



Underwriters Laboratories Inc.

**Reports on Federal Awards in Accordance with the
Uniform Guidance**

December 31, 2022

EIN: 36-1892375

Underwriters Laboratories Inc.

Table of Contents

Page

Part I - Consolidated Financial Statements and Supplemental Information

Report of Independent Auditors	1
Consolidated Balance Sheets	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows	6
Notes to the Consolidated Financial Statements	7
Supplemental Information - Schedule of Expenditures of Federal Awards	47
Supplemental Information - Notes to Schedule of Expenditures of Federal Awards	48

Part II - Reports on Internal Controls and Compliance

Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	49
Report of Independent Auditors on Compliance for each Major Program and Internal Control Over Compliance Required by Uniform Guidance	51

Part III - Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs	54
Summary of Status of Prior Year Audit Findings	59
Management's Views and Corrective Action Plan	61

Part I
Consolidated Financial Statements and Supplemental Information



Report of Independent Auditors

To the Board of Trustees of Underwriters Laboratories Inc.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Underwriters Laboratories Inc. and its subsidiaries (the “Company”), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of changes in net assets and of cash flows for the years then ended, including the related notes (collectively referred to as the “consolidated financial statements”).

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except as noted below. Our responsibilities under those standards are further described in the Auditors’ Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The PricewaterhouseCoopers affiliated firms in Greater China and Japan performed audit procedures for UL VS Shanghai Ltd., UL - CCIC Company Limited, and UL Japan, Inc., comprising approximately 8% of total assets of the Company for the year ended December 31, 2022. Personnel of these firms, excluding United States personnel, do not participate in a continuing education program that fully satisfies the requirement set forth in Chapter 4, paragraphs 4.16-4.18 of *Government Auditing Standards*. However, these firms do participate in continuing education programs applicable to their respective countries.

Further, the PricewaterhouseCoopers affiliated firms referred to above do not have an external quality review by an unaffiliated audit organization as required by Chapter 5, paragraphs 5.60-5.62 of *Government Auditing Standards*, since no such program is offered by professional organizations in the countries. However, these offices participate in the PricewaterhouseCoopers worldwide internal control review program, which requires the office to be periodically subjected to an extensive quality control review by partners and managers from other PricewaterhouseCoopers affiliated firms.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America,



and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS and *Government Auditing Standards*, will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with US GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards for the year ended December 31, 2022 is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial



statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2023, except with respect to the opinion on the supplemental information, as to which the date is September 26, 2023, on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters for the year ended December 31, 2022. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

Chicago, Illinois

May 25, 2023, except with respect to the opinion on the supplemental information, as to which the date is September 26, 2023.

Underwriters Laboratories Inc.

Consolidated Balance Sheets

(in millions)	As of December 31,	
	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 357	\$ 1,415
Short-term investments	51	47
Accounts receivable, net of allowance of \$11 and \$12	376	369
Contract assets, net of allowance of \$2 and \$2	172	189
Prepaid expenses	75	62
Other current assets	5	6
Total current assets	1,036	2,088
Investments	1,405	4
Equity investments in non-consolidated affiliates	62	44
Property, plant and equipment, net of accumulated depreciation of \$734 and \$724	486	453
Goodwill	647	621
Intangible assets, net of accumulated amortization of \$242 and \$237	72	73
Operating lease right-of-use assets	158	152
Deferred income taxes	128	166
Capitalized software, net of accumulated amortization of \$377 and \$372	132	124
Other assets	46	30
Total Assets	\$ 4,172	\$ 3,755
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 159	\$ 188
Accrued compensation and benefits	319	388
Operating lease liabilities - current	42	36
Contract liabilities	143	136
Other current liabilities	47	61
Total current liabilities	710	809
Long-term debt	499	—
Pension and postretirement benefit plans	247	337
Operating lease liabilities	120	119
Other liabilities	86	84
Total Liabilities	1,662	1,349
Net assets without donor restrictions attributable to:		
Underwriters Laboratories Inc.	2,487	2,385
Non-controlling interests	23	21
Total Net Assets without Donor Restrictions	2,510	2,406
Total Liabilities and Net Assets	\$ 4,172	\$ 3,755

The accompanying notes are an integral part of the Consolidated Financial Statements

Underwriters Laboratories Inc. Consolidated Statements of Changes in Net Assets

(in millions)	Year Ended December 31,	
	2022	2021
Operating revenues	\$ 2,525	\$ 2,524
Operating expenses	2,177	2,268
Operating income	348	256
Interest and dividend income, net of fees	13	7
Unrealized loss on investments, net	(141)	(2)
Realized loss on investments, net	(21)	—
Interest expense	(17)	(3)
Other (expense) income, net	(38)	(19)
Income tax expense	(76)	(38)
Non-operating activity	(280)	(55)
Foreign currency translation loss	(42)	(24)
Pension and postretirement benefit plans, net of tax of \$31 and \$21	91	62
Dividend to non-controlling interest	(13)	(13)
Change in net assets without donor restrictions	104	226
Less: change in net assets without donor restrictions attributable to non-controlling interests	2	1
Change in net assets without donor restrictions attributable to Underwriters Laboratories Inc.	\$ 102	\$ 225
Net assets without donor restrictions		
Beginning of year	2,406	2,180
End of year	\$ 2,510	\$ 2,406

The accompanying notes are an integral part of the Consolidated Financial Statements

Underwriters Laboratories Inc.

Consolidated Statements of Cash Flows

(in millions)	Year Ended December 31,	
	2022	2021
Operating activities		
Change in net assets without donor restrictions	\$ 104	\$ 226
Adjustments to reconcile change in net assets without donor restrictions to net cash provided by operating activities		
Foreign currency translation loss	42	24
Pension and postretirement benefit plans gain, net of tax	(91)	(62)
Unrealized loss on investments, net	141	2
Realized loss (gain) on investments, net	23	(6)
Dividend to non-controlling interest	13	13
Depreciation and amortization	137	143
Loss (gain) on disposal of assets	2	(5)
Allowance for credit losses	6	7
Loss on foreign exchange transactions	18	11
Impairment of investments	4	1
Equity in earnings of non-consolidated affiliates	(2)	(11)
Dividends from investments in non-consolidated affiliates	2	2
Deferred income taxes	10	(70)
Pension settlement losses	18	11
Changes in assets and liabilities, excluding the effects of acquisitions		
Accounts receivable	(15)	(1)
Contract and other assets	(15)	(13)
Accounts payable	(25)	35
Accrued expenses	(79)	85
Pension and postretirement benefit plans	19	(6)
Contract and other liabilities	3	8
Net cash flows provided by operating activities	315	394
Investing activities		
Purchases of short-term investments, net	(8)	(46)
Purchases of investments	(1,870)	—
Sales of investments	282	371
Purchases of equity investments in non-consolidated affiliates	(2)	(1)
Proceeds from sale of assets	1	8
Acquisitions, net of cash acquired	(66)	(47)
Capital expenditures	(170)	(108)
Net cash flows (used in) provided by investing activities	(1,833)	177
Financing activities		
Proceeds from long-term debt	700	—
Repayments of long-term debt	(200)	(94)
Dividends to non-controlling interest	(13)	(24)
Other financing activities, net	(3)	(2)
Net cash flows provided by (used in) financing activities	484	(120)
Effect of exchange rate changes on cash and cash equivalents	(24)	(14)
Net (decrease) increase in cash and cash equivalents	(1,058)	437
Cash and cash equivalents		
Beginning of year	1,415	978
End of year	\$ 357	\$ 1,415
Supplemental disclosures of cash flow information		
Cash paid during the year for interest	\$ 17	\$ 2
Cash paid during the year for income taxes	73	132
Cash paid during the year for stock-based compensation	51	18
Noncash investing and financing activities		
Capital expenditures funded by liabilities	\$ 29	\$ 33
Acquisitions funded by liabilities	7	1

The accompanying notes are an integral part of the Consolidated Financial Statements

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

1. Description of Business and Summary of Significant Accounting Policies

Description of Business

Underwriters Laboratories Inc. ("UL Research Institutes" and, together with UL Standards & Engagement and UL Solutions (each, as defined below), the "Company"), is a Delaware charitable nonstock corporation with a mission of, among other things, promoting safe living and working environments throughout the world by conducting safety and environmental sciences and hazard-based safety engineering. UL Research Institutes has a favorable determination letter from the Internal Revenue Service ("IRS") classifying it as a tax-exempt public charity, per Section 501(c)(3) of the tax code.

