The Nomination Committee recommended to the Board that Jos Sclater be appointed as Chief Financial Officer, which was supported by the full Board. We are delighted to welcome Jos to Ultra. He will play a pivotal role in supporting the Chief Executive in the transformation programme of the business and in driving business efficiency and performance.

Before any appointment is made by the Board, the Nomination Committee evaluates the balance of skills, knowledge, experience and diversity on the Board and the length of service of the Board as a whole. During the year Daniel Shook and Jos Sclater were appointed to the Board. While completing the selection process the Nomination Committee took into account the demands on Directors' time and any potential conflicts of interest before recommending to the Board that they be appointed.

* The external search firms engaged have no other connection with the Company or individual Directors

Given the many Board changes in 2019, and to maintain diversity of skills, knowledge and experience on the Board until a new Non-Executive Director is appointed, the Nomination Committee recommended to the Board that Sir Robert remain in his role until the Annual General Meeting in May 2020. We are extremely grateful to Sir Robert for accepting this further extension and would like to thank him for his exceptional contribution to Ultra over the course of his long-standing tenure.

Leadership succession

During the year the Nomination Committee considered wider succession planning for the organisation, particularly at Executive Team and divisional level. The Company has made great progress in talent mapping and identifying critical roles which would present a risk if they were not filled. We now have a global grading system and are rolling out a new leadership and career development framework which will assist to retain key talent. Having focused on Executive level during 2019, succession planning within the wider senior leadership team members is a priority for 2020. The Committee has received several updates on Executive leadership succession planning throughout the year and is satisfied that good progress was made on the Executive leadership pipeline in 2019. In 2020 our focus will move to ensuring that there is a robust succession plan in place at both Board and Executive level, including securing a new Non-Executive Director, as previously discussed.

Diversity

In accordance with our diversity policy set out on page 33, Ultra is committed to maintaining a work environment which provides equal opportunities for all employees, regardless of nationality, gender, ethnic background, sexual orientation, religious beliefs, marital status, disability or age.

As a Nomination Committee we receive regular reports on the diversity of our workforce as a whole, together with the plans to achieve greater diversity across the workforce.

As innovators, we need to encourage diversity of thinking to create and build solutions for our customers that count. We promote equality of opportunity and aim to build a workforce that is recruited from the broadest possible talent pool. We also acknowledge that we need to encourage more women into our industry, and ensure women are hired on equal pay grades to men. Our new global grading system should help us to achieve this.

The progress made on diversity and gender pay gap which has been reported to the Nomination Committee is encouraging, but there is still some way to go, and this will continue to be an area of focus for 2020.

Further information on how Ultra is tackling diversity and the gender pay gap can be found on pages 33 to 36.

We also acknowledge the benefits that diversity can add to the effectiveness of its Board of Directors, to bring different ideas and perspectives to the boardroom and to encourage effective and challenging debates. Diversity of gender, tenure, skills, experience and background has been a key focus for us as a Nomination Committee and a Board when considering Board appointments and succession planning, notwithstanding that all appointments will be based on merit and candidates' experience and business acumen.

Our current Board diversity is set out on page 61 of this report. The Nomination Committee believes the Board structure is appropriate and has led to Board dynamics which are working well, as evidenced in our Board evaluation conducted in December 2019.

> The Board's culture has evolved a lot and I feel we've made real progress to be more diverse, open and involved. We've become more focused on supporting and developing strategic plans and we certainly have a wider cross-section of views with more diverse and challenging conversations. The new management team hired by Tony Rice and Simon Pryce have brought very different perspectives on how we should consider challenges and I feel we have supported and actively championed building our Group culture by encouraging our colleagues to be honest and open about their views while we have been developing our 10-year Group strategy.
>
> **Geeta Gopalan**

Audit Committee report

MEMBERS

Daniel Shook (Chair)

Martin Broadhurst

Geeta Gopalan

Victoria Hull

Sir Robert Walmsley

Attendance at meetings is detailed in the table on page 62. The Committee's terms of reference are available at ultra.group

Dear Shareholder,

I was extremely pleased to be appointed Non-Executive Director and Chair of the Audit Committee on 1 September 2019 and would like to thank my predecessor, John Hirst, for his valuable guidance and oversight during his tenure as Chair of this Committee. On behalf of the Audit Committee, I present my report as Chair of the Audit Committee for the year ended 31 December 2019.

With regard to the Committee's membership, the Board is satisfied that I have, and for the duration of his tenure on the Committee John Hirst had, recent and relevant financial experience. Furthermore, the Board considers all the Committee members to be independent Non-Executive Directors and the Committee as a whole as having competence relevant to the sector in which the Company operates.

During the year, Committee members have actively challenged management in several areas including internal controls, benchmarking, contract risk reserves, and contract and bid review processes.

The biographies of Committee members can be found on pages 52 and 53.

As a Committee we are committed to supporting the Board in the following areas:

+ oversee the Group's risk management systems, including financial controls
+ agree the internal and external audit plans
+ review all significant accounting judgements
+ monitor the integrity of all formal reports and announcements relating to the Company's financial performance, and consider any significant judgements by management
+ recommend the half and full year financial results to the Board
+ appoint the internal auditors, oversee the appointment of the external auditors and maintain an appropriate relationship with the internal and external auditors of the Group
+ report the findings and recommendations of the internal and external auditors to the Board, and
+ review the independence and effectiveness of the internal and external auditors

Audit Committee meetings

The Committee held three scheduled meetings in the year. With the assistance of the Company Secretary, a forward-looking agenda is prepared to reflect the annual financial reporting cycle of the Group and ensure that the Committee's responsibilities are discharged in full during the year. The agenda is regularly reviewed and updated as necessary during the course of the year to deal with matters as they arise which are outside of the annual agenda.

The Chair of the Audit Committee provides an update to the Board at the next scheduled Board meeting, where any matters that require full Board approval are recommended by the Chair of the Audit Committee. Meetings are generally scheduled close to Board meetings in order to facilitate an effective and timely reporting process.

Activity during 2019

Financial statements and accounting policies

+ Review management's significant issues and judgements + Review the Group's financial statements and the formal announcement on the Group's financial performance + Review the Group's going concern and long-term viability statement assumptions	+ The Committee considered and recommended to the Board for approval the annual and interim financial statements and related results announcements + The Committee discussed the key accounting policies and practices adopted by the Group + It also reviewed the key accounting judgements and matters that required the exercise of significant management judgement (see section on Significant Judgements on page 72) + The Committee reviewed the underlying assumptions and the rigour of the testing underpinning the going concern statement and long-term viability statement (which are set out on page 46) prior to approving them

Internal controls and financial control frameworks

+ Assess the effectiveness of the Group's system of internal control and risk management	+ The Committee considered reports on the internal control environment and risk management and their effectiveness + The Committee discussed the Internal Controls Status Report which summarised the results from the six-monthly divisional internal control review meetings + The Committee reviewed the principal risks, the Group's risk appetite and risk metrics and considered their alignment to the achievement of Ultra's strategic objectives + An assessment was undertaken of the key controls in place and future planned management actions to address risks + The Committee considered reports on known or suspected fraud Further details of the approach to risk management can be found on pages 40 to 46.

Internal Audit

+ Review the effectiveness of the Internal Audit function + Discuss control issues identified by Internal Audit	+ Following its review of the adequacy of the internal control framework for the Group, the Committee agreed the Internal Audit plan for the year + The Committee considered summary reports from the risk-based and rotational reviews and progress reports on the implementation of remedial actions, noting the progress made in the control environment within the Group's businesses

External audit, engagement and policy

+ Review the scope and effectiveness of the external audit process + Negotiate the terms of the external auditor's appointment, the scope, fees and independence + Supervise any audit tender process	+ The Committee considered Deloitte's external audit planning report prior to the commencement of the 2019 audit + The Committee received reports from the external auditor on the outcomes of their audit process and the external audit plan for the year + The Committee discussed Deloitte's letter to management and management responses to that letter + The Committee reviewed the external auditor's engagement policy, independence and effectiveness, and audit and non-audit fees

External audit

Deloitte continued as external auditor throughout the year, having been appointed in 2002. The Lead Partner is rotated every five years in accordance with professional practice guidelines. Alex Butterworth has been the Lead Partner since 2016 therefore he will rotate off the audit team by the end of his five-year term.

It is planned that an external audit tender will be undertaken by no later than 2023. The Company is in compliance with the requirements of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 and the Corporate Governance Code. There are no contractual obligations that restrict the Committee's choice of external auditor.

The auditor's engagement letter and the scope of the year's annual audit cycle is discussed in advance by the Committee, ensuring that any changes in circumstances arising since the previous year are taken into account.

Non-audit services

It is the policy of the Group that non-audit services provided by Deloitte LLP, Ultra's external auditors, are restricted to regulatory reporting, responding to new reporting requirements, and minor advisory work. The policy prohibits due diligence assessments of potential acquisitions, consultancy services associated with financial restructuring, remuneration consultancy, tax planning, internal audit and actuarial services.

The Chief Financial Officer has authority to commission the external auditors to undertake non-audit work if there is a specific project with a cost that is not expected to exceed £50,000 that falls within the categories of work that are permitted, as set out above. Any individual assignments with an estimated fee in excess of £50,000, or non-audit fees in excess of £50,000 in aggregate in any financial year, must be referred in advance to the Chair of the Committee for his approval. Any non-audit work must be reported to the Committee at the next meeting. Before commissioning non-audit services, the Chief Financial Officer or the Chair of the Committee, as appropriate, must ensure that the external auditors are satisfied that there is no issue as regards independence and objectivity and potential providers are adequately considered.

In providing a non-audit service, the external auditor should not: audit their own work; make management decisions for the Company; create a mutuality of interest; or find themselves in the role of advocate for Ultra.

From 2020 onwards Ultra is subject to restrictions on non-audit fees arising from EU audit legislation. The maximum non-audit fees that the statutory auditor can bill in any one year are set at 70% of the average of the audit fees billed over the preceding three years.

The Committee considers that certain non-audit services should be provided by the external auditor, because its existing knowledge of the business makes it the most efficient and effective way for non-audit services to be carried out. In 2019 Deloitte provided non-audit services fees of £11k (2018: £27k) representing 1% (2018: 2%) of the total audit fees.

Audit Committee report
continued

Significant judgements considered:
The Audit Committee considered the areas of most significant accounting judgment and disclosure both prior to and during the course of the 2019 year-end external audit.

Judgement area	Committee assessment
Taxation	The Committee discussed a report from management on recent tax developments and tax matters that affect the Group, including developments relating to the European Commission decision that the UK Controlled Foreign Companies rules are partial State Aid. The Committee was also updated on the status of tax audits. The Committee considered the Group's key tax accounting judgements with respect to the assessment, measurement and recognition of uncertain tax positions and the associated disclosures. The Committee discussed and engaged with the external auditor when considering all these matters. See disclosure in note 10.
IFRS 16 – Leases	The Committee discussed an update report from management on the project to quantify the impact of IFRS 16 adoption on the financial statements. This included the process for implementing the new requirements including transitional options and practical expedients, and the required disclosures. The Committee discussed and engaged with the external auditor when considering this matter. See disclosure in note 36.
Defined benefit pension scheme	The Committee was updated on progress with respect to the Triennial Valuation, and on the funding agreement that was reached with the UK pension scheme trustees in the year to eliminate the deficit over the period to March 2025. The Committee considered the actuarial assumptions used for the scheme valuation, the sensitivity of the valuation to changes in those assumptions, current funding level of the pension scheme and the liabilities of the defined benefit pension scheme. The Committee discussed and engaged with the external auditor when considering all these matters. See disclosure in note 29.
Long-term contract accounting	A significant proportion of Group revenue arises from long-term contracts, where revenue and profit recognition is based on estimates. The Committee was updated on progress on key programmes, including the development contracts in the Herley business which encountered cost overruns in the prior year, and on the legacy programmes in the Maritime division where additional costs were recorded in 2019. The Committee considered the key sources of estimation uncertainty with respect to forecast cost to complete estimates. The Committee considered the disclosures made in the Annual Report with respect to revenue recognition including the related accounting policies and key sources of estimation uncertainty, and the disclosure enhancements to be made now that IFRS 15 has been effective for a further year. The Committee discussed and engaged with the external auditor when considering all these matters. See disclosure in note 3, and in the statement of accounting policies on pages 147 to 155.
Conduct of business matters and Ithra	The Committee was updated on the investigations associated with conduct of business issues in Algeria and the Philippines and the status of matters arising relating to the Ithra contract. The Committee considered the judgements relating to these matters and disclosure in the Annual Report with respect to the contingent liabilities. The Committee discussed and engaged with the external auditor when considering this matter. See note 33.
Valuation and impairment testing of goodwill and intangible assets	Recognising the scale of the Group's goodwill and intangible fixed asset balances, the Committee discussed a report from management and considered whether, given the future prospects of the acquired businesses, the value of goodwill held on the balance sheet remains appropriate. The Committee also specifically considered the recoverability of the intangible fixed assets arising from the 2015 Herley acquisition. The Committee reviewed the methodology and assumptions used to support the balance sheet carrying values of these assets, including the future growth rates and discount rates applied, and that the cash flows used were derived from the 2020 budget and strategic plan (which in their role as members of the Board, Committee members had previously reviewed). The Committee considered the sensitivity of the asset valuations to changes in assumptions. The methodology for impairment testing used by the Group is set out in note 13 to the Group accounts. No impairments were identified as a result of the review. The Committee also considered the impact to the current cash-generating unit (CGU) groupings arising from the 1 January 2020 change in operating segments following the strategic review. The Committee discussed and engaged with the external auditor when considering all these matters.

External audit effectiveness, independence and objectivity
The Deloitte team is monitored on an ongoing basis throughout the course of the year, to ensure robust and objective audits are undertaken. The Committee meets regularly throughout the year with the Lead Partner and second Partner. The Audit Committee Chair meets with the Lead Partner regularly.

The audit approach, scope and areas of focus are discussed and agreed in advance and both the Company and the auditor make the other aware of accounting and financial reporting issues as and when they arise. This exchange is not limited to the period in which formal audit and review engagements take place.

A post-audit briefing session is carried out each year to discuss matters concerning the prior year audit and identify key learnings and areas for improvement for the following year.

The Audit Committee conducts a thorough assessment of Deloitte annually to assess performance, effectiveness and independence using a questionnaire issued by the Institute of Chartered Accountants of Scotland in October 2007 to form the basis for discussion. To assess the effectiveness of the external auditor, the Committee received and reviewed information from management and Deloitte, and met with Deloitte to assess independence directly. The Committee agreed that Deloitte had acted with independence and objectivity and had conducted the audits effectively.

Accordingly, a resolution will be put to shareholders at the forthcoming Annual General Meeting to reappoint Deloitte as external auditor of the Company.

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

Internal controls
The Group's internal controls framework includes appropriate financial, operational and compliance controls, and risk management processes, which together ensure the appropriate oversight of financial reporting processes, including the preparation of consolidated Group accounts.

The control environment within Ultra comprises the following:

+ The Group Operating Manual – setting out Group policies and overarching processes
+ Monthly financial control checklists
+ Six-monthly control review meetings
+ Risk registers at Business Unit, Division and Group level
+ Staff training
+ Internal Audit (provided by PwC)
+ EthicsPoint for external support of whistleblowing reporting
+ Divisional review of monthly Business Unit performance
+ Divisional level performance reviews
+ Executive Team oversight and challenge
+ Group Board and Committee oversight and challenge
+ Other regulatory assurance activities

The arrangements include procedures to ensure the maintenance of records which accurately and fairly reflect transactions to enable the preparation of financial statements in accordance with International Financial Reporting Standards (IFRS). They also require reported data to be reviewed and reconciled, with appropriate monitoring internally and by the Audit Committee to ensure the integrity of the financial statements.

The Managing Directors and Presidents, the Finance Directors and the Vice Presidents Finance of each business are required to give a formal written representation to the Board each year to confirm that they accept responsibility for maintaining effective internal controls and that they have disclosed full details of any fraud or suspected fraud within their business.

Every six months, each Divisional Finance Director meets the Chief Financial Officer and discusses the internal controls processes and issues for each business in their division. This includes:

+ self-assessment against the finance manual
+ balance sheet and controls reviews, including reviews of reconciliations
+ outstanding internal and external audit points
+ segregation of duties

Summary results from these reviews are discussed in the Internal Controls Improvement Status Report, which is presented to the Audit Committee twice a year.

During the year the Audit Committee and the Board collectively conducted a review of the Company's risk management processes, including the internal controls framework and principal risks, and concluded that the Group has a sound system of internal controls and practices across the business. However, areas have been identified for improvement which are being addressed as necessary.

The Committee also discussed the Company's risk appetite for recommendation to the Board.

With the changes required as the Company moves to ONE Ultra, the Committee needs to ensure the enhanced risk management framework is embedded throughout the Group and it has a consistent approach to reviewing how it controls the principal risks. This is a key area of focus for 2020 in addition to standardising our processes, policies and procedures.

Internal Audit

PwC acts as Ultra's internal auditor. The use of an experienced external firm provides independent assurance on the effectiveness of the system of internal control. A risk and rotational-based approach is taken by the Company in determining its Internal Audit plan, ensuring that the plan is clearly linked to the Company's strategy and is flexible enough to highlight and address emerging risks. The Internal Audit plan and resources are considered and monitored by the Committee, together with all internal control findings and remedial actions. Any newly acquired operating business is audited within a year of its acquisition date. Where required, additional audits are identified during the year in response to changing priorities and requirements.

The Lead Partner from PwC reports directly to the Chair of the Committee and presents the findings to the Committee biannually. Progress reports on follow-up remedial actions are reported regularly to the Committee. PwC confirms whether appropriate action has been taken to address the risks when its next visits the business concerned.

The effectiveness of Internal Audit is assessed by the review of Internal Audit reports, meetings with the Chair of the Committee without management being present and views from senior management and the Chief Financial Officer.

Fraud

The Audit Committee is responsible for ensuring that the risks of fraud within the business are assessed and that there is a control framework in place to minimise these risks. This framework comprises internal audit, carried out by independent advisers, together with the regular business review meetings. There is also a fraud reporting process in place that forms part of the monthly business performance reporting pack. The instances of fraud within Ultra have been few and lessons learnt as a result have quickly been acted upon. The Committee, therefore, believes there to be a low risk of significant misstatement of Ultra's financial statements as a result of fraud. Any incidence of fraud, whether real or simply alleged, would be reported quickly to the Board and the auditors would be advised accordingly.

Whistleblowing

An externally hosted service, EthicsPoint, is used to provide an independent, anonymous and confidential helpline and online portal that employees can use to report any concerns they may have within the business where matters have not been resolved through the normal channels of reporting matters to their managers or local HR partners.

Any report received is security cleared by our Ultra Electronics Defence Inc. ("UEDI") Security Officer to comply with our obligations with our Special Security Arrangement and Proxy companies. Providing a report does not contain classified information it is forwarded to our Senior Independent Director to make arrangements with the appropriate people to investigate the matter accordingly. The Ethics Oversight Committee (see page 59 for further details) also receive any reports made via EthicsPoint that are security cleared to assist with their review of ethics and culture throughout the Group. If a report contains classified information it is investigated within the UEDI framework. The Board also receives any reports made via Ethicspoint, and receive updates on any follow-up actions.

Employees are informed of EthicsPoint through posters (which are translated into local languages) and through the Group intranet. To ensure employees are fully aware, and reminded, of the EthicsPoint service, a re-launch of the whistleblowing platform is scheduled to take place in Q2 2020.

The Audit Committee, and the Board as a whole, is satisfied that the whistleblowing policy is appropriate and that the procedure to report concerns is practical and that the arrangements for dealing with any reports received are appropriate for our organisation.

Anti-bribery and corruption policy

Ultra does not tolerate bribery or corruption in any form. A Group-wide anti-bribery and corruption policy is in place, with appropriate procedures to ensure the policy is adhered to. Part of the remit of the Ethics Oversight Committee is to monitor compliance with the Company's anti-bribery and corruption policy during its various sites visits (see page 73 for further information), and report back to the Board. Any area of concern would be flagged to the legal team at Ultra for investigation.

During 2019, every employee within Ultra was required to complete online anti-bribery and corruption training. New employees are required to complete this training as part of their induction process.

Fair, balanced and understandable statement

The Audit Committee, having reviewed the documents and having been additionally advised by the external auditors, is satisfied that the disclosures, as well as the processes and controls underlying its production, were appropriate and recommended to the Board that the Annual Report and Financial Statements 2019 are fair, balanced and understandable. Furthermore, they provide the information necessary for shareholders and other stakeholders to validly assess the Company's position and performance, business model and strategy.

Directors' remuneration report

Our priority as a Committee is to ensure that the remuneration we offer attracts the best talent and is structured to provide the appropriate focus on both short-term and long-term goals.

Martin Broadhurst
Chair of the Remuneration Committee

MEMBERS

Martin Broadhurst (Chair)
Geeta Gopalan
Victoria Hull
Daniel Shook
Sir Robert Walmsley

Attendance at meetings is detailed in the table on page 62. The Committee's terms of reference are available at ultra.group

PRINCIPAL ACTIVITIES OF THE COMMITTEE

+ Agreed the proposed Remuneration Policy in accordance with legislation, UK Corporate Governance Code and emerging best practice
+ Consultation with key shareholders on the proposed Remuneration Policy
+ Approved exit arrangements for Amitabh Sharma
+ Approved recruitment arrangements for Jos Sclater
+ Took into account gender pay gap data and terms and conditions in the organisation as a whole
+ Engagement with employees while on site visits to hear their views on remuneration
+ Annual governance checks including reviewing dilution limits, shareholding levels against the Policy and reviewing risk associated with Executive compensation
+ Agreed the methodology for, and outcome of, CEO pay ratio calculation
+ Decided the pay increase for the CEO

Dear Shareholders,

On behalf of the Board, I am pleased to present our Directors' remuneration report for the financial year ended 31 December 2019.

Overview of the year

It was a year of significant progress against our goals under the Focus; Fix; Grow strategy. Among our key financial measures, we saw positive improvement. Overall organic revenue growth exceeded target at 6.8% with overall organic profit growth at 2.9%. The average working capital turn (AWCT), which is a measure of efficiency in managing our business, showed double-digit improvement and, together with a 10.7% organic growth in our order book, has resulted in a very pleasing performance for the Group overall and above target payment against performance targets in the annual bonus. In 2019, we also saw the roll-out of several programmes that will transform the business and maintain growth over the coming years.

It was a busy year for the Committee as we saw several changes in the senior management team and, alongside the normal activities of the Committee, undertook a review of our Directors' Remuneration Policy ('the Policy') which will be presented to investors for a binding vote at the Annual General Meeting in 2020 and will take effect following that date.

In addition, the Committee was actively informed on progress with HR initiatives benefiting the workforce as a whole, including proposed improvements in the competitiveness of reward, career management and recruitment and retention of a diverse workforce. The Committee has also benefited from information on gender pay gap and CEO pay ratio data, which has been a factor in its decision-making. These can be reviewed in more detail in the Our people and culture section on page 34.

Our approach to reward

Our priority as a Committee is to ensure that the remuneration we offer attracts the best talent and is structured to provide the appropriate focus on both short-term and long-term goals.

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

We set stretching targets to incentivise and reward sustained profitable growth, disciplined working capital management and long-term value creation for our stakeholders. The diagram below illustrates how our key strategic performance indicators (as set out in pages 20 and 21) align with our incentive arrangements.

Remuneration outcomes for 2019

Annual bonus

The annual bonus focuses on the delivery of stretching organic profit growth and AWCT targets. Reflecting the significant progress against our strategic goals, these measures have exceeded target and in the case of AWCT exceeded the maximum. We also set a number of strategic objectives which were met or exceeded. In combination, this has resulted in annual bonus payments at 95% of maximum payment. A full review can be found on page 85.

CEO salary increase

The Committee considered the salary increase for the CEO and took into account several factors, including general workforce increases and the excellent performance of the incumbent, and decided on an increase of 2.5%, which is lower than that applicable to the general workforce.

LTIP

The Long-Term Incentive Plan (LTIP) granted in March 2017 was subject to achievement of performance conditions. This was the first award made under the performance conditions of total shareholder return (TSR), return on invested capital (ROIC), organic revenue growth and organic operating profit growth with each measure in equal weighting. Only the ROIC measure exceeded threshold and this resulted in targets being achieved in vesting of 17.4% of the maximum award (detail shown on page 86).

Chief Financial Officer

As has been announced previously, Amitabh Sharma left the Company on 31 December 2019 having stepped down from the Board on 1 December 2019. The Committee agreed Amitabh's leaving arrangements in accordance with the Policy. These are set out in full on page 87.

Prior to his departure, Amitabh completed a full handover to his successor, Jos Sclater, who joined Ultra on 9 December 2019. The Committee agreed the remuneration arrangements for Jos and took the opportunity to align his reward package with the proposed Policy.

Other Board changes

John Hirst stepped down on 1 September 2019 and we welcomed Daniel Shook to the Remuneration Committee who brings a wealth of experience and insight. I would personally like to thank John for his valued contribution to the Committee.

Review and enhancements to the Directors' Remuneration Policy

Since the strategy is showing positive results, the Committee felt that the current policy is largely fit for purpose and has proposed changes that will continue to support long-term value creation and maintain compliance with evolving regulation and best practice. The main changes are as follows:

+ Reducing the pension contribution for new Executive Directors to be in line with the wider workforce*. For the CEO, we will reduce his contractual pension contribution level (currently 18%) to that of the wider workforce over time starting with a 2% reduction in 2020. We have not specified an annual reduction at this point as work on the employee value proposition may change their pension entitlement
+ Increasing the maximum annual bonus up to 150% (125%) for Executive Directors and also increasing the proportion deferred from 20% to 33% for three years
+ Increasing the maximum LTIP award up to 200% (150%) for the CEO. The increase will form a policy maximum but the Committee will consider the appropriate grant level on an annual basis
+ Increasing the post-vesting holding requirement from 50% to 100% until shareholding requirements are achieved
+ Introducing a post-employment holding period applicable to shares vesting under LTIP and deferred bonus awards granted in 2020 and beyond of 100% of salary for one year. The Committee's view is that, taken together with the increases in post-vesting holding, a one-year post-employment shareholding requirement is appropriate at this time

The increases in variable pay opportunity, enhanced deferral of bonus, increased post-vesting shareholding and the introduction of post-cessation holding requirements are intended to focus Executive Directors on the significant transformation programmes they are driving which will result in long-term value creation. The Committee will ensure that all measures that drive short and long-term variable pay will have specific and stretching targets to reflect the Group's growth plans over the three years of the Policy and external market dynamics of the industry.

* The current level is 7.5%, which is the employer's contribution rate received by the majority of employees

LINKING PAY WITH PERFORMANCE

We aim to deliver long-term, sustainable value creation for all our stakeholders through our Focus; Fix; Grow strategy

Performance measures	Annual bonus	LTIP
Profit growth	✓	✓
Average working capital turn	✓	
Total shareholder return		✓
Return on invested capital		✓
Organic revenue growth		✓
Focus; Fix; Grow strategic measures	✓	

Directors' remuneration report
continued

Shareholder consultation

The Committee consulted the Group's key investors and shareholder bodies regarding the proposed Policy. We wrote to the top 10 investors in December 2019 and engaged with them where requested. Following this engagement, the Committee discussed all of the feedback and clarified and enhanced the Policy presented in this report to reflect investor views where possible. I would like to thank shareholders on behalf of the Committee for their input and support in helping us to develop a Policy that aligns, incentivises and creates retention incentives for management in the delivery of our long-term business strategy.

Remuneration at a glance

The table below provides an overview of the salary and incentive potential for 2020. The second table shows the incentive outcomes for 2019.

2020

Name	Simon Pryce	Jos Sclater
Annual salary	£681,600	£425,000
Maximum bonus opportunity expressed as a percentage of base salary (one-third deferred into shares for three years)	150%	125%
LTIP award expressed as a percentage of base salary (subject to performance)	200%	150%

2019

Name		Simon Pryce	Amitabh Sharma
Bonus payment	% of base salary	118%	118%
	£	£787,020	£422,510
LTIP awards vesting in the year	% of max. award vesting	n/a	17.4%
	No. of vested shares	0	3,175

Closing remarks

The Committee believes that our approach to remuneration continues to align the interests of our Executive Directors with those of our shareholders. In the coming year, we will continue our open approach to both shareholders and the wider employee population of Ultra.

We will operate in accordance with our Policy which rewards for the delivery of our Focus; Fix; Grow strategy.

Martin Broadhurst
Chair of the Remuneration Committee

Proposed Directors' Remuneration Policy

This Directors' Remuneration Policy ('the Policy') will take legal effect from the conclusion of the 2020 Annual General Meeting (AGM) subject to shareholder approval at that meeting.

The Remuneration Committee considers the Policy annually to ensure that it remains aligned with business needs, but in the absence of compelling circumstances that may require a change in the Policy, it is not the Committee's intent to revise the Policy more frequently than every three years.

The Policy is to set base salary with reference to the relevant market competitive level with actual total direct reward reflecting the performance of the individual and the Company as a whole. The aim is to deliver a total reward package that has an appropriate balance between short and long-term reward and between fixed and variable elements.

Changes compared with the policy approved at the 2017 AGM

The Policy contains no additional components of reward from the previous policy and the Committee felt that the previous policy continues to support the aims of the business. The Policy has been updated to reflect regulations and evolving investor sentiment. The material changes from the policy approved in 2017 are summarised below with an explanation of the rationale for making the change.