UL Research Institutes' principal activity relates to conducting and disseminating scientific research on public safety issues. UL Research Institutes is the sole member of ULSE Inc. ("UL Standards & Engagement"), a Delaware nonprofit nonstock corporation that has applied for a favorable tax determination letter from the IRS to classify it as a tax-exempt social welfare organization per Section 501(c)(4) of the tax code. Starting on November 30, 2021, UL Standards & Engagement began engaging in education and outreach activities to promote public safety and developing internationally recognized safety standards. Prior to such date these activities were performed by UL Research Institutes. UL Standards & Engagement owns 100% of the outstanding common stock of UL Solutions Inc. (together with its consolidated subsidiaries, "UL Solutions"), a Delaware corporation, which is a global safety science leader that provides independent third-party testing, inspection and certification services and complementary software and advisory services.

Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries and variable interest entities for which the Company has determined it is the primary beneficiary. All intercompany accounts and transactions have been eliminated. The Company accounts for investments in businesses using the equity method when it has significant influence but not control (generally between 20% and 50% ownership) and is not the primary beneficiary. The significant accounting policies, as summarized below, conform to Accounting Standards Codification ("ASC") Topic 958, *Not-for-Profit Entities* ("ASC 958"), and other accounting principles generally accepted in the United States of America ("US GAAP"). The prior year presentation of the consolidated statement of operations and change in net assets has been revised to eliminate or change certain line item descriptions or certain sub-totals to conform to the current year presentation of the consolidated statement of changes in net assets. Additionally, the Company has reclassified certain other amounts in prior period financial statements to conform to the current period's presentation as more fully described in Notes 4, 14, 15 and 17 below.

Effective April 1, 2022 UL Solutions changed the inputs used to estimate the revenue recognition pattern of Certification Testing and Non-certification Testing, Inspections and Audit arrangements recognized over time. Previously measurement was based on the relationship between time elapsed and expected project duration, which was considered the most indicative of the Company's performance to date under the terms of the contract. Beginning April 1, 2022, UL Solutions measures progress towards completion of these contracts based on the relationship between time elapsed of each project phase relative to the expected duration of that phase. Project phase data was not previously available and is considered a more precise measure of the Company's performance to-date under the terms of the contract. Refer to the revenue recognition section of Note 1 for additional information.

ASC 958 requires classification of net assets and revenues, expenses and gains and losses, based on the existence or absence of donor restrictions. The categories, net assets without donor restrictions and net assets with donor restrictions, are defined as follows:

- Net Assets Without Donor Restrictions – Net assets available for general use and not subject to third-party donor-imposed stipulations. Net assets without donor restrictions may be designated for specific purposes by management or the Board of Trustees.

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

- Net Assets With Donor Restrictions – Net assets subject to third-party donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature that may or will be met either by the passage of time or the events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

In accordance with ASC 958, the Company does not have any net assets with third-party donor restrictions.

Use of Estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates are inherently uncertain and actual results could differ materially from estimated amounts. Estimates are used for, but are not limited to, contractual revenue recognized, future cash flows associated with impairment testing for goodwill and long-lived assets, future cash flows associated with the valuation of Cash-settled Stock Appreciation Rights ("CSARs"), certain assumptions related to pension and postretirement benefits and income taxes. The Company adjusts such estimates and assumptions when facts and circumstances dictate. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

The Company has assessed various accounting estimates, including those that require consideration of forecasted financial information, in conjunction with the unknown future impacts of the COVID-19 pandemic using information that is reasonably available to the Company. The Company believes that the accounting estimates are appropriate after giving consideration to the increased uncertainties surrounding the severity and duration of the pandemic, however as additional information becomes available to the Company, the Company's future assessment of these estimates, including the Company's expectations regarding the duration, scope and severity of the pandemic, as well as other factors, could materially and adversely impact the Company's consolidated financial statements in future reporting periods.

Cash and Cash Equivalents

Cash and cash equivalents include investments purchased with original maturities of three months or less.

Short-term Investments and Investments

Short-term investments, consisting of certificates of deposit, are recorded at amortized cost, which approximates fair value.

UL Research Institutes and UL Standards & Engagement hold investment portfolios. Cash and cash equivalents that are included in these portfolios are classified as investments on the Consolidated Balance Sheets. Investments in marketable debt and equity securities, including exchange-traded funds, corporate bonds, US treasury and government obligations with readily determinable fair values are measured at fair value. Investments in certain public equity, fixed income, diversifying commingled funds, and private investment partnerships are measured using the Net Asset Value ("NAV") as a practical expedient based on the fair value of the underlying investments as provided by the investment managers. Assets measured using the NAV practical expedient approximated 50% of the total fair value of investments in marketable debt and equity securities as of December 31, 2022.

Accounts Receivable and Contract Assets

Accounts receivable consists of trade receivables billed and currently due from customers as well as amounts currently due from other external parties. Contract assets represent revenues for projects that have been recognized for accounting purposes, but not yet billed to customers. The Company extends credit to customers in the normal course of business and maintains an allowance for credit losses. The allowance is an estimate based

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

on historical collection experience, current and future economic and market conditions and a review of the current status of each customer's trade accounts receivable. Management evaluates the aging of the accounts receivable balances and the financial condition of its customers and all other forward-looking information that is reasonably available to estimate the amount of accounts receivable that may not be collected in the future and records the appropriate provision. Account balances are written off against the allowance when it is determined the accounts receivables will not be recovered.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist primarily of cash and cash equivalents, investments, accounts receivable and contract assets. Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to perform as contracted. The Company believes the likelihood of incurring material losses due to concentration of credit risk is minimal. The Company actively limits its exposure to credit risk by maintaining cash and investment deposits with major financial institutions as counterparties and by maintaining accounts receivable with a large number of customers in diverse industries and geographies in addition to establishing reasonable credit approvals and limits.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation. Major replacements and improvements are capitalized, while maintenance and repairs, which do not improve or extend the life of the respective assets, are expensed as incurred. Gains and losses resulting from sales and retirements are included within operating income.

Depreciation is computed using the straight-line method over the estimated useful life of the asset as follows:

Land improvements	15 years
Building and building improvements	15 - 50 years
Leasehold improvements	Lease term
Machinery, equipment and office furniture	3 - 15 years

Goodwill

The Company accounts for business combinations using the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*, which requires an allocation of the purchase consideration transferred to the identifiable assets and liabilities based on the estimated fair values as of the acquisition date. Goodwill represents the excess of the purchase price of an acquired entity over the fair value of net assets acquired. Goodwill is tested for impairment annually in the fourth quarter, or more frequently if an event occurs or conditions change that would indicate it is more likely than not that the fair value of a reporting unit is below its carrying amount. The Company's reporting units have been identified as one level below its operating segments. The goodwill impairment testing is performed by comparing the fair value of a reporting unit with its carrying amount and recognizing an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value.

To evaluate the recoverability of a reporting unit's goodwill the Company has the option to first perform a qualitative analysis. If the qualitative analysis indicates it is more likely than not that the fair value of a reporting unit is below its carrying amount, the Company performs a quantitative impairment assessment for that reporting unit. The Company did not perform a qualitative analysis for any of its reporting units for the years ended December 31, 2022 or 2021.

The Company's quantitative assessment consists of a fair value calculation for each reporting unit that combines an income approach and a market approach, using an equal weighting. The quantitative assessment requires the

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

application of a number of significant assumptions which are further described below, including estimated future cash flows of the reporting unit, discount rates, and market multiples.

The fair value using the income approach is determined based on the present value of estimated future cash flows of the reporting unit, discounted at an appropriate risk-adjusted rate. The Company uses its internally developed long-range plans to estimate future cash flows and include an estimate of long-term future growth rates based on its most recent views of the long-term outlook for each reporting unit. Development of the Company's long-range plans includes consideration of current and projected levels of income for the reporting unit based on management's plans for that business, business trends, market and economic conditions, as well as other relevant factors. The discount rate is based on the weighted average cost of capital for the reporting unit. The Company uses discount rates that are commensurate with the risks and uncertainty inherent in the respective businesses and in the Company's long-range plans.

The fair value using the market approach is derived from market multiples using comparable publicly traded companies for a group of benchmark companies. The selection of comparable businesses is based on the markets in which the reporting units operate given consideration to risk profiles, size, geography and diversity of products and services.

The Company did not recognize any impairments of goodwill for the years ended December 31, 2022 or 2021.

Intangible and Other Long-lived Assets

The Company amortizes finite-lived intangible assets using the straight-line method over their estimated economic useful lives, which range from two to fifteen years. The Company reviews long-lived assets, including property, plant and equipment, capitalized software and intangible assets with finite lives for impairment whenever an event occurs or conditions change that indicate the carrying amount of the asset group may not be recoverable. When such events occur, the Company performs a recoverability test by comparing the projected undiscounted cash flows of the asset group to the carrying amount. If this comparison indicates that there is a potential impairment, the asset group's fair value is determined based on the present value of its estimated future cash flows, discounted at an appropriate risk-adjusted rate. An impairment charge is recorded for the amount by which the carrying amount of the asset group exceeds its fair value. The Company did not recognize any impairments of intangible or other long-lived assets for the years ended December 31, 2022 or 2021.