Salary

+ Stated aim to maintain a competitive salary level to ensure we can recruit and retain the appropriate talent to drive our business strategy in a competitive talent market

Annual bonus

+ Increased the maximum to 150% for Executive Directors (previously 125%)
+ Increased the proportion deferred from 20% to 33% for three years
+ Increased requirement to retain post-tax deferred bonus shares to 100% (50%)
+ Extended categories for malus and clawback
+ Specified Committee discretion

Long-term incentives

+ Increased maximum award up to 200% for CEO (please see footnote 1 on page 78)
+ Increased post-vesting holding from 50% to 100% until shareholding requirement achieved
+ Introduced post-employment holding period applicable to shares vesting under the LTIP and deferred bonus awards granted in 2020 and beyond of 100% of salary for one year
+ Extended categories for malus and clawback
+ Specified Committee discretion

Pension

+ Defined contribution/salary supplement rate maximum reduced from 20% to 16%. For the current CEO this is a reduction from 18% to 16% with a stated intention to reduce to the majority employee level over the three-year period of this policy

Executive Directors' policy table

Purpose and how it supports strategy	Operation	Maximum potential	Performance targets
Base salary			
Recognise the market value of the role and individual's skills, experience and performance to ensure we can attract and retain talent	+ Deliverable in cash, monthly; non-pensionable + Normally reviewed annually + Benchmarked against companies of similar size and characteristics + Reviewed in the context of salary review budgets across the Group	While there is no defined maximum salary, the Committee will set pay at industry competitive levels taking relevant factors into account Annual salary increases for Executive Directors will not normally exceed the average increase awarded to other UK-based Company employees although increases may be above this in exceptional circumstances, for example if there is an increase in: i. the scale, scope or responsibility of the role, and/or ii. the experience of the incumbent where this has a positive impact on Group performance Larger increases may also be considered if appropriate and necessary to bring a recently appointed Executive in line with the market and the other Executives in the Company where their salary at appointment has been positioned below the market	None

Proposed Directors' Remuneration Policy
continued

Purpose and how it supports strategy	Operation	Maximum potential	Performance targets
Annual bonus			
Drives and rewards annual performance on both financial and non-financial metrics Compulsory deferral into shares increases alignment with shareholder interests	+ Deliverable in cash and shares + 33% of bonus awarded is deferred into Ultra shares for three years + Cash dividends are payable on the shares during the three-year deferral + Malus and clawback provisions apply – see page 81 + Executive Directors are required to retain at least 100% of post-tax shares received upon vesting of the deferred bonus until share ownership requirements are met + Non-pensionable	150% of salary p.a.	At least 75% of bonus potential based on financial measures 0% payable at threshold performance No more than 25% base on non-financial, strategic or personal measures. The Committee believes that a mix of financial and non-financial measures is appropriate Irrespective of the formulaic outcome of metrics, all bonus payments are at the discretion of the Committee which will disclose the rationale for any application or non-application of this discretion
Long-Term Incentive Plan (LTIP)			
Drive and reward the main strategic objective of delivering long-term value creation Aligns Executive Directors' interests with those of shareholders	+ Share plan approved by shareholders at the 2017 AGM + Discretionary annual grant of nil cost options or conditional share awards + Two-year post-vesting holding period for vested awards granted in 2016 onwards + Executive Directors are required to retain at least 100% of post-tax shares received upon vesting until share ownership requirements are met + Malus and clawback provisions apply – see page 81	Normal limit: CEO – 200% of salary[1] Executive Directors – 150% of salary Dividend equivalents may be payable on LTIP awards in cash or share to the extent that awards vest	Performance measured over three years Up to four performance measures which are set by the Committee before each grant and reflect appropriate weighting and stretching targets 20% of award vests at threshold performance
Pension			
Competitive post-retirement benefits or cash allowance equivalent	+ Defined contribution pension plan and/or a cash supplement	Up to a maximum of 16% of base salary for the Chief Executive and up to 7.5% of base salary for the Chief Financial Officer. Pension contributions (or cash in lieu) for any new Executive Directors will be aligned to the rate available to the majority of the UK workforce over the policy period	None
Other benefits			
To provide benefits consistent with role and ensure overall package is market competitive	+ Benefits include: private medical cover, life insurance, critical care, permanent health insurance, annual medical screening, car or cash allowances, relocation and expatriation expense, and other benefits payable where applicable	Benefits are set at a level which the Committee considers are appropriately aligned with Ultra's values and competitively positioned against comparable roles in similarly sized companies	None
Share ownership requirements			
To provide alignment of interests between Executive Directors and shareholders	+ Executive Directors are required to build and maintain a shareholding equivalent to 200% of their base salary through the retention of 100% of post- tax shares received on the vesting of LTIP awards and shares acquired under the deferred bonus plan	n/a	Aim for all Executive Directors to hold 200% of base salary

1 For the purposes of the award to be granted to Simon Pryce immediately following the 2020 Annual General Meeting, as set out in the Company's stock market announcement dated 18 March 2020, this 200% of salary limit will be assessed using the mid-market closing share price on 16 March 2020, i.e. on the same basis as the award granted to him on 17 March 2020.

Purpose and how it supports strategy	Operation	Maximum potential	Performance targets
All-employee share plans			
The Executive Directors are eligible to participate in the UK tax advantaged All Employee Share Ownership Plan (AESOP) and the Savings Related Share Option Scheme (SAYE) on the same terms as all employees to encourage employee share ownership and increase alignment with shareholders	+ Under the AESOP, UK employees are offered the opportunity to buy shares at market value from gross salary + Shares are normally held in trust until the maturity date or cessation of employment + Under the SAYE scheme, employees save monthly to purchase Ultra shares at a discount of up to 20%	AESOP: up to the prevailing annual limit set by HMRC or a lower amount set by Ultra SAYE: up to the prevailing annual limit set by HMRC or a lower amount set by Ultra	n/a
Non-Executive Directors			
Reflects fees appropriate to attract the highest calibre Directors with broad commercial experience that supports our strategy	+ The Chair's remuneration is set by the Remuneration Committee (without the Chair present). The remaining Non-Executive Directors' fees are proposed by a sub-committee of Executive Directors and approved by the Board + Non Executive Directors and the Chair receive a single base fee. An additional fee is paid for the roles of Chair of the Nomination, Remuneration and Audit Committees and Senior Independent Director + Non-Executive Directors have letters of appointment with a one-month notice period. Fees are normally reviewed on an annual basis when factors such as best practice, market comparison with similarly sized international companies, time commitment and responsibilities will be taken into account when determining any adjustment to fee levels + Reasonable business-related expenses (including tax thereon) which are determined to be taxable may be reimbursed. Additionally, Non-Executive Directors may participate in certain Company-provided discretionary benefit arrangements at their own expense	Aggregate annual limit imposed by the Articles of Association	n/a

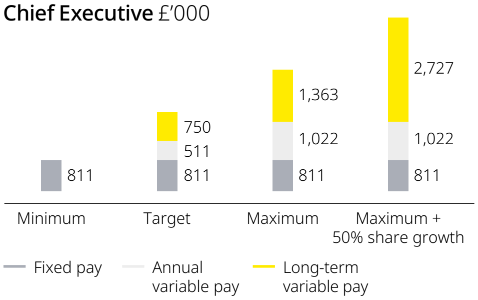
Proposed Directors' Remuneration Policy
continued

Remuneration scenarios for Executive Directors

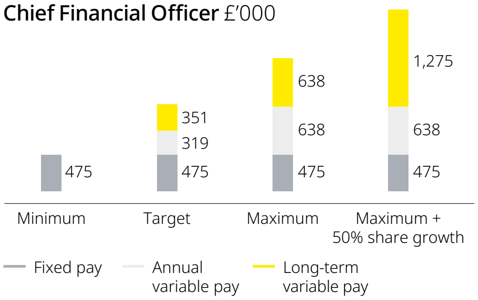
The following charges show the value of the package each of the Executive Directors would receive based on 2020 base salary, benefits and 2020 annual bonus and LTIP awards, assuming the following scenarios:

+ Minimum fixed pay
+ Remuneration if on-target performance is achieved
+ Maximum remuneration if all variable pay elements pay out in full
+ Remuneration assuming 50% share price appreciation on the maximum pay out

Chief Executive £'000



Chief Financial Officer £'000



	Base salary £'000	Benefits	Pension	Fixed pay
Chief Executive	682	20	109	811
Chief Financial Officer	425	18	32	475

Notes:
Fixed pay includes 2020 annual salary, and actual pension and benefits for the Chief Executive. For this purpose, the pension has been calculated at 16% of base salary. For the Chief Financial Officer, it includes 2020 annual salary, and prospective 2020 pension and benefits

Approach to recruitment remuneration

The Nomination Committee typically considers both internal and external candidates before any new appointments are made. The Remuneration Committee determines the remuneration for any appointment to an Executive Director position, whether the appointment is from within or outside the Group, in accordance with the approach below.

The Remuneration Committee will take into account all relevant factors, including the overall quantum and structure of remuneration, the country from which the Director is recruited and the timing and delivery mechanisms of the remuneration. The Committee will at all times ensure that it operates in the best interests of the Group and its shareholders in attracting the best talent without paying more than is necessary.

The remuneration applicable to the appointment of any new Executive or the fees payable to any Non-Executive Director will be in accordance with the policy table on pages 77–79.

Base salary

The Committee seeks to align base salary with the Policy set out in the policy table above. In exceptional circumstances the Committee may exercise its discretion to offer an above-industry competitive level of salary in order to attract the best candidate.

In the case of a promotion of an existing employee to an Executive Director role, the base salary positioning may be below the market competitive level while the appointee gains experience in the role. The Committee may then seek to increase salary to the competitive market level over the next two to three years.

Short-term incentives

The level of opportunity will be consistent with the Policy disclosed in the Executive Directors' policy table and subject to the maximum levels referred to therein. The Committee may also apply different performance measures initially if it feels these appropriately meet the strategic objectives and aims of the Group while incentivising the new appointment.

Long-term incentives

The appointed Executive Director will be eligible for equity awards at the Committee's discretion subject to this Policy and the rules of the LTIP, and will not exceed the maximum according to the Policy.

Benefits

The Executive Director shall be eligible to participate in applicable Ultra employee benefit plans.

Other

The Committee may agree that the Group will meet certain relocation expenses in accordance with the Group's Relocation Policy.

In the case of a promotion of an existing employee to an Executive Director role, commitments made before such promotion (with the exception of the rate of contribution to the pension plan or cash equivalent) will continue to be honoured whether or not they are consistent with the remainder of this Policy.

Buy-outs

The Committee may make awards on hiring an external candidate to 'buy-out' existing equity or other incentives that have been forfeit on leaving the previous employer. Where possible, incentives will be bought out on a like-for-like basis with respect to the timing of vesting, application of performance conditions and the form of the grant (e.g. cash or shares). The Group may make use of the flexibility provided in the Listing Rules (LR 9.4.2) to make such awards, if appropriate.

Non-Executive Directors

New Non-Executive Directors are paid an annual fixed fee in accordance with the prevailing rate applicable to the other Non-Executive Directors and do not receive any other remuneration. A decision to recruit at a higher fee level would only be pursuant to a full review of the circumstances including Company performance, applicable skills of the appointee and consideration of the aggregate annual limit on Non-Executive Directors' fees.

Approach to exit remuneration

Any termination payments made in connection with the departure of an Executive Director will be subject to approval by the Committee having regard to the terms of the service contract or other legal obligations and the specific circumstances of the termination including how it will determine a good leaver.

Notice and pay in lieu of notice

The Group may terminate an Executive Director's employment early with contractual notice or by way of a payment in lieu of notice at its discretion.

Neither notice, nor a payment in lieu of notice, will be given in the event of gross misconduct.

The Committee may exercise discretion to apply phased payments and mitigation on the Executive Director securing alternative employment.

Non-Executive Directors have no notice periods and the Group has no obligation to make any termination payments when their appointment terminates.

Employee benefits

Retirement benefits will be payable in accordance with the rules of the relevant pension plan. No enhancement for leavers will be paid.

Executive Directors will remain eligible for employee benefits during their notice period if worked or included in a payment in lieu of notice subject to the Committee's discretion as above.

Annual incentives

Where an Executive Director leaves during the relevant performance year due to a 'good leaver' determination, the Committee may determine that the annual bonus may be payable with respect to the period of a financial year served, pro-rated for the time served and payable at the normal payment date.

33% of any bonus payment remains subject to compulsory deferral unless the Committee decides otherwise.

Long-Term Incentive Plan

The treatment of outstanding share awards when an Executive Director leaves is governed by the relevant share plan rules.

Under the LTIP, where an Executive Director leaves the Group by reason of death or other circumstances the Committee determines (each a 'good leaver'), unvested awards generally continue and vest on the normal vesting date. Any performance conditions will be applied at the time of vesting. On vesting, the number of shares under award will be reduced pro-rata to reflect the period in which the Executive Director was employed as a proportion of the relevant vesting period.

If the Committee exercises its discretion to treat an Executive Director as a 'good leaver' as permitted under the relevant share plan rules, the exercise of discretion and the reasons taken into account by the Committee will be disclosed.

If the Executive Director's employment is terminated for any other reason ('bad leaver'), unvested awards will lapse.

Where an Executive Director's employment is terminated or they are under notice of termination for any reason at the date of grant of an award of any long-term incentive, no long-term incentive award will be made.

Other

The Committee, at its discretion, may allow payment of reasonable expenses on the termination of employment including: legal expenses and outplacement costs, preparation of tax returns and tax settlements in the case of expatriate Directors, relocation costs and provision of an appropriate leaving gift.

Malus and clawback

In accordance with best practice, the Group includes malus (the ability to reclaim deferred remuneration prior to payment/vesting) and clawback (the ability to reclaim amounts paid) mechanisms in respect of the annual bonus (including bonus deferral) and the LTIP.

The events giving rise to the operation of malus and clawback are:

+ Corporate failure
+ The Group is entitled to terminate employment for cause or the participant has engaged in misconduct giving rise to other disciplinary sanction
+ The results of the Group and/or relevant business for any period have been restated or subsequently appear materially inaccurate or misleading
+ There has been a material failure of risk management
+ There has been an exceptional negative event which may have resulted in substantial financial loss or reputational damage to the Group;
+ Any other circumstances that the Committee, acting reasonably, considers to have similar nature or effect

Proposed Directors' Remuneration Policy
continued

Remuneration Committee discretion in operating the LTIP and other variable pay schemes

The Committee operates the Group's various incentive plans according to their respective rules and (where applicable) in accordance with relevant legislation and HMRC guidance. In order to ensure efficient administration of these plans, certain operational discretions are reserved to the Committee. These include but are not limited to:

+ determining who may participate in the plans
+ determining the timing of grants or awards and/or payments under the plans
+ determining the quantum of any awards and/or payments (within the limits set out in the Policy table above)
+ in exceptional circumstances, determining that a share-based award (or any dividend equivalent) shall be settled (in full or in part) in cash
+ determining the performance measures and targets applicable to an award (in accordance with the statements made in the policy table above)
+ discretion to override formulaic outcomes where a participant ceases to be employed by the Company, determining whether 'good leaver' status shall apply
+ determining the extent of vesting or payment of an award based on assessment of the performance conditions and the overall performance of the Company, including discretion as to the basis on which performance is to be measured if an award vests in advance of normal timetable (on cessation of employment as a 'good leaver' or on the occurrence of corporate events)
+ whether, and to what extent, pro-ration shall apply in the event of cessation of employment as a 'good leaver' or on the occurrence of corporate events
+ whether malus and/or clawback shall be applied to any award and, if so, the extent to which they shall apply, and
+ making appropriate adjustments to awards on account of certain events, such as major changes in the Company's capital structure

Service contracts and letters of appointment

Executive Directors

The Policy is to ensure that Executive Directors' service contracts have a notice period of one year, which the Committee considers appropriately reflects both current market practice and the interests of the Group and the individual Director. Contracts are available for inspection at the Company's registered office.

Director	Effective date of contract	Notice period
Simon Pryce	18 June 2018	12 months
Amitabh Sharma[1]	2 May 2016	12 months
Jos Sclater	9 December 2019	12 months

1 Amitabh Sharma stepped down from the Board as at 1 December 2019

Non-Executive Directors

The Non-Executive Directors have letters of appointment detailing the basis of their appointment for a specified term with a one-month notice period. There are no provisions for compensation on early termination.

External appointments

Executive Directors, including the Chief Executive may hold no more than one external appointment as a Non-Executive Director (excluding Chairman). The Committee will allow Executive Directors to retain any payments from such appointments.

Consideration of employment conditions elsewhere in the Group

The Committee does not formally consult with employees as part of the process of reviewing Executive pay. However, it will engage with employees while on site visits to hear their feedback. The Committee considers pay and conditions elsewhere in the Group, including salary increases across the population, bonus and LTIP eligibility, gender pay and other relevant factors, in its decision-making. The Committee receives regular updates from the Chief Human Resources Officer on key organisational statistics and the views of employees obtained from engagement surveys and feedback received through Group intranet communities. In addition, the Ethics Oversight Committee, which as can be seen from the corporate governance report page 59, is an entirely independent body, can seek employee views on Executive pay and other remuneration issues across the Group on behalf of the Committee.

Annual Report on Remuneration

The Remuneration Committee presents its Annual Report on Directors' Remuneration which is set out in this section. Decisions taken on remuneration during the year are in line with our Directors' Remuneration Policy, which was approved at our Annual General Meeting in April 2017.

The role and composition of the Remuneration Committee

Role

The Remuneration Committee is responsible for recommending to the Board the Policy for Executive Directors and for setting the remuneration package for each Executive Director. The Committee also has input into the remuneration arrangements of the Executive Team in conjunction with the Chief Executive, and has oversight of the Policy and remuneration packages for other senior leaders, in particular the variable elements. The Committee ensures that remuneration conditions for the senior team and the organisation as a whole are clear and consistent.

The Committee aims to align the Policy with the overall strategy of the Group, ensuring that remuneration reflects the interests of our shareholders and other stakeholders governed by the Policy and our philosophy and values.

During the year, the Committee had four scheduled meetings. A review is undertaken of activities annually to ensure that the Committee continues to meet its terms of reference (available on our website) to ensure that it continues to fulfil its duties.

Composition

Martin Broadhurst was Chair of the Committee and Sir Robert Walmsley (SID), Geeta Gopalan and Victoria Hull were members throughout the year. John Hirst stepped down from the Committee as at 3 May 2019 due to other time commitments and Daniel Shook joined the Committee on 1 September 2019. The General Counsel and Company Secretary is the Secretary to the Committee. The Chair and Chief Executive attend meetings by invitation except where matters directly relating to their own remuneration are discussed. Additionally, the Committee may receive presentations on specific topics from the Chief Human Resources Officer, the Chief Financial Officer and the Independent Adviser.

Advice

The Committee receives independent advice on executive remuneration and share schemes from the executive compensation practice at Aon plc. Aon is a member of the Remuneration Consultants Group and is a signatory to its Code of Conduct. Fees for advice given to the Committee in 2019 amounted to £73,711 (excluding VAT) charged on a time and materials basis.

During 2019, insurance broking services were also provided to the Group by other subsidiaries of Aon plc and the Committee considers these completely separate from the advice given to it.

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

Implementation of the Directors' Remuneration Policy in 2020

A summary of how the proposed Policy will be applied for the year ending 31 December 2020 is set out below.

Salary increases

Salary increases are effective from 1 April 2020. The increase for the Chief Executive is less than the budgeted increase for the workforce as a whole. Executive Directors' salaries effective 1 April 2020 are shown below.

	2020 salary £'000	2019 salary £'000	Increase awarded from 1 April 2020
S Pryce	682	665	2.5%
J Sclater[1]	425	425	0%

1 Jos Sclater was appointed to the Board on 9 December 2019

Annual bonus for 2020

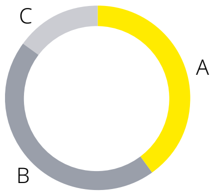
The maximum bonus for the Executive Directors in 2020 will be 150% of base salary for the Chief Executive and 125% of base salary for the Chief Financial Officer. One-third of any bonus payable will be deferred into shares for three years and subject to malus and clawback.

The structure of the 2020 bonus will include up to 40% of the maximum payable for the achievement of an agreed profit target, up to 45% payable for the achievement of an agreed improvement in average working capital turn (AWCT) and up to 15% payable for the achievement of individual strategic objectives.

The Committee has reviewed the targets against all of these measures to ensure they are stretching given the internal growth plans and external market dynamics.

We have not disclosed actual targets as we consider the targets to be commercially sensitive. We will disclose them retrospectively in the 2020 report.

2020 ANNUAL BONUS PLAN MEASURES



A. Profit	40
B. AWCT	45
C. Personal objectives	15

No bonus will be paid if the Committee considers the Group's financial performance to be unsatisfactory or there is a negative event which, in line with the proposed Policy, would require the require the Committee to adjust the formulaic outcome.

Annual Report on Remuneration
continued

Long-term awards to be granted in 2020
Consistent with the proposed Policy, the Committee intends to grant an annual LTIP award in shares to the value of 200% of base salary to the Chief Executive and 125% to the Chief Financial Officer during 2020. The measures and targets that will apply to the awards are shown in the table below. The Committee reviewed internal and external metrics in determining the targets for threshold and stretch, and believe them to be challenging against this data; especially in the context of the transformation initiatives and associated costs that will be delivered during 2020.

Performance measures	Weighting	Targets	Vesting %
Total shareholder return (TSR)[1]		**TSR ranking of the Group against a comparator group**	
Below threshold		Below median	0%
Threshold	25%	Median	5%
Stretch		Upper quartile or above	25%
Return on invested capital (ROIC)[2]		**Return on invested capital**	
Below threshold		<15%	0%
Threshold	25%	15%	5%
Stretch		25%	25%
Organic operating profit growth[3]		**Annual growth in organic operating profit**	
Below threshold		<2%	0%
Threshold	25%	2%	5%
Stretch		5%	25%
Organic revenue growth[3]		**Annual growth in organic revenue**	
Below threshold		<2%	0%
Threshold	25%	2%	5%
Stretch		5%	25%

1 Measured against constituents of the FTSE 250 (excluding investment trusts). Awards vest on a straight-line basis between threshold and stretch
2 The ROIC measure will be the average ROIC calculated on an annual basis over the three-year performance period where ROIC is calculated as underlying operating profit expressed as a percentage of invested capital (average of opening and closing balance sheets). Invested capital is the net assets of the Group, excluding net debt and lease liability, pension obligations, tax and derivatives
3 Growth targets are expressed as annual growth rates and averaged over the three-year period. See page 155 for definition of organic measures. Awards vest in a straight-line basis between threshold and stretch

Directors' pension entitlements
Simon Pryce and Jos Sclater receive an annual cash allowance in lieu of a Company pension contribution. In 2019 Simon Pryce's pension contribution was 18% of base salary and this will be reduced to 16% following approval of the new Policy. Jos Sclater will have a pension contribution rate of 7.5%. The former Group Finance Director, Amitabh Sharma, received a contribution of 18% which was paid in part as a contribution to the Company defined contribution pension scheme and part as a cash payment.

Non-Executive Directors
There will be no increase to Non-Executive Directors' fees in 2020. Fee levels with effect from 1 April 2020 are as follows:

	Fees £'000
Chair	202
Non-Executive Director (base fee)	56
Senior Independent Director (additional fee)	7.5
Committee Chair (additional fee)	7.5

Single figure of total remuneration (audited)

	Basic salary/fees £'000		Benefits £'000		Pension £'000		Subtotal £'000		Annual performance bonus[5] £'000		LTIP[6] £'000		Total £'000	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
S Pryce[3,4]	**665**	358	**20**	11	**120**	64	**805**	433	**787**	317	**–**	–	**1,592**	750
A Sharma[1,3,4]	**355**	343	**21**	20	**64**	61	**440**	424	**423**	302	**67**	–	**930**	726
J Sclater[2,3,4]	**28**	–	**1**	–	**2**	–	**31**	–	**–**	–	**–**	–	**31**	–
D Caster[10]	**–**	275	**–**	9	**–**	–	**–**	284	**–**	–	**–**	–	**–**	284
T Rice[7]	**194**	–	**–**	–	**–**	–	**194**	–	**–**	–	**–**	–	**194**	–
M Broadhurst	**63**	58	**–**	–	**–**	–	**62**	58	**–**	–	**–**	–	**62**	58
G Gopalan	**55**	53	**–**	–	**–**	–	**55**	53	**–**	–	**–**	–	**55**	53
J Hirst[8]	**41**	58	**–**	–	**–**	–	**41**	58	**–**	–	**–**	–	**41**	58
V Hull	**55**	53	**–**	–	**–**	–	**55**	53	**–**	–	**–**	–	**55**	53
Sir R Walmsley	**63**	58	**–**	–	**–**	–	**62**	58	**–**	–	**–**	–	**62**	58
D Shook[9]	**21**	–	**–**	–	**–**	–	**21**	–	**–**	–	**–**	–	**21**	–
D Caster[11]	**22**	101	**–**	–	**–**	–	**22**	101	**–**	–	**–**	–	**22**	101

Notes
1 Amitabh Sharma stepped down from the Board on 1 December 2019
2 Jos Sclater was appointed to the Board on 9 December 2019
3 Benefits: car benefit, life assurance and private medical insurance. No other benefits are payable
4 Pensions: Simon Pryce received a cash supplement of 18% of base salary. Amitabh Sharma received a cash supplement of 18% of base salary (part pension contribution and part cash) Jos Sclater received a cash supplement of 7.5% of base salary
5 20% of bonus is deferred into shares for three years
6 The LTIP value shows shares that will vest in May 2020. The value on vesting has been calculated using a share price of £20.43 being the average closing share price over the three months to 31 December 2019. None of this amount is attributable to share price appreciation
7 Tony Rice was appointed to the Board on 18 December 2018 and became Chair on 28 January 2019
8 John Hirst stepped down from the Board on 1 September 2019
9 Daniel Shook was appointed to the Board on 1 September 2019
10 Douglas Caster was Executive Chair between 1 January and 18 June 2018 and then reverted to his Non-Executive Chair role
11 Douglas Caster stepped down as Non-Executive Chair of the company on 28 January 2019

Annual bonus for the year under review (audited)

The maximum bonus opportunity for the Chief Executive and Chief Financial Officer for 2019 was 125%. As outlined elsewhere in this report, the Group has performed well over the year and this has resulted in good outcomes on the financial measures which comprise 85% of the overall outcome. The Committee does not consider that there are any factors which would lead it to consider an adjustment to the formulaic outcome of the financial measures. The overall outcome is shown in table 1.

In addition, each Executive Director was given challenging role-specific objectives, which make up the remaining 15% of the bonus opportunity. For the Chief Executive, a series of objectives were set under the four headings shown below in table 2 which also shows the assessment of the level of achievement. A series of objectives under the same major headings were set for the Chief Financial Officer although, at the point he stepped down from the Board, the Committee amended the objectives to ensure a comprehensive handover to the new Chief Financial Officer, and these objectives were judged to have been fully met resulting in payment of the full 15% for strategic objectives.

Table 1 Annual bonus for the year under review (audited)

	Measure	Weighting	Threshold[4]	Maximum[4]	Performance achieved[4]	Percentage of maximum outcome	Overall bonus
Simon Pryce	PBT[1]	40%	£91m	£103m	£102m	86.7%	
	AWCT[2]	45%	6.35%	7.30%	Maximum	100.0%	95%
	Strategic[3]	15%	n/a	n/a	Exceeded	100.0%	
Amitabh Sharma	PBT[1]	40%	£91m	£103m	£102m	86.7%	
	AWCT[2]	45%	6.35%	7.30%	Maximum	100.0%	95%
	Strategic[3]	15%	n/a	n/a	Fully Met	100.0%	

1 Profit before tax
2 Average working capital turn
3 Role-specific strategic objectives
4 Targets were set at constant foreign exchange rates relative to 2018

Annual Report on Remuneration
continued

Table 2 Simon Pryce – strategic objectives and performance

Strategic SMART objectives were set against each of the following key headings	Outcome
Deliver business results	Met expectation
Increase efficiency and productivity	Met expectation
Drive strategic growth	Exceeded expectation
Improve organisational health	Exceeded expectation
Overall rating	**Exceeded expectation**

The Committee has awarded an overall rating of 'exceeded expectation" to the CEO to recognise his significant personal contribution in 2019. This is based on a thorough review of his performance against personal objectives and also considers the Group's strong set of results and the significant progress made with Focus; Fix; Grow.

The Committee determined that the following bonuses would be payable to the Executive Directors. 20% of the bonus paid will be deferred into shares for three years. This requirement applies to Amitabh Sharma who left the Company on 31 December 2019. The deferred payment will be subject to clawback in accordance with the rules of the bonus plan.

Director	% of maximum	% of salary	Cash bonus £'000	Deferred bonus £'000	Total bonus £'000
Simon Pryce	95	118	629,622	157,406	787,028
Amitabh Sharma	95	118	338,008	84,502	422,510

LTIP vesting for the year under review (audited)
The 2017 LTIP, which was the first granted under the four equally weighted performance measures of TSR, ROIC, organic operating profit growth and organic revenue growth, vested as shown below. Amitabh Sharma is the only Director or former Director holding a 2017 LTIP award.

	Weighting	Threshold	Stretch	Outturn	% Vesting
TSR Measured against the constituents of the FTSE 250 (excluding investment trusts)	25%	Median	Upper quartile	Below median	0%
ROIC Average ROIC calculated on an annual basis over the three-year performance period[2]	25%	15%	25%	21.2%	17.4%
Organic operating profit growth[1]	25%	2%	5%	-2.8%	0%
Organic revenue growth[1]	25%	2%	5%	1.9%	0%
Total					**17.4%**

1 See page 164 for definition of organic measures. Awards vest in a straight-line basis between threshold and stretch. Growth rates are averaged over the three-year period
2 ROIC is defined as underlying operating profit expressed as a percentage of average invested capital (calculated as an average of the opening and closing balance sheets). Average invested capital was calculated as net assets (after adjusting for exchange rate fluctuations) adjusted for amortisation and impairment charges arising on acquired intangible assets and goodwill, and the add-back of other non-underlying performance items impacting the balance sheet

Share awards granted during the year (audited)
LTIP awards were granted to Simon Pryce, Amitabh Sharma and Jos Sclater in 2019. Details of the performance conditions for the awards can be found on page 84. Details of the awards are shown in the table below.

	Scheme	Date of grant	Basis of award	Face value £'000[3]	Number of shares[4]	Vesting at threshold	Vesting at maximum	Performance period
Simon Pryce	LTIP	16/04/2019	175% of salary	1,061	69,517	20%	100%	3 years to 31 December 2021
Amitabh Sharma	LTIP	16/04/2019	125% of salary	498	32,631	20%	100%	3 years to 31 December 2021
Jos Sclater[1]	LTIP	10/12/2019	125% of salary	531	25,714	20%	100%	3 years to 31 December 2021
Jos Sclater[2]	LTIP	10/12/2019	£125,000	125	6,050	–	–	Annual vest up to 9 December 2022

1 In accordance with the Policy and as announced at the time, Jos Sclater was awarded an LTIP grant equivalent to 125% of salary on joining the Board
2 In accordance with the Policy, Jos Sclater received an award of shares to compensate him for awards forfeit on leaving his previous employer. No performance conditions are attached except for the requirement to be employed by the Group at vesting
3 Face value is calculated at the grant date using the average of the previous five days' mid-market price (see table 3)
4 All awards were granted as nil cost options

For the awards under the LTIP scheme above, four performance metrics apply which are equally weighted. These are shown in the table below.

Performance measures	Weighting	Targets	Vesting %
Total shareholder return (TSR)[1]		**TSR ranking of the Group against a comparator group**	
Below threshold		Below median	0%
Threshold	25%	Median	5%
Stretch		Upper quartile or above	25%
Return on invested capital (ROIC)[2]		**Return on invested capital**	
Below threshold		<15%	0%
Threshold	25%	15%	5%
Stretch		25%	25%
Organic operating profit growth[3]		**Annual growth in organic operating profit**	
Below threshold		<2%	0%
Threshold	25%	2%	5%
Stretch		5%	25%
Organic revenue growth[3]		**Annual growth in organic revenue**	
Below threshold		<2%	0%
Threshold	25%	2%	5%
Stretch		5%	25%

1 Measured against constituents of the FTSE 250 (excluding investment trusts). Awards vest on a straight-line basis between threshold and stretch
2 The ROIC measure will be the average ROIC calculated on an annual basis over the three-year performance period where ROIC is defined for the Group as underlying operating profit expressed as a percentage of average invested capital (calculated as an average of the opening and closing balance sheets). Average invested capital will be calculated as net assets (after adjusting for the exchange rate fluctuations) adjusted for amortisation and impairment charges arising on acquired intangible assets and goodwill and the add-back of other non-underlying performance items impacting the balance sheet. Awards will vest on a straight-line basis between threshold and stretch
3 Growth targets are expressed as annual growth rates and averaged over the three-year period. Awards vest on straight-line basis between threshold and target. See page 164 for definition of organic measures

Payments to past Directors (audited)
There were no payments to past Directors in 2019.