Leases

The Company determines if an arrangement is a lease at inception and reassesses that conclusion if the contract is modified. The Company evaluates whether the arrangement conveys the right to control the use of an identified asset for a period of time in exchange for consideration in order to determine if the contract is or contains a lease. The right to control the use of an identified asset includes the right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset.

The Company's classes of leased assets include real estate, vehicles, and equipment. When it is reasonably certain that an option to extend or terminate a lease will be exercised, the Company has included the option in the recognition of right-of-use ("ROU") assets and lease liabilities. The Company does not recognize ROU assets or lease liabilities for leases with a term of twelve months or less. The Company accounts for lease and non-lease components as a single component for all asset classes.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent its obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at lease commencement and measured based on the present value of lease payments over the lease term. Variable lease payments are recognized as incurred and are not presented as part of the ROU asset or lease liability. Operating lease cost is recognized on a straight-line basis over the lease term. The Company does not have material finance leases.

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

The Company uses its incremental borrowing rate at the commencement date in determining the present value of lease payments. The Company's incremental borrowing rate is based on its estimated rate of interest for a collateralized borrowing over a similar term as the lease payments. The same process is followed for any new leases at their commencement dates or modification to existing leases that require remeasurement.

Capitalized Software

Costs related to software acquired, developed, or modified solely to meet the Company's internal requirements, where no substantive plan either exists or is being developed to externally market the software, are capitalized in accordance with the provisions of ASC Topic 350-40, *Internal-use Software* ("ASC 350-40"). Certain costs incurred after the completion of the preliminary project stage and after management, with the relevant authority, has authorized and committed funds to the computer software project, and it is probable that the project will be completed and the software will be used to perform the function intended, are capitalized. For development costs capitalized under the requirements of ASC 350-40, amortization begins when each software module is ready for its intended use. Costs are amortized over the estimated useful life on a straight-line basis. Costs related to preliminary project activities and post implementation activities are expensed as incurred. Additions to capitalized software are reported within capital expenditures in the Consolidated Statements of Cash Flows.

The Company capitalizes certain implementation costs related to cloud computing service arrangements that are incurred during the application development stage. Subsequently, the costs are amortized on a straight-line basis over the non-cancelable term of the hosting agreement plus any reasonably certain renewal period. Capitalized costs are included as a component of other assets on the Consolidated Balance Sheets and amortization is included as an operating expense in the Consolidated Statements of Changes in Net Assets. The corresponding cash flows related to the capitalized cloud implementation costs are reported within operating activities.

Development costs for software to be sold, leased or otherwise marketed are capitalized in accordance with ASC Topic 985-20, *Costs of Software to be Sold, Leased, or Marketed*. Costs incurred in research and development of new releases or significant enhancements of software products that add new functionality are expensed until technological feasibility of the software product has been established and all research and development activities for the other components of the product or process have been completed. Technological feasibility is established when all of planning, designing, coding, and testing activities are completed that are necessary to establish that the product can be produced to meet its design specifications, including features, and technical performance requirements. Development costs incurred subsequent to establishing technological feasibility are capitalized up until the software is available for general release, and are amortized on a straight-line basis over the useful life of the software (three to seven years).

Amortization expense of capitalized internal-use software costs totaled \$44 million and \$45 million for the years ended December 31, 2022 and 2021, respectively.

Accounts Payable and Contract Liabilities

Accounts payable consists of trade payables currently due to vendors as well as amounts currently due to other external parties. Contract liabilities include payments received in advance of performance under the contract and are subsequently reduced when the associated revenue is recognized for the respective contract. Amounts initially recorded as contract liabilities are recognized as revenue in accordance with the Company's revenue recognition policy.

Liquidity Considerations

As part of the Company's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Company has \$784 million and \$1,831 million of financial assets available within one year of the balance sheet date to meet cash needs for general expenditures consisting of cash of \$357 million and \$1,415 million, short-term investments of \$51 million and \$47 million, and accounts receivable, net of allowance of \$376 million and \$369 million for the years ended

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

December 31, 2022 and 2021, respectively. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date. In addition, the Company can redeem a certain portion of its long-term investments within one year. See Note 5 for additional details.

Fair Value

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities. The carrying amount of long-term debt approximates fair value.

ASC Topic 820, Fair Value Measurement ("ASC 820"), defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a three-level fair value hierarchy that prioritizes information used in developing assumptions when pricing an asset or liability as follows:

- Level 1 observable inputs such as quoted prices in active markets;
- Level 2 inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 unobservable inputs where there is little or no market data, which requires the reporting entity to develop its own assumptions.

ASC 820 requires the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement. The Company does not have any assets or liabilities measured at fair value on a recurring basis that are Level 3, except for certain pension assets discussed in Note 10. The Company did not have any transfers between fair value levels during the years ended December 31, 2022 and 2021.

The net asset value per share, or its equivalent, such as member units or an ownership interest in partners' capital, is used as a practical expedient to estimate the fair values of certain public equity and fixed income commingled funds, diversifying funds, and private investment partnerships, which do not have readily determinable fair values. Investments that are measured at fair value using NAV per share as a practical expedient are not classified in the fair value hierarchy.

ASC Topic 958-325, *Not-for-Profit Entities - Investments*, provides a portfolio-wide fair value option ("PWFVO") that allows not-for-profit entities to measure eligible investments, on a portfolio by portfolio basis, at fair value. The PWFVO facilitates the reporting and administration of investment portfolios held for the objective of earning investment returns. As of December 31, 2022, the Company elected the PWFVO for its investment portfolios held by UL Research Institutes and UL Standards & Engagement.

Revenue Recognition

The Company's revenue is primarily generated from its taxable for-profit subsidiary, UL Solutions, which recognizes revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), when its customer obtains control of promised goods or services, or as UL Solutions renders services, in an amount that reflects the consideration that UL Solutions expects to receive in exchange for those goods and services. For each arrangement UL Solutions performs the following five steps: (1) identify the contract(s) with a customer, (2) identify the performance obligation(s) in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) UL Solutions satisfies a performance obligation.

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

UL Solutions' standard payment terms are due upon receipt of the invoice, except for certain customers, which may be required to make advance payments. Certain customers may be offered extended payment terms on a case-by-case basis generally not longer than 90 days.

UL Solutions' contracts with customers may include promises to transfer multiple goods and services to a customer. When a contract includes multiple goods and services, judgment is required to determine whether each good or service is considered distinct and accounted for separately, or not distinct and accounted for together with the other goods or services in the contract. Certain contracts contain goods or services that are highly integrated or highly interdependent and are accounted for as a single performance obligation. Other contracts have goods or services that are distinct and accounted for separately. Those goods and services that are determined to be separate performance obligations are treated as separate units of account and are allocated a portion of the transaction price based on relative stand-alone selling price, which is the price at which an entity would sell a promised good or service separately to a similar customer in similar circumstances. The stand-alone selling price is determined using an established list price for the specific service and geographical region, or through a needs-based assessment. If a needs-based assessment approach is used, the stand-alone selling price is estimated by multiplying the expected labor hours by a labor rate. The labor rate is determined by considering the cost of labor, other miscellaneous costs (e.g., overhead) and applying a margin. The labor rate may be adjusted for geographic differences and other items as determined necessary, and is reviewed on a periodic basis for appropriateness.

The transaction price for contracts may include both fixed and variable consideration, which includes customer volume rebates, discounts, and the consideration received if contingent upon the quantity of tasks completed or occurrence or nonoccurrence of a future event. The Company estimates variable consideration using both the most likely amount and expected value methods to determine the total consideration to which UL Solutions expects to be entitled. The method used to estimate variable consideration varies by contract. Estimated amounts are included in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved. The Company's estimates of variable consideration and determination of whether to include estimated amounts in the transaction price are based largely on an assessment of UL Solutions' anticipated performance and all information (historical, current and forecasted) that is reasonably available. As most variable consideration is estimable with a high degree of confidence, generally no such constraint is necessary. UL Solutions typically has contracts in which the period between payment and transfer of the goods is less than one year. As such, the Company has elected the practical expedient to not adjust the amount of consideration for the effects of a significant financing component for all instances in which the period between payment and transfer of the goods will be one year or less. For those instances in which the period is greater than one year, the Company determined that a significant financing component is not present in the transaction as the business purpose of these arrangements is not to provide financing to UL Solutions.