External appointments
Simon Pryce is a Non-Executive Director of Electrocomponents plc. During 2019 he earned fees of £68,750 in respect of this appointment. No other Executive Directors held external appointments in 2019.

Chief Financial Officer departure
Amitabh Sharma stepped down from the Board on 1 December 2019 and left the Group on 31 December 2019. The Committee discussed and agreed the departure arrangements, including exercising discretion to deem Amitabh a 'good leaver'. In order to ensure an efficient handover to the new Chief Financial Officer, the Committee set specific handover objectives. The leaving arrangements set out below are in accordance with the Policy approved by shareholders in the 2017 Annual General Meeting.

+ There were no payments for loss of office
+ Salary and benefits were paid up to 31 December 2019
+ A payment of £178,500 in lieu of Amitabh's base salary was paid on termination with up to a further £178,500 payable in six-monthly instalments representing the balance of his contractual 12-month payment in lieu of notice. These monthly payments will be subject to mitigation
+ Amitabh will receive a bonus for 2019 as detailed on page 86 of which 20% will be deferred in shares for three years and subject to clawback
+ No LTIP award will be made in 2020
+ Outstanding LTIP awards will vest in accordance with the satisfaction of the performance conditions at the normal vesting date. The number of shares vesting will be pro-rated based on the time worked during the performance period
+ Outstanding deferred bonuses will vest in full at the normal vesting date subject to clawback

Annual Report on Remuneration
continued

Statement of Directors' and former Directors' shareholdings (audited)

Details of Directors' interests in share-based incentives are shown in tables 3,4 and 5 below.

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

Director	Date of grant	Actual share price at grant	at 31/12/18	Granted	Released	Lapsed	at 31/12/19	Earliest vesting of outstanding awards
Simon Pryce								
LTIP	16/04/2019	15.26	–	65,366	–	–	65,336	16/04/2022
	02/07/2018	16.17	71,978	–	–	–	71,978	02/07/2020
Deferred bonus	16/04/2019	15.26	–	4,151	–	–	4,151	16/04/2022
Amitabh Sharma[1]								
LTIP	16/04/2019	15.26	–	28,669	–	19,113	9,556	16/04/2022
	20/03/2018	13.92	28,145	–	–	9,382	18,763	20/03/2021
	09/05/2017	21.10	18,956	–	–	–	18,956	09/05/2020
Deferred bonus	16/04/2019	15.26	–	3,962	–	–	3,962	16/04/2022
Jos Sclater[2]								
LTIP	10/12/2019	20.66	–	25,714	–	–	25,714	16/04/2022
Recruitment award	10/12/2019	20.66	–	2,017	–	–	2,017	09/12/2020
	10/12/2019	20.66	–	2,017	–	–	2,017	09/12/2021
	10/12/2019	20.66	–	2,016	–	–	2,016	09/12/2022

1 Amitabh Sharma stepped down from the Board as at 1 December 2019 and left the Group on 31 December 2019. His awards for 2018 and 2019 have been calculated pro rata for time he will have worked during the performance period. The remainder have been lapsed

2 Jos Sclater was appointed to the Board on 9 December 2019. His recruitment award vests in equal tranches over three years subject to continued employment at the vesting date

Director	Shareholding (number of shares beneficially held) as at 31 December 2019
Simon Pryce	13,931
Amitabh Sharma	8,145
Jos Sclater[1]	–
Douglas Caster[2]	308,160
Tony Rice[3]	5,000
Martin Broadhurst	1,600
John Hirst[4]	4,055
Victoria Hull	1,684
Geeta Gopalan	–
Sir Robert Walmsley	3,000
Daniel Shook[5]	2,500

1 Jos Sclater joined the Board on 9 December 2019
2 Douglas Caster resigned as Chair on 28 January 2019
3 Tony Rice joined the Board on 28 January 2019
4 John Hirst resigned from the Board on 1 September 2019
5 Daniel Shook joined the Board on 1 September 2019

Statement on shareholding requirements

Under the Policy, Executive Directors are required to build up and maintain a shareholding equivalent to 200% of their base salary. As at 31 December none of the Executive Directors had achieved the requirement. As the Chief Executive and current Chief Financial Officer are new in role, and have no vested share incentives, the Committee considers this acceptable and will continue to monitor progress towards achieving the shareholding requirement.

Director	Shareholding requirement % of base salary	Current holding % of base salary[1]	Requirement met
Simon Pryce	200%	43%	No
Amitabh Sharma[2]	200%	47%	No
Jos Sclater	200%	0%	No

1 Current holding has been calculated using a share price of £20.43 being the average closing price over the three months to 31 December 2019
2 Amitabh Sharma stepped down from the Board as at 1 December and left the Group on 31 December 2019

Table 4 Directors' interests under the all-employee share plan

Director	Interests as at 1 January 2019	Shares acquired during the year	Interests as at 31 December 2019	Shares acquired from 1 January 2020 to 2 March 2020	Interests as at 2 March 2020
Simon Pryce	20	118	138	24	162
Amitabh Sharma	274	119	393	0	293
Jos Sclater	–	–	–	12	12

Table 5 Directors' interests under the Save As You Earn share plan

Director	Interests as at 1 January 2019	Shares acquired during the year	Interests as at 31 December 2019	Shares acquired from 1 January 2020 to 2 March 2020	Interests as at 2 March 2020
Simon Pryce	830	–	830	–	830
Amitabh Sharma	794	–	794	–	794
Jos Sclater	–	–	–	–	–

Change in CEO's remuneration

The following table illustrates the change (as a percentage) in elements of the CEO's remuneration from 2018 to 2019 and compares that to the average remuneration of employees of the Group in the UK, excluding the CEO. This Group best reflects the remuneration environment of the CEO.

	Chief Executive % change	All UK employees % change
Salary	0%	4.4%
Taxable benefits	0%	0%
Bonus[1]	148%	66%

1 CEO bonus relating to 2018 was pro-rated from his joining date of 18 June 2018

Relative importance of spend on pay

The following table shows the Group's actual spend on pay (for all employees) relative to other financial indicators:

	2019 £m	2018 £m	Change %
Staff costs[1]	**267.9**	252.7	6.0
Dividends[2]	**39.2**	37	5.9
Revenue[3]	**825.4**	766.7	7.7
Statutory profit before tax[3]	**91.0**	42.6	113.6

1 £1.3m (2018: £1.1m) of the staff costs figures relate to pay for the Executive Directors
2 The dividends figures relate to amounts payable in respect of the relevant financial year
3 Revenue and statutory profit before tax are included to add further context to annual spend

Annual Report on Remuneration
continued

Pay comparisons
Below we present the ratio of the CEO's remuneration compared with representative UK employees utilising option A for the calculation, in accordance with the Companies (Miscellaneous Reporting) Regulations 2018 para 19D. Option A was chosen as it is the most statistically accurate. In addition, and to more accurately reflect the composition of the Group, with over half of our employees located overseas, we have included the same calculation based on our worldwide workforce in 2019.

The calculations for the relevant representative employees have been made as at 31 December 2019. No estimates or adjustments have been made other than to employees who are employed on a part-time basis in order to reflect the full-time equivalent and for this, a standard 37-hour week has been assumed. No elements of remuneration have been omitted. The calculation of total earnings is the same for the representative employees as for the CEO.

Year	Method	Data set	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2019	Option A	UK	54:1	37:1	27:1
2019	Option A	Global	50:1	31:1	19:1

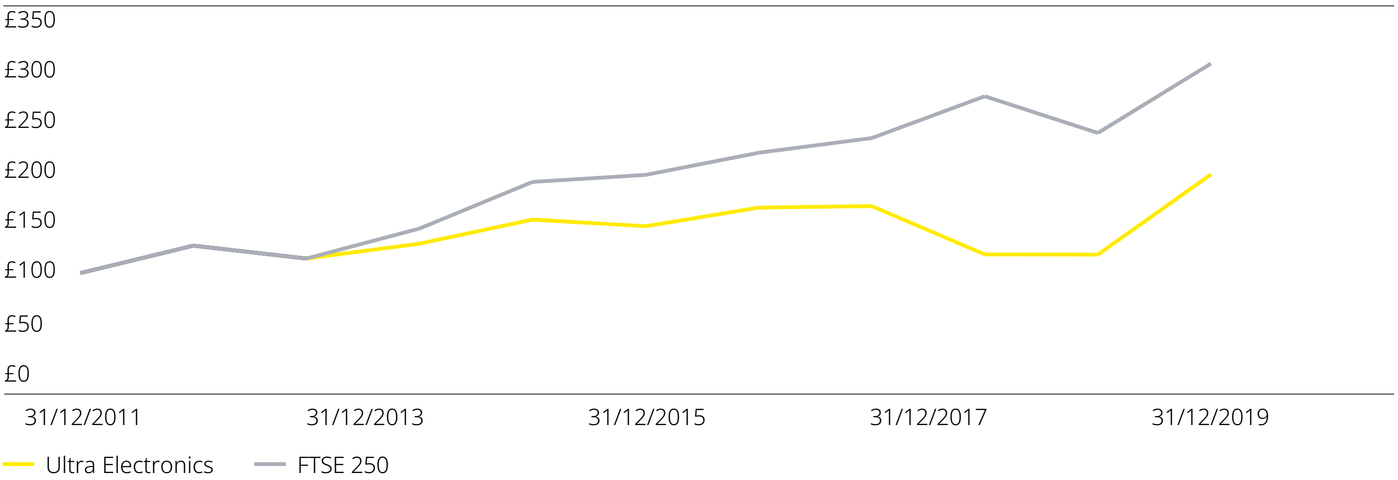
Our pay philosophy across the Group is based on a set of core principles including managing reward by reference to external competitor benchmarks and individual performance in role. Eligibility for short and long-term incentives is determined consistently by seniority. The CEO receives a significant proportion of his reward in the form of variable pay, and as such, his total reward may vary substantially year by year depending on the Group's performance.

The employees in the sample do not typically participate in a performance-based long-term incentive and receive more of their reward as fixed pay. As there was no vesting of LTIP awards in 2019 for the CEO, we anticipate that the ratios will increase in years when the LTIP vests.

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

£	25th percentile	50th percentile	75th percentile
Total pay and benefits	29,549	43,151	59,500
Salary	28,000	40,000	51,500

Total shareholder return (TSR) table and CEO remuneration
The graph below shows the TSR performance of Ultra in comparison with the FTSE 250 Index over the past 10 years. The graph shows the value at the end of 2019 of £100 invested at the start of the evaluation period in Ultra and in the Index. The Committee considers the FTSE 250 to be the relevant Index for the TSR comparison as it is a member of the Index and the membership represents a broad range of UK-quoted companies.



This graph shows the value, by 31 December 2019, of £100 invested in Ultra Electronics on 31 December 2009, compared with the value of £100 invested in the FTSE 250 Index on the same date.

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

The table below shows the remuneration of the CEO over this period.

Director	Year ended	Total remuneration £'000	Annual bonus % of max. payout	LTIP % of max. payout
S Pryce	31 December 2019	1,592	95%	–
S Pryce[1]	31 December 2018	750	71%	–
D Caster[2]	31 December 2018	284	–	–
D Caster[3]	31 December 2017	81	–	–
R Sharma[4]	31 December 2017	765	–	–
R Sharma	31 December 2016	1,194	82%	–
R Sharma	31 December 2015	1,197	88%	–
R Sharma	31 December 2014	680	–	–
R Sharma	31 December 2013	612	–	–
R Sharma	31 December 2012	597	–	–
R Sharma[5]	31 December 2011	722	76%	–
D Caster[6]	31 December 2011	141	–	–
D Caster	31 December 2010	1,068	46%	81%

1 CEO from 18 June 2018
2 Executive Chair to 18 June 2018
3 Executive Chair from 10 November 2017
4 CEO to 10 November 2017
5 CEO from 21 April 2011
6 CEO to 21 April 2011

Statement of shareholder voting

At the 2019 Annual General Meeting, the 2018 Directors' Remuneration Report received the following votes from shareholders:

	Total number of votes	% of votes cast
Votes for	61,846,619	99.18%
Votes against	510,903	0.82%
Total votes cast (for and against)	62,357,522	99.34%
Votes withheld	411,801	
Total votes cast	62,771,626	

At the 2017 Annual General Meeting, the 2016 Directors' Remuneration Policy received the following votes from shareholders:

	Total number of votes	% of votes cast
Votes for	59,669,864	99.33%
Votes against	402,746	0.67%
Total votes cast (for and against)	60,072,610	100.00%
Votes withheld	656,074	
Total votes cast	60,728,684	

2020 Annual General Meeting

The Committee encourages shareholders to vote in favour of the Directors' Remuneration Policy and the Directors' remuneration report at the 2020 AGM. The Directors' remuneration report was approved by the Board on 6 March 2020 and signed on its behalf by:

Martin Broadhurst
Chair of the Remuneration Committee

Directors' report
for the year ended 31 December 2019

The Directors of the Company present their report together with the audited consolidated financial statements for the year ended 31 December 2019.

Results and dividends
The Group results for the year ended 31 December 2019 are set out on page 6 of the strategic report. The final 2019 dividend of 39.2 pence per share (2018: 37.0 pence per share) is proposed to be paid on 18 May 2020 to shareholders on the register of members on 24 April 2020. The interim dividend of 15.0 pence per share (2018: 14.6 pence per share) was paid on 20 September 2019, making a total of 54.2 pence per share in the year (2018: 37.0 pence).

Research and development
The Directors are committed to maintaining a significant level of research and development expenditure in order to expand the Group's range of proprietary products. During the year a total of £155.0m (2018: £145.8m) was spent on engineering and business development of which £123.8m (2018: £117.7m) was funded by customers and £31.2m (2018: £28.1m) by the Group.

Political donations
Neither the Company nor any of its subsidiaries have made any political donations during the year (2018: £nil).

Directors and re-election
Details of the Directors serving during the year are set out on page 62 of the corporate governance report. Sir Robert Walmsley will step down at the expiration of the Annual General Meeting 2020. Martin Broadhurst, Geeta Gopalan, Victoria Hull, Simon Pryce and Tony Rice will stand for re-election at the Annual General Meeting 2020. Jos Sclater and Daniel Shook will stand for election.

Directors and their interests
The Directors who served throughout the year and to the date of signing of this Report (see biographies on pages 52–53), and their interests in the shares and share options of Ultra at the end of the year and at 2 March 2020 are shown in the Annual Report on Remuneration (see pages 88–89).

Directors' conflicts of interest
The Company has in place procedures for managing conflicts and potential conflicts of interest. The Company's Articles of Association also contain provisions to allow the Directors to authorise conflicts or potential conflicts of interest so that a Director is not in breach of his or her duty under UK company law. If Directors become aware of a conflict or potential conflict of interest they should notify the Board in accordance with the Company's Articles of Association. Directors have a continuing duty to update any changes to their conflicts of interest. Directors are excluded from the quorum and vote in respect of any matters in which they have a conflict of interest. No material conflicts were reported by Directors in 2019.

Independent advice
All Directors have access to the advice of the Group General Counsel and Company Secretary and, in appropriate circumstances, may obtain independent professional advice at the Company's expense. No such requests were made in 2019.

Directors' indemnities
In accordance with our Articles of Association and to the extent permitted by law, Directors are granted an indemnity from the Company in respect of liability incurred as a result of their appointment to the Board. In addition, the Company maintains a Directors' and officers' liability insurance policy. Neither the indemnity provided by the Company or the insurance policy provides cover in the event that a Director is proven to have acted fraudulently or dishonestly.

Branches
The Company and its subsidiaries have established branches, where appropriate, in a number of countries outside the UK. Their results are, however, not material to the Group's financial results.

Contractual arrangements
The Group contracts with a large number of customers in order to sell its wide portfolio of specialist capabilities to a broad range of customers around the world. The Group's largest customers are the US Department of Defense and the UK Ministry of Defence. A wide range of separate contracts are entered into with these customers by different Ultra businesses through different project offices and project teams. The Group also contracts with numerous suppliers across the world and manages these arrangements to ensure that it is not over-dependent on a single supplier. This is normally achieved through dual sourcing specialist components.

Post balance sheet events
There are no post balance sheets to report.

Purchase of own shares
During the year Ultra purchased 634,996 (2018: 6,288,127) ordinary shares and nil (2018: nil) ordinary shares were issued following vesting of awards under the Ultra Electronics Long-Term Incentive Plan. At 31 December 2019, there were 895,519 awards outstanding under the Ultra Electronics Long-Term Incentive Plan representing 1.26% of the ordinary shares in issue as at 31 December 2019).

Substantial shareholdings
As at 10 February 2020, being the latest practicable date prior to the approval of this report, Ultra had been notified of the following voting rights as shareholders of Ultra:

TOP 10 HOLDERS
AS AT 10 FEBRUARY 2020

	10 February 2020		
Shareholder	Shares	% Invested capital	Cum% Invested capital
Fidelity Mgt & Research	6,127,456	8.63	8.63
FIL Investment International	4,699,531	6.62	15.26
Heronbridge Investment Mgt	3,722,171	5.25	20.50
Baillie Gifford & Co	3,624,568	5.11	25.61
Legal & General Investment Mgt	3,036,934	4.28	29.89
Mondrian Investment Partners	2,764,832	3.90	33.79
Invesco (1)	2,516,449	3.55	37.33
Invesco (2)	2,117,244	2.98	40.32
Vanguard Group	2,014,032	2.84	43.15
Dimensional Fund Advisors	1,870,161	2.64	45.79

Capital structure
Details of the authorised and issued share capital, together with details of the movements in Ultra's issued share capital during the year, are shown in note 26. Ultra has one class of ordinary shares which carry no right to fixed income and each share carries the right to one vote at general meetings of Ultra. There are no specific restrictions either on the size of a holding or on the transfer of shares, which are both governed by the general provisions of the Company's Articles of Association and prevailing legislation. No person has any special rights of control over Ultra's share capital and all issued shares are fully paid. With regard to the appointment and replacement of Directors, Ultra is governed by its Articles of Association, the UK Corporate Governance Code, the Act and related legislation. The Articles of Association themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the terms of reference for the Board, which is available from the Investors' section on the Group website (ultra.group).

Annual General Meeting (AGM)
A separate circular providing the Notice of Annual General Meeting and details of the resolutions to be put to the meeting will be sent to shareholders in due course. All Directors will submit themselves for election or re-election at the AGM, with the exception of Sir Robert Walmsley who will step down from the Board at the conclusion of the meeting.

Additional disclosure requirements

The following information which is required to be included in the Directors' report and forms part of this report may be found elsewhere in the Annual Report as follows.

Information	Location
Business review	Strategic report: pages 26–31
Future developments	Strategic report: pages 24–25
Corporate social responsibility	Strategic report: pages 32–33
Workforce engagement	Strategic report: page 16 and Corporate Governance report: page 66
Customer and supplier relationships	Strategic report: pages 16–17
The environment and greenhouse gas emissions	Strategic report: page 38–39
Principal risks and uncertainties facing the Group	Strategic report: pages 40–46
Business ethics and employment practices	Strategic report: pages 34–36 and Corporate Governance report: page 66
Details of long-term incentive plans	Directors' Remuneration Report: pages 75–86 and note 26 to the financial statements
Corporate governance	Governance report: pages 55–67
Non-financial KPIs	Strategic report: page 21
Financial risk management	Principal risks and uncertainties: page 45, Audit Committee Report: pages 72–73 and note 22 to the financial statements

There is no other information to be disclosed pursuant to the requirements of Listing Rule 9.8.4R.

NON-FINANCIAL INFORMATION STATEMENT

The Group has complied with the requirements of section 414CB of the Companies Act 2006 by including certain non-financial information within the strategic report. This information is intended to provide an understanding of our development, performance and position on key non-financial matters. The table below sets out where information relating to non-financial matters can be located.

Reporting requirement	Our policies and standards	Our commentary
Environmental matters	+ Environmental policy	The environment – page 38
Employees	+ Code of Conduct + Health and safety policy	Our People and culture – page 34
Human rights	+ Human rights policy + Data privacy policy* + Information security policy* + Modern slavery statement* + Anti-slavery and trafficking statement*	Corporate Social Responsibility – page 32 Human rights – page 33
Social responsibility	+ CSR Committee formed to establish policies	Corporate Social Responsibility – page 32 Working with communities – page 38
Anti-corruption and bribery	+ Anti-bribery and corruption policy	Corporate Social Responsibility – page 32 Audit Committee Report: Anti-bribery and corruption policy – page 73
Principal risks and impact on business activity		Principal Risks & Uncertainties – pages 40–46
Business model		Our business model – pages 18–19
Non-financial key performance indicators		Our KPIs – pages 20–21

* Available to download on the Company's website

Auditor

Each of the Directors at the date of approval of this Report confirms that:

(1) so far as the Director is aware, there is no relevant audit information of which Ultra's auditor is unaware, and

(2) the Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that Ultra's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Act.

This Directors' report was approved by the Board on 10 March 2020 and signed on its behalf by:

Louise Ruppel
General Counsel and Company Secretary

Registered office: 35 Portman Square, London W1H 6LR. Registered number: 02830397

Directors' responsibility statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with IFRSs as adopted by the European Union and Article 4 of the International Accounting Standards Regulation (IAS) and have elected to prepare the Company's financial statements in accordance with UK Generally Accepted Accounting Practice (UK Accounting Standards and applicable law) including FRS 101. Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs and of the profit or loss of the Company, as well as the undertakings included in the consolidation for that period.

In preparing the Company's financial statements, the Directors are required to:

+ select suitable accounting policies and then apply them consistently
+ make judgements and accounting estimates that are reasonable and prudent
+ state whether applicable UK Accounting Standards have been followed subject to any material departures disclosed and explained in the financial statements
+ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will not continue in business

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

+ properly select and apply accounting policies
+ present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
+ provide additional disclosures, when compliance with the specific requirements in IFRS are insufficient, to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
+ make an assessment of the Company's ability to continue as a going concern

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website www.ultra.group. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm that, to the best of our knowledge, taken as a whole:

+ The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
+ The strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation, together with a description of the principal risks and uncertainties that they face
+ The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy

The Annual Report (including the strategic report on pages 1 to 51 and this Directors' responsibilities statement) was approved by the Board on 10 March 2020 and signed on its behalf by:

Louise Ruppel
General Counsel and Company Secretary

Independent auditor's report
To the members of Ultra Electronics Holdings plc

Opinion

In our opinion:

+ The financial statements of Ultra Electronics Holdings plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended.
+ The Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.
+ The parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework".
+ The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements which comprise:

+ the consolidated income statement;
+ the consolidated statement of comprehensive income;
+ the consolidated and parent company balance sheets;
+ the consolidated and parent company statements of changes in equity;
+ the consolidated cash flow statement;
+ the statement of accounting policies; and
+ the related notes 1 to 47.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: + revenue and profit recognition; + valuation of goodwill and intangible assets; and + defined benefit pensions liabilities valuation. Within this report, key audit matters are identified as follows: ⇑ Increased level of risk ⇐ ⇒ Similar level of risk ⇓ Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £5.1m which was determined on the basis of underlying profit before tax.
Scoping	We focused our Group audit scope primarily on the audit work at 16 locations, 12 of these were subject to a full audit, while the remaining four were subject to specified audit procedures where the extent of our testing was based on our assessment of the risks of material misstatement. These 16 locations accounted for 89% of Group revenue and 92% of underlying profit before tax.
Significant changes in our approach	In the current year, we have not considered management override of controls as a key audit matter, owing to an improvement in the overall performance of the Group, with results in line with budgets and forecasts. There are no other significant changes in our approach in the current year.

Independent auditor's report
To the members of Ultra Electronics Holdings plc
continued

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement of going concern on page 46 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks, including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

+ the disclosures on pages 42-46 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
+ the Directors' confirmation on page 40 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
+ the Directors' explanation on page 46 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the Directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In the prior year, we included management override of controls as a key matter within our audit report, with a focus towards the classification of items presented in underlying and non-underlying results. This is not included as a key matter in the current year, owing to an improvement in the overall performance of the Group, with results in line with budgets and forecasts.

Revenue and profit recognition ⇐ ⇒

Key audit matter description	The Group recognised revenue of £825.4m in 2019 (2018: £766.7m), with sales recognised on both an over time (£488.5m) and on a point in time (£336.9m) basis in accordance with 'IFRS 15: Revenue from Contracts with Customer'. There is a specific risk arising from either error or fraud, that revenue and profit is recognised incorrectly based on judgements within the cost to complete estimate of significant contracts, or due to incorrect treatment of contracts, which include unusual or onerous terms. We consider that those contracts with a design phase have a heightened risk of cost escalation due to extended or unforeseen effort necessary to achieve contract milestones. Further, given the bespoke nature and the length of time to develop and manufacture many of Ultra's products and solutions, the contracts between Ultra and its customers can contain complex terms or contract variations and therefore there is also a risk that revenue is not recognised in accordance with such terms. Refer to page 148 (key sources of estimation uncertainty – contract revenue and profit recognition); pages 149-150 (accounting policies – revenue recognition); page 72 (Audit Committee Report – significant judgements considered; and page 114 (note 3 of the accounts).
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the long-term contract accounting process. To assess whether revenue recognised to date is based on the current best estimate of the degree of work performed under the contract, for a sample of contracts we reviewed the evidence for the progress made against the contract, such as milestone completion. To verify the margin achieved on contracts recognised over time, we sought to confirm the costs to complete, by agreeing to evidence of committed spend, budgeted rates or actual costs incurred to date when compared with the remaining work to be performed under the contract. We reviewed the contract risk registers to provide evidence over the judgement taken when providing for the cost of mitigating technical risks and meeting future milestones. We understood and challenged management's judgements by referring to evidence, including signed contract terms and latest project status reports, and discussed contract progress and future risks with contract engineers. We also assessed the reliability of management estimates through consideration of the historical accuracy of prior period management estimates. For our sample of contracts, we made enquiries as to any unusual contract terms or side agreements separate to the original contract, in addition to testing a sample of billings and costs incurred to date.
Key observations	We considered the costs to complete on long-term contracts and therefore the revenue and margin recognised to be appropriate, based on the assessment of the risks remaining in the contracts and work performed to date.

Valuation of goodwill and intangible assets ⇐ ⇒

Key audit matter description	The Group held £365.9m (2018: £377.8m) of goodwill arising on its acquisitions made and £70.1m (2018: £93.2m) of acquired intangibles as at 31 December 2019. There is a risk that inappropriate judgements relating to future cash flow forecasts and discount rates are used which lead to the overstatement of the value-in-use, being the recoverable amount of these assets. This could therefore result in an impairment being required. This is particularly relevant given the volatility and uncertainty in defence spending in both new and traditional markets. We have focused this key audit matter on the following goodwill and acquired intangible asset balances: + goodwill attributable to the C2ISR cash-generating unit group; and + certain acquired intangible assets associated with the Herley business Refer to page 148 (critical accounting estimates and assumptions – impairment testing); page 149 (accounting policies – goodwill); page 72 (Audit Committee report – significant judgements considered); and pages 119–121 (notes 13 and 14 of the accounts).

Independent auditor's report
To the members of Ultra Electronics Holdings plc
continued

How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the monitoring of the carrying value of goodwill and acquired intangibles. We challenged the discount rate and cash flow assumptions used by management in its impairment assessment. With the involvement of our valuation specialists we benchmarked the discount rate against independently available data, together with performing peer group analysis. We obtained support for secured orders and used our understanding of these orders to underpin the Group's cash flow forecasts, considered external data on forecast market growth as well as management's assessment of the impact of Brexit, and reviewed the historical performance of the businesses. Having challenged the assumptions, we checked that the impairment model had been prepared on the basis of management's assumptions and was arithmetically accurate. We challenged the appropriateness of management's sensitivities based on our work performed on the key assumptions, and recalculated these sensitised scenarios. With regards to the disclosures within the Annual Report, we assessed whether they appropriately reflect the facts and circumstances within management's assessment of impairment over goodwill and acquired intangibles.
Key observations	We are satisfied that headroom exists over the carrying value of the C2ISR cash-generating unit group, and the acquired intangible assets associated with the Herley business, and therefore no impairment has been recognised.

Defined benefit pension liabilities valuation ⇐ ⇒

Key audit matter description	The Group operates defined benefit pension schemes in the UK, Switzerland and Canada. At 31 December 2019, the defined benefit pension scheme obligation was £403.0m (2018: £370.7m) which resulted in a net IAS 19 'Employment Benefits' deficit of £73.3m (2018: £73.0m). The UK scheme accounted for 97% of this net deficit. There is a risk that the assumptions used in determining the defined benefit obligation for the UK scheme are not appropriate, resulting in an inappropriate pension valuation which would have a material impact on the financial statements. The most sensitive assumption is the discount rate; however, we also focused our efforts on the inflation risk premium ("IRP") associated with the RPI inflation assumption given the reforms in this area. Refer to page 148 (key sources of estimation uncertainty – retirement benefit plans); page 153 (accounting policies – pensions); and page 72 (Audit Committee Report – significant issues considered), and pages 137– 141 (note 29 of the accounts).
How the scope of our audit responded to the key audit matter	We obtained un understanding of the relevant controls over the accounting for defined benefit pension scheme. With the involvement of our pension specialists we assessed the appropriateness of the assumptions through benchmarking to industry data and comparison with the peer group. We reviewed the suitability of the methodology used to value the defined benefit pension scheme obligation.
Key observations	Our assessment concluded that Ultra's pension assumptions overall lie within our acceptable range.

Our application of materiality

Materiality

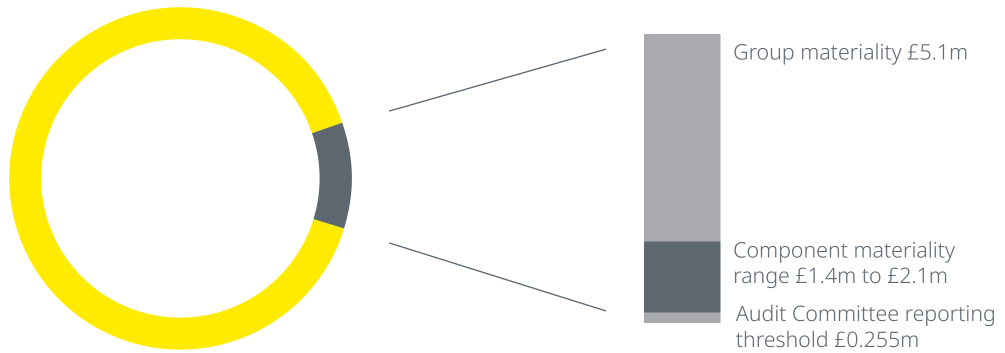
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£5.1m (2018: £5.0m)	£1.4m (2018: £2.0m)
Basis for determining materiality	5% (2018: 5%) of underlying profit before tax Underlying profit before tax is reconciled to statutory profit before tax in note 2 of the accounts.	Parent company materiality represents less than 1% of net assets, but capped at 30% (2018: 40%) of the Group materiality. The parent company is also a component of the consolidated Group financial statements, and so the determined materiality has been capped by the level of materiality identified for the component audits.
Rationale for the benchmark applied	Underlying profit before tax is a key performance measure for the Group and the users of the financial statements; therefore it is an appropriate basis on which to determine materiality.	The parent company is non-trading, and we therefore consider that net assets is the most appropriate metric to determine materiality.

Underlying PBT

Underlying PBT	105.3m
Group materiality	



Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2019 audit (2018: 70%). In determining performance materiality, we considered the following factors:

+ We have been the auditor for a number of years, over which time we have developed an in depth understanding of the business and its environment.
+ The relative stability of the business and its operating environment is supported by a consistent number of significant risk balances identified through our detailed risk assessment compared with prior periods. No additional significant risks have been identified in the current year.
+ An overall improvement in performance of the business during the year and an increased level of stability within the Company's management team.
+ We have identified a low number of uncorrected and corrected misstatements in prior periods.

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £255k (2018: £250k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Independent auditor's report
To the members of Ultra Electronics Holdings plc
continued

An overview of the scope of our audit

Identification and scoping of components

Our Group scoping was performed taking account of the following considerations:

+ The Group is divided into 28 operating components (2018: 29) spread predominantly across four key territories – the UK, USA, Canada and Australia. Each component sits within one of three divisions, with central oversight provided from management located in the UK and all results are consolidated at the Group level.
+ Scoping has remained broadly consistent with the prior year. Through our audit we have performed 12 (2018: 12) full-scope audits, along with 12 (2018: 12) components being reviewed centrally at the Group level, which is consistent with our prior-year scoping. We have also performed four specified procedure audits (2018: 5).
+ In addition, the Group disposed of two components during 2019 – Airport Systems and Corvid Paygate. Both were audited centrally at the Group level, consistent with our audit approach from the prior year.
+ Components were selected based on their contribution to the consolidated revenue and underlying profit before tax for the Group. Of the 12 full-scope audits identified, four were considered to be significant components to the Group based on their revenue and underlying profit before tax contribution.

Working with other auditors

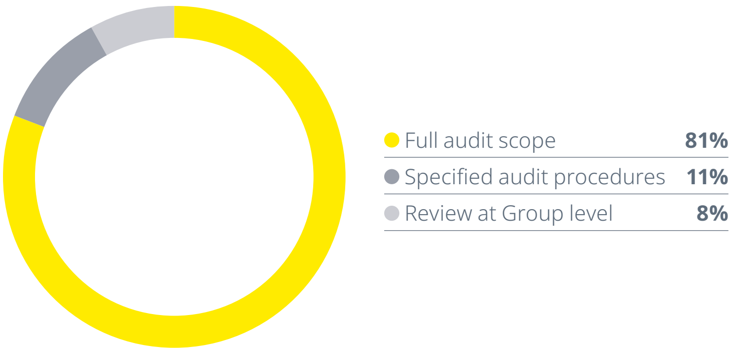
Each component in scope was subject to an audit materiality level between £1.4m and £2.1m (2018: £2.0m and £3.0m). This audit work on all components was performed by Deloitte member firms under the direction and supervision of the Group audit team. At Group level, we also tested the consolidation process and performed analytical procedures to assess whether there were any significant risks of material misstatement within the aggregated financial information of the remaining components, not subject to audit or audit of specified account balances.

We communicated the results of our risk assessment exercise to the component auditors and instructed them on the areas of significant risk, the procedures to be performed and timing of their reporting to us. We also provided direction on enquiries made by the component auditors through online and telephone conversations. All the findings identified were discussed with the component auditor in detail and further procedures to be performed were issued where relevant.

The Group audit team followed a programme of planned visits that has been designed so that on a rotational basis the Senior Statutory Auditor, or a senior member of the Group audit team, visits each of the primary operating components, including each of the significant components, on an annual basis and in addition to the work performed at the Group head office. In relation to the current year audit the Senior Statutory Auditor, or a senior member of the audit team, visited the USA and Canada, along with various locations in the UK.

Revenue

Underlying profit before tax



Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that: + **Fair, balanced and understandable** – the statement given by the Directors that they consider the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit. + **Audit Committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee. + **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.	**We have nothing to report in respect of these matters.**

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditor's report
To the members of Ultra Electronics Holdings plc
continued

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

+ the nature of the industry and sector, control environment and business performance, including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
+ results of our enquiries of management and the Audit Committee about their own identification and assessment of the risks of irregularities;
+ any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  – identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  – detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  – the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations
+ the matters discussed among the audit engagement team, including significant component audit teams and involving relevant internal specialists, including tax, pensions, and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area: revenue and profit recognition. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

Audit response to risks identified

As a result of performing the above, we identified revenue and profit recognition as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

+ reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
+ enquiring of management, the audit committee and external legal counsel concerning actual and potential litigation and claims;
+ performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
+ reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
+ in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and all component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements
Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

+ The information given in the strategic report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.
+ The strategic report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: + We have not received all the information and explanations we require for our audit. + Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us. + The parent company financial statements are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**
Directors' remuneration Under the Companies Act 2006 we are also required to report if, in our opinion, certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors on 17 April 2003 to audit the financial statements for the year ending 31 December 2003 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 16 years, covering the years ending 31 December 2003 to 31 December 2019.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Alexander Butterworth ACA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom
10 March 2020

Consolidated income statement
For the year ended 31 December 2019

	Note	**2019 £m**	2018 £m
Revenue	3	**825.4**	766.7
Cost of sales		**(586.3)**	(544.6)
Gross profit		**239.1**	222.1
Other operating income	4	**1.0**	3.2
Administrative expenses		**(135.6)**	(140.3)
Other operating expenses	5	**(8.9)**	(3.3)
Significant legal charges and expenses	2	**(1.4)**	(2.3)
S3 programme	2	**–**	(6.5)
Impairment charges	2	**–**	(7.6)
Operating profit	6	**94.2**	65.3
Loss on disposals and held for sale	30	**(0.9)**	(0.7)
Retirement benefit scheme GMP equalisation	29	**–**	(3.2)
Investment revenue	8	**11.3**	6.2
Finance costs	9	**(13.6)**	(25.0)
Profit before tax		**91.0**	42.6
Tax	10	**(16.4)**	(10.2)
Profit for the year		**74.6**	32.4
Attributable to:			
Owners of the Company		**74.5**	32.4
Non-controlling interests		**0.1**	–
Earnings per ordinary share (pence)			
Basic	12	**105.1**	43.6
Diluted	12	**104.9**	43.6

The accompanying notes are an integral part of this consolidated income statement. All results are derived from continuing operations.

Consolidated statement of comprehensive income
For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Profit for the year		**74.6**	32.4
Items that will not be reclassified to profit or loss:			
Actuarial (loss)/profit on defined benefit pension schemes	29	**(9.3)**	4.6
Tax relating to items that will not be reclassified	10	**1.6**	(0.8)
Total items that will not be reclassified to profit or loss		**(7.7)**	3.8
Items that are or may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**(17.5)**	21.1
Transfer from profit and loss on cash flow hedge		**(0.3)**	0.4
Profit/(loss) on loans used in net investment hedges		**3.1**	(11.5)
Loss on cash flow hedge		**–**	(0.6)
Tax relating to items that are or may be reclassified	10	**0.1**	0.1
Total items that are or may be reclassified to profit or loss		**(14.6)**	9.5
Other comprehensive (expense)/income for the year		**(22.3)**	13.3
Total comprehensive income for the year	27	**52.3**	45.7
Attributable to:			
Owners of the Company		**52.2**	45.7
Non-controlling interests		**0.1**	–

The accompanying notes are an integral part of this consolidated statement of comprehensive income.

Consolidated balance sheet
For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Non-current assets			
Goodwill	13	**365.9**	377.8
Other intangible assets	14	**92.7**	113.9
Property, plant and equipment	15	**64.2**	62.6
Leased assets	16	**36.1**	–
Deferred tax assets	24	**10.0**	18.7
Derivative financial instruments	22	**1.7**	0.1
Trade and other receivables	19	**13.7**	22.6
		584.3	595.7
Current assets			
Inventories	17	**90.7**	88.6
Trade and other receivables	19	**205.4**	205.2
Tax assets	24	**19.5**	8.1
Cash and cash equivalents		**82.2**	96.3
Derivative financial instruments	22	**3.2**	0.3
Assets classified as held for sale	30	**11.5**	30.6
		412.5	429.1
Total assets		**996.8**	1,024.8
Current liabilities			
Trade and other payables	20	**(192.3)**	(212.2)
Tax liabilities	24	**(4.7)**	(5.0)
Derivative financial instruments	22	**(0.5)**	(5.5)
Borrowings	21	**(8.2)**	(175.8)
Liabilities classified as held for sale	30	**(5.3)**	(8.6)
Short-term provisions	25	**(16.6)**	(13.3)
		(227.6)	(420.4)
Non-current liabilities			
Retirement benefit obligations	29	**(73.3)**	(73.0)
Other payables	20	**(11.8)**	(14.9)
Deferred tax liabilities	24	**(16.3)**	(10.5)
Derivative financial instruments	22	**(0.2)**	(1.0)
Borrowings	21	**(228.8)**	(78.0)
Long-term provisions	25	**(8.2)**	(6.2)
		(338.6)	(183.6)
Total liabilities		**(566.2)**	(604.0)
Net assets		**430.6**	420.8
Equity			
Share capital	26	**3.5**	3.6
Share premium account		**203.2**	201.0
Capital redemption reserve		**0.4**	0.3
Reserve for own shares		**(1.4)**	(2.6)
Hedging reserve		**(56.8)**	(59.7)
Translation reserve		**99.0**	116.5
Retained earnings		**182.6**	161.7
Equity attributable to owners of the Company		**430.5**	420.8
Non-controlling interests		**0.1**	–
Total equity		**430.6**	420.8

The financial statements of Ultra Electronics Holdings plc, registered number 02830397, were approved by the Board of Directors and authorised for issue on 10 March 2020.

On behalf of the Board,

S. PRYCE, Chief Executive
J. SCLATER, Chief Financial Officer

The accompanying notes are an integral part of this consolidated balance sheet.

Consolidated cash flow statement
For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Net cash flow from operating activities	27	**94.6**	86.7
Investing activities			
Interest received		**0.7**	0.7
Purchase of property, plant and equipment		**(14.9)**	(13.0)
Proceeds from disposal of property, plant and equipment		**0.1**	0.2
Expenditure on product development and other intangibles		**(8.0)**	(7.0)
Disposal of subsidiary undertakings	30	**22.4**	0.2
Net cash from/(used in) investing activities		**0.3**	(18.9)
Financing activities			
Issue of share capital		**3.3**	0.1
Share buy-back (including transaction costs)		**(8.6)**	(91.9)
Dividends paid		**(36.7)**	(36.9)
Loan syndication costs		**(0.3)**	(0.7)
Repayments of borrowings		**(315.2)**	(181.3)
Proceeds from borrowings		**259.9**	199.0
Principal payment on leases		**(7.8)**	–
Cash out-flow on closing out foreign currency hedging contracts		**–**	(11.1)
Net cash used in financing activities		**(105.4)**	(122.8)
Net decrease in cash and cash equivalents	27	**(10.5)**	(55.0)
Cash and cash equivalents at beginning of year		**96.3**	149.5
Effect of foreign exchange rate changes		**(3.6)**	1.8
Cash and cash equivalents at end of year		**82.2**	96.3

The accompanying notes are an integral part of this consolidated cash flow statement.

Consolidated statement of changes in equity
For the year ended 31 December 2019

Equity attributable to equity holders of the parent

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Reserve for own shares £m	Hedging reserve £m	Translation reserve £m	Retained earnings £m	Non-controlling interest £m	Total equity £m
Balance at 1 January 2018	**3.9**	**200.9**	**–**	**(2.6)**	**(48.1)**	**95.4**	**262.6**	**–**	**512.1**
Adoption of IFRS 15	–	–	–	–	–	–	(12.2)	–	(12.2)
Tax adjustment on adoption of IFRS 15	–	–	–	–	–	–	2.3	–	2.3
Restated total equity at 1 January 2018	**3.9**	**200.9**	**–**	**(2.6)**	**(48.1)**	**95.4**	**252.7**	**–**	**502.2**
Profit for the year	–	–	–	–	–	–	32.4	–	32.4
Other comprehensive income for the year	–	–	–	–	(11.6)	21.1	3.8	–	13.3
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(11.6)**	**21.1**	**36.2**	**–**	**45.7**
Equity-settled employee share schemes	–	0.1	–	–	–	–	1.6	–	1.7
Shares purchased in buyback	(0.3)	–	0.3	–	–	–	(91.9)	–	(91.9)
Dividend to shareholders	–	–	–	–	–	–	(36.9)	–	(36.9)
Balance at 31 December 2018	**3.6**	**201.0**	**0.3**	**(2.6)**	**(59.7)**	**116.5**	**161.7**	**–**	**420.8**
Adoption of IFRS 16	–	–	–	–	–	–	(2.0)	–	(2.0)
Restated total equity at 1 January 2019	**3.6**	**201.0**	**0.3**	**(2.6)**	**(59.7)**	**116.5**	**159.7**	**–**	**418.8**
Profit for the year	–	–	–	–	–	–	74.5	0.1	74.6
Other comprehensive income for the year	–	–	–	–	2.9	(17.5)	(7.7)	–	(22.3)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**2.9**	**(17.5)**	**66.8**	**0.1**	**52.3**
Equity-settled employee share schemes	–	2.2	–	–	–	–	1.9	–	4.1
Transfer from own shares	–	–	–	1.2	–	–	(1.2)	–	–
Tax on share-based payment transactions	–	–	–	–	–	–	0.7	–	0.7
Shares purchased in buyback	(0.1)	–	0.1	–	–	–	(8.6)	–	(8.6)
Dividend to shareholders	–	–	–	–	–	–	(36.7)	–	(36.7)
Balance at 31 December 2019	**3.5**	**203.2**	**0.4**	**(1.4)**	**(56.8)**	**99.0**	**182.6**	**0.1**	**430.6**

Notes to accounts – Group
For the year ended 31 December 2019

1 Segment information

For management purposes, the Group is organised into three operating segments, which comprise the divisions Aerospace & Infrastructure, Communications & Security, and Maritime & Land. These operating segments are consistent with the internal reporting as reviewed by the CEO who is deemed to be the Chief Operating Decision-Maker. Each segment includes businesses with similar operating and market characteristics. See the Divisional reviews on pages 26–31 for further information. These segments have changed from 1 January 2020 as explained on pages 22–23.

	2019			2018		
	External revenue £m	Inter-segment £m	Total £m	External revenue £m	Inter-segment £m	Total £m
Revenue						
Maritime & Land	**353.0**	**14.9**	**367.9**	317.9	13.1	331.0
Communications & Security	**267.9**	**3.5**	**271.4**	252.6	8.9	261.5
Aerospace & Infrastructure	**204.5**	**8.2**	**212.7**	196.2	7.9	204.1
Eliminations	**–**	**(26.6)**	**(26.6)**	–	(29.9)	(29.9)
Consolidated revenue	**825.4**	**–**	**825.4**	766.7	–	766.7

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

	2019				
	Maritime & Land £m	Communications & Security £m	Aerospace & Infrastructure £m	Unallocated £m	Total £m
Underlying operating profit	**52.5**	**38.6**	**27.1**	**–**	**118.2**
Amortisation of intangibles arising on acquisition	**(8.2)**	**(12.2)**	**(1.3)**	**–**	**(21.7)**
Significant legal charges and expenses (see note 2)	**–**	**–**	**(0.2)**	**(1.2)**	**(1.4)**
Acquisition and disposal-related costs (see note 2)	**(0.4)**	**(0.2)**	**(0.3)**	**–**	**(0.9)**
Operating profit/(loss)	**43.9**	**26.2**	**25.3**	**(1.2)**	**94.2**
Loss on disposals and held for sale					**(0.9)**
Investment revenue					**11.3**
Finance costs					**(13.6)**
Profit before tax					**91.0**
Tax					**(16.4)**
Profit after tax					**74.6**

Significant legal charges and expenses include £1.2m of anti-bribery and corruption investigation costs and £0.2m on legal charges relating to the Ithra contract. Unallocated items are specific corporate level costs that cannot be allocated to a specific division.

Notes to accounts – Group
For the year ended 31 December 2019
continued

1 Segment information continued

	2018				
	Maritime & Land £m	Communications & Security £m	Aerospace & Infrastructure £m	Unallocated £m	Total £m
Underlying operating profit	52.8	29.9	30.0	–	112.7
Amortisation of intangibles arising on acquisition	(12.5)	(14.4)	(1.4)	–	(28.3)
Impairment charge	(1.0)	–	(6.6)	–	(7.6)
Significant legal charges and expenses	–	–	–	(2.3)	(2.3)
Acquisition and disposal-related costs	(1.7)	(0.4)	(0.6)	–	(2.7)
S3 programme	(4.6)	(1.5)	(0.4)	–	(6.5)
Operating profit/(loss)	33.0	13.6	21.0	(2.3)	65.3
Disposals					(0.7)
Retirement benefit scheme GMP equalisation					(3.2)
Investment revenue					6.2
Finance costs					(25.0)
Profit before tax					42.6
Tax					(10.2)
Profit after tax					32.4

Significant legal charges and expenses in 2018 includes £2.3m incurred in relation to the ongoing anti-bribery and corruption investigation. The S3 programme is the Group's Standardisation & Shared Services programme that completed in 2018.

Capital expenditure, additions to intangibles and leased assets, depreciation and amortisation

	Capital expenditure and additions to leased assets and intangibles (excluding goodwill and acquired intangibles)		**Depreciation and amortisation**	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Maritime & Land	**13.9**	6.5	**17.9**	17.0
Communications & Security	**16.5**	9.3	**23.0**	19.5
Aerospace & Infrastructure	**5.4**	4.2	**6.7**	4.8
Total	**35.8**	20.0	**47.6**	41.3

The 2019 depreciation and amortisation expense includes £28.6m of amortisation charges (2018: £32.4m), £9.7m of property, plant and equipment depreciation charges (2018: £8.9m) and £9.3m of leased asset depreciation charges (2018: nil).

Total assets by segment

	2019 £m	2018 £m
Maritime & Land	**262.0**	247.2
Communications & Security	**424.7**	429.5
Aerospace & Infrastructure	**193.5**	224.5
	880.2	901.2
Unallocated	**116.6**	123.6
Consolidated total assets	**996.8**	1,024.8

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

1 Segment information continued

Total liabilities by segment

	2019 £m	2018 £m
Maritime & Land	**122.8**	104.8
Communications & Security	**110.0**	87.5
Aerospace & Infrastructure	**52.1**	51.6
	284.9	243.9
Unallocated	**281.3**	360.1
Consolidated total liabilities	**566.2**	604.0

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

Revenue by destination

The following table provides an analysis of the Group's sales by geographical market:

	2019 £m	2018 £m
North America	**502.5**	439.3
United Kingdom	**171.1**	171.5
Rest of World	**95.9**	93.0
Continental Europe	**55.9**	62.9
	825.4	766.7

During the year, there was one direct customer (2018: one) that individually accounted for greater than 10% of the Group's total turnover. Sales to this customer in 2019 were £182.4m (2018: £127.2m) across all segments.

Other information (by geographic location)

	Non-current assets		Total assets		Capital expenditure and additions to leased assets and intangibles (excluding goodwill and acquired intangibles)	
	2019 £m	2018 £m	2019 £m	2018 £m	2019 £m	2018 £m
UK	**157.8**	163.1	**315.6**	328.3	**11.8**	7.8
USA	**320.9**	322.6	**425.5**	439.8	**16.6**	7.5
Canada	**88.5**	82.5	**129.9**	118.2	**7.1**	4.3
Rest of World	**5.5**	8.7	**9.2**	14.9	**0.3**	0.4
	572.7	576.9	**880.2**	901.2	**35.8**	20.0
Unallocated	**11.6**	18.8	**116.6**	123.6	**–**	–
	584.3	595.7	**996.8**	1,024.8	**35.8**	20.0

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For the year ended 31 December 2019
continued

2 Additional non-statutory performance measures

To present the underlying performance of the Group on a consistent basis year on year, additional non-statutory performance indicators are used. This analysis of the Group's operating results is presented to provide readers with additional performance indicators that are prepared on a non-statutory basis. It includes the key performance indicators (KPIs) for return on invested capital (ROIC) and organic growth in order book, revenue and underlying operating profit. This presentation is regularly reviewed by management to identify items that are unusual and other items relevant to an understanding of the Group's performance and long-term trends with reference to their materiality and nature. This additional information is not uniformly defined by all companies and may not be comparable with similarly titled measures and disclosures by other organisations. The non-statutory disclosures should not be viewed in isolation or as an alternative to the equivalent statutory measure. See page 155 for further details and definitions. Due to the adoption of IFRS 16, certain metrics, such as free cash flow and EBITDA, are not directly comparable with prior periods. The non-statutory performance measures are calculated as follows:

	2019 £m	2018 £m
Operating profit	**94.2**	65.3
Amortisation of intangibles arising on acquisition (see note 14)	**21.7**	28.3
Significant legal charges and expenses*	**1.4**	2.3
Acquisition and disposal-related costs	**0.9**	2.7
S3 programme	**–**	6.5
Impairment charges (see notes 13 and 14)	**–**	7.6
Underlying operating profit	**118.2**	112.7
Depreciation of property, plant and equipment (see note 15)	**9.7**	8.9
Depreciation of leased assets (see note 16)	**9.3**	–
Amortisation of internally generated intangible assets (see note 14)	**2.9**	1.5
Amortisation of software, patents and trademarks (see note 14)	**4.0**	2.6
EBITDA	**144.1**	125.7
Profit before tax	**91.0**	42.6
Amortisation of intangibles arising on acquisition (see note 14)	**21.7**	28.3
Acquisition and disposal related costs	**0.9**	2.7
Gain on fair value movements of derivatives (see note 22)	**(10.6)**	(5.5)
Loss on disposals and held for sale (see note 30)	**0.9**	0.7
Significant legal charges and expenses*	**1.4**	2.3
Loss on closing out foreign currency derivative contract	**–**	11.1
Net finance charge on defined benefit pensions (see note 9)†	**–**	1.9
S3 programme	**–**	6.5
Retirement benefit scheme GMP equalisation (see note 29)	**–**	3.2
Impairment charges (see notes 13 and 14)	**–**	7.6
Underlying profit before tax	**105.3**	101.4
Cash generated by operations **(see note 27)**	**114.9**	102.4
Principal payments on finance leases	**(7.8)**	–
Purchase of property, plant and equipment	**(14.9)**	(13.0)
Proceeds on disposal of property, plant and equipment	**0.1**	0.2
Expenditure on product development and other intangibles	**(8.0)**	(7.0)
Significant legal charges and expenses*	**1.9**	1.5
S3 programme	**–**	2.6
Acquisition and disposal-related payments	**0.6**	2.6
Underlying operating cash flow	**86.8**	89.3
Underlying operating cash conversion (KPI)	**73%**	79%

* Significant legal charges and expenses are the charges arising from investigations and settlement of litigation that are not in the normal course of business. Significant legal charges and expenses include £1.2m (2018: £2.3m) of anti-bribery and corruption investigation costs and £0.2m (2018: nil) on legal charges relating to the Ithra contract

† The pension finance charge is included within underlying finance costs from 1 January 2019

2 Additional non-statutory performance measures continued

	2019 £m	2018 £m
Net cash flow from operating activities	**94.6**	86.7
Interest received	**0.7**	0.7
Purchase of property, plant and equipment	**(14.9)**	(13.0)
Proceeds on disposal of property, plant and equipment	**0.1**	0.2
Expenditure on product development and other intangibles	**(8.0)**	(7.0)
Free cash flow	**72.5**	67.6

Net assets (2018 adjusted for IFRS 16 adoption impact, see note 36)	**430.6**	418.9
Net debt (2018 adjusted for IFRS 16 liability, see note 36)	**154.8**	197.0
Retirement benefit obligations (see note 29)	**73.3**	73.0
Net derivative financial instruments (see note 22)	**(4.2)**	6.4
Net tax assets	**(8.5)**	(11.3)
Total invested capital	**646.0**	684.0
Average invested capital	**665.0**	
Underlying operating profit	**118.2**	
ROIC (KPI)	**17.8%**	

Earnings per share
The reconciliation from statutory earnings to underlying earnings, as used for the underlying earnings per share metric, is set out in note 12.

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

	Order book		Revenue		Underlying operating profit	
	£m	% impact	£m	% impact	£m	% impact
2018	983.9		766.7		112.7	
Currency translation	(21.9)	-2.2	22.2	+2.9	3.0	+2.7
Impact of IFRS 16 adoption	–	–	–	–	1.1	+1.0
Disposals	(37.9)	-3.9	(16.0)	-2.1	(1.9)	-1.7
2018 (for organic measure)	924.1		772.9		114.9	
Organic growth (KPI)	**98.8**	**+10.7**	**52.5**	**+6.8**	**3.3**	**+2.9**
2019	**1,022.9**	+4.0	**825.4**	+7.7	**118.2**	+4.9

Notes to accounts – Group
For the year ended 31 December 2019
continued

3 Revenue

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

	2019				2018			
	Maritime & Land £m	**Communications & Security £m**	**Aerospace & Infrastructure £m**	**Total £m**	Maritime & Land £m	Communications & Security £m	Aerospace & Infrastructure £m	Total £m
Point in time	**85.6**	**115.1**	**136.2**	**336.9**	84.0	114.6	105.4	304.0
Over time	**267.4**	**152.8**	**68.3**	**488.5**	233.9	138.0	90.8	462.7
	353.0	**267.9**	**204.5**	**825.4**	317.9	252.6	196.2	766.7

The estimate of future costs on over-time contracts is a critical accounting estimate as set out on page 148. Across the aggregated portfolio of over time contracts open at 31 December 2019, a 1% increase in estimated costs to complete the portfolio equates to £5.1m. The impact on revenue would depend on the margin and percentage of completion of any given contract within the portfolio; however, when taken in aggregate, it is not likely to exceed £5.1m.

Revenue of £1.0m was recognised during the year ended 31 December 2019 in respect of performance obligations satisfied or partially satisfied in previous periods.

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

	2020 £m	**2021 £m**	**2022 and beyond £m**	**Total £m**
Point in time revenue	**271.3**	**83.0**	**61.0**	**415.3**
Over-time revenue	**323.8**	**136.4**	**147.4**	**607.6**

4 Other operating income

Amounts included in other operating income were as follows:

	2019 £m	2018 £m
Foreign exchange gains	**1.0**	3.2
	1.0	3.2

Foreign exchange gains and losses are impacted by gains or losses on foreign exchange transactions and revaluation of currency assets and liabilities.

5 Other operating expenses

Amounts included in other operating expenses were as follows:

	2019 £m	2018 £m
Amortisation of internally generated development costs (see note 14)	**2.9**	1.5
Foreign exchange losses	**6.0**	1.8
	8.9	3.3

6 Operating profit

Operating profit is stated after charging/(crediting):

	2019 £m	2018 £m
Raw materials and other bought in inventories expensed in the year	**260.3**	238.4
Staff costs (see note 7)	**267.9**	252.7
Depreciation of property, plant and equipment (see note 15)	**9.7**	8.9
Depreciation of leased assets (see note 16)	**9.3**	–
Amortisation of internally generated intangible assets (see note 14)	**2.9**	1.5
Amortisation of software, patents and trademarks (see note 14)	**4.0**	2.6
Amortisation of acquired intangible assets (see note 14)	**21.7**	28.3
Impairment of intangible assets (see notes 13 and 14)	**–**	7.6
Government grant income (see note 23)	**(0.3)**	(0.2)
Net foreign exchange gain	**(5.9)**	(7.2)
Loss on disposal of property, plant and equipment	**0.1**	0.1
Operating lease rentals		
– plant and machinery	**n/a**	0.9
– other	**n/a**	14.6
Short-term lease rentals	**0.3**	n/a
Low-value asset lease rentals	**0.1**	n/a
Income from property subletting	**(0.7)**	(0.6)
Research and development costs	**30.1**	26.4
Auditor's remuneration for statutory audit work (including expenses)	**1.3**	1.2

Analysis of auditor's remuneration

	2019 £m	2018 £m
Fees payable for the audit of the annual accounts	**0.4**	0.3
Fees payable for the audit of subsidiaries	**0.9**	0.9
Total for statutory Group audit services	**1.3**	1.2

Total non-audit services in 2019 were £11,000 (2018: £27,000). The Company-only audit fee included in the Group audit fee shown above was £20,000 (2018: £20,000).

7 Staff costs

Particulars of employees (including Executive Directors) are shown below. Employee costs during the year amounted to:

	2019 £m	2018 £m
Wages and salaries	**233.6**	219.7
Social security costs	**22.6**	23.0
Pension costs	**11.7**	10.0
	267.9	252.7

The average monthly number of persons employed by the Group during the year was as follows:

	2019 Number	2018 Number
Production	**1,690**	1,788
Engineering	**1,376**	1,381
Selling	**214**	217
Support services	**809**	733
	4,089	4,119

Information on Directors' remuneration is given in the section of the remuneration report described as having been audited and those elements required by the Companies Act 2006 and the Financial Conduct Authority form part of these accounts.

Notes to accounts – Group
For the year ended 31 December 2019
continued

8 Investment revenue

	2019 £m	2018 £m
Bank interest	**0.7**	0.7
Fair value movement on derivatives (see note 22)	**10.6**	5.5
	11.3	6.2

9 Finance costs

	2019 £m	2018 £m
Amortisation of finance costs of debt	**0.7**	0.8
Interest payable on bank loans, overdrafts and other loans	**9.5**	11.2
Finance charge on leases	**1.5**	–
Total borrowing costs	**11.7**	12.0
Retirement benefit scheme finance cost	**1.9**	1.9
Loss on closing out foreign currency derivative contract	**–**	11.1
	13.6	25.0

10 Tax

	2019 £m	2018 £m
UK taxes		
Corporation tax	**3.2**	2.4
Adjustment in respect of prior years	**(2.4)**	2.7
	0.8	5.1
Overseas taxes		
Current taxation	**10.1**	7.5
Adjustment in respect of prior years	**(1.7)**	(0.4)
	8.4	7.1
Total current tax	**9.2**	12.2
Deferred tax		
Origination and reversal of temporary differences	**7.0**	(1.6)
Recognition of deferred tax assets	**0.2**	(0.4)
Total deferred tax (credit)/charge	**7.2**	(2.0)
Total tax charge	**16.4**	10.2

Corporation tax in the UK is calculated at 19.00% (2018: 19.00%) of the estimated assessable profit for the year.