The majority of UL Solutions' revenue from contracts with customers represents revenue from services recognized over time as performance obligations are satisfied. The appropriate measure of progress is an input method, however, the amount of revenue to be recognized requires the Company to make estimates, in particular in relation to measuring progress towards completion.

For UL Solutions' Certification Testing and Non-certification Testing, Inspections and Audit arrangements recognized over time, until April 1, 2022, the Company measured progress towards completion based on the relationship between time elapsed and expected project duration, which was considered the most indicative of UL Solutions' performance to date under the terms of the contract. The portion of the project's revenue to be recognized was determined based on the percentage of time elapsed for the project during the period relative to expected project duration. The start-date was determined by the receipt of a confirmed order, and the end-date was determined by the completion of the order's deliverables. Beginning April 1, 2022, the Company measures progress towards completion of these contracts based on the relationship between time elapsed of each project phase relative to the expected duration of that phase. Project phase data was not previously available and is considered a more precise measure of the Company's performance to-date under the terms of the contract. The portion of a project's revenue to be recognized is determined based on the time elapsed between the start-date of each project phase relative to its estimated duration. The start-date of each phase is based on the date that work

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

begins on the phase and the estimated duration is determined using an analysis of historical data from similar projects. Management applies judgment in determining the expected duration of each phase. The Company applied the change in estimate prospectively to contracts in-process at the date of the change, as well as new contracts with a start-date subsequent to the change. The portion of a project's revenue estimated as earned, but not yet completed, and recognized as revenue, is included in contract assets or as a reduction to contract liabilities.

The net decreases to the Consolidated Statements of Changes in Net Assets resulting from the change in estimate were as follows:

(in millions)	December 31, 2022
Operating revenues	\$ 23
Operating income	\$ 23
Changes in net assets without donor restrictions	\$ 21

UL Solutions' cost to obtain a contract is generally commission paid to sales personnel for the sale of services. Management determined that the amortization period of the commission costs would be one year or less and therefore has elected the practical expedient to expense these costs as incurred. As a result, the costs to obtain a contract are expensed as incurred.

UL Solutions typically does not incur costs to fulfill which would meet the capitalization criteria and therefore these costs are typically expensed as incurred.

When UL Solutions performs shipping and handling activities after the transfer of control to the customer (e.g., when control transfers prior to shipment), these are considered fulfillment activities, and accordingly, the costs are accrued when the related revenue is recognized. Taxes collected from customers relating to product sales and remitted to governmental authorities are excluded from revenues.

Refer to Note 2 for additional information.

Operating Expenses

Operating expenses include personnel related expenses consisting of salaries, incentives, stock-based compensation and fringe benefits for employees directly attributable to revenue generation across each of the Company's five major service categories, as well as indirect administrative functions such as executive, finance, legal, human resources and information technology. In addition, operating expenses include third party consultancy costs, facility costs, depreciation and amortization, internal research and development costs as well as legal and accounting fees, travel, marketing, bad debt and materials and supplies.

Foreign Currency

The functional currency of certain of the Company's foreign affiliates is the local currency. Assets and liabilities of international subsidiaries have been translated into U.S. dollars at the balance sheet date, and income and expense items have been translated using monthly average exchange rates for the period. The resulting currency translation adjustments have been recorded as a separate component of changes in net assets. The Company revalues assets and liabilities entered in foreign currency at the balance sheet date and the resulting unrealized gain (loss) is recorded as other (expense) income, net in the Consolidated Statements of Changes in Net Assets. Realized losses on foreign currency transactions totaled \$7 million and \$9 million for the years ended December 31, 2022 and 2021, respectively, and have been recorded as operating expenses in the Consolidated Statements of Changes in Net Assets.

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

Stock-based Compensation

UL Solutions maintains a CSAR plan for certain employees and officers. The Company measures CSARs based on their fair value in accordance with ASC Topic 718, *Compensation—Stock Compensation*. Compensation expense is recognized ratably over the requisite service period, which is generally the vesting period of the respective award. The compensation expense recognized for UL Solutions' stock-based compensation awards is net of estimated forfeitures, which are estimated based on an analysis of historical share forfeitures.

The fair value of a CSAR is estimated using a Black-Scholes-Merton option valuation model that uses various assumptions including the estimated value of the underlying stock price of UL Solutions, the expected stock price volatility, the risk-free interest rate, and expected term of the CSAR.

The absence of a public market for UL Solutions' common stock requires management to estimate the fair value per share of common stock. As set forth in the UL Solutions Long-Term Incentive Plan ("LTIP"), the determination is made at the direction of the Human Capital and Compensation Committee of UL Solutions and pursuant to a reasonable valuation method in accordance with Section 409A of the Internal Revenue Code, including without limitation, by reliance on third-party valuations completed within the preceding twelve months. The valuation methodology uses a combination of an income approach and a market approach.

The fair value using the income approach is determined using a discounted cash flow analysis to estimate future cash flows of the business, discounted at an appropriate risk-adjusted rate. UL Solutions uses its internally developed long-range plans of earnings before interest, taxes, depreciation, amortization, capital expenditures and working capital to estimate future cash flows and include an estimated long-term future growth rate based on management's most recent view of the long-term outlook for the business. Development of the UL Solutions long-range plans includes consideration of current and projected levels of income based on management's plans for the business, business trends, market and economic conditions, as well as other relevant factors. The discount rate is determined using inputs from guideline public companies, adjusted for company specific factors.

The fair value using the market approach is derived from market multiples using comparable publicly traded companies for a group of benchmark companies. The selection of comparable businesses is based on the markets in which the Company operates given consideration to risk profiles, size, geography and diversity of products and services. The multiples are applied to estimated revenue and earnings before interest, taxes, depreciation and amortization for the next annual periods using the UL Solutions' internally developed long-range plans.

The valuation methodology also considers several objective and subjective factors to estimate the fair value per share of UL Solutions' common stock, including market conditions, UL Solutions developments and milestones, UL Solutions' financial position, including cash on hand and UL Solutions' historical and forecasted performance and operating results. Third-party valuations are performed in accordance with the guidance outlined in the American Institute of Certified Public Accountants' Accounting and Valuation Guide, Valuation of Privately Held Company Equity Securities Issued as Compensation.

UL Solutions estimates volatility based on the volatility of a set of comparable peer companies. The risk-free interest rate represents the continuously compounded yield on zero coupon U.S. Treasury STRIPs with a remaining term equivalent to the estimated remaining term of the CSAR. The expected term is estimated based on a number of inputs including UL Solutions' stock price, volatility, and time remaining to expiration.

Other (Expense) Income, net

Other (expense) income, net consists primarily of non-operating gains and losses, income and expenses related to the revaluation performed on designated balance sheet accounts, equity in earnings of non-consolidated affiliates and non-operating pension and postretirement benefit expenses.

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

Interest Expense

Interest expense consists primarily of interest expense on the Company's debt obligations.

Income Taxes

The Company recognizes income taxes, which primarily represent taxes related to UL Solutions, based on amounts refundable or payable for the current year and records deferred tax assets or liabilities for temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, net operating loss carryforwards and tax credit carryforwards. Deferred tax assets and liabilities are measured using current enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to reverse. Inherent in determining the annual tax rate, are judgments regarding business plans, planning opportunities and expectations about future outcomes. Realization of certain deferred tax assets, primarily net operating loss and other carryforwards, is dependent upon generating sufficient taxable income in the appropriate jurisdiction prior to the expiration of the carryforward periods. The Company has classified all deferred tax assets and liabilities, along with any related valuation allowances, as net non-current on the Consolidated Balance Sheets. Deferred tax expense or benefit is the result of changes in the deferred tax asset or liability.

The Company records valuation allowances to reduce deferred tax assets to the amount that is more-likely-than-not to be realized. When assessing the need for valuation allowances, the Company considers all available evidence, including three years of cumulative operating income/(loss), expected future taxable income and ongoing prudent and feasible tax planning strategies. Should a change in circumstances lead to a change in judgment about the realizable value of deferred tax assets in future years, the Company would adjust related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income.

For uncertain tax positions related to exposures associated with various tax filing positions, the Company recognizes a tax benefit only if it is more-likely-than-not that the tax position will be sustained upon examination by the relevant taxing authorities, including resolutions of any related appeals or litigation processes, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that is more-likely-than-not to be realized upon settlement. The Company adjusts its liability for unrecognized tax benefits in the period they are settled, the statute of limitations expires, or when new information becomes available.

The Company has generated income in certain foreign jurisdictions that may be subject to additional foreign withholding taxes and U.S. state income taxes, if repatriated. The Company regularly reviews its plans for reinvestment or repatriation of unremitted foreign earnings. The Company currently has two affiliates for which tax liabilities are recorded on unremitted foreign earnings. The Company's assertion on indefinite reinvestment of foreign earnings is based upon assumptions of future liquidity needs of the business and cash flow projections of affiliates.