Finance Act 2016 provides for a reduction in the main rate of corporation tax to 17% for the financial year beginning 1 April 2020. UK deferred tax at the balance sheet date has been calculated at 17% (2018: 17%). Deferred tax in other territories 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 2019 have been calculated at 24% (2018: 24%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

In addition to the amount charged to the income statement, the following amounts relating to tax have been recognised directly in other comprehensive income:

	2019 £m	2018 £m
Deferred tax		
Arising on income and expenses recognised in other comprehensive income:		
Actuarial gain on defined benefit pension schemes	**(1.6)**	(0.8)
Revaluation of interest rate hedge	**0.1**	0.1
Total income tax charge recognised directly in other comprehensive income	**(1.5)**	(0.7)

10 Tax continued

In addition to the amount charged to the income statement and other comprehensive income, the following amounts relating to tax have been recognised directly in equity:

	2019 £m	2018 £m
Deferred tax		
IFRS 16 adjustment	**(0.6)**	–
Change in estimated excess tax deductions related to share-based payments	**(0.7)**	–
IFRS 15 adjustment	**–**	2.3
Total income tax recognised directly in equity	**(1.3)**	2.3

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2019 £m	2018 £m
Group profit before tax	**91.0**	42.6
Tax on Group profit at standard UK corporation tax rate of 19.00% (2018: 19.00%)	**17.3**	8.1
Tax effects of:		
Income that are not taxable/allowable in determining taxable profits	**2.2**	1.4
Derecognition/(recognition) of deferred tax assets	**0.2**	(0.4)
Expenses for which no deferred tax asset recognised	**0.4**	2.9
Different tax rates of subsidiaries operating in other jurisdictions	**3.0**	1.7
CFC exemption	**(2.6)**	(4.3)
Deferred tax differences on temporary differences	**(0.1)**	0.3
Patent Box	**(0.5)**	(0.3)
Adjustments in respect of prior years	**(3.5)**	0.8
Tax expense for the year	**16.4**	10.2

Included within the tax reconciliation are a number of non-recurring items, principally non-tax deductible one-off costs which fluctuate from year to year. The prior-year adjustment in 2019 includes releases of provisions for uncertain tax treatments, which are no longer required. In addition, a deferred tax asset was not recognised for certain expenses in our US business in both 2019 and 2018 and this will continue to be assessed annually. The differences attributable to the UK CFC exemption, Patent Box and higher overseas tax rates are expected to recur in the future (the level of profits in overseas jurisdictions and changes to the UK and overseas tax rates will affect the size of this difference in the future).

The Group is subject to enquiries and audits by tax authorities in the territories 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 2019, the Group holds provisions for such potential issues of £2.2m (2018: £2.3m). These provisions relate to multiple issues, across the jurisdictions in which the Group operates. As the outcome relating to tax matters can be uncertain until a conclusion is reached with the relevant tax authority or through a legal process, the amount ultimately paid may differ materially from the amount accrued.

The company has benefited in the current year, and previous years, from a certain exemption in the UK Controlled Foreign Company (CFC) rules. On 2 April 2019, the European Commission concluded that the exemption, as applicable for years from 2013 through 2018, partly constituted illegal state aid. Ultra, the UK Government and other affected taxpayers have separately appealed this decision to the EU General Court. In common with other UK-based international companies whose arrangements were in line with UK CFC legislation, which applied up to 2018, HMRC may seek to recover alleged illegal aid from Ultra pending the resolution of EU litigation. HMRC initiated enquiries during 2019 in respect of this issue but to date no substantive progress has been made and the range of potential outcomes remains nil to £21m. No provision for this potential liability is made in these financial statements as it is not clear what, if any, the eventual financial result will be.

11 Dividends

Amounts recognised as distributions to equity holders in the year:

	2019 £m	2018 £m
Final dividend for the year ended 31 December 2018 of 37.0p (2017: 35.0p) per share	**26.1**	26.3
Interim dividend for the year ended 31 December 2019 of 15.0p (2018: 14.6p) per share	**10.6**	10.6
	36.7	36.9
Proposed final dividend for the year ended 31 December 2019 of 39.2p (2018: 37.0p) per share	**27.8**	26.4

The 2019 proposed final dividend of 39.2p per share is proposed to be paid on 18 May 2020 to shareholders on the register at 24 April 2020. It was approved by the Board after 31 December 2019 and has not been included as a liability as at 31 December 2019.

Notes to accounts – Group
For the year ended 31 December 2019
continued

12 Earnings per share

	2019 pence	2018 pence
Basic underlying (see below)	**119.5**	109.5
Diluted underlying (see below)	**119.4**	109.5
Basic	**105.1**	43.6
Diluted	**104.9**	43.6

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

	2019 £m	2018 £m
Earnings		
Earnings for the purposes of basic earnings per share being profit for the year	**74.5**	32.4
Underlying earnings		
Profit for the period	**74.5**	32.4
Amortisation of intangibles arising on acquisition (net of tax)	**16.9**	22.0
Acquisition and disposal-related costs (net of tax)	**0.1**	2.7
Profit on fair value movements on derivatives (net of tax)	**(8.8)**	(6.4)
Net loss on disposals and held for sale (net of tax)	**0.9**	0.7
Significant legal charges and expenses (net of tax)	**1.1**	2.3
Net finance charge on defined benefit pensions (net of tax)*	**–**	1.9
S3 programme (net of tax)	**–**	5.1
Loss on closing out foreign currency derivative contract (net of tax)	**–**	11.1
Impairment charges (net of tax)	**–**	7.3
Retirement benefit scheme GMP equalisation (net of tax)	**–**	2.3
Earnings for the purposes of underlying earnings per share	**84.7**	81.4

* The pension finance charge is included within underlying finance costs from 1 January 2019

The adjustments to profit are explained in note 2.

The weighted average number of shares is given below:

	2019 Number of shares	2018 Number of shares
Number of shares used for basic earnings per share	**70,893,867**	74,350,521
Effect of dilutive potential ordinary shares – share options	**93,523**	831
Number of shares used for fully diluted earnings per share	**70,987,390**	74,351,352

	2019 £m	2018 £m
Underlying profit before tax (see note 2)	**105.3**	101.4
Tax rate applied for the purposes of underlying earnings per share	**19.4%**	19.7%

During 2019, the Company purchased and cancelled 634,996 (2018: 6,288,127) shares. See note 26.

13 Goodwill

	2019 £m	2018 £m
Cost		
At 1 January	**438.5**	451.8
Exchange differences	**(10.6)**	15.0
Disposals	**(0.3)**	–
Reclassified as held for sale (see note 30)	**(3.3)**	(28.3)
At 31 December	**424.3**	438.5
Accumulated impairment losses		
At 1 January	**(60.7)**	(57.3)
Impairment of goodwill	**–**	(6.6)
Reclassified as held for sale	**–**	6.6
Exchange differences	**2.3**	(3.4)
At 31 December	**(58.4)**	(60.7)
Carrying amount at 31 December	**365.9**	377.8

The Group's market-facing segments, which represent cash generating unit (CGU) groupings, are: Aerospace, Energy, Communications, C2ISR, Maritime and Underwater Warfare. These represent the lowest level at which the goodwill is monitored for internal management purposes. Goodwill is allocated to CGU groupings as set out below:

	2019 Pre-tax Discount rate %	2018 Pre-tax Discount rate %	2019 £m	2018 £m
Aerospace	**10.9 – 12.1**	9.7	**32.6**	32.7
Energy	**10.9 – 12.1**	9.7 – 11.4	**18.3**	18.9
Aerospace & Infrastructure			**50.9**	51.6
Communications	**10.9 – 12.4**	9.7 – 11.4	**87.7**	92.3
C2ISR	**10.9 – 12.4**	10.7 – 11.4	**116.5**	120.0
Communications & Security			**204.2**	212.3
Maritime	**10.9 – 12.1**	9.7 – 11.4	**34.2**	35.1
Underwater Warfare	**12.1 – 12.9**	9.7 – 11.4	**76.6**	78.8
Maritime & Land			**110.8**	113.9
Total – Ultra Electronics			**365.9**	377.8

Notes to accounts – Group
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continued

13 Goodwill continued

Goodwill is initially allocated, in the year a business is acquired, to the CGU group expected to benefit from the acquisition. Subsequent adjustments are made to this allocation to the extent that operations, to which goodwill relates, are transferred between CGU groups. The size of a CGU group varies but is never larger than a reportable operating segment. There have been no changes in the year.

The recoverable amounts of CGUs are determined from value-in-use calculations. In determining the value-in-use for each CGU, the Group prepares cash flows derived from the most recent financial budgets and strategic plans, representing the best estimate of future performance. These plans, which have been approved by the Board, include detailed financial forecasts and market analysis covering the expected development of each CGU over the next five years. The cash flows for the following 10 years are also included and assume a growth rate of 2.5% (2018: 2.5%) per annum. Cash flows beyond that period are not included in the value-in-use calculation.

The key assumptions used in the value-in-use calculations are those regarding the discount rate, future revenues, growth rates, forecast gross margins, underlying operating profit* and underlying operating cash conversion*. Management estimates the discount rate using pre-tax rates that reflect current market assessments of the time value of money and risks specific to the Group, being the Weighted Average Cost of Capital (WACC). The WACC is then risk-adjusted to reflect risks specific to each business. The pre-tax discount rate used during 2019 was 10.9% for UK (2018: 9.7%), 12.4% for Canada (2018: 10.7%), 12.1% for USA (2018: 11.4%) and 12.9% for Australia (2018: 9.7%). 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. Longer-term growth rates, applied for the 10-year period after the end of the strategic planning period, are set at 2.5%. Ultra considers the long-term growth rate to be appropriate for the sectors in which it operates. Forecast gross margins reflect past experience, factor in expected efficiencies to counter inflationary pressures, and also reflect likely margins achievable in the shorter-term period of greater defence spending uncertainty.

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.

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

(i) reduce the post-2024 growth assumption from 2.5% to nil;
(ii) apply a 20% reduction to forecast operating profits in each year of the modelled cash inflows; and
(iii) consider specific market factors as noted above.

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

As set out in note 32, £3.3m of goodwill in the Communications & Security operating segment has been reclassified to held for sale.

From 1 January 2020, the CGU groupings will be revised to reflect the new Strategic Business Unit (SBU) structure of the Group.

+ The Aerospace and Energy CGUs are unchanged.
+ Forensic Technology, which is within the C2ISR CGU grouping, will form a new standalone CGU to reflect the business becoming an SBU from 1 January 2020. C$45.0m of goodwill has been assigned to this CGU based on the proportion of net present value of future cash flows from Forensic Technology relative to the rest of C2ISR.
+ The remainder of C2ISR (i.e. excluding Forensic Technology) and the Communications CGU grouping are combined into one Intelligence & Communications CGU grouping to reflect that goodwill in the Intelligence & Communications SBU will be monitored at this level.
+ Maritime and Underwater Warfare are combined into one Maritime CGU grouping to reflect that goodwill in the Maritime SBU will be monitored at this level.

The 2019 impairment tests were re-run with consideration of the new CGU groupings; on this go-forward basis, the value-in-use calculations exceed the CGU carrying values after applying sensitivity analysis.

* See note 2

14 Other intangible assets

	Acquired intangibles						
	Customer relationships £m	Intellectual property £m	Profit in order book £m	Other acquired £m	Internally generated capitalised development costs £m	Software, patents and trademarks £m	Total £m
Cost							
At 1 January 2018	209.9	110.5	33.1	8.4	27.3	31.3	420.5
Foreign exchange differences	6.6	3.8	1.0	0.2	0.8	1.0	13.4
Additions	–	–	–	–	1.6	5.4	7.0
Reclassified as held for sale	(1.4)	–	(0.4)	–	–	(0.3)	(2.1)
Disposals	–	(10.8)	(0.5)	(0.9)	–	(1.0)	(13.2)
At 1 January 2019	**215.1**	**103.5**	**33.2**	**7.7**	**29.7**	**36.4**	**425.6**
Foreign exchange differences	(4.6)	(2.3)	(0.6)	(0.1)	(0.6)	(0.9)	(9.1)
Additions	–	–	–	–	1.1	6.9	8.0
Reclassified as held for sale (see note 30)	–	–	–	–	(0.3)	–	(0.3)
Reclassification from tangible fixed assets (see note 15)	–	–	–	–	–	1.4	1.4
Disposals	(8.1)	–	(3.2)	–	–	(0.2)	(11.5)
At 31 December 2019	**202.4**	**101.2**	**29.4**	**7.6**	**29.9**	**43.6**	**414.1**
Accumulated amortisation							
At 1 January 2018	(136.5)	(69.5)	(32.6)	(4.7)	(17.0)	(23.2)	(283.5)
Foreign exchange differences	(4.7)	(2.9)	(1.0)	(0.1)	(0.6)	(0.8)	(10.1)
Reclassified as held for sale	1.4	–	0.4	–	–	0.3	2.1
Impairment charges	–	–	–	–	(1.0)	–	(1.0)
Disposals	–	10.8	0.5	0.9	–	1.0	13.2
Charge	(15.5)	(11.4)	(0.5)	(0.9)	(1.5)	(2.6)	(32.4)
At 1 January 2019	**(155.3)**	**(73.0)**	**(33.2)**	**(4.8)**	**(20.1)**	**(25.3)**	**(311.7)**
Foreign exchange differences	3.6	1.9	0.6	0.1	0.5	0.7	7.4
Reclassified as held for sale (see note 30)	–	–	–	–	0.2	–	0.2
Disposals	8.1	–	3.2	–	–	0.2	11.5
Reclassification from tangible fixed assets (see note 15)	–	–	–	–	–	(0.2)	(0.2)
Charge	(12.2)	(8.6)	–	(0.9)	(2.9)	(4.0)	(28.6)
At 31 December 2019	**(155.8)**	**(79.7)**	**(29.4)**	**(5.6)**	**(22.3)**	**(28.6)**	**(321.4)**
Carrying amount							
At 31 December 2019	**46.6**	**21.5**	**–**	**2.0**	**7.6**	**15.0**	**92.7**
At 31 December 2018	59.8	30.5	–	2.9	9.6	11.1	113.9

Of the £46.6m net book value within customer relationships, £24.7m related to Herley and £10.8m related to Forensic Technology, with estimated weighted average remaining lives of 10.9 years and 8.5 years respectively. Of the £21.5m net book value within intellectual property, £10.5m related to Herley and £4.7m related to Forensic Technology, with estimated weighted average remaining lives of 6.0 years and 7.0 respectively. Of the £15.0m (2018: £11.1m) net book value within the software, patents and trademarks category, £0.2m (2018: £0.2m) related to patents and trademarks. The amortisation of intangible assets charge is included within administrative expenses. Intangible assets, other than goodwill, are amortised over their estimated useful lives, typically as follows:

Customer relationships	5 to 21 years
Intellectual property	5 to 10 years
Profit in acquired order book	1 to 3 years
Other acquired	1 to 5 years
Development costs	2 to 10 years
Other intangibles:	
Software	3 to 5 years
Patents and trademarks	10 to 20 years

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15 Property, plant and equipment

	Land and buildings			
	Freehold £m	Short leasehold £m	Plant and machinery £m	Total £m
Cost				
At 1 January 2018	41.6	22.2	94.7	158.5
Foreign exchange differences	0.8	0.5	2.6	3.9
Additions	0.8	0.4	11.8	13.0
Disposals	–	(0.6)	(11.7)	(12.3)
Reclassified to held for sale	–	–	(4.1)	(4.1)
At 1 January 2019	**43.2**	**22.5**	**93.3**	**159.0**
Foreign exchange differences	(0.5)	(0.4)	(2.2)	(3.1)
Additions	0.7	2.1	12.1	14.9
Disposals	–	(0.1)	(2.3)	(2.4)
Reclassified to software (see note 14)	–	–	(1.4)	(1.4)
Reclassification	(0.7)	0.6	0.1	–
Reclassified to held for sale (see note 30)	–	(0.2)	(2.7)	(2.9)
At 31 December 2019	**42.7**	**24.5**	**96.9**	**164.1**
Accumulated depreciation				
At 1 January 2018	(9.2)	(14.3)	(75.8)	(99.3)
Foreign exchange differences	(0.1)	(0.5)	(1.8)	(2.4)
Charge	(1.0)	(1.8)	(6.1)	(8.9)
Disposals	–	0.6	11.1	11.7
Reclassification	0.8	(0.5)	(0.3)	–
Reclassified to held for sale	–	–	2.5	2.5
At 1 January 2019	**(9.5)**	**(16.5)**	**(70.4)**	**(96.4)**
Foreign exchange differences	0.1	0.2	1.5	1.8
Charge	(1.1)	(1.8)	(6.8)	(9.7)
Disposals	–	0.1	2.3	2.4
Reclassification to software (see note 14)	–	–	0.2	0.2
Reclassification	0.7	(0.6)	(0.1)	–
Reclassified to held for sale (see note 30)	–	0.2	1.6	1.8
At 31 December 2019	**(9.8)**	**(18.4)**	**(71.7)**	**(99.9)**
Carrying amount				
At 31 December 2019	**32.9**	**6.1**	**25.2**	**64.2**
At 31 December 2018	33.7	6.0	22.9	62.6

Freehold land amounting to £7.6m (2018: £6.9m) has not been depreciated. Included within Land and Buildings is £nil (2018: £nil) of assets in the course of construction.

16 Leased assets

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

	Land and buildings £m	Plant and machinery £m	Total £m
Cost			
At 1 January 2019	–	–	–
Adoption of IFRS 16 (see note 36)	34.4	1.4	35.8
Foreign exchange differences	(0.9)	–	(0.9)
Additions	12.9	–	12.9
Disposals	(1.8)	–	(1.8)
Reclassified to held for sale (see note 30)	(1.4)	–	(1.4)
At 31 December 2019	**43.2**	**1.4**	**44.6**
Accumulated depreciation			
At 1 January 2019	–	–	–
Foreign exchange differences	0.1	–	0.1
Charge	(8.7)	(0.6)	(9.3)
Disposals	0.4	–	0.4
Reclassified to held for sale (see note 30)	0.3	–	0.3
At 31 December 2019	**(7.9)**	**(0.6)**	**(8.5)**
Carrying amount			
At 31 December 2019	**35.3**	**0.8**	**36.1**

As permitted under IFRS 16 paragraph 6, the Group has elected not to recognise leases that are less than one year in length or are for a low-value asset (<£3.5k) on the balance sheet. These leases are expensed on a straight-line basis as short-term leases or leases of low-value assets. This expense is included in note 6. The finance charge on leases is included in note 9. Cash outflow in relation to leases is included in note 27. Some of our property that we lease is sublet to external parties; sublet income received on any of the above leases is also included in note 6.

17 Inventories

	2019 £m	2018 £m
Raw materials and consumables	**51.9**	56.1
Work in progress	**31.4**	23.7
Finished goods and goods for resale	**7.4**	8.8
	90.7	88.6

The amount of any write-down of inventory recognised as an expense in the year was £2.1m (2018: £2.3m).

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18 Over-time contract balances

Amounts receivable from over-time contract customers relates to work performed and revenue recognised on agreed contracts prior to the customer being invoiced.

The movement in the year of amounts receivable from over-time contract customers was as follows:

	Total £m
As at 1 January 2018	116.7
Adoption of IFRS 15	(10.5)
Foreign exchange differences	1.7
Revenue earned net of billings	1.0
Impairment	(1.2)
Reclassified to held for sale	(4.1)
As at 1 January 2019	**103.6**
Foreign exchange differences	**(1.1)**
Revenue earned net of billings	**(11.2)**
Reclassified to held for sale (see note 30)	**(0.6)**
As at 31 December 2019	**90.7**

The impairment recognised in 2018 relates to a non-core product line that was closed in the Maritime & Land division in the year.

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.

The movement in the year of amounts payable to over-time contract customers was as follows:

	Total £m
As at 1 January 2018	(58.7)
Adoption of IFRS 15	(2.8)
Foreign exchange differences	(0.6)
Cash advances net of revenue recognised	(4.5)
Other	(3.0)
Reclassified to held for sale	6.1
As at 1 January 2019	**(63.5)**
Foreign exchange differences	**1.0**
Cash advances net of revenue recognised	**(14.1)**
Other	**1.0**
Reclassified to deferred income	**2.4**
Reclassified to contract loss provision (see note 25)	**5.9**
As at 31 December 2019	**(67.3)**

Within the opening 2019 balance of £63.5m, £44.4m was utilised during the period.

19 Trade and other receivables

	2019 £m	2018 £m
Non-current		
Amounts receivable from over-time contract customers (see note 18)	**13.7**	22.6
	13.7	22.6

	2019 £m	2018 £m
Current		
Trade receivables	**108.4**	109.2
Provisions against receivables	**(1.8)**	(3.9)
Net trade receivables	**106.6**	105.3
Amounts receivable from over-time contract customers (see note 18)	**77.0**	81.0
Other receivables	**7.7**	6.5
Prepayments	**10.1**	9.2
Accrued income	**4.0**	3.2
	205.4	205.2

Trade receivables do not carry interest. The average credit period on sale of goods is 30 days (2018: 36 days).

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

The ageing profile of unprovided overdue trade receivables was as follows:

	2019 £m	Related provision £m	Total £m	2018 £m	Related provision £m	Total £m
1 to 3 months	**13.4**	**–**	**13.4**	18.0	(0.2)	17.8
4 to 6 months	**2.8**	**–**	**2.8**	1.4	–	1.4
7 to 9 months	**0.6**	**(0.1)**	**0.5**	0.8	(0.1)	0.7
Over 9 months	**2.2**	**(1.7)**	**0.5**	4.8	(3.6)	1.2
Total overdue	**19.0**	**(1.8)**	**17.2**	25.0	(3.9)	21.1

The Group makes provisions against its trade receivables based on expected credit losses where there are serious doubts as to future recoverability based on prior experience, on assessment of the current economic climate and on the length of time that the receivable has been overdue. All trade receivables that have been overdue for more than a year are provided for in full.

Movement in the provision for trade receivables was as follows:

	2019 £m	2018 £m
Current		
Balance at beginning of year	**3.9**	1.5
Foreign exchange differences	**–**	–
Increase in provision for trade receivables regarded as potentially uncollectable	**0.5**	2.6
Decrease in provision for trade receivables recovered during the year or provision utilised	**(2.6)**	(0.1)
Reclassified to held for sale (see note 30)	**–**	(0.1)
Balance at end of year	**1.8**	3.9

19 Trade and other receivables continued

Credit risk

Credit risk is defined as the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group mitigates this risk of financial loss by only dealing with creditworthy counterparties.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

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 has a small number of customers with individually significant amounts outstanding. These customers are considered to have low credit risk.

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

The carrying amount of financial assets recorded in the financial statements (see note 22), net of any allowances for losses, represents the Group's maximum exposure to credit risk.

20 Trade and other payables

	2019 £m	2018 £m
Amounts included in current liabilities:		
Trade payables	**49.9**	78.7
Amounts due to over-time contract customers (see note 18)	**57.5**	52.4
Other payables	**22.2**	20.6
Accruals	**37.8**	42.2
Deferred income	**24.9**	18.3
	192.3	212.2
Amounts included in non-current liabilities:		
Amounts due to over-time contract customers (see note 18)	**9.8**	11.1
Accruals and other payables	**–**	0.2
Deferred income	**2.0**	3.6
	11.8	14.9

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

21 Borrowings

	2019 £m	2018 £m
Amounts due in less than one year:		
Bank loans	**–**	128.8
Unsecured loan notes	**–**	47.0
Lease liability	**8.2**	–
	8.2	175.8
Amounts due after more than one year:		
Bank loans	**83.8**	17.6
Unsecured loan notes	**102.5**	50.0
Government loans (see note 23)	**9.5**	10.4
Lease liability	**33.0**	–
	228.8	78.0
Total borrowings:		
Amount due for settlement within 12 months	**8.2**	175.8
Amount due for settlement after 12 months	**228.8**	78.0
	237.0	253.8

Included in total borrowings are syndication costs of £2.0m (2018: £2.4m), which are amortised over the duration of the loan. The Group's main financial covenants are that the ratio of net consolidated total borrowings/EBITDA is less than three, and that the net interest payable on borrowings is covered at least three times by EBITA.

22 Financial instruments and financial risk management

Derivative financial instruments

Exposure to currency and interest rate risks arises in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to all significant fluctuations in foreign exchange rates and interest rates.

Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

+ Level 1 fair value measurements are those derived from quoted (unadjusted) active markets for identical assets or liabilities.
+ Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
+ Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

All of Ultra's financial instruments have been assessed as Level 2 or Level 3. Further details on the Canadian government Strategic Aerospace and Defence Initiative (SADI) loan, which is classified as Level 3, are set out in note 24.

	Level 3 £m	**Level 2 £m**	**2019 Total £m**
Financial assets at fair value			
Foreign exchange derivative financial instruments (through profit and loss)	**–**	**4.9**	**4.9**
Interest rate swap	**–**	**–**	**–**
Total	**–**	**4.9**	**4.9**
Financial liabilities at fair value			
Government loan (see note 23)	**9.5**	**–**	**9.5**
Foreign exchange derivative financial instruments (through profit and loss)	**–**	**0.7**	**0.7**
Total	**9.5**	**0.7**	**10.2**

	Level 3 £m	Level 2 £m	2018 Total £m
Financial assets at fair value			
Foreign exchange derivative financial instruments (through profit and loss)	–	0.1	0.1
Interest rate swap	–	0.3	0.3
Total	–	0.4	0.4
Financial liabilities at fair value			
Government loan (see note 23)	10.4	–	10.4
Foreign exchange derivative financial instruments (through profit and loss)	–	6.5	6.5
Total	10.4	6.5	16.9

	Current assets/(liabilities)		**Non-current assets/(liabilities)**	
	2019 £m	2018 £m	**2019 £m**	2018 £m
Financial assets/(liabilities) carried at fair value through profit or loss				
Foreign exchange currency liabilities	**(0.5)**	(5.5)	**(0.2)**	(1.0)
Foreign exchange currency assets	**3.2**	–	**1.7**	0.1

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22 Financial instruments and financial risk management continued

Financial assets

The financial assets of the Group were as follows:

	2019 £m	2018 £m
Cash and cash equivalents	**82.2**	96.3
Currency derivatives used for hedging and interest rate swap	**4.9**	0.4
Amounts receivable from over-time contract customers	**90.7**	103.6
Other receivables	**7.7**	6.5
Trade receivables	**106.6**	105.3
Accrued income	**4.0**	3.2

The Directors consider that the carrying amount for all financial assets approximates to their fair value.

Financial liabilities

The financial liabilities of the Group were as follows:

	2019 £m	2018 £m
Currency derivatives used for hedging	**0.7**	6.5
Bank loans and overdrafts	**83.8**	146.4
Loan notes	**102.5**	97.0
Government loans	**9.5**	10.4
Lease liabilities	**41.2**	–
Trade payables	**49.9**	78.7
Amounts due to over-time contract customers	**67.3**	63.5
Deferred consideration	**2.3**	2.4
Accruals	**37.8**	42.4
Other payables	**22.2**	20.6

The Directors consider that the carrying amount for all financial liabilities approximates to their fair value.

Liquidity risk

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

The Group's banking facilities are provided by a small group of banks, led by The Royal Bank of Scotland. On 7 November 2017, the Group obtained a £300m revolving credit facility, £50m has an expiry date of November 2023 and £250m has an expiry date of November 2024. The facility incorporates an uncommitted £150m accordion. The facility is denominated in Sterling, US Dollars, Canadian Dollars, Australian Dollars and Euros and is used for balance sheet and operational needs. The Group repaid a $165m term loan in the year.

All bank loans are unsecured. Interest was predominantly charged at 0.90% (2018: 0.96%) over base or contracted rate. At 31 December 2019, the Group had available £214m (2018: £280m) of undrawn, committed revolving credit facilities.

At 31 December 2019, the Group also has unsecured loan notes in issue to Prudential Investment Management Inc (Pricoa) of £50m with an expiry date of October 2025 (2018: £50m), and $70m with an expiry date of January 2026 and January 2029 (2018: $60m).

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

The Group, through its Canadian subsidiary Ultra Electronics Tactical Communication Systems (TCS), participates in two Canadian programmes that provide government support in relation to the development of certain of its products. Further disclosure is provided in note 23.

A £5m overdraft and US$2.5m overdraft are available for short-term working capital funding.

22 Financial instruments and financial risk management continued

The following table details the Group's remaining contractual maturity for its financial liabilities:

	Within 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
2019					
Bank loans and overdrafts	**1.5**	**1.5**	**87.3**	**–**	**90.3**
Loan notes	**3.8**	**3.8**	**11.5**	**109.3**	**128.4**
Government loans	**–**	**2.2**	**3.9**	**3.4**	**9.5**
Trade payables	**49.9**	**–**	**–**	**–**	**49.9**
Currency derivatives used for hedging and interest rate swap	**0.5**	**0.1**	**0.1**	**–**	**0.7**
Deferred consideration	**–**	**–**	**2.3**	**–**	**2.3**
Accruals	**37.8**	**–**	**–**	**–**	**37.8**
Other payables	**22.2**	**–**	**–**	**–**	**22.2**

	Within 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
2018					
Bank loans and overdrafts	130.6	0.3	17.9	–	148.8
Loan notes	48.6	1.4	4.3	51.1	105.4
Government loans	–	–	–	10.4	10.4
Trade payables	78.7	–	–	–	78.7
Currency derivatives used for hedging and interest rate swap	5.5	0.6	0.4	–	6.5
Deferred consideration	0.1	–	2.3	–	2.4
Accruals	42.2	0.2	–	–	42.4
Other payables	20.6	–	–	–	20.6

The following table details the Group's contractual undiscounted cash inflows/(outflows) for its lease liabilities and lease subletting:

	Within 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m	Total £m
2019					
Lease liabilities	**(10.0)**	**(9.1)**	**(19.0)**	**(9.8)**	**(47.9)**
Subletting income	**0.7**	**0.6**	**0.2**	**–**	**1.5**

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 21, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The Group is not subject to externally imposed capital requirements.

Currency risk

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

At 31 December 2019, the net fair value of the Group's currency derivatives is estimated to be an asset of approximately £4.2m (2018: liability £6.4m), comprising £4.9m assets (2018: £0.1m) and £0.7m liabilities (2018: £6.5m). The gain on derivative financial instruments included in the Group's consolidated income statement for the period was £10.6m (2018: gain £5.5m).

22 Financial instruments and financial risk management continued

The net notional or net contracted amounts of foreign currency-related forward sales contracts, classified by year of maturity are shown below.

	Not exceeding 1 year £m	Between 1 year and 5 years £m	Over 5 years £m	Total £m
2019				
US Dollars/Sterling	**104.0**	**53.9**	**–**	**157.9**
Euro/other currencies	**(0.1)**	**(6.9)**	**–**	**(7.0)**
Total	**103.9**	**47.0**	**–**	**150.9**
2018				
US Dollars/Sterling	66.8	24.3	–	91.1
Euro/other currencies	7.0	(8.4)	–	(1.4)
Total	73.8	15.9	–	89.7

Net investment hedges

As set out on page 154, from 1 January 2019 the Group revised its hedging strategy under IFRS 9 to reduce income statement volatility from re-valuation of US Dollar assets and liabilities held on the UK balance sheet; this has carried increasing US Dollar denominated assets from certain long-term programmes. From 1 January 2019, the net investment hedge was revised to eliminate this volatility. At the year end, the Group had net investments in US companies where the associated foreign currency translation risk was hedged by external borrowings in US Dollars. The net value of the external borrowings and the net US Dollar assets on the UK balance sheet do not exceed the net investments and meets the conditions required to qualify as effective hedges. The value of the net investment hedge was $23m (2018: $84m).

Interest rate risk

The Group held interest rate swaps until July 2019 to manage its exposure to interest rate movements on its bank borrowings. The interest rate swaps, denominated in US Dollars, had been entered into to achieve an appropriate mix of fixed and floating rate exposure reflecting the Group's policy. The swaps matured in July 2019 and had a fixed swap rate, including the bank margin, of 1.23%. The floating rates were US Dollar LIBOR. At the year end, the nominal amounts of the interest rate swaps were $nil (2018: $45m).

The interest rate swaps were designated effective cash flow hedges and the change in fair value is charged to equity. At 31 December 2019, the net fair value of interest rate swaps was £nil (2018: £0.3m). The amount recycled from the income statement during the year was £0.3m and has been credited to interest cost in the year (2018: £0.4m credited).

The Group has US$70m of fixed rate debt with Pricoa at an interest rate of 4.54%, which is due for repayment in January 2026 and January 2029, and £50m of fixed rate debt with Pricoa at an interest rate of 2.87%, which is due for repayment in October 2025. The interest rate swaps and fixed rate Pricoa debt were entered into to achieve an appropriate mix of fixed and floating rate exposure reflecting the Group's policy.

The effective interest rates and repricing dates of the Group's financial assets and liabilities were as follows:

	Effective interest rate	Total £m	Within 1 year £m	1 to 2 years £m	2 to 5 years £m	5+ years £m
2019						
Cash and cash equivalents	**0.70%**	**82.2**	**82.2**	**–**	**–**	**–**
Loan notes	**3.73%**	**102.5**	**–**	**–**	**–**	**102.5**
Unsecured bank loans	**1.74%**	**83.8**	**–**	**–**	**83.8**	**–**
Government loans	**4.43%**	**9.5**	**–**	**2.2**	**3.9**	**3.4**
2018						
Cash and cash equivalents	0.57%	96.3	96.3	–	–	–
Loan notes	3.11%	97.0	47.0	–	–	50.0
Unsecured bank loans	2.46%	146.4	128.8	17.6	–	–
Government loans	4.43%	10.4	–	–	–	10.4

Market risk sensitivity analysis

Interest rate risk

During 2019, the Group's net borrowings were predominantly at floating interest rates. The Group has estimated the impact on the income statement of a 1% increase in market interest rates, from the average rates applicable during 2019. There is no significant difference between the amount recharged to the income statement and equity in the year.

22 Financial instruments and financial risk management continued

	Profit before tax £m
2019	**1% change**
Interest rate sensitivity	**(1.4)**
2018	
Interest rate sensitivity	(2.0)

Currency risks

The Group has estimated the impact on the income statement and equity of a 10% and 25% strengthening or weakening of average actual and transactional currency rates applicable during the year and a 10% and 25% change in the foreign exchange rates applicable for valuing foreign exchange derivative instruments.

	10% weakening of GBP		10% strengthening of GBP		25% weakening of GBP		25% strengthening of GBP	
	Profit before tax £m	Equity £m	Profit before tax £m	Equity £m	Profit before tax £m	Equity £m	Profit before tax £m	Equity £m
2019								
Transaction	**7.6**	**7.6**	**(7.6)**	**(7.6)**	**22.9**	**22.9**	**(22.9)**	**(22.9)**
P&L translation	**7.8**	**7.3**	**(7.8)**	**(7.3)**	**19.5**	**21.9**	**(19.5)**	**(21.9)**
Foreign exchange derivatives	**(6.3)**	**(6.3)**	**12.8**	**12.8**	**(27.2)**	**(27.2)**	**23.2**	**23.2**
Total foreign exchange	**9.1**	**8.6**	**(2.6)**	**(2.1)**	**15.2**	**17.6**	**(19.2)**	**(21.6)**
2018								
Transaction	5.5	5.5	(5.5)	(5.5)	16.4	16.4	(16.4)	(16.4)
P&L translation	4.6	4.1	(4.6)	(4.1)	11.5	12.3	(11.5)	(12.3)
Foreign exchange derivatives	(13.8)	(13.8)	0.8	0.8	(28.7)	(28.7)	9.0	9.0
Total foreign exchange	(3.7)	(4.2)	(9.3)	(8.8)	(0.8)	–	(18.9)	(19.7)

23 Government grants and loans

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

Under the Strategic Aerospace and Defence Initiative (SADI), the Canadian Federal Government provides a long-term funding arrangement in respect of certain eligible research and development project costs. Under this arrangement, C$31.8m was provided to TCS and will be reimbursed at favourable rates of interest over the period to 2032. Up to C$8m will be provided to UEMS and reimbursed at favourable rates of interest over the period 2020 to 2033. The benefit of the below-market rate of interest has been calculated as the difference between the proceeds received and the fair value of the loans and has been credited to profit in the year.

The fair value of the loans has been calculated using a market interest rate for a similar instrument. The valuation used the discounted cash flow method and considered the value of expected payments using a risk-adjusted discount rate; the discount rate used was 18% for TCS and 15% for UEMS. For TCS, the amount repayable depends on future revenue growth of the TCS business to 2032 and will be between zero and x1.5 of the amounts received up to a maximum of C$47.7m. For UEMS, the amount repayable depends on future revenue growth of the UEMS business from 2020 to 2033 and will be between x1.0 and x1.5 of the amounts received up until the end of the funding period in 2019. As at 31 December 2019, C$3.5m (2018: C$2.8m) had been received by UEMS. UEMS is requesting a four-year extension to the programme, which is currently under negotiation.

The significant unobservable inputs for this Level 3 financial instrument are: (i) whether, and by how much, TCS/UEMS revenues will grow during the periods to 2032/2033, and (ii) the specific years in which revenue will grow. There are significant inherent uncertainties in management's ability to forecast revenue over the following 15 years, particularly in later years. For TCS, if the compound annual revenue growth rate over the period from 2019 to 2032 was 3.0% higher than assumed in the valuation model, then the net present value of the liability as at 31 December 2019 would increase by C$3.7m (£2.2m). If the forecast revenue growth occurs in earlier years than envisaged, then the net present value of the liability will increase; if the revenue growth increases were to occur one year earlier than assumed in the valuation model, then the net present value of the liability as at 31 December 2019 would increase by C$0.2m (£0.1m).

TCS has also benefited from an Investissement Quebec (IQ) research and development programme, whereby IQ shared in the cost of research and development of certain specified new products. Under this arrangement, from 2010 to 2014 IQ financed C$8.8M of eligible costs associated with these specified projects. The funding is repayable under a royalty arrangement over the period of 2014 to 2021, based on sales of specified products. As there is no minimum repayment, funding received in respect of the IQ programme has been included in the income statement. Royalties repaid have also been included as costs in the income statement in the period where they have been incurred.

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23 Government grants and loans continued

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

	2019 £m	2018 £m
Fair value of loan brought forward	**10.4**	7.5
Contributions	**(2.8)**	1.6
Interest charged to finance costs	**1.8**	1.4
Foreign exchange differences	**0.1**	(0.1)
Fair value of loan carried forward	**9.5**	10.4

Government grants credited to profit in the year

	2019 £m	2018 £m
Canadian Government	**0.3**	0.2

24 Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

	Accelerated tax depreciation* £m	Employee share options costs £m	Derivatives £m	Retirement benefit obligations £m	Goodwill £m	Other £m	Total £m
At 1 January 2018	(4.0)	–	(0.2)	14.1	(11.6)	6.0	4.3
Credit/(charge) to income	(0.4)	–	1.2	(0.8)	–	2.0	2.0
Credit/(charge) to other comprehensive income	–	–	–	(0.7)	–	–	(0.7)
Credit direct to equity	–	–	–	–	–	2.2	2.2
Exchange differences	(0.1)	–	–	–	–	0.5	0.4
At 1 January 2019	**(4.5)**	**–**	**1.0**	**12.6**	**(11.6)**	**10.7**	**8.2**
Credit/(charge) to income	(1.9)	0.6	(1.7)	(1.7)	(1.4)	(1.0)	(7.1)
Credit to other comprehensive income	–	–	–	1.6	–	–	1.6
Credit/(charge) direct to equity	(0.6)	0.7	–	–	–	1.2	1.3
Exchange differences	0.2	–	–	–	0.1	(0.6)	(0.3)
Reclassification	–	–	–	–	–	(0.2)	(0.2)
At 31 December 2019	**(6.8)**	**1.3**	**(0.7)**	**12.5**	**(12.9)**	**10.1**	**3.5**

	2019 £m	2018 £m
Non-current assets	**10.0**	18.7
Current assets	**13.0**	–
Current liabilities	**(3.2)**	–
Non-current liabilities	**(16.3)**	(10.5)
	3.5	8.2

* Relates to property, plant and equipment and intangible assets

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

In 2018 we elected to present all deferred tax assets and liabilities as non-current in line with IAS 1.56. In order to provide more useful information to the users of the accounts, in 2019 we have elected to present deferred tax assets and liabilities split between current and non-current. If this same approach was adopted in 2018, then current deferred tax assets of £12.2m and current deferred tax liabilities of £0.3m would have been separately disclosed.

Unrecognised deferred tax assets

Deferred tax assets, in excess of offsetting tax liabilities, are recognised for loss carry forwards and deductible temporary differences to the extent that the utilisation against future taxable profits is probable. UK deferred tax assets of £2.1m (2018: £1.2m) and a US deferred tax asset of £3.7m (2018: £3.1m) have not been recognised, as their recovery is uncertain.

24 Deferred tax continued

Current tax assets in the consolidated balance sheet consists of:

	2019 £m	2018 £m
Current tax	**6.5**	8.1
Deferred tax	**13.0**	–
	19.5	8.1

Current tax liabilities in the consolidated balance sheet consists of:

	2019 £m	2018 £m
Current tax	**(1.5)**	(5.0)
Deferred tax	**(3.2)**	–
	(4.7)	(5.0)

25 Provisions

	Warranties £'000	**Contract-related provisions £'000**	**Other £'000**	**Total £'000**
At 1 January 2019	6.3	6.5	6.7	19.5
Reclassified from over-time contract balances (see note 18)	–	5.9	–	5.9
Adoption of IFRS 16 (see note 36)	–	–	(0.9)	(0.9)
Created	1.7	9.7	2.0	13.4
Reversed	(1.7)	(1.3)	(1.2)	(4.2)
Utilised	(0.9)	(6.5)	(0.4)	(7.8)
Exchange differences	(0.1)	(0.4)	–	(0.5)
Reclassified to held for sale (see note 30)	(0.5)	–	(0.1)	(0.6)
At 31 December 2019	**4.8**	**13.9**	**6.1**	**24.8**
Included in current liabilities	3.3	9.6	3.7	16.6
Included in non-current liabilities	1.5	4.3	2.4	8.2
	4.8	**13.9**	**6.1**	**24.8**

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 – are utilised over the period as stated in the contract to which the specific provision relates. To provide greater clarity to readers of the financial statements, all provisions relating to contract execution and delivery, which have previously been included within the over-time contract balances, have been reclassified into the contract-related provisions disclosure; the £5.9m reclassification is reflected above. Other provisions include reorganisation costs, deferred consideration and dilapidation costs. Reorganisation costs will be incurred over the period of the reorganisation, which is typically up to two years. Contingent consideration is payable when earnings targets are met. Dilapidations will be payable at the end of the contracted life, which is up to 15 years.

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26 Share capital and share options

	2019 No.	2019 £m	2018 No.	2018 £m
Authorised:				
5p ordinary shares	**90,000,000**	**4.5**	90,000,000	4.5
Allotted, called-up and fully paid:				
5p ordinary shares	**70,964,527**	**3.5**	71,470,065	3.6

During 2019, the Company purchased and cancelled 634,996 shares (2018: 6,288,127). The shares were acquired at an average price of £13.41 per share (2018: £14.52), with prices ranging from £12.80 to £14.02 (2018: £12.87 to £16.90). The total cost of £8.6m (2018: £91.9m), including fees and stamp duty of £0.1m (2018: £0.6m), has been transferred to retained earnings. The total reduction in paid-up capital was £32,000 (2018: £0.3m).

129,458 ordinary shares having a nominal value of £6,473 were allotted during the year under the terms of the Group's various share option schemes. The aggregate consideration received was £2.2m.

The share premium account represents the premium arising on the issue of equity shares.

The "own shares reserve" represents the cost of shares in Ultra Electronics Holdings plc purchased in the market and held by the Ultra Electronics Employee Trust to satisfy options under the Group's Long-Term Incentive Plan ("LTIP") share schemes. At 31 December 2019, the number of own shares held was 131,542 (2018: 235,247).

Share options

The Group's equity-settled share-based payments are measured at fair value at the date of the grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The Group recognised total expenses of £1,980,000 (2018: £1,493,000) in relation to equity-settled share-based payment transactions. Expected volatility was determined by calculating the historical volatility of the Group's share price.

During the year to 31 December 2019, the Group operated the following equity-settled share option schemes:

1. Savings-Related Share Option Schemes, Company Share Option Plan and Executive Share Option Scheme

A Savings-Related Share Option Scheme is open to all UK, US and Canadian employees and provides for a purchase price equal to the average of the daily average market price before the grant less 10%. The vesting period is two to five years. If the options remain unexercised after a period ranging from three to six months from the date of maturity, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

The Company Share Option Plan provides share options for nominated employees in the UK. The purchase price is set at a mid-market price on the date of the grant. This is an approved scheme and vesting is unconditional. Options vest after three years and lapse after 10 years from the date of the grant.

The Executive Share Option Scheme provides share options for nominated employees in the UK, the USA and Canada. The purchase price is set at a mid-market price on the date of the grant. This is an unapproved scheme and vesting is unconditional. Options vest after three years and lapse after seven years from the date of the grant.

The number and weighted average exercise price of share options for all share-based payment arrangements (excluding LTIP) are as follows:

	Weighted average exercise price (£) 2019	Number of options 2019	Weighted average exercise price (£) 2018	Number of options 2018
Beginning of year	**16.81**	**1,046,659**	18.40	882,035
Granted during the year	**16.08**	**324,784**	14.60	309,271
Exercised during the year	**16.92**	**(258,038)**	15.44	(39,404)
Expired during the year	**16.87**	**(142,648)**	16.92	(105,243)
Outstanding at the end of the year	**16.53**	**970,757**	16.81	1,046,659
Exercisable at the end of the year	**17.34**	**198,208**	17.20	309,029

	2019	2018
Range of exercise price of outstanding options (£)	**14.45 – 21.91**	14.45 – 21.91
Weighted average remaining contracted life (years)	**4.28**	3.74
Weighted average fair value of options granted (£)	**3.22**	2.84

26 Share capital and share options continued

2. Long-Term Incentive Plan

Details in relation to the Ultra Electronics Long-Term Incentive Plan 2007 awards to Executive Directors are included in the Directors' Remuneration Report on pages 74–91. In April 2019, LTIPs were also awarded to nominated employees and are subject to the same four performance metrics (see page 87) as the Executive Director awards. The awards will vest in April 2022 upon achievement of those performance targets and are conditional upon continued employment.

The number of the LTIPs are as follows:

	Number of options 2019	Number of options 2018
Beginning of year	683,006	571,135
Granted during the year	403,612	305,514
Exercised during the year	(3,692)	(15,277)
Expired during the year	(179,294)	(178,366)
Outstanding at the end of the year	903,632	683,006

	2019	2018
Weighted average remaining contracted life (years)	1.60	2.74
Weighted average fair value of options granted (£)	12.60	12.41

The weighted average contracted life in 2019 is less than three years due to the 2018 issuances upon appointment of the new Chief Executive and expiration of LTIPs granted in 2017 following changes to the executive management team.

27 Notes to the cash flow statement

	2019 £m	2018 £m
Operating profit	94.2	65.3
Adjustments for:		
Depreciation of property, plant and equipment	9.7	8.9
Amortisation of intangible assets	28.6	32.4
Amortisation of leased assets	9.3	–
Impairment charge	–	7.6
Cost of equity-settled employee share schemes	0.8	1.5
Adjustment for pension funding	(10.8)	(10.3)
Loss on disposal of property, plant and equipment	0.1	0.1
Increase in provisions	5.5	4.9
Operating cash flow before movements in working capital	137.4	110.4
Increase in inventories	(5.7)	(10.2)
Increase in receivables	(2.9)	(1.8)
(Decrease)/increase in payables	(13.9)	4.0
Cash generated by operations	114.9	102.4
Income taxes paid	(9.5)	(4.6)
Interest paid	(9.3)	(11.1)
Finance lease interest paid	(1.5)	–
Net cash from operating activities	94.6	86.7

The total cash outflow in 2019 relating to leases was £9.2m, of which £0.2m related to low-value or short-term leases not recognised on the balance sheet.

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27 Notes to the cash flow statement continued

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

	2019 £m	2018 £m
Net increase in cash and cash equivalents	(10.5)	(55.0)
Cash inflow from movement in debt and finance leasing	55.3	(17.6)
Change in net debt arising from cash flows	44.8	(72.6)
Loan syndication costs	0.3	0.7
Lease liability	(41.2)	–
Amortisation of finance costs of debt	(0.7)	(0.8)
Translation differences	(0.5)	(10.3)
Movement in net debt in the year	2.7	(83.0)
Net debt at start of year	(157.5)	(74.5)
Net debt at end of year	(154.8)	(157.5)

Net debt comprised the following:

	2019 £m	2018 £m
Cash and cash equivalents	82.2	96.3
Borrowings	(237.0)	(253.8)
	(154.8)	(157.5)

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

Reconciliation of changes in financing liabilities:

	2019 £m	2018 £m
Borrowings at start of year	(253.8)	(224.0)
Repayments of borrowings	315.3	181.3
Proceeds from borrowings	(259.9)	(199.0)
Loan syndication costs	0.3	0.7
Amortisation of finance costs of debt	(0.7)	(0.8)
Lease liability recognition	(41.2)	–
Translation differences	3.0	(12.0)
Borrowings at end of year	(237.0)	(253.8)

28 Other financial commitments

a) Capital commitments

At the end of the year capital commitments were:

	2019 £m	2018 £m
Contracted but not provided	1.3	1.0

28 Other financial commitments continued

b) Lease commitments

At 31 December 2018, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £m
Within one year	10.4
Between one and five years	22.6
After five years	3.9
	36.9

IFRS 16 Leases standard came into effect on 1 January 2019. IFRS 16 requires that all leases and the related rights and obligations should be recognised on the lessee's balance sheet, unless the lease is less than one year in length or is for a low-value asset. Leases that do not meet these criteria are expensed on a straight-line basis. See note 38 for more details on IFRS 16.

29 Retirement benefit schemes

Some UK employees of the Group are members of the Ultra Electronics Limited defined benefit scheme which was established on 1 March 1994. The scheme was closed to new members in 2003. The scheme is a final salary scheme with the majority of members accruing 1/60th of their final pensionable earnings for each year of pensionable service, however; the scheme was closed to future benefit accrual from 5 April 2016. A defined contribution plan was introduced for other employees and new joiners in the UK. The latest full actuarial valuation of the defined benefit scheme was carried out as at 5 April 2019. The Group also operates two defined contribution schemes for overseas employees. In addition to these schemes, the Group's Tactical Communication Systems business based in Montreal, Canada, has three defined benefit schemes and the Swiss business of the Forensic Technology group has a defined benefit scheme.

Defined contribution schemes

The total cost charged to income in respect of the defined contribution schemes was £9.9m (2018: £9.7m).

Defined benefit schemes

All the defined benefit schemes were actuarially assessed at 31 December 2019 using the projected unit method.

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

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

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

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

Investment strategy

The investment strategy is set by the Trustee of the scheme. The current strategy is broadly split into growth and matching portfolios. The growth portfolio is primarily invested in equities, property, diversified growth funds, private equity and private credit. The matching portfolio is invested primarily in bonds, through the absolute return bonds holding, and liability driven investment (LDI) funds. Part of the investment objective of the scheme is to minimise fluctuations in the scheme's funding levels due to changes in the value of the liabilities. This is primarily achieved through the use of the LDI funds that aim to hedge movements in the liabilities due to changes in interest rate and inflation expectations. Currently, the scheme targets hedging of around 65% on the technical provisions funding measure to both interest rate and inflation expectation changes. LDI primarily involves the use of government bonds and derivatives such as interest rate and inflation swaps. The main risk is that the investments held move differently to the liability exposures; this risk is managed by the Trustee, its advisers and the scheme's LDI manager, who regularly assess the position.

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

Rather than holding the underlying assets directly, the scheme invests in pooled investment vehicles managed by professional external investment managers, whom the Trustee has appointed with the help of its investment advisers. The equity and diversified growth fund valuations are based on quoted market prices, while the property, private equity, private credit, absolute return bonds and LDI are primarily unquoted. All valuations are provided by the respective investment manager.

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29 Retirement benefit schemes continued

GMP Equalisation

Following a High Court judgment on 26 October 2018, it became apparent across the UK pension industry that equalisation was required with respect to Guaranteed Minimum Pensions ("GMPs"). Scheme benefits earned in the period 17 May 1990 to 5 April 1997 may be affected by the requirement to equalise GMPs. It will take a considerable time for trustees and employers to decide on the approach for GMP equalisation, gather data, calculate the new benefits and cost, and ultimately make payments to members. The initial estimate for the Ultra Electronics Limited defined benefit scheme was that the impact was £3.2m; this was recorded as a debit to the income statement in 2018 with a corresponding increase in scheme liabilities. There have been no changes in estimates in 2019.

Valuation

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

The results of the 5 April 2019 valuation have been projected to 31 December 2019 by a qualified, independent actuary. The figures in the following disclosure were measured using the projected unit method.

Key financial assumptions used in the valuation of these schemes were as follows:

	UK 2019	**Canada 2019**	**Switzerland 2019**	UK 2018	Canada 2018	Switzerland 2018
Discount rate	**1.95%**	**3.00%**	**0.00%**	2.80%	3.75%	0.90%
Inflation rate – RPI	**3.00%**	**3.00%**	**0.90%**	3.20%	3.20%	1.10%
Inflation rate – CPI	**2.20%**	**2.20%**	**0.90%**	2.20%	2.20%	1.10%
Expected rate of salary increases	**n/a**	**3.45%**	**1.00%**	n/a	3.45%	1.00%
Future pension increases (pre 6/4/08)	**2.85%**	**n/a**	**0.00%**	2.95%	n/a	n/a
Future pension increases (post 6/4/08)	**1.85%**	**n/a**	**0.00%**	1.95%	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 3.50% and a 0.5% decrease in the discount rate to 1.45% would increase the scheme's liabilities by 5.6% and 9.3% respectively. If the life expectancy of members was to increase by one year, the scheme liabilities would increase by 4.4%. The average duration of the scheme liabilities is 17 years (2018: 18 years).

The assumptions used are provided by Willis Towers Watson as Company advisers, and also by reference to the Bank of England gilt curve at a duration appropriate to the scheme's liabilities of 17 years.

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

Current pensioners – males	95% of SAPS S3PMA with CMI 2018 projections and a 1.25% floor from 2013 (UK only)
Current pensioners – females	101% of SAPS S3PFA with CMI 2018 projections and a 1.25% floor from 2013 (UK only)
Future pensioners – males	95% of SAPS S3PMA with CMI 2018 projections and a 1.25% floor from 2013 (UK only)
Future pensioners – females	101% of SAPS S3PFA with CMI 2018 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:

	2019	2018
Current pensioners (at 65) – males	**22 years**	23 years
Current pensioners (at 65) – females	**24 years**	26 years
Future pensioners (at 65) – males	**24 years**	24 years
Future pensioners (at 65) – females	**25 years**	27 years

29 Retirement benefit schemes continued

Amounts recognised in the income statement in respect of the Group's defined benefit schemes were as follows:

	UK 2019 £m	Canada 2019 £m	Switzerland 2019 £m	Total 2019 £m	UK 2018 £m	Canada 2018 £m	Switzerland 2018 £m	Total 2018 £m
Current service cost	–	0.1	0.3	0.4	–	0.1	0.3	0.4
Administration expenses	–	0.1	–	0.1	–	0.1	–	0.1
Interest on pension scheme liabilities	9.7	0.4	0.1	10.2	9.1	0.4	–	9.5
GMP equalisation	–	–	–	–	3.2	–	–	3.2
Past service cost	–	–	(0.2)	(0.2)	–	–	–	–
Expected return on pension scheme assets	(7.8)	(0.4)	(0.1)	(8.3)	(7.2)	(0.4)	–	(7.6)
Charge	1.9	0.2	0.1	2.2	5.1	0.2	0.3	5.6

Of the current service cost for the year, £0.1 million (2018: £0.1 million) has been included in cost of sales, and £0.3 million (2018: £0.3 million) has been included in administrative expenses.

Actuarial gains and losses have been reported in the statement of comprehensive income.

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

	UK 2019 £m	Canada 2019 £m	Switzerland 2019 £m	Total 2019 £m	UK 2018 £m	Canada 2018 £m	Switzerland 2018 £m	Total 2018 £m
Fair value of scheme assets	315.2	8.0	6.5	329.7	281.7	9.6	6.4	297.7
Present value of scheme liabilities	(386.4)	(8.4)	(8.2)	(403.0)	(353.1)	(10.1)	(7.5)	(370.7)
Scheme deficit	(71.2)	(0.4)	(1.7)	(73.3)	(71.4)	(0.5)	(1.1)	(73.0)
Related deferred tax asset	12.1	0.1	0.3	12.5	12.3	0.1	0.2	12.6
Net pension liability	(59.1)	(0.3)	(1.4)	(60.8)	(59.1)	(0.4)	(0.9)	(60.4)

Movements in the present value of defined benefit obligations during the year were as follows:

	UK 2019 £m	Canada 2019 £m	Switzerland 2019 £m	Total 2019 £m	UK 2018 £m	Canada 2018 £m	Switzerland 2018 £m	Total 2018 £m
Present value of obligation at 1 January	(353.1)	(10.1)	(7.5)	(370.7)	(371.3)	(10.7)	(7.0)	(389.0)
Current service cost	–	(0.1)	(0.3)	(0.4)	–	(0.1)	(0.3)	(0.4)
Interest cost	(9.7)	(0.4)	(0.1)	(10.2)	(9.1)	(0.4)	–	(9.5)
Actuarial gains and losses	(38.7)	(0.6)	(1.2)	(40.5)	16.4	0.2	0.1	16.7
Exchange difference	–	–	0.2	0.2	–	0.3	(0.4)	(0.1)
Insured pensioner adjustment	–	–	–	–	–	(0.1)	–	(0.1)
GMP equalisation	–	–	–	–	(3.2)	–	–	(3.2)
Past service cost	–	–	0.2	0.2	–	–	–	–
Liabilities extinguished on settlements	–	2.3	–	2.3	–	–	–	–
Benefits paid	15.1	0.5	0.5	16.1	14.1	0.7	0.1	14.9
Present value of obligation at 31 December	(386.4)	(8.4)	(8.2)	(403.0)	(353.1)	(10.1)	(7.5)	(370.7)

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29 Retirement benefit schemes continued

Movements in the fair value of scheme assets during the year were as follows:

	UK 2019 £m	Canada 2019 £m	Switzerland 2019 £m	Total 2019 £m	UK 2018 £m	Canada 2018 £m	Switzerland 2018 £m	Total 2018 £m
Fair value at 1 January	281.7	9.6	6.4	297.7	289.8	10.6	5.9	306.3
Expected return on scheme assets	7.8	0.4	0.1	8.3	7.2	0.4	–	7.6
Actuarial gains and losses	30.4	0.5	0.3	31.2	(11.2)	(0.9)	–	(12.1)
Exchange differences	–	–	(0.1)	(0.1)	–	(0.3)	0.3	–
Employer contributions	10.4	0.4	0.3	11.1	10.0	0.5	0.3	10.8
Insured pensioner adjustment	–	–	–	–	–	0.1	–	0.1
Assets distributed on settlements	–	(2.3)	–	(2.3)	–	–	–	–
Administration expenses	–	(0.1)	–	(0.1)	–	(0.1)	–	(0.1)
Benefits paid	(15.1)	(0.5)	(0.5)	(16.1)	(14.1)	(0.7)	(0.1)	(14.9)
Fair value at 31 December	315.2	8.0	6.5	329.7	281.7	9.6	6.4	297.7

Scheme assets were as follows:

	UK 2019 £m	Canada 2019 £m	Switzerland 2019 £m	Total 2019 £m	UK 2018 £m	Canada 2018 £m	Switzerland 2018 £m	Total 2018 £m
Fair value:								
Equities	73.0	2.6	2.2	77.8	73.9	2.3	2.1	78.3
Bonds	–	5.0	1.7	6.7	–	4.6	1.7	6.3
Property	26.0	–	0.9	26.9	25.2	–	1.0	26.2
Other assets	15.3	0.4	1.4	17.1	0.6	2.7	1.3	4.6
Other investment funds:								
Absolute return	86.8	–	0.3	87.1	83.6	–	0.3	83.9
LDI	96.1	–	–	96.1	82.8	–	–	82.8
Multi-asset credit	18.0	–	–	18.0	15.6	–	–	15.6
	315.2	8.0	6.5	329.7	281.7	9.6	6.4	297.7

The analysis of the actuarial loss in the consolidated statement of comprehensive income was as follows:

	UK 2019 £m	Canada 2019 £m	Switzerland 2019 £m	Total 2019 £m	UK 2018 £m	Canada 2018 £m	Switzerland 2018 £m	Total 2018 £m
Actual return less expected return on pension scheme assets	30.4	0.5	0.3	31.2	(11.2)	(0.9)	–	(12.1)
Experience gains arising on scheme liabilities	(7.3)	0.1	(0.1)	(7.3)	(3.7)	–	(0.1)	(3.8)
Changes in assumptions underlying the present value of the scheme liabilities	(31.4)	(0.7)	(1.1)	(33.2)	20.1	0.2	0.2	20.5
	(8.3)	(0.1)	(0.9)	(9.3)	5.2	(0.7)	0.1	4.6

29 Retirement benefit schemes continued

Cumulative actuarial losses, net of deferred tax, recognised in the consolidated statement of comprehensive income at 31 December 2019 were £78.2 million (2018: £68.9 million). The five-year history of experience adjustments is as follows:

	2019 £m	2018 £m	2017 £m	2016 £m	2015 £m
Present value of defined benefit obligations	**(403.0)**	(370.7)	(389.0)	(400.5)	(322.4)
Fair value of scheme assets	**329.7**	297.7	306.3	287.3	237.6
Scheme deficit	**(73.3)**	(73.0)	(82.7)	(113.2)	(84.8)
Experience adjustments on scheme liabilities	**(7.3)**	(3.8)	(0.8)	4.0	–
Percentage of scheme liabilities	**(1.8%)**	(1.0%)	(0.2%)	1.0%	–
Experience adjustment on scheme assets	**31.2**	(12.1)	15.3	40.7	(7.9)
Percentage of scheme assets	**9.5%**	(4.1%)	5.0%	14.2%	(3.3%)

The amount of contributions expected to be paid to defined benefit schemes per annum is £11.0m until March 2025.

30 Acquisitions and disposals

Disposals

The Aerospace & Infrastructure division disposed of the Airport Systems business on 1 February 2019 to ADB SAFEGATE. The Communications & Security division disposed of Corvid Paygate Limited on 24 June 2019 to Jonas Computing (UK) Limited. The assets and liabilities of Corvid Paygate Limited were not material to the Group. The impact of these disposals is as follows:

	2019 £m
Goodwill and intangible fixed assets	**22.1**
Property, plant and equipment	**1.5**
Leased assets	**1.4**
Inventories	**0.2**
Trade and other receivables	**7.6**
Trade and other payables	**(9.9)**
Lease liability	**(1.5)**
Total	**21.4**
Proceeds received	**(22.0)**
Gain on disposal	**(0.6)**

In addition, £0.4m was received in 2019 in relation to the final payment from the sale of the Fuel Cell business in December 2018.