The accounting policy of the Company is to record U.S. tax on Global Intangible Low-Taxed Income in the provision for income taxes in the year it is incurred.

Recently Issued Accounting Standards - Adopted

Effective July 1, 2022, the Company adopted ASU No. 2021-08, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers—Topic 805, Business Combinations*. The guidance eliminates diversity in practice related to contract liabilities recognized in a business combination, as well as accounting for payment

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

terms and their effect on subsequent revenue recognized by the acquirer. The adoption of this ASU did not have a material impact on the Company's consolidated financial statements.

Effective December 21, 2022 upon issuance, the Company adopted ASU No. 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*. The ASU extends the date entities can apply the transitional provisions in Topic 848 to December 31, 2024. After such date, entities will no longer be permitted to apply the relief in Topic 848 related to reference rates expected to be discontinued. This optional guidance was effective immediately and did not have a material impact on the Company's consolidated financial statements.

2. Revenue

The table below summarizes the major service categories from which the Company derives its revenues for the years ended December 31:

(in millions)	2022	2021
Certification Testing	\$ 654	\$ 678
Ongoing Certification Services	828	829
Non-certification Testing, Inspections and Audit	619	628
Software and Advisory	415	382
Grants and Royalties	9	7
Total	<u>\$ 2,525</u>	<u>\$ 2,524</u>

Description of Major Service Categories

Certification Testing

Certification Testing is performed by UL Solutions and involves the evaluation of products, components and systems in accordance with industry standards, regulatory requirements and other design and performance specifications. As a result of the certification testing process, many of UL Solutions' customers are authorized to use the UL-in-a-circle certification mark (the "UL Mark") on their products, packaging and marketing collateral to demonstrate to the marketplace that their tested product met the applicable requirements. This service supports customers' new product development processes and helps customers mitigate risk, demonstrate safety compliance and deliver confidence to businesses and consumers. Certification testing services often lead to Ongoing Certification Services to support the continued safety, compliance and performance objectives of the customer.

Contracts are generally structured as fixed payments as the total amount to be charged to the customer does not vary. Revenue from Certification Testing is generally recognized over-time. In these cases, the services create an asset with no alternative use as each of the services are specific to the products and specifications provided by the customer, and UL Solutions has an enforceable right to payment. Through April 1, 2022, revenue is generally recognized using an input method based on the relationship between time elapsed and expected project duration and after April 1, 2022, based on the relationship between time elapsed of each project phase relative to the expected duration of that phase, which is considered the most indicative of UL Solutions' performance to-date under the terms of the contract.

In some instances, revenue from Certification Testing does not meet the over-time criteria and is recognized at a point in time when control is transferred to the customer. Control is transferred to the customer upon the delivery of the test report to the customer. These instances occur when the agreement or the nature of the services causes a lack of right to payment until control transfer.

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

Ongoing Certification Services

In order to maintain the right to use the UL Mark on and in conjunction with their products and to meet certain regulatory requirements, UL Solutions' customers must meet specific certification program requirements, including mandatory inspection and monitoring by the Company. These requirements, addressed through tailored certification and inspection services, are designed to validate the continued compliance of customers' previously certified products, components, and systems. UL Solutions delivers these services through periodic inspections, initial and follow-up audits, sample testing, and UL label usage, the frequency and combination of which can vary based on product, component or system type, production volume and historical customer compliance. These services are designed and executed to help protect the integrity of the UL Mark.

Contracts are generally structured as fixed payments as the total amount to be charged to the customer does not vary. In some cases, the customer is charged a usage price based on its total production volume. Revenue from compliance program contracts is recognized over-time on a straight-line basis because the customer receives and consumes the benefit of continued certification as UL Solutions performs services through the periodic verification of the customers' compliance.

As part of Ongoing Certification Services, customers may order physical labels (recorded in other assets) that bear the UL Mark to affix to their products to demonstrate to end-customers that the products comply with the certification requirements of UL Solutions. The labels are a separate performance obligation, distinct from the compliance program. Revenue from physical labels is recognized upon shipment, the point in time in which the customer obtains control of the labels.

Non-certification Testing, Inspections and Audit

Non-certification Testing, Inspection and Audit services consist of performance testing against customer or other requirements that may or may not be required by any regulation and may or may not necessarily result in a certification, but which are still desired by UL Solutions' customers to help ensure the desired safety, performance and reliability of their products. Other services include on-site and remote inspections, audits and field engineering specialty services. Additionally, non-certification offerings provide insight into the supply chains of its customers, which often leads to incremental cross-selling opportunities for additional UL Solutions services.

Contracts are generally structured as fixed payments as the total amount to be charged to the customer does not vary. For services where the customer does not simultaneously receive and consume the benefit of the performance obligation, revenue is recognized upon the delivery of the final deliverables to the customer. For services that create an asset with no alternative use as each of the services are specific to the products and specifications provided by the customer, and UL Solutions has an enforceable right to payment, through April 1, 2022, revenue is generally recognized using an input method based on the relationship between time elapsed and expected project duration and after April 1, 2022, based on the relationship between time elapsed of each project phase relative to the expected duration of that phase, which is considered the most indicative of UL Solutions' performance to date under the terms of the contract.

Software and Advisory

UL Solutions' broad suite of software and advisory services enhances customers' risk management processes by enabling them to proactively reduce risk, improve operational and quality performance and help to ensure ongoing environment, health and safety ("EHS") compliance across their systems, assets and enterprises. The Company's software and advisory services are highly complementary to the other services UL Solutions offers and allow the Company to deliver fully integrated solutions to its customers.

UL Solutions' Software-as-a-Service ("SaaS") and licensed software solutions provide data-driven supply chain insights (e.g. chemical management), sustainability monitoring and verification (e.g. energy consumption tracking), compliance reporting (e.g. employee safety training), engineering process management, building health and safety and product and process cybersecurity evaluations (e.g. vulnerability assessments).

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

UL Solutions' advisory services teams provide guidance that is highly tailored to support customers' efforts to effectively manage safety, compliance and regulatory risks, enhance security and sustainability and access new markets. UL Solutions provides these services across a number of end markets and applications, including retail, life sciences, renewable energy and real estate.

Contracts are structured as fixed payments as the total amount to be charged to the customer does not vary. UL Solutions generally recognizes revenue from SaaS contracts, which are provided on a subscription basis, ratably over the contract period beginning on the date the service is first made available to the customer. UL Solutions generally recognizes revenue from on-premise software at a point in time when it is made available to the customer. The revenue from implementation services, post-contract customer support services, and other customer support services is recognized over the service period as the customer benefits from the services as they are performed. Advisory revenue is generally recognized over time.

Grants and Royalties

Grant revenue relates to U.S. Federal government awarded grants and contracts in which UL Research Institutes is the prime recipient, subrecipient or contractor. Other contracts are created with non-Federal third-parties and are executed per the terms of the contract.

Royalty revenue relates to agreements between UL Standards & Engagement and third-parties to resell standards in the market. These agreements can either be in the form of license or service agreements.

Remaining Performance Obligations

Remaining consideration from contracts with customers pertains to contracts with multiple performance obligations and multi-year maintenance agreements, which are typically recognized as the performance obligation is satisfied.

3. Acquisitions

Acquisitions completed by UL Solutions have historically been made at prices above the determined fair value of the acquired identifiable net assets, resulting in goodwill attributable to the value of the assembled workforce, as well as expected synergies with UL Solutions' existing lines of business. These synergies include the elimination of redundant facilities, functions and staffing; use of UL Solutions' existing commercial infrastructure to expand sales of the acquired businesses' products; and use of the commercial infrastructure of the acquired businesses to cost-effectively expand sales of UL Solutions' products. Aggregate acquisition-related costs associated with business combinations are not material for the years ended December 31, 2022 and 2021 and are included in operating expenses in the Company's Consolidated Statements of Changes in Net Assets as incurred.

In October 2022, UL Solutions acquired 100% of the outstanding stock of Kugler Maag CIE GmbH ("Kugler Maag") for approximately \$31 million in cash (subject to customary post-closing adjustments). Kugler Maag is a Germany-based provider of process excellence, assessment and training solutions that supports the automotive industry. Goodwill of \$19 million, subject to finalization of the purchase price allocation, primarily relates to expected synergies with UL Solutions' existing business, as well as the value of the assembled workforce. Goodwill related to this acquisition is not deductible for income tax purposes.

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

The following table summarizes the preliminary allocation of the purchase price to the fair value of assets acquired and liabilities assumed for the Kugler Maag acquisition.

(in millions)	
Cash	\$ 6
Accounts receivable and other current assets	7
Intangible assets	8
Goodwill	19
Total assets	40
Accounts payable and other current liabilities	(6)
Deferred income taxes	(3)
Total fair value of net assets acquired	\$ 31

In September 2022, UL Solutions acquired 100% of the outstanding stock of Cimteq Holdings Limited (together with its operating subsidiary, "Cimteq"), a United Kingdom-based provider of design support and manufacturing software for the wire and cable industries. The purchase price, consisting of \$15 million in cash consideration (as adjusted for customary post-closing adjustments) is primarily related to goodwill of \$12 million. Goodwill primarily relates to expected synergies with UL Solutions existing business. Goodwill related to this acquisition is not deductible for income tax purposes.

In June 2022, UL Solutions acquired 100% of the outstanding stock of KAM Specialty Equipment Services Company (doing business as "Data Test Labs"), a US-based company focusing on electrical, environmental and mechanical testing for automakers and their suppliers. The purchase price, consisting of approximately \$16 million in cash consideration (as adjusted for customary post-closing adjustments) is primarily related to goodwill of \$9 million. Goodwill primarily relates to expected synergies with UL Solutions' existing business. Goodwill related to this acquisition is deductible for income tax purposes.

In February 2022, UL Solutions acquired 100% of the outstanding stock of KBW Corporation ("KBW"), a South Korea-based company specializing in electromagnetic, wireless and safety testing for the medical device and consumer technology industries. The purchase price, consisting of approximately \$18 million in cash consideration (as adjusted for customary post-closing adjustments) is primarily related to property, plant and equipment of \$14 million.

In July 2021, UL Solutions acquired approximately 97% of the equity securities of Method Park Holding AG ("Method Park"), a stock corporation incorporated in Germany, for approximately \$50 million in cash (as adjusted for customary post-closing adjustments). In October 2021, UL Solutions acquired the remaining equity securities of Method Park for approximately \$2 million in cash (as adjusted for customary post-closing adjustments). Method Park specializes in process engineering solutions, training and advisory services focusing on the safety critical aspects of the automotive, medical and aerospace industries. Goodwill of \$38 million resulting from the Method Park acquisition relates to expected synergies with UL Solutions' existing lines of business, as well as the value of the assembled workforce. Goodwill related to this acquisition is not deductible for income tax purposes.

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

The following table summarizes the allocation of the purchase price to the fair value of assets acquired and liabilities assumed for the Method Park acquisition.

(in millions)	
Cash	\$ 4
Accounts receivable and other current assets	10
Intangible assets	12
Goodwill	38
Capitalized software and other assets	4
Operating lease right-of-use assets	11
Total assets	79
Other current liabilities and accruals	(12)
Operating lease liabilities - long-term	(10)
Deferred income taxes	(5)
Total fair value of net assets acquired	52
Less: Non-controlling interest	(2)
Total consideration transferred	\$ 50

4. Other (Expense) Income, net

The components of other (expense) income, net for the years ended December 31 were as follows:

(in millions)	2022	2021^(a)
Foreign exchange losses	\$ (11)	\$ (2)
Equity in earnings of non-consolidated affiliates	2	11
Non-operating pension and postretirement benefit expense	(13)	(19)
U.S. pension plan settlement losses	(18)	(11)
Other	2	2
Total	\$ (38)	\$ (19)

(a) The components of other income (expense) presented above for fiscal 2021 changed from the prior year presentation to exclude investment income, net of fees. This amount has now been presented as separate line items within the consolidated statement of changes in net assets for the year ended December 31, 2021 to conform to the current year presentation.

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

5. Fair Value of Financial Instruments

Investments at Fair Value

The Company's short-term investments, consisting of certificates of deposit, are recorded at amortized cost, which approximates fair value.

The following tables present the Company's fair value hierarchy for long-term investments measured at fair value and is intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Balance Sheets.

(in millions)	As of December 31, 2022			Total Fair Value
	Level 1	Level 2	Level 3	
Long-term investments:				
Equity securities:				
Exchange traded funds	611	—	—	611
Fixed Income:				
Cash and cash equivalents	26	—	—	26
Corporate bonds	—	37	—	37
US treasury and government obligations	—	32	—	32
Investments reported at NAV ^(a)				699
Total investments at fair value	\$ 637	\$ 69	\$ —	\$ 1,405

(a) In accordance with ASC 820, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

(in millions)	As of December 31, 2021			Total Fair Value
	Level 1	Level 2	Level 3	
Long-term investments:				
Private equity ^(a)				4
Total investments at fair value	\$ —	\$ —	\$ —	\$ 4

(a) Described in previous table.

The following valuation methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Investments in Marketable Securities, Commingled Funds, and Private Partnerships

During the year ended December 31, 2022, the Company invested cash in excess of short-term requirements of \$1,640 million into investment portfolios containing a mix of exchange traded and commingled equities, diversifying assets, private investments and fixed income investments. The investment portfolios are intended to support the Company's long-term nonprofit mission while providing sufficient liquidity to fund short-term operational requirements. As such, the portfolios are subject to various restrictions on redemptions, however, are

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

expected to maintain minimum levels of liquidity such that, at all times, at least 5-10% of investments can be redeemed within one month and at least 40-50% of investments can be redeemed within one year. The balance of the portfolios may be invested in assets with longer redemption periods and increased restrictions on liquidity.

Certificates of Deposit

Certificates of deposit are a savings product that earn interest over a fixed period of time. The maturity date of these products is greater than three months but less than twelve with the investment recorded at cost and interest earned recorded as cash unless reinvested to the same account. These products have daily pricing available and are classified as Level 1.

Exchange-Traded Funds ("ETFs")

ETFs currently include diversified public U.S. and international equity index funds, including developed and emerging markets. The funds are exchange traded with daily pricing and liquidity and are classified as Level 1.

Equity Commingled Funds

Equity commingled fund investments include, but are not limited to, commingled funds invested in U.S., non-U.S., and emerging market public equity securities. These investments are primarily made through offshore corporations and limited partnerships. The investments in equity commingled funds have limited liquidity since the shares or interests are not freely transferable and are subject to various lock up periods, redemption frequencies, notice requirements, and certain gating provisions. In addition, the equity commingled funds may reserve the right to reduce or suspend redemptions and to satisfy redemptions by making distributions in kind, under certain circumstances. These funds are measured at fair value based on a reported NAV provided by fund managers as a practical expedient, and they are therefore excluded from the valuation hierarchy.

Fixed Income

Fixed income is comprised of government obligations, corporate bonds, a fixed income commingled fund, and cash and cash equivalents. The government obligations and corporate bonds are primarily valued using market prices for the same or similar instruments, as they typically trade in more active markets and are classified as Level 2.

The fixed income commingled fund is an investment in a limited liability company which invests primarily in bonds and other fixed income securities. This fund has daily liquidity with two business days' notice. The fund manager has reserved the right to suspend redemption rights in certain circumstances. The fixed income commingled fund is measured at fair value based on a reported NAV provided by the fund as a practical expedient, and it is therefore excluded from the valuation hierarchy.

Cash and cash equivalents are classified as Level 1.

Diversifying Assets

These assets include, but are not limited to, investments in actively managed commingled funds employing a variety of strategies to provide diversification and attain a desired return, while managing portfolio risk. Primarily made through offshore corporations and limited partnerships, these funds have limited liquidity since shares or interests in the funds are not freely transferable and are subject to various lock up periods, redemption frequencies, notice requirements, and certain gating provisions. In addition, the diversifying funds typically reserve the right to reduce or suspend redemptions and to satisfy redemptions by making distributions in kind, under

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

certain circumstances. Diversifying funds are measured at fair value based on a reported NAV provided by fund managers as a practical expedient, and they are therefore excluded from the valuation hierarchy.

Private Investment Partnerships

These commingled fund investments are privately held and generally considered illiquid. Investors may not withdraw or sell, assign, or transfer interests in the partnerships except in certain very limited circumstances, subject to consent by the general partners of the funds. Private partnerships are structured as “drawdown” limited partnerships, which means investors commit capital to the funds and fund managers make capital calls as they identify investment opportunities over the course of the investment period, which could last from approximately two to six years. Partnership distributions are then received through the remaining life of the partnership as underlying investments are liquidated. The overall life of a private partnership is generally expected to be at least ten years.

Valuations are determined by the investment managers and consider the funds’ underlying assets using factors that involve considerable judgment and interpretation such as private and public comparables, third party appraisals, discounted cash flow models, and manager estimates. Private partnerships are recorded at fair value based on a reported NAV provided by fund managers as a practical expedient, and they are therefore excluded from the valuation hierarchy. The private partnership strategies currently include the following:

Private Equity

Private equity investments will invest primarily, but not exclusively, in partnership investments with a wide variety of transactions, such as growth equity financing, leveraged buyouts, direct financing (debt and/or equity), acquisitions, recapitalizations, and restructurings. These investments are primarily in the U.S., but also may be in developed and emerging international markets.