In October 2019, agreement was reached to dispose of the Communications & Security division's small Ottawa-based electronic intelligence business to private investors; in accordance with IFRS 5 the assets were classified as held for sale and written down to their recoverable amount in 2019. This resulted in a loss of £1.5m recognised in the 2019 income statement, which is calculated as per the table below. The disposal completed in January 2020.

	2019 £m
Property, plant and equipment	**–**
Trade and other receivables	**0.7**
Trade and other payables	**(1.1)**
Cash	**1.9**
Total	**1.5**
Proceeds received	**–**
Loss arising upon classification of held for sale	**1.5**

The net loss arising from the assets disposed of in the year (£0.6m gain) and the loss arising on classification of held for sale (£1.5m loss) was £0.9m.

Notes to accounts – Group
For the year ended 31 December 2019
continued

30 Acquisitions and disposals continued

As at 31 December 2019, assets and liabilities have been classified as held for sale for net assets planned to be disposed of in the following 12 months, which are shown in the table below at their fair value. All of these assets and liabilities are held within the Communications & Security division. The assets and liabilities of the Ottawa electronic intelligence business disposed of in January 2020 were not material to the Group and were classified as held for sale in these accounts at the impaired value.

	2019 £m
Goodwill and intangible fixed assets	3.4
Property, plant and equipment	1.1
Leased assets	1.1
Inventories	2.5
Trade and other receivables	3.4
Total assets classified as held for sale	**11.5**
Trade and other payables	(5.3)
Total liabilities classified as held for sale	**(5.3)**
Net assets classified as held for sale	**6.2**

31 Related party transactions

Remuneration of key management personnel

The remuneration of key management personnel, which includes the Directors of the Group, is set out below in aggregate for each of the categories specified in IAS 24: Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on page 85.

	2019 £m	2018 £m
Short-term employee benefits	5.1	3.3
Post-employment benefits	0.4	0.3
Termination benefits	0.2	–
Share-based payments	4.3	3.7
	10.0	7.3

32 Non-controlling interests

There is a 5% non-controlling interest in the Group's Corvid Holdings Limited subsidiary. Before any intra-Group eliminations, the consolidated revenue of the subsidiary in the year was £3.7m (2018: £4.3m), the gain was £1.4m (2018: £0.6m loss) and the net assets were £3.8m (2018: £2.3m). Sales to Group companies were £2.4m (2018: £2.4m).

During 2019, Corvid Paygate Limited was disposed of, which formed part of the Corvid Holdings Limited group. Refer to note 30 for more details. The gain on disposal has been included in the Corvid Holdings Limited gain above.

33 Contingent liabilities

The Group has entered into a number of guarantee and performance bond arrangements in the normal course of business, totalling £55.1m (2018: £50.6m).

The nature of much of the contracting work performed by the Group means that there are occasional contractual issues, variations and renegotiations that arise. In addition, the Group is, from time to time, party to legal proceedings and claims which arise in the ordinary course of business. The Oman Airport IT contract between the Sultanate of Oman, Ministry of Transport & Communications and Ithra (Ultra Electronics in collaboration with Oman Investment Corporation LLC, the legal entity established with the sole purpose of delivering that contract and which was placed into voluntary liquidation in March 2015) was terminated in February 2015 and there are various proceedings in relation to that contract and its termination. There remains significant uncertainty regarding the likely outcome of these proceedings and it is not possible to reliably estimate the financial effect that may result from the ultimate outcome. Further, as previously announced, investigations associated with conduct of business issues in Algeria and the Philippines are ongoing, and Ultra continues to cooperate with the relevant authorities. It is not yet possible to estimate the time scale in which these investigations might be resolved, or to reliably predict their outcomes.

As disclosed in note 10, the Company has benefited in the current year, and previous years, from a certain exemption in the UK Controlled Foreign Company ("CFC") rules. On 2 April 2019, the European Commission concluded that the exemption, as applicable for years from 2013 through 2018, partly constituted illegal state aid. Ultra, the UK Government and other affected taxpayers have separately appealed this decision to the EU General Court. In common with other UK-based international companies whose arrangements were in line with UK CFC legislation, which applied up to 2018, HMRC may seek to recover alleged illegal aid from Ultra pending the resolution of EU litigation. HMRC initiated enquiries during 2019 in respect of this issue but to date no substantive progress has been made and the range of potential outcomes remains nil to £21m. No provision for this potential liability is made in these financial statements as it is not clear what, if any, the eventual financial result will be.

34 Additional information as required by Listing Rules Requirement 9.8.4

+ Long-term incentive schemes – see Directors' Remuneration Report
+ Allocation of equity securities for cash – see note 27
+ Election of independent Directors – see Directors' Report on page 92
+ Contractual arrangements – see Directors' Report on page 92
+ Details of independent Directors – see Corporate Governance Report on pages 52–53
+ Substantial shareholders – see Directors' Report on page 92

No profit forecasts are issued by the Group and no Directors have waived any current or future emoluments. No shareholders have waived or agreed to waive dividends. None of the shareholders are considered to be a Controlling Shareholder (as defined in Listing Rules 6.1.2A).

35 Related undertakings

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

Company name	Country incorporated	% owned	Direct/Indirect (Group interest)
3e Technologies International Inc.	United States	100%	Indirect (Group interest)
AEP Networks Inc.	United States	100%	Indirect (Group interest)
AEP Networks Limited	Ireland	100%	Direct
AEP Networks Limited	United Kingdom	100%	Indirect (Group interest)
CORVID Holdings Limited	Guernsey	95%	Direct
CORVID Protect Holdings Limited	Guernsey	95%	Indirect (Group interest)
DF Group Limited	United Kingdom	100%	Direct
EMS Development Corporation	United States	100%	Indirect (Group interest)
ERAPSCO	United States	50%	Indirect (Group interest)
EW Simulation Technology Limited	United Kingdom	100%	Indirect (Group interest)
Flightline Electronics Inc.	United States	100%	Indirect (Group interest)
Forensic Technology (Europe) Limited	Ireland	100%	Direct
Forensic Technology AEC Thailand Limited	Thailand	100%	Direct
Forensic Technology Inc.	United States	100%	Direct
Forensic Technology Mexico S. de RL. de C.V	Mexico	100%	Indirect (Group interest)
Forensic Technology-Tecnologia Forense Ltda	Brazil	100%	Indirect (Group interest)
Giga Communications Limited	United Kingdom	100%	Direct
GIGASAT, INC.	United States	100%	Direct
Gigasat. Asia Pacific Pty Limited	Australia	100%	Indirect (Group interest)
Herley Industries Inc.	United States	100%	Indirect (Group interest)
Herley-CTI Inc.	United States	100%	Indirect (Group interest)
Projectina AG	Switzerland	100%	Direct
Prologic Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics (USA) Group Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics Advanced Tactical Systems Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics Aneira Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics Australia Pty Limited	Australia	100%	Direct
Ultra Electronics Avalon Systems Pty Limited	Australia	100%	Indirect (Group interest)
Ultra Electronics Canada Inc.	Canada	100%	Direct
Ultra Electronics Connecticut LLC	United States	100%	Indirect (Group interest)
Ultra Electronics Defense Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics DNE Technologies Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics Enterprises (USA) LLC	United States	100%	Indirect (Group interest)
Ultra Electronics Finance Limited	Jersey	100%	Indirect (Group interest)
Ultra Electronics Forensic Technology Inc./ Les Technologies Ultra Electronics Forensic Inc.	Canada	100%	Direct

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For the year ended 31 December 2019
continued

35 Related undertakings continued

Company name	Country incorporated	% owned	Direct/Indirect (Group interest)
Ultra Electronics Hong Kong Holdings Limited	Hong Kong	100%	Direct
Ultra Electronics ICE, Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics in collaboration with Oman Investment Corporation LLC (in liquidation)	Oman	70%	Direct
Ultra Electronics Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics Investments (USA) LLC	United States	100%	Indirect (Group interest)
Ultra Electronics Limited	United Kingdom	100%	Direct
Ultra Electronics Maritime Systems Inc.	Canada	100%	Indirect (Group interest)
Ultra Electronics Measurement Systems Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics Ocean Systems Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics Pension Trustee Company Limited	United Kingdom	100%	Indirect (Group interest)
Ultra Electronics Precision Air and Land Systems Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics Secure Intelligence Systems Inc.	United States	100%	Indirect (Group interest)
Ultra Electronics Swiss Holdings Company Limited	United Kingdom	100%	Indirect (Group interest)
Ultra Electronics TCS Inc.	Canada	100%	Indirect (Group interest)
Ultra Electronics TopScientific Aerospace Limited	Hong Kong	50%	Direct
UnderSea Sensor Systems Inc.	United States	100%	Indirect (Group interest)
Vados Systems Limited	United Kingdom	100%	Indirect (Group interest)
Weed Instrument Company Inc.	United States	100%	Indirect (Group interest)

The principal activity of the trading subsidiary undertakings is the design, development and manufacture of electronic systems for the international defence and aerospace markets.

Registered Office: Ultra Electronics Holdings plc, 35 Portman Square, Marylebone, London, W1H 6LR, England.

36 IFRS 16 Leases

Background

IFRS 16 Leases came into effect on 1 January 2019 and replaced IAS 17 and IFRIC 4. IFRS 16 requires that all leases and the related rights and obligations should be recognised on the lessee's balance sheet, unless the lease is less than one year in length or is for a low-value asset. Leases that do not meet these criteria are expensed on a straight-line basis.

For each lease, a liability for lease obligations to be incurred in the future must be recognised. Correspondingly, a right-of-use asset is capitalised. The asset and liability are initially measured at the present value of all future lease payments plus directly attributable costs.

Under IFRS 16, previous lease charges (recognised in gross profit or indirect costs) are replaced with depreciation on the right-of-use asset and interest on the lease liability in the consolidated income statement. In addition, the cash impact of the lease is split between the principal and interest, with net cash flow remaining unchanged to pre-IFRS 16 cash flow.

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease.

Therefore, the definition of a lease in accordance with IAS 17 and IFRIC 4 continues to apply to those leases entered or modified before 1 January 2019. For leases entered into or modified on or after 1 January 2019, a contract will be determined as a lease if the Group has control of the leased asset, as defined by IFRS 16. The following practical expedients, permitted by IFRS 16, have also been utilised:

+ the application of a single discount rate to a portfolio of similar characteristic leases;
+ reliance on prior IAS 37 assessments of onerous leases as an alternative to performing an impairment review on transition;
+ the use of hindsight: for property leases with historical extension option exercise dates, hindsight was applied such that the initial lease period also includes the extension period; similarly, if the exercise date for a termination option had already passed by the transition date, it was assumed that the termination option was not exercised; and
+ the exclusion of initial direct costs from the measurement of the leased asset on transition.

For the measurement of the right-of-use assets at the date of transition, initial direct costs were not taken into account. Additionally, the Group had one sublet that was determined as a finance lease and therefore the opening lease liability and right-of-use asset were adjusted for the sublease income for this property as required under IFRS 16. For the measurement of the lease liabilities at the date of first-time application the value was adjusted for any prepaid or accrued lease payments.

36 IFRS 16 Leases continued

Initial recognition

The Group has adopted the modified retrospective approach as permitted under IFRS 16 and has recognised the cumulative effect of applying IFRS 16 at the 1 January 2019 transitional date. The prior period has not been restated; the adjustment to opening retained earnings of £2.0m (£2.6m before tax) at 1 January 2019 is reflected in the consolidated statement of changes in equity.

The Group's impacted leases relate to real estate, vehicles, printers and copiers and other equipment. The Group therefore chose to split the leases between the following categories: property and non-property. The table below sets out the 1 January 2019 opening balance sheet impact arising from the adoption of IFRS 16:

	at 31 December 2018 £m	Property leases adjustment £m	Non-property leases adjustment £m	Tax £m	**at 1 January 2019 £m**
Leased assets – Right-of-use asset	–	34.4	1.4	–	**35.8**
Lease liability	–	(38.1)	(1.4)	–	**(39.5)**
Lease accruals	(0.2)	0.2	–	–	**–**
Onerous lease provisions	(0.9)	0.9	–	–	**–**
Tax liabilities	(15.5)	–	–	0.6	**(14.9)**
Net assets	420.8	(2.6)	–	0.6	**418.8**
Retained earnings	161.7	(2.6)	–	0.6	**159.7**

The following reconciliation to the opening balance for the lease liabilities as at 1 January 2019 is based upon the operating lease obligations disclosed in the Group Annual Report as at 31 December 2018:

	Property leases £m	**Non-property leases £m**	**Total £m**
Operating lease commitment at 31 December 2018	35.4	1.5	36.9
Discounted at 1 January 2019	31.7	1.4	33.1
Recognition exemption for:			
Short-term leases	(0.1)	–	(0.1)
Leases of low-value assets	–	–	–
Removal of service charges / utilities	(2.8)	–	(2.8)
Reduction for subletting	(0.2)	–	(0.2)
Change in lease length assumption	8.9	–	8.9
Change in lease cost increase assumption	(0.1)	–	(0.1)
Change due to phasing of payments	(0.1)	–	(0.1)
Other adjustments	0.8	–	0.8
Lease liabilities recognised at 1 January 2019	**38.1**	**1.4**	**39.5**

The lease liabilities were discounted as at 1 January 2019; the weighted average discount rate was 3.9% for property leases and 2.4% for non-property leases. The Group's property leases range from one year to 25 years in length and are based primarily in the UK, North America and Canada. The Group's non-property leases range from one year to seven years.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The asset and liability are initially measured at the present value of all future lease payments plus directly attributable costs. Payments made before the commencement date and incentives received from the lessor are also included in the carrying amount of the right-of-use asset. The asset is then amortised over the useful life of the lease on a straight-line basis. Further details on the valuation of the right-of-use asset and the lease liability and the discount rate applied in calculating the present value are discussed below.

During the year ended 31 December 2019, in relation to leases under IFRS 16, the Group recognised depreciation of £9.3m and a finance charge on leases of £1.5m.

Short-term leases and leases of low-value assets

The Group has elected not to recognise leases that are less than one year in length or are for a low-value asset (<£3.5k) on the balance sheet. These leases are expensed on a straight-line basis as short-term leases or leases of low-value assets.

36 IFRS 16 Leases continued

Valuation of lease liabilities and right-of-use assets

IFRS 16 requires the Group to make judgements that impact the initial valuation of the lease liabilities and the right-of-use assets. These judgements include: determining what contracts are in scope of IFRS 16, determining the lease contract term and determining the interest rate used for discounting future cash flows.

The lease term is the non-cancellable period of the lease contract. It can also be impacted by periods covered by an option to extend the lease if the Group is reasonably certain that it will exercise that option. For lease contracts with an indefinite term the Group estimates the length of the contract to be equal to the economic useful life of the asset or typical market contract term. The lease term is used to determine the depreciation rate of right-of-use assets.

For property leases, the Group has assumed that, for leases that are due to expire within three years of the transition date, these will be renewed for the same length of time as the initial lease term, except where lease-specific non-renewal information was already known at the transition date.

The lease liability is measured at amortised cost using the effective interest method. The present value of the lease payment is determined using the discount rate. The Group has used two discount rates for each country the lease is based in; one for property and one for non-property leases. The discount rate is determined based on: 1) the risk-free rate on government bonds in the location and currency of the lease over a similar term as the lease; 2) the Group's borrowing rate; and 3) an-asset specific premium. Discount rates remain the same throughout the lease unless the lease term or renewal assumptions change, and range between 0.5% and 11.9%.

Onerous lease provisions are offset against the right-of-use asset and replaced by an annual assessment of impairment on the right-of-use assets in accordance with IAS 36. Additionally, under IFRS 16, lease incentives (e.g. rent-free periods) will be recognised as part of the measurement of the right-of-use asset and lease liability, rather than recognised as a separate liability as under IAS 17.

The lease liability and right-of-use asset are remeasured when there is a change in the future lease payments arising from a change in the expected lease term, or a change in the estimated total cost of the lease.

Subletting

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

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

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

Statement of accounting policies
in respect of the Group's consolidated financial statements

A summary of the Group's principal accounting policies, all of which have been applied consistently across the Group throughout the current and preceding year, unless otherwise stated, is set out below:

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore comply with Article 4 of the EU IAS regulations.

The consolidated financial information has been prepared on the historical cost basis except for certain assets and liabilities which are measured at fair value, see note 22.

Adoption of new and revised standards

The following IFRIC interpretations, amendments to existing standards and new standards have been adopted in the current year but have not impacted the reported results or the financial position:

+ IFRIC 23 Uncertainty over Income Tax Treatments.

The following standards were adopted in the current year and have had the impact as set out below:

+ IFRS 16 Leases.

The impact of IFRS 16 on the accounts has been set out in note 36.

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

+ None.

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group, except for:

+ None.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Strategic Report on page 46.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

+ has the power over the investee;
+ is exposed, or has rights, to variable returns from its involvement with the investee; and
+ has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statements of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-Group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between: (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest; and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for (i.e. reclassified to profit or loss or transferred directly to retained earnings) in the same manner as would be required if the relevant assets or liabilities were disposed of. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting or, when applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, the Directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis and, in 2018 and 2019, included consideration of the potential impacts of Brexit. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements.

In the course of preparing the financial statements, no judgements have been made in the process of applying the Group's accounting policies, other than those involving estimates, that have had a significant effect on the amounts recognised in the financial statements.

Critical accounting judgements and key sources of estimation uncertainty continued

Critical accounting estimates and assumptions

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

Contract revenue and profit recognition

A significant proportion of the Group's activities are conducted under long-term contract arrangements and are accounted for in accordance with IFRS 15 Revenue from Contracts with Customers. This revenue is derived from a large number of individual contracts across the Group. Revenue and profit recognition on these contracts is based on estimates of future costs as well as an assessment of contingencies for technical risks and other risks; for example, assessment of the time and cost required to design, build, integrate and test a new product where the technology involved is currently at a low technology readiness level, and other risks such as the ability to obtain the necessary customer specification approval, or regulatory approvals. There are no individual contracts where the estimation uncertainty is considered to have a significant risk of resulting in a material adjustment within the next financial year; however, a quantification of the impact across the aggregated portfolio of over-time contracts of a 1% increase in estimated costs to complete is included in note 3.

Retirement benefit plans

The Group accounts for its post-retirement pension plans in accordance with IAS 19 Employee Benefits.

The main assumptions used in determining the defined benefit post-retirement obligation include the discount rate used in discounting scheme liabilities, the inflation rate, the expected rate of future pension increases, expected returns on scheme assets and future mortality assumptions. For each of these assumptions, there is a range of possible values. Relatively small changes in some of these variables can have a significant impact on the level of the total obligation.

The valuation of pension scheme assets and liabilities at a specific point in time rather than over a period of time can lead to significant annual movements in the pension scheme deficit as calculated under IAS 19, but it has no impact on short-term cash contributions since these are based upon separate independent actuarial valuations.

Details of the pension scheme estimates, assumptions and obligations at 31 December 2019 are provided in note 29.

Impairment testing

Each year, the Group carries out impairment tests of its goodwill balances which requires estimates to be made of the value-in-use of its cash-generating units (CGUs). These value-in-use calculations are dependent on estimates of future cash flows and long-term growth rates of the CGUs. Further details on these estimates are provided in note 13.

Proxy Board

Certain Group companies in the USA undertake work of importance to US national security; consequently activities are conducted under foreign ownership regulations, which require operation under a Proxy Agreement. The regulations are intended to insulate these activities from undue foreign influence as a result of foreign ownership. The entity that is operated under the management of a Proxy Board is Ultra Electronics Advanced Tactical Systems Inc. (ATS).

The Directors consider that the Group has control over the operating and financial policies and results of this entity and therefore they are consolidated in the Group consolidated accounts in accordance with IFRS 10 Consolidated Financial Statements.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

+ deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 Employee Benefits respectively; and
+ assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes an asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9, or IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Business combinations continued

When a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to their acquisition date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition-date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Goodwill

Goodwill is initially recognised and measured as set out above. Goodwill is not amortised but is reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units or groups of cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous UK Generally Accepted Accounting Practice (GAAP) amounts subject to being tested for impairment at that date. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and will not be included in determining any subsequent profit or loss on disposal.

Revenue recognition

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

1. Identify the contract(s) with a customer.
2. Identify the performance obligations.
3. Determine the transaction price.
4. Allocate the transaction price to the performance obligations.
5. Recognise revenue as performance obligations are satisfied.

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

Over time

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

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

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

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

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

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

Revenue recognition continued

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

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

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

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Point in time

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

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

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

Contract assets and liabilities

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

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

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

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

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

Research and development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Any internally generated intangible asset arising from development activities is recognised only if an asset is created that can be identified, it is probable that the asset created will generate future economic benefit and the development cost of the asset can be measured reliably.

Internally generated assets are amortised on a straight-line basis over their useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets

Costs associated with producing or maintaining computer software programmes for sale are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, that will generate economic benefits exceeding costs beyond one year and that can be measured reliably, are recognised as intangible assets. Capitalised software development expenditure is stated at cost less accumulated amortisation and impairment losses. Amortisation is provided on a straight line basis over the estimated useful life of the related asset (see note 14).

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

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

Intangible assets arising from a business combination whose fair value can be reliably measured are separated from goodwill and amortised over their remaining estimated useful lives.

Impairment of fixed assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, except for goodwill.

Property, plant and equipment

Property, plant and equipment is shown at original historical cost, net of depreciation and any provision for impairment.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Freehold buildings	40 to 50 years
Short leasehold improvements	over remaining period of lease
Plant and machinery	3 to 20 years

Freehold land and assets under construction are not depreciated.

Leases

IFRS 16 Leases came into effect on 1 January 2019 and replaced IAS 17 and IFRIC 4. The Group has adopted the modified retrospective approach and has recognised the cumulative effect of applying IFRS 16 at the 1 January 2019 transitional date. The prior period has not been restated; the adjustment to opening retained earnings of £2.0m (£2.6m before tax) at 1 January 2019 is reflected in the consolidated statement of changes in equity. IFRS 16 requires that all leases and the related rights and obligations should be recognised on the lessee's balance sheet, unless the lease is less than one year in length or is for a low value asset. Leases that do not meet these criteria are expensed on a straight-line basis.

For each lease, a liability for lease obligations to be incurred in the future must be recognised. Correspondingly, a right-of-use asset is capitalised. The asset and liability are initially measured at the present value of all future lease payments plus directly attributable costs.

Under IFRS 16, previous lease charges (recognised in gross profit or indirect costs) are replaced with depreciation on the right-of-use asset and interest on the lease liability in the consolidated income statement. In addition, the cash impact of the lease is split between the principal and interest, with net cash flow remaining unchanged to pre-IFRS 16 cash flow.

The Group's impacted leases relate to real estate, vehicles, printers & copiers and other equipment. The Group therefore chose to split the leases between the following categories: Property and Non-property.

The Group's property leases range from one year to 25 years in length and are based primarily in the UK, North America and Canada. The Group's non-property leases range from one year to seven years.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The asset and liability are initially measured at the present value of all future lease payments plus directly attributable costs. Payments made before the commencement date and incentives received from the lessor are also included in the carrying amount of the right-of-use asset. The asset is then amortised over the useful life of the lease on a straight-line basis. Further details on the valuation of the right-of-use asset and the lease liability and the discount rate applied in calculating the present value are discussed below.

Short-term leases and leases of low-value assets

As permitted under IFRS 16 paragraph 6, the Group has elected not to recognise leases that are less than one year in length or are for a low-value asset (<£3.5k) on the balance sheet. These leases are expensed on a straight-line basis as short-term leases or leases of low-value assets.

Valuation of lease liabilities and right-of-use assets

IFRS 16 requires the Group to make judgements that impact the initial valuation of the lease liabilities and the right-of-use assets. These judgements include: determining what contracts are in scope of IFRS 16, determining the lease contract term and determining the interest rate used for discounting future cash flows.

The lease term is the non-cancellable period of the lease contract. It can also be impacted by periods covered by an option to extend the lease if the Group is reasonably certain that it will exercise that option. For lease contracts with an indefinite term, the Group estimates the length of the contract to be equal to the economic useful life of the asset or typical market contract term. The lease term is used to determine the depreciation rate of right-of-use assets.

For property leases, the Group has assumed that for leases that are due to expire within three years of the transition date that these will be renewed for the same length of time as the initial lease term, except where lease-specific non-renewal information was already known at the transition date.

The lease liability is measured at amortised cost using the effective interest method. The present value of the lease payment is determined using the discount rate. The Group has used two discount rates for each country the lease is based in; one for property and one for non-property leases. The discount rate is determined based on: 1) the risk-free rate on government bonds in the location and currency of the lease over a similar term as the lease; 2) the Group's borrowing rate; and 3) an asset-specific premium. Discount rates remain the same throughout the lease unless the lease term or renewal assumptions change and range between 0.5% and 11.9%.

Onerous lease provisions are offset against the right-of-use asset and replaced by an annual assessment of impairment on the right-of-use assets in accordance with IAS 36. Additionally, under IFRS 16, lease incentives (e.g. rent-free periods) will be recognised as part of the measurement of the right-of-use asset and lease liability, rather than recognised as a separate liability as under IAS 17.

The lease liability and right-of-use asset are remeasured when there is a change in the future lease payments arising from a change in the expected lease term, or a change in the estimated total cost of the lease.

Statement of accounting policies in respect of the Group's consolidated financial statements continued

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.

For the year ended 31 December 2018, leases were accounted for according to IAS 17 and IFRIC 4; the 2018 accounting policy is noted below.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals under operating leases, where the Group acts as either lessee or lessor, are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Inventories

Inventories are valued at the lower of cost (determined on a first-in, first-out basis and including an appropriate proportion of overheads incurred in bringing the inventories to their present location and condition) and net realisable value. Provision is made for any obsolete, slow-moving or defective items.

Trade receivables

Trade receivables are initially measured at fair value then subsequently remeasured at amortised cost less any impairment. An appropriate provision is recorded for expected credit losses in accordance with the simplified approach permitted under IFRS 9. The Group measures the provision at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors.

Amounts receivable from over-time contract customers

For a contract recognised over time under IFRS 15 the control of the product may be passed to the customer before the customer is invoiced. At this point, revenue is recognised and an asset is recorded on the balance sheet as an amount receivable from over-time contract customers. The amount receivable from over-time contract customers is classified as a current asset when it is to be invoiced within 12 months, otherwise it is recorded as a non-current asset. This asset is transferred to trade receivables once the customer is invoiced, following which cash is expected to be received per the agreed contractual terms. Refer to note 19 for details on the average debtor days.

Amounts due to over-time contract customers

For a contract recognised over time under IFRS 15, a payment may be received from the customer before the control of the product is passed to the customer. At this point a liability is recorded on the balance sheet as an amount due to over-time contract customers, which is recognised net of any refunds expected to be paid. This liability is derecognised when the control is passed to the customer and revenue can be recorded. Amounts due to over- time contract customers is recorded as a current liability when the revenue is expected to be recognised within the next 12 months, otherwise it is classified as a non-current liability.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, call deposits and bank overdrafts, where there is right of offset. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances.

Assets and liabilities held for sale

Assets and liabilities classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Assets and liabilities are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at the actual exchange rates at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the income statement.

The trading results and cash flows of overseas undertakings are translated into Sterling, which is the functional currency of the Company, using the average rates of exchange during the relevant financial period. The balance sheets of overseas subsidiary undertakings are translated into Sterling at the rates ruling at the year end. Exchange differences arising from the retranslation of the opening balance sheets and results are classified as equity and transferred to the Group's translation reserve.

Goodwill and fair value adjustments on the acquisition of foreign entities are treated as assets and liabilities of the foreign entity and translated at the closing rate. The Group has elected to treat goodwill and fair value adjustments arising on acquisitions before the date of transition to IFRSs as Sterling-denominated assets and liabilities.

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred, except where they relate to qualifying assets, in which case they are capitalised.

Government grants

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

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

Retirement benefit costs

The Group provides pensions to its employees and Directors through defined benefit and defined contribution pension schemes. The schemes are funded and their assets are held independently of the Group by trustees.

For defined benefit retirement schemes, the cost of providing benefits is determined using the projected unit Credit method, with actuarial valuations being carried out at each balance sheet date. The actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of comprehensive income.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

Curtailment gains or losses are recognised immediately in the income statement.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets.

Payments to defined contribution retirement schemes are charged as an expense as they fall due.

Trade payables

Trade payables are initially measured at fair value then subsequently remeasured at amortised cost.

Loans and overdrafts

Interest-bearing loans and overdrafts are recorded as the proceeds received, net of direct issue costs where there is a facility commitment. In these circumstances, issue costs are deducted from the value of the loan and amortised over the life of the commitment. Where there is no facility commitment, issue costs are written off as incurred. Finance charges including premiums payable on settlement or redemption are accounted for on an accruals basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market-related conditions.

Fair value is measured by use of a Black-Scholes model for the share option plans and a stochastic model for awards made under the 2007 Long-Term Incentive Plan.

The credits in respect of equity-settled amounts are included in equity.

Provisions

Provisions, including property-related and contract-related provisions, are recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and where it is probable that an outflow of economic benefits will be required to settle the obligation.

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

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Taxation

The tax expense represents the sum of the current tax payable and deferred tax.

The current tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Statement of accounting policies in respect of the Group's consolidated financial statements
continued

Taxation continued

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities.

Derivative financial instruments

IFRS 9

Ultra uses derivative financial instruments, principally forward foreign currency contracts and interest rate swaps, to reduce its exposure to exchange rate and interest rate movements. Ultra does not hold or issue derivatives for speculative or trading purposes.

From 1 January 2019, the Group revised its hedging strategy under IFRS 9 to reduce income statement volatility from re-valuation of US Dollar assets and liabilities held on the UK balance sheet. Although the Group has forward foreign exchange contracts in place to reduce the currency exposure arising from the net US Dollar cash generation of its UK businesses, the balance sheet, which has carried increasing US dollar denominated assets from certain long-term programmes, has not been hedged prior to the conversion of those assets into cash. From 1 January 2019, the net investment hedge was revised to eliminate this volatility.

Classification and measurement

All financial instruments are initially measured at fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs.

IFRS 9 divides all financial assets that were previously in the scope of IAS 39 into two classifications – those measured at amortised cost and those measured at fair value. Where assets are measured at fair value, gains and losses are either recognised entirely in profit or loss (fair value through profit or loss, FVTPL), or recognised in other comprehensive income (fair value through other comprehensive income, FVTOCI).

A debt instrument is measured at amortised cost if: a) the objective is to hold the financial asset for the collection of the contractual cash flows; and b) the contractual cash flows under the instrument solely represent payments of principal and interest. A debt instrument is measured at FVTOCI if: a) the objective is to hold the financial asset both for the collection of the contractual cash flows and selling financial assets, and b) the contractual cash flows under the instrument solely represent payments of principal and interest. All other debt instruments must be measured at FVTPL.

Hedge accounting

Hedge accounting will not generally be applied to transactional hedging relationships, such as hedges of forecast or committed transactions. However, hedge accounting will be applied to translational hedging relationships where it is permissible under IFRS 9. When hedge accounting is used, the relevant hedging relationships will be classified as fair value hedges, cash flow hedges or net investment hedges. In order to qualify for hedge accounting, the hedge relationship must meet the following effectiveness criteria at the beginning of each hedged period:

+ There is an economic relationship between the hedged item and the hedging instrument.
+ The effect of credit risk does not dominate the value changes that result from that economic relationship.
+ The hedge ratio of the hedging relationship is the same as that actually used in the economic hedge.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the hedge ratio of the hedging relationship is adjusted so that it meets the qualifying criteria.