Venture Capital

Venture capital investments include, but are not limited to, investments in privately negotiated equity and equity-related investments, primarily in seed, early and late-stage venture partnerships within industries such as technology and life-sciences.

Real Estate

Exposure to real estate is achieved through partnership investments that include, but are not limited to, investments in commercial and residential real estate or real estate related securities in the U.S. and internationally. Generally, these partnership investments will focus on value-add activities that employ a variety of strategies including acquisition, development, and redevelopment and repositioning, focusing primarily on asset operation and management.

Private Credit

Private credit includes, but is not limited to, investments in limited partnerships that utilize direct lending, stress and distress-oriented, and other opportunistic investment strategies.

Underwriters Laboratories Inc. Notes to Consolidated Financial Statements

Investments in certain entities that are measured at fair value using NAV per share as a practical expedient are as follows:

As of December 31, 2022						
	Number of Funds	Reported at NAV (in millions)	Unfunded Commitments (in millions)	Redemption Frequency	Redemption Notice Period	
Equities:						
Equity commingled funds	24	\$ 353	\$ —	Monthly to Annual	30-120 days	
Fixed Income:						
Bond commingled funds	2	57	—	Daily	2 days	
Diversifying Assets:						
Diversifying asset commingled funds	30	248	—	Monthly to Rolling 2.5 Years	45-120 days	
Private Investment Partnerships:						
Private equity	9	7	75	Upon Dissolution		
Venture capital	10	10	43	Upon Dissolution		
Private real estate	4	23	9	Upon Dissolution		
Private credit	1	1	11	Upon Dissolution		
Total	80	\$ 699	\$ 138			

6. Investments in Equity and Debt Securities

Equity Investments in Non-consolidated Affiliates

UL Solutions owns approximately 28% of the registered share capital of DQS Holding GmbH (“DQS”), a global management system assessment company, headquartered in Germany. The Company accounts for this investment using the equity method. The carrying amount of UL Solutions’ investment in DQS was \$21 million and \$23 million for the years ended December 31, 2022 and 2021, respectively. DQS paid dividends to UL Solutions of \$2 million in 2022 and 2021, net of withholding taxes. The Company recorded equity earnings of \$3 million in 2022 and \$11 million in 2021.

UL Solutions has a 45% ownership share in Gulf Renewable Lab Company (“GCCE Lab”), located in Saudi Arabia, that was created through a joint venture between GCC Electrical Equipment Testing Lab and UL Solutions. The Company accounts for this investment using the equity method. The carrying amount of UL Solutions’ investment in GCCE Lab was \$2 million for each of the years ended December 31, 2022 and 2021. The equity losses recorded by the Company for the years ended December 31, 2022 and 2021 were immaterial.

UL Solutions holds investments in equity securities of various companies, in each case less than 10% of the applicable company’s outstanding equity securities. The Company accounts for these investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The carrying amount of these investments was \$39 million and \$19 million at December 31, 2022 and 2021, respectively. During the year ended December 31, 2022, the Company remeasured certain investments to fair value as a result of observable price changes in orderly transactions of the same issuer that occurred in 2021, resulting in unrealized gains of \$11 million which were recorded within unrealized loss on investments, net. The impact of this correction was not material to the current or any prior period. In addition, during the year ended December 31, 2022, the Company remeasured certain investments to fair value as a result of observable price changes in orderly transactions of the same issuer that occurred in 2022, resulting in unrealized gains of \$11 million which were recorded within unrealized loss on

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

investments, net. Fair value was determined primarily based on observable pricing information from issuances of identical or similar equity instruments, which is a Level 2 input in the fair value hierarchy.

Variable Interest Investment

UL Solutions owns 70% of the equity interests of UL-CCIC Company Limited (“UL-CCIC”), an entity formed under the laws of the People’s Republic of China (“P.R.C”). The remaining 30% of the equity interests are owned by China Certification & Inspection (Group) Co., Ltd. (“CCIC”), a Chinese state-owned enterprise. UL-CCIC offers product safety testing services enabling its customers to access North American and other international markets, Electromagnetic Compatibility (“EMC”) and commercial inspection and testing services. UL-CCIC provides local voluntary certification schemes to help their customers differentiate their products within the China market. UL-CCIC also offers China Compulsory Certification (“CCC”) testing service under some product categories, which is approved by the Certification and Accreditation Administration P.R.C. and market access agency services to manufacturers outside of the P.R.C. to help them obtain the CCC mark.

UL-CCIC is governed by an agreement first entered into in June 2002, and has been amended from time to time. UL-CCIC was established with an initial duration of 10 years, starting from the date that it obtained its business license. In October 2022, UL Solutions amended and restated its agreement with CCIC in respect of UL-CCIC. The amended and restated agreement expires in January 2033. The amendment and restatement of this agreement did not have a financial statement impact to the Company.

The board of directors of UL-CCIC consists of seven directors, with four appointed by UL Solutions and three by CCIC. The chair of the UL-CCIC board of directors is appointed by UL Solutions and the vice chair by CCIC. UL-CCIC has a general manager, who is in charge of the day-to-day management of UL-CCIC and reports to the UL-CCIC board of directors. UL Solutions has the exclusive right to nominate the general manager. UL Solutions is not contractually required to provide additional financing support to UL-CCIC.

The Company determined that it is the primary beneficiary of UL-CCIC because UL Solutions has the power to direct many of the activities that most significantly impact the performance of the entity through its right to appoint a majority of the directors on UL-CCIC’s board of directors, as well as the exclusive right to nominate the general manager. Pursuant to the governing documents of UL-CCIC, certain decisions and actions of its board of directors require either unanimous approval or the approval of two-thirds of the directors, while certain other matters require either unanimous approval or the approval of a supermajority of the voting rights of the shareholders; however, the Company believes that such decisions and actions are not the most significant to the performance of UL-CCIC. As such, the Company consolidates UL-CCIC as a variable interest entity (“VIE”). The profits and losses of UL-CCIC are shared by the parties in proportion to their respective contributions to registered capital. Such equity interest represents the Company’s variable interest in UL-CCIC and provides for participation in both the risk of loss and future economic gains.

UL-CCIC is a separate legal entity and its assets are legally owned by UL-CCIC and are not available to the Company’s creditors. UL-CCIC assets of \$164 million and \$163 million and liabilities of \$72 million and \$69 million, inclusive of intercompany eliminations, were included in the Company’s Consolidated Balance Sheets at December 31, 2022 and 2021, respectively.

Available-for-sale Debt Securities

During 2021, UL Solutions sold all of its available-for-sale debt securities for \$367 million, resulting in a gain of \$2 million recognized in realized loss on investments, net for the year ended December 31, 2021.

Underwriters Laboratories Inc. Notes to Consolidated Financial Statements

7. Property, Plant and Equipment

The components of property, plant and equipment, net as of December 31 were as follows:

<i>(in millions)</i>	2022	2021
Land and improvements	\$ 38	\$ 31
Building and building improvements	347	350
Leasehold improvements	142	130
Machinery, equipment and office furniture	693	666
Property, plant and equipment, gross	1,220	1,177
Total accumulated depreciation	(734)	(724)
Property, plant and equipment, net	\$ 486	\$ 453

Depreciation expense for the years ended December 31, 2022 and 2021 was \$76 million and \$77 million, respectively.

8. Goodwill

Changes in the carrying amount of goodwill for the years ended December 31, 2022 and 2021 were as follows:

<i>(in millions)</i>		
Balance at December 31, 2020	\$	593
Acquisitions		38
Effect of changes in foreign exchange rates		(10)
Balance at December 31, 2021	\$	621
Acquisitions		42
Effect of changes in foreign exchange rates		(16)
Balance at December 31, 2022	\$	647

The Company's annual impairment analyses for 2022 and 2021 indicated no impairment of goodwill. The carrying amount of goodwill at December 31, 2022 and 2021 is net of accumulated impairment losses of \$129 million.

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

9. Intangible Assets

The following tables summarize intangible assets as of December 31:

(in millions)	Life	2022		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	5 - 15 years	\$ 255	\$ (197)	\$ 58
Intellectual property and patents	3 - 15 years	19	(15)	4
Non-competition agreements	3 - 5 years	1	(1)	—
Trademarks	2 - 13 years	39	(29)	10
Total		\$ 314	\$ (242)	\$ 72

(in millions)	Life	2021		
		Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	7 - 15 years	\$ 246	\$ (188)	\$ 58
Intellectual property and patents	3 - 15 years	20	(15)	5
Non-competition agreements	3 - 5 years	8	(7)	1
Trademarks	2 - 13 years	36	(27)	9
Total		\$ 310	\$ (237)	\$ 73

The Company did not recognize any impairments of intangible assets for the years ended December 31, 2022 or 2021.