Where the hedging relationship is classified as a fair value hedge, the carrying amount of the hedged asset or liability will be adjusted by the increase or decrease in the fair value attributable to the hedged risk and the resulting gain or loss will be recognised in the income statement where permissible under IFRS 9.

Where the hedging relationship is classified as a cash flow hedge or as a net investment hedge, to the extent that the hedge is effective, changes in the fair value of the hedging instrument will be recognised directly in equity. Any gain or loss relating to the ineffective portion is recognised immediately in the income statement. For cash flow hedges of forecasted future transactions, when the hedged item is recognised in the financial statements, the accumulated gains and losses recognised in equity will be either recycled to the income statement or, if the hedged items result in a non-financial asset, will be recognised as adjustments to its initial carrying amount.

Impairment

The amount of expected credit losses is updated at each reporting date.

Income statement

Additional line items are disclosed in the consolidated income statement when such presentation is relevant to an understanding of the Group's financial performance.

Operating profit

Operating profit is stated after charging restructuring costs but before investment income and finance costs.

Exceptional items

When items of income or expense are material and they are relevant to an understanding of the entity's financial performance, they are disclosed separately within the financial statements. Such exceptional items include material costs or reversals arising from a restructuring of the Group's operations, material creation or reversals of provisions, and material litigation settlements.

Non-statutory and underlying performance measures

In the analysis of the Group's operating results, earnings per share and cash flows, information is presented to provide readers and stakeholders with additional performance indicators that are prepared on a non-statutory basis. This 'underlying' presentation is regularly reviewed by management to identify items that are unusual and other items relevant to an understanding of the Group's performance and long-term trends with reference to their materiality and nature. The non-statutory performance measures are consistent with how business performance is planned and reported within the internal management reporting to the divisional management teams, Executive Committee and to the Board. Some of the measures are used for setting remuneration targets. The Group also uses 'organic' performance measures for the order book, order intake and the income statement. Explanations of how they are determined, and how they reconcile to IFRS statutory measures, are set out below. This additional non-statutory information is not uniformly defined by all companies and may not be comparable with similarly titled measures and disclosures by other organisations.

The non-statutory disclosures should not be viewed in isolation or as an alternative to the equivalent statutory measure. Information for separate presentation is considered below:

+ Contract losses arising in the ordinary course of trading are not separately presented; however, losses (and subsequent reversals) are separately disclosed in situations of a material dispute which are expected to lead to arbitration or legal proceedings. Significant legal charges and expenses are also separately disclosed; these are the charges arising from investigations and settlement of litigation that are not in the normal course of business.
+ One-off GMP Equalisation charge arising on defined benefit pension scheme in 2018.
+ Material costs or reversals arising from a significant restructuring of the Group's operations, such as the S3 programme, and costs of closure of product lines, businesses or facilities, are presented separately.
+ Disposals of businesses or investments in associates or joint ventures, or impairments of related assets are presented separately.
+ The amortisation of intangible assets arising on acquisitions and impairment of goodwill or intangible assets are presented separately.
+ Acquisition and disposal-related costs comprise external legal and adviser costs directly related to mergers and acquisitions activity, adjustments to contingent consideration, payment of retention bonuses, and fair value adjustments for acquired inventory calculated in accordance with IFRS 13.
+ IAS 37 requires the Group to discount provisions using a pre-tax discount rate that reflects the current assessment of the time value of money and the risks specific to the liability. This discount unwind is presented separately when the provision relates to acquisition contingent consideration.
+ Derivative instruments used to manage the Group's foreign exchange exposures are 'fair valued' in accordance with IFRS 9. This creates volatility in the valuation of the outstanding instruments as exchange rates move over time. This has minimal impact on profit over the full term of the instruments, but can cause significant volatility on particular balance sheet dates. Consequently, the gain or loss is presented separately.
+ The defined benefit pension net interest charge arising in accordance with IAS 19 was presented separately for periods up until 31 December 2018. From 1 January 2019, this cost is included within underlying finance charges.

These items and the calculation of underlying profit measures are shown in note 2.

The related tax effects of the above items are reflected when determining underlying earnings per share, as set out in note 12.

The Group is cash-generative and reinvests funds to support the continuing growth of the business. It seeks to use an accurate and appropriate measure of the funds generated internally while sustaining this growth. For this, the Group uses underlying operating cash flow, rather than cash generated by operations, as its preferred indicator of cash generated and available to cover non-operating expenses such as tax and interest payments. Management believes that using cash generated by operations, with the exclusion of net expenditure on property, plant and equipment and outflows for capitalised product development and other intangibles, would result in an under-reporting of the true cash cost of sustaining a growing business. The reconciliation for underlying operating cash flow and cash conversion is shown in note 2.

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

A revised and simplified ROIC measure was established in 2019. This is calculated as underlying operating profit as a percentage of invested capital (average of opening and closing balance sheets). Invested capital is defined as net assets of the Group, excluding net debt and lease liability, pension obligations, tax and derivatives. This allows ROIC to be calculated on the operating assets of the business within the control of management. The calculation for ROIC is shown in note 2. ROIC under the previous measure, as still used in the LTIP targets for the 2017 – 2019 issuances, is calculated as underlying operating profit expressed as a percentage of invested capital (average of opening and closing balance sheets). Invested capital is calculated as net assets of the Group (after adjusting for exchange rate fluctuations and to eliminate the impact of the 2017 equity raise and subsequent buy-back) adjusted for amortisation and impairment charges arising on acquired intangible assets and goodwill, and the add-back of other non-underlying performance items, such as tax, fair value movements on derivatives, the S3 programme, acquisition and disposal-related costs and the Ithra (Oman) contract, impacting the balance sheet.

Average Working Capital Turn (AWCT) is the ratio of the 12 month average month-end working capital (defined as the total of inventory, receivables and payables excluding IFRS 16 lease liabilities) to gross revenue, calculated at constant FX rates.

Organic measures

The divisional management teams, the Executive Team and the Board review and compare current and prior year Group and divisional performance on an organic basis. Organic growth (of revenue, profit or orders) is the annual rate of increase that was achieved at constant currencies, assuming that acquisitions made during the prior-year were only included for the same proportion of the current year, and adjusted for disposals to reflect the comparable period of ownership. The organic measure also eliminates the impact of adoption of new accounting standards IFRS 16 in 2019 and IFRS 15 in 2018.

The constant exchange comparison retranslates the prior year reported results from the prior year's average exchange rates into the current year's average exchange rates.

Company balance sheet
For the year ended 31 December 2019

	Note	2019 £m	2018 £m
Fixed assets			
Property, plant and equipment	37	**1.8**	0.6
Investments	38	**749.5**	748.3
Leased assets	39	**2.5**	–
		753.8	748.9
Current assets			
Debtors: Amounts falling due within one year	40	**7.9**	5.2
Cash and cash equivalents		**3.8**	–
		11.7	5.2
Creditors: Amounts falling due within one year	42	**(140.0)**	(260.9)
Net current liabilities		**(128.3)**	(255.7)
Total assets less current liabilities		**625.5**	493.2
Creditors: Amounts falling due after more than one year	43	**(188.8)**	(67.6)
Net assets		**436.7**	425.6
Capital and reserves			
Share capital	45	**3.5**	3.6
Share premium account	46	**203.2**	201.0
Capital redemption reserve	46	**0.4**	0.3
Retained earnings brought forward	46	**223.2**	141.7
Profit and loss account movement for year	46	**7.8**	81.6
Own shares	46	**(1.4)**	(2.6)
Shareholders' funds		**436.7**	425.6

The financial statements of Ultra Electronics Holdings plc, registered number 02830397, were approved by the Board of Directors and authorised for issue on 10 March 2020.

On behalf of the Board,

S. PRYCE, Chief Executive
J. SCLATER, Chief Financial Officer

The accompanying notes are an integral part of this balance sheet.

Company statement of changes in equity
For the year ended 31 December 2019

	Share capital £m	Share premium account £m	Capital redemption reserve £m	Profit and loss account £m	Own shares £m	Total £m
Balance at 1 January 2018	3.9	200.9	–	269.0	(2.6)	471.2
Retained profit for the year	–	–	–	81.5	–	81.5
Total comprehensive income for the year	–	–	–	81.5	–	81.5
Issue of share capital	–	–	–	–	–	–
Equity-settled employee share schemes	–	0.1	–	1.6	–	1.7
Shares purchased in buyback	(0.3)	–	0.3	(91.9)	–	(91.9)
Dividends paid	–	–	–	(36.9)	–	(36.9)
Balance at 31 December 2018	**3.6**	**201.0**	**0.3**	**223.3**	**(2.6)**	**425.6**
Balance at 1 January 2019	**3.6**	**201.0**	**0.3**	**223.3**	**(2.6)**	**425.6**
Adoption of IFRS 16	–	–	–	–	–	–
Retained profit for the year	–	–	–	52.3	–	52.3
Total comprehensive income for the year	**–**	**–**	**–**	**52.3**	**–**	**52.3**
Issue of share capital	–	–	–	–	–	–
Equity-settled employee share schemes	–	2.2	–	1.9	–	4.1
Transfer from own shares	–	–	–	(1.2)	1.2	–
Shares purchased in buyback	(0.1)	–	0.1	(8.6)	–	(8.6)
Dividends paid	–	–	–	(36.7)	–	(36.7)
Balance at 31 December 2019	**3.5**	**203.2**	**0.4**	**231.0**	**(1.4)**	**436.7**

Notes to accounts – Company
For the year ended 31 December 2019

37 Property, plant and equipment

	Total £m
Cost	
At 1 January 2018	2.1
Additions	0.1
At 1 January 2019	**2.2**
Additions	1.3
Disposals	(0.9)
At 31 December 2019	**2.6**
Accumulated depreciation	
At 1 January 2018	(1.5)
Charge	(0.1)
At 1 January 2019	**(1.6)**
Charge	(0.1)
Disposals	0.9
At 31 December 2019	**(0.8)**
Net book value	
At 31 December 2019	**1.8**
At 31 December 2018	0.6

38 Investments

a) Principal subsidiary undertakings

The Company owns either directly or indirectly 100% of the ordinary share capital of a number of subsidiary undertakings as set out in note 35.

b) Investment in subsidiary undertakings

	Total £m
At 1 January 2019	748.2
Additions	1.3
At 31 December 2019	**749.5**

39 Leased assets

	Total £m
Cost	
At 1 January 2019	–
Adoption of IFRS 16	–
Additions	2.8
At 31 December 2019	**2.8**
Accumulated depreciation	
At 1 January 2019	–
Charge	(0.3)
At 31 December 2019	**(0.3)**
Carrying amount	
At 31 December 2019	**2.5**

40 Debtors

	2019 £m	2018 £m
Amounts falling due within one year:		
Amounts due from subsidiary undertakings	**5.3**	3.5
Deferred tax assets	**0.9**	0.8
Other receivables	**1.3**	0.5
Prepayments	**0.4**	0.4
	7.9	5.2

41 Deferred tax

Movements in the deferred tax asset were as follows:

	2019 £m	2018 £m
Beginning of year	**0.8**	0.5
(Charge)/credit to the profit and loss account	**(0.7)**	0.3
End of year	**0.1**	0.8

The deferred tax balances are analysed as follows:

	2019 £m	2018 £m
Other temporary differences relating to current assets and liabilities	**0.1**	0.8
Deferred tax	**0.1**	0.8

These balances are shown as follows:

	2019 £m	2018 £m
Debtors: Amounts falling due within one year	**0.9**	0.8
Creditors: Amounts falling due within one year	**(0.8)**	–
Deferred tax	**0.1**	0.8

Deferred tax assets, in excess of offsetting tax liabilities, are recognised for loss carry forwards and deductible temporary differences to the extent that the utilisation against future taxable profits is probable. At the balance sheet date the Company had deferred tax assets of £2.1m (2018: £1.2m) that have not been recognised as their recovery is uncertain.

42 Creditors: amounts falling due within one year

	2019 £m	2018 £m
Borrowings and overdraft	**4.1**	207.4
Amounts owed to subsidiary undertakings	**122.3**	39.9
Deferred tax liability	**0.8**	–
Other payables	**1.4**	3.5
Accruals	**11.4**	10.1
	140.0	260.9

The bank loans held in borrowings above are unsecured. Interest was predominantly charged at 0.90% (2018: 0.96%) over base or contracted rate.

Notes to accounts – Company
For the year ended 31 December 2019
continued

43 Creditors: amounts falling due after more than one year

	2019 £m	2018 £m
Borrowings	**188.8**	67.6
	188.8	67.6

The financial risk management objectives and policies of the Company are managed at a Group level; further information is set out in note 22.

44 Borrowings

Borrowings fall due as analysed below:

	2019 £m	2018 £m
Bank loans and overdraft		
Amounts due in less than one year		
Bank loans and overdrafts	**3.7**	160.4
Unsecured loan notes	**–**	47.0
Lease liability	**0.4**	–
	4.1	207.4
Amounts due after more than one year		
Bank loans	**83.8**	17.6
Unsecured loan notes	**102.5**	50.0
Lease liability	**2.5**	–
	188.8	67.6

The Company repaid a $165m term loan in the year. Interest was charged at 3.73% (2018: 3.11%). Included in the above, £102.5m (2018: £50.0m) is repayable after five years. Refer to note 22 for more details.

45 Called-up share capital

The movements are disclosed in note 26.

46 Equity reserve

The profit and loss account includes £65.4m (2018: £65.4m) which is not distributable. A net foreign exchange gain of £4.4m was taken to reserves in the year (2018: £12.1 loss). Further details in respect of dividends are presented in note 11 and in respect of share-based payments in note 26.

The Company holds 131,542 own shares (2018: 235,247).

47 Related parties

Transactions with Corvid Holdings Limited are set out in note 32.

Statement of accounting policies
For the Company accounts

A summary of the Company's principal accounting policies, all of which have been applied consistently throughout the year and preceding year, unless otherwise stated below, in the separate financial information presented for the Company, are set out below:

Basis of accounting

The Company accounts have been prepared under the historical cost convention and in accordance with FRS 101 Reduced Disclosure Framework. No profit and loss account is presented for the Company, as permitted by section 408 of the Companies Act 2006. As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement and certain related-party transactions. The Company's retained profit for the year is disclosed in the Company statement of changes in equity.

Fixed assets and depreciation

Property, plant and equipment are shown at original historical cost, net of depreciation and any provision for impairment. Depreciation is provided at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life as follows:

Short leasehold improvements	over remaining period of lease
Plant and machinery	3 to 20 years

Leases

IFRS 16 Leases came into effect on 1 January 2019 and replaced IAS 17 and IFRIC 4. The Company has adopted the modified retrospective approach and has recognised the cumulative effect of applying IFRS 16 at the 1 January 2019 transitional date. The expedients adopted for the Group accounts (outlined in note 36) are also applied for the Company. The prior period has not been restated; the adjustment to opening retained earnings of £1,000 at 1 January 2019 is reflected in the consolidated statement of changes in equity. IFRS 16 requires that all leases and the related rights and obligations should be recognised on the lessee's balance sheet, unless the lease is less than one year in length or is for a low-value asset. Leases that do not meet these criteria are expensed on a straight-line basis.

For each lease, a liability for lease obligations to be incurred in the future must be recognised. Correspondingly, a right-of-use asset is capitalised. The asset and liability are initially measured at the present value of all future lease payments plus directly attributable costs.

Under IFRS 16, previous lease charges (recognised in gross profit or indirect costs) are replaced with depreciation on the right-of-use asset and interest on the lease liability in the consolidated income statement. In addition, the cash impact of the lease is split between the principal and interest, with net cash flow remaining unchanged to pre-IFRS 16 cash flow.

The Company's impacted leases relate to real estate, vehicles, printers and copiers and other equipment. The Company therefore chose to split the leases between the following categories: property and non-property.

The Company's property lease is eight years in length and is based in the UK. The Company's non-property leases range from one year to three years.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The asset and liability are initially measured at the present value of all future lease payments plus directly attributable costs. Payments made before the commencement date and incentives received from the lessor are also included in the carrying amount of the right-of-use asset. The asset is then amortised over the useful life of the lease on a straight-line basis. Further details on the valuation of the right-of-use asset and the lease liability and the discount rate applied in calculating the present value are discussed below.

Short-term leases and leases of low-value assets

The Company has elected not to recognise leases that are less than one year in length or are for a low-value asset (<£3.5k) on the balance sheet. These leases are expensed on a straight-line basis as short-term leases or leases of low-value assets.

Valuation of lease liabilities and right-of-use assets

IFRS 16 requires the Company to make judgements that impact the initial valuation of the lease liabilities and the right-of-use assets. These judgements include: determining what contracts are in scope of IFRS 16, determining the lease contract term and determining the interest rate used for discounting future cash flows.

The lease term is the non-cancellable period of the lease contract. It can also be impacted by periods covered by an option to extend the lease if the Company is reasonably certain that it will exercise that option. For lease contracts with an indefinite term the Company estimates the length of the contract to be equal to the economic useful life of the asset or typical market contract term. The lease term is used to determine the depreciation rate of right-of-use assets.

For property leases, the Company has assumed that for leases that are due to expire within three years of the transition date that these will be renewed for the same length of time as the initial lease term, except where lease-specific non-renewal information was already known at the transition date.

The lease liability is measured at amortised cost using the effective interest method. The present value of the lease payment is determined using the discount rate. The Company has used two discount rates; one for property and one for non-property leases. The discount rate is determined based on: 1) the risk free rate on government bonds in the location and currency of the lease over a similar term as the lease; 2) the Company's borrowing rate; and 3) an asset-specific premium. Discount rates remain the same throughout the lease unless the lease term or renewal assumptions change and range between 1.9% and 2.9%.

Statement of accounting policies
For the Company accounts
continued

Leases continued

Onerous lease provisions are offset against the right-of-use asset and replaced by an annual assessment of impairment on the right-of-use assets in accordance with IAS 36. Additionally, under IFRS 16, lease incentives (e.g. rent free periods) will be recognised as part of the measurement of the right-of-use asset and lease liability, rather than recognised as a separate liability as under IAS 17.

The lease liability and right-of-use asset are remeasured when there is a change in the future lease payments arising from a change in the expected lease term, or a change in the estimated total cost of the lease.

For the year ended 31 December 2018, leases were accounted for according to IAS 17 and IFRIC 4; the 2018 accounting policy is noted below.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rentals under operating leases, where the Company acts as either lessee or lessor, are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Assets held under finance leases are recognised as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date. Temporary differences are differences between the Company's taxable profits and its results as stated in the financial statements. These arise from including gains and losses in tax assessments in different periods from those recognised in the financial statements. A net deferred tax asset is regarded as recoverable, and therefore recognised, only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not discounted.

Retirement benefit costs

The Company participates in a defined benefit plan that shares risks between entities under common control. The details of this UK scheme, for which Ultra Electronics Limited is the sponsoring employer, are set out in note 29. There is no contractual agreement or stated policy for charging the net benefit cost to Ultra Electronics Holdings plc.

Investments

Fixed asset investments are shown at cost less provision for impairment. Assessment of impairments requires estimates to be made of the value-in-use of the underlying investments. These value-in-use calculations are dependent on estimates of future cash flows and long-term growth rates. The criteria used in this assessment are consistent with those set out in note 13 and the critical accounting estimates and assumptions as set out below.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the strategic report on page 46.

Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at the actual exchange rate at the date of the transaction (or, where appropriate, at the rate of exchange in a related forward exchange contract). Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date (or, where appropriate, at the rate of exchange in a related forward exchange contract). Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Share-based payments

The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of the grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest. Further disclosure in relation to share-based payments is given in note 26.

Related parties

The Remuneration of the Directors, who are considered to be the key management personnel of the Company, is disclosed in the audited part of the Directors' Remuneration Report on pages 85.

Loans and overdrafts

Interest-bearing loans and overdrafts are recorded as the proceeds received, net of direct issue costs where there is a facility commitment. In these circumstances, issue costs are deducted from the value of the loan and amortised over the life of the commitment. Where there is no facility commitment, issue costs are written off as incurred. Finance charges including premiums payable on settlement or redemption are accounted for on an accruals basis in profit or loss using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Critical accounting judgements and key sources of estimation uncertainty

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

Critical accounting judgements in applying the Company's accounting policies

There were no critical accounting judgements that would have a significant effect on the amounts recognised in the Parent Company financial statements.

Critical accounting estimation and assumptions

Impairments to investments in subsidiary undertakings

Following the review of the recoverability of investments within the corporate company structure, an impairment was not identified due to the calculated value-in-use being higher than the book value of investments. The value-in-use is calculated by discounting the forecast cash flows of each investment to present value. The Directors consider the investments in the US business to be most sensitive to the achievement of the forecast cash flows and to the discount rate applied in calculating the present value of the future cash flows. A sensitivity analysis has been performed on the value-in-use calculations to increase the discount rate by 0.1% and reduce forecast future cash flows by 1%. The value-in-use calculations exceed the CGU carrying values after applying sensitivity analysis.

Statement of accounting policies
For the Company accounts
continued

Footnote

A reconciliation is set out in note 2 between operating profit, underlying operating profit and EBITDA, between profit before tax and underlying profit before tax and between cash generated by operations and underlying operating cash flow and between net cash flow from operating activities and free cash flow. The calculations for organic measures are also set out in note 2. The calculation for underlying earnings per share is set out in note 12. Further detail on non-statutory performance measures is set out on page 155.

Underlying operating profit is before amortisation of intangibles arising on acquisition, acquisition and disposal related costs, significant legal charges and expenses, and, for 2018, the S3 programme and impairments. IFRS operating profit was £94.2m (2018: £65.3m). See note 2.

Underlying operating margin is the underlying operating profit as a percentage of revenue.

Net finance charges exclude fair value movements on derivatives and, prior to 31 December 2018, the defined benefit pension finance charges.

Underlying profit before tax is before amortisation of intangibles arising on acquisition, fair value movements on derivatives, acquisition and disposal-related costs, gain or loss on disposal, significant legal charges and expenses and for 2018 the S3 programme, impairments, GMP equalisation, defined benefit pension finance charges and the loss on closing out a foreign currency derivative contract. See note 2.

Underlying tax is the tax charge on underlying profit before tax. The underlying tax rate is underlying tax expressed as a percentage of underlying profit before tax.

Underlying operating cash flow is cash generated by operations and dividends from associates, less net capital expenditure, R&D, and excluding the cash outflows from acquisition and disposal-related payments and significant legal charges and expenses and for 2018, the S3 programme. See note 2.

Operating cash conversion is underlying operating cash flow as a percentage of underlying operating profit. See note 2.

Net debt comprises loans, overdrafts and finance lease liabilities, less cash and cash equivalents. See note 27.

Bank interest cover is the ratio of underlying operating profit to finance costs associated with borrowings (excluding IFRS 16 liabilities).

Organic growth (of revenue, profit or orders) is the annual rate of increase that was achieved at constant currencies, assuming that acquisitions made during the prior year were only included for the same proportion of the current year, and adjusted for disposals to reflect the comparable period of ownership. The organic measure also eliminates the impact of adoption of new accounting standards IFRS 16 in 2019 and IFRS 15 in 2018. See note 2.

Underlying order book growth excludes the impact of foreign exchange and the order book arising on acquisition. See note 2.

Underlying earnings per share is before amortisation of intangibles arising on acquisition, fair value movements on derivatives, acquisition and disposal-related costs net of contingent consideration adjustments, gain or loss on disposal, significant legal charges and expenses and, for 2018 the S3 programme, impairments, GMP equalisation, defined benefit pension finance charges and the loss on closing out a foreign currency derivative contract. Basic EPS was 105.1p (2018: 43.6p). See note 12.

Average Working Capital Turn is the ratio of the 12 month average month-end working capital (defined as the total of inventory, receivables and payables excluding IFRS 16 lease liabilities) to gross revenue, calculated at constant FX rates.

ROIC is calculated as underlying operating profit expressed as a percentage of invested capital (average of opening and closing balance sheets). Invested capital is defined as net assets of the Group, excluding net debt and lease liability, pension obligations, tax and derivatives. See note 2.

Total shareholder return is annual shareholder return (capital growth plus dividends paid, assuming dividends reinvested) over a rolling five-year period.

Glossary

Definitions and KPIs

Acronym	Definition
ADSI	Air Defense Systems Integrator
AGR	Active Guard and Reserve
AI/ML	Artificial intelligence/machine learning
ASW	Anti-submarine warfare
ATCS	Amphibious Tactical Communications Systems
AWCT	Average Working Capital Turn
C2I	Command, Control and Intelligence
C3	Command, Communication and Control, including Cyber
C4ISTAR-EW	Command, Control Communications, Computers, Intelligence, Surveillance, Acquisition & Reconnaissance – Electronic Warfare
CSC	Canadian Surface Combatant
ECU RP	End Crypto Unit Replacement Programme
EW	Electronic warfare
FIPS	Federal Information Processing Standards
FTR	Flight Termination Receiver
HMS	Hull mounted sonar
HiPPAG	High pressure air-generating unit
HSM	Hardware security modules
IAMD	Integrated Air and Missile Defence
IDIQ	Indefinite-delivery/indefinite-quantity contract
IFRS	International Financial Reporting Standards
IP	Intellectual property
IR&D	Internal research and development
IS	Information systems
ISR	Intelligence, surveillance, and reconnaissance
ISS	Integrated sonar system
ITAR	International Traffic in Arms Regulations
ITN	Integrated tactical network
MIS	Management information systems
MDIS	Multi-Domain intelligence systems

Acronym	Definition
MSC/ECP	Main static Converter/electric cruise propulsion
NATO	North Atlantic Treaty Organization
NCSC	National Computer Security Center
NGSSR	Next generation surface search radar
OBU	Operating Business Unit
ORION	Ultra ORION is a family of multichannel, multiband, point-to-point (PTP), point-to-multipoint (PMP) and mesh radio systems.
PCS	Precision Control Systems
PSSC	Precision Strike Sensor Core
REAP	Rosetta Echo Advanced Payloads
RF	Radio frequency
ROIC	Return on invested capital
SBU	Strategic Business Unit
SSA	US Social Security Administration
SSNR	Spectral signal to noise ratio
SSTD	Surface Ship Torpedo Defence
SWaP	Size, Weight and Power
TRILOS	US Army network modernization programme, Terrestrial Transmission Line of Sight Radio
UAV	Unmanned aerial vehicle
UGV	Unmanned ground vehicle
UI/UX	User experience/user interface
uIFF	Micro identifier friend or foe
USAF	United States Air Force
USMC	United States Marine Corps
US MSA	United States Missile Defense Agency
USN S&T	United States Navy Science and Technology
VDS	Variable depth sonar
VMV	Vision, Mission, Values

Shareholder information
Five-year review

Financial highlights

	2015*† £m	2016*† £m	2017*† £m	2018† £m	**2019 £m**
Revenue					
Maritime & Land	293.8	322.1	329.5	317.9	**353.0**
Communications & Security	239.3	259.0	242.7	252.6	**267.9**
Aerospace & Infrastructure	193.2	204.7	203.2	196.2	**204.5**
Total revenue	726.3	785.8	775.4	766.7	**825.4**
Underlying operating profit[1]					
Maritime & Land	50.9	59.0	59.3	52.8	**52.5**
Communications & Security	40.4	39.7	28.2	29.9	**38.6**
Aerospace & Infrastructure	28.7	32.4	32.6	30.0	**27.1**
Total underlying operating profit[1]	120.0	131.1	120.1	112.7	**118.2**
Underlying operating margin[1]	16.5%	16.7%	15.5%	14.7%	**14.3%**
Profit before tax	34.8	67.6	60.6	42.6	**91.0**
Profit after tax	25.0	58.3	48.9	32.4	**74.6**
Underlying operating cash flow[2]	81.3	120.4	116.5	89.3	**86.8**
Free cash flow[3]	48.4	86.0	65.3	67.6	**72.5**
Net debt at year end[4]	(295.6)	(256.7)	(74.5)	(157.5)	**(154.8)**
Underlying earnings per share (p)[5]	123.9	134.6	116.7	109.5	**119.5**
Dividend per share (p)	46.1	47.8	49.6	51.6	**54.2**
Average employee numbers	4,843	4,466	4,172	4,119	**4,089**

1 Underlying operating profit is before amortisation of intangibles arising on acquisition, acquisition and disposal related costs, significant legal charges and expenses and, for 2018 and earlier, the S3 programme and impairments. See note 2. Underlying operating margin is the underlying operating profit as a percentage of revenue
2 Underlying operating cash flow is cash generated by operations and dividends from associates, less net capital expenditure, R&D, and excluding cash outflows from acquisition and disposal related payments and significant legal charges and expenses and, for 2018, the S3 programme. See note 2
3 Free cash flow is before dividends paid, acquisitions, disposals and financing. See note 2
4 Net debt is loans, overdrafts and finance lease liabilities less cash and cash equivalents. See note 27
5 Underlying earnings per share is before amortisation of intangibles arising on acquisition, fair value movements on derivatives, acquisition and disposal related costs net of contingent consideration adjustments, gain or loss on disposal, significant legal charges and expenses and, for 2018 and earlier, the S3 programme, impairments, GMP equalisation and defined benefit pension finance charges and in 2018 the loss on closing out a foreign currency derivative contract. See note 12
* Not prepared under IFRS 15
† Not prepared under IFRS 16

Annual General Meeting
A separate circular providing the Notice of Annual General Meeting and details of the resolutions to be put to the meeting will be sent to shareholders in due course. Proxy votes lodged for each Annual General Meeting are announced at the meeting and published on the Group's website (www.ultra.group).

Electronic communication with shareholders is preferred wherever possible since this is both more efficient and environmentally friendly. However, shareholders may opt to receive hard copy communications if they wish.

Shareholder information
continued

Ultra's organisational structure from 1 January 2020

- **Simon Pryce** Chief Executive
  - **Jos Sclater** Chief Financial Officer
  - **Steve Izquierdo** Chief Human Resources Officer
  - **Richard Cashin** Global Director Strategy and Development
  - **Louise Ruppel** General Counsel & Company Secretary
  - **Maritime & Land** Thomas Link – President
    - **Command & Sonar Systems** Mike Williams – Managing Director
    - **EMS** Pete Crawford – President (S)
    - **Maritime Systems** Bernard Mills – President
    - **Ocean Systems** Dan Fishbach – President (S)
    - **USSI** David Jost – President (S)
    - **Australia** Doug Burd – Managing Director
    - **PMES** Michael Hawkins – Managing Director
  - **Intelligence & Communications** Mike Baptist – President
    - **3eTI** Dirk van der Vaart – President (S)
    - **ATS** Tim Stanley – President (P)
    - **CIS** James Lovell – Managing Director
    - **Herley** Dan Pikora – President (S)
    - **TCS** Iwan Jemczyk – President
  - **Other critical detection & control business units**
    - **Precision Control Systems** Mike Clayton – Managing Director
    - **Forensic Technology** Brian Sinnott – President
    - **Energy** Dan Upp – President
  - **Other Group support functions**
    - **Global Business Services**
    - **Corvid – ICT**
    - **CEMS**

P Businesses operate under the US Proxy Board

S Businesses operate under a US Special Security Agreement (SSA)

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