Intangible Asset Amortization Expense

The weighted average remaining amortization period is approximately 8 years. Intangible asset amortization expense, reported within operating expenses within the Consolidated Statements of Changes in Net Assets, was \$16 million and \$21 million for the years ended December 31, 2022 and 2021, respectively.

As of December 31, 2022, estimated future amortization expense for intangible assets is as follows:

(in millions)	
2023	\$ 13
2024	11
2025	10
2026	8
2027	6

10. Pension and Postretirement Benefit Plans

Pension

The Company has various non-contributory defined benefit pension plans covering certain employees and retired employees of the Company and its subsidiaries. The benefits are based on years of service and participant compensation. With the exception of Taiwan, Japan and Switzerland, these plans have been closed to new entrants. No future employees will be eligible to participate in these plans. The Company uses the spot rate approach for calculating service cost and interest cost.

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

The Company recognized settlement losses of \$18 million and \$11 million in 2022 and 2021, respectively, in other (expense) income, net related to its U.S. pension plan. The settlement losses resulted from total lump sum payments of \$68 million and \$33 million in 2022 and 2021, respectively, which exceeded annual service and interest costs of the plan. UL Solutions' funding policy is to contribute to defined benefit pension plans in the United States and a number of other countries when pension laws and/or economics either require or encourage funding.

The following table provides a reconciliation of changes in the defined benefit pension obligations and fair value of plan assets for the years ended December 31, and a statement of funded status as of December 31:

(in millions)	U.S.		Non U.S.	
	2022	2021	2022	2021
Change in projected benefit obligation				
Projected benefit obligation at beginning of year	\$ 514	\$ 561	\$ 182	\$ 185
Service cost	3	4	6	6
Interest cost	16	13	2	2
Actuarial gain	(113)	(20)	(49)	(1)
Benefits paid	(79)	(44)	(2)	(3)
Exchange rate gain	—	—	(14)	(7)
Projected benefit obligation at end of year	341	514	125	182
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	325	303	63	62
Actual return on plan assets	(51)	37	(10)	4
Employer contribution	—	29	2	2
Benefits paid	(79)	(44)	(2)	(3)
Exchange rate gain	—	—	(4)	(2)
Fair value of plan assets at end of year	195	325	49	63
Underfunded status of plans	\$ (146)	\$ (189)	\$ (76)	\$ (119)
Amounts recognized in Consolidated Balance Sheets				
Non-current assets	\$ —	\$ —	\$ 5	\$ —
Current liabilities	—	—	(1)	(1)
Non-current liabilities	(146)	(189)	(80)	(118)
Total asset (liability) at end of year	\$ (146)	\$ (189)	\$ (76)	\$ (119)
Amounts recognized in net assets without donor restrictions				
Net actuarial loss	\$ (92)	\$ (167)	\$ (2)	\$ (41)
Net amount recognized	\$ (92)	\$ (167)	\$ (2)	\$ (41)

Underwriters Laboratories Inc. Notes to Consolidated Financial Statements

Total benefits cost and amounts recognized in net assets without donor restrictions for the years ended December 31 were as follows:

(in millions)	U.S.		Non U.S.	
	2022	2021	2022	2021
Components of net periodic benefit cost				
Service cost	\$ 3	\$ 4	\$ 6	\$ 6
Interest cost	16	13	2	2
Expected return on plan assets	(14)	(16)	(2)	(2)
Amortization of net actuarial loss	9	18	2	3
Settlement losses	18	11	—	—
Net periodic benefit cost	<u>\$ 32</u>	<u>\$ 30</u>	<u>\$ 8</u>	<u>\$ 9</u>
Amounts recorded in net assets without donor restrictions				
Balance at beginning of the year	\$ 167	\$ 238	\$ 41	\$ 46
Net actuarial gain	(48)	(41)	(37)	(2)
Amortization of net actuarial loss	(27)	(30)	(2)	(3)
Balance at end of the year	<u>\$ 92</u>	<u>\$ 167</u>	<u>\$ 2</u>	<u>\$ 41</u>

The service cost component of net periodic benefit cost is recorded in the same line items as other compensation costs arising from services rendered, in operating expenses. The other components of net periodic benefit cost are recorded in other (expense) income, net.

The following benefit payments, which reflect expected future service, are expected to be paid as follows:

(in millions)	U.S.	Non U.S.	Total
2023	\$ 36	\$ 6	\$ 42
2024	28	4	32
2025	30	5	35
2026	30	5	35
2027	29	5	34
Years 2028 through 2032	135	34	169

UL Solutions anticipates contributing approximately \$1 million to its U.S. pension plans and approximately \$1 million to its foreign pension plans in 2023.

The weighted average assumptions used in the measurement of the benefit obligations at December 31 were as follows:

	U.S.		Non U.S.	
	2022	2021	2022	2021
Discount rate	5.2 %	3.0 %	1.7 - 5.2 %	0.2 - 2.9 %
Rate of compensation increase	4.3 % for 2023 3.0 % for 2024+	2.3 % for 2021 3.0 % for 2022+	2.3 - 4.0 %	1.5 - 4.0 %

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

The weighted average assumptions used in the measurement of the net periodic benefit costs for the years ended December 31 were as follows:

	U.S.		Non U.S.	
	2022	2021	2022	2021
Discount rate	3.0 %	2.7 %	0.8 - 4.2 %	0.1 - 2.5 %
Expected return on plan assets	6.0 %	6.0 %	1.2 - 4.8 %	0.6 - 5.0 %
Rate of compensation increase	3.0 %	2.3 % for 2021 3.0 % for 2022+	2.3 - 4.0 %	1.5 - 4.0 %

The expected rate of return on plan assets is determined based on long-term historical performance of plan assets, current asset allocation and expected future long-term asset returns.

The Company determines the discount rate used to measure plan liabilities as of the December 31 measurement date for the pension and postretirement benefit plans, which is also the date used for the related annual measurement assumptions. The Company uses the full Aon AA Above Median Yield Curve rather than a single discount rate.

The accumulated benefit obligation for all U.S. defined benefit pension plans was \$318 million and \$476 million at December 31, 2022 and 2021, respectively. The accumulated benefit obligation for all Non U.S. defined benefit pension plans was \$104 million and \$152 million at December 31, 2022 and 2021, respectively. The table below outlines the projected benefit obligations and the accumulated benefit obligations in excess of plan assets at December 31:

<u>(in millions)</u>	U.S.		Non U.S.	
	2022	2021	2022	2021
Projected benefit obligation	\$ 341	\$ 514	\$ 90	\$ 182
Accumulated benefit obligation	318	476	71	152
Fair value of plan assets	195	325	10	63

Pension Assets

The assets in the investment portfolio for defined benefit pension plans are diversified in a manner that is intended to achieve the return objective and reduce the volatility of returns on the assets. The Company's investment objective is to ensure that funds are available to meet the plans' benefit obligations when they become due. The overall investment strategy is to prudently invest plan assets into diversified equity and debt securities, as well as alternative investments, to achieve long-term return expectations. The plan relies on a total return strategy in which investment returns consist of both capital appreciation (both realized and unrealized), as well as current yield (interest and dividends) over a long-term period.

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

The following tables present the Company's fair value hierarchy (as defined in Note 1) for those pension assets measured at fair value at December 31:

(in millions)	2022			Total Asset Balance
	Level 1	Level 2	Level 3	
U.S.				
Cash and cash equivalents	\$ 4	\$ —	\$ —	\$ 4
Fixed-income investments	—	23	—	23
Fixed-income mutual funds	21	—	—	21
Corporate equities	—	16	—	16
Commingled equities	—	42	—	42
Equity mutual funds	39	—	—	39
Real estate mutual funds	8	—	—	8
Private real estate	—	—	7	7
Total U.S. assets in the fair value hierarchy	72	81	7	160
Hedge funds ^(a)				35
Total U.S. investments at fair value				195
Non U.S.				
Cash and cash equivalents	1	—	—	1
Commingled funds	—	28	—	28
Guaranteed investment contracts	—	—	20	20
Total non U.S. assets	1	28	20	49
Total pension assets				\$ 244

(a) In accordance with ASC 820, certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Balance Sheets. The terms and conditions of the Company's hedge fund investments vary, however, the majority of the Company's hedge fund investments may be redeemed quarterly with redemption notice periods between 45-90 days. The Company does not intend to sell or otherwise dispose of these investments at prices different than the net asset value per share.

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

(in millions)	2021			Total Asset Balance
	Level 1	Level 2	Level 3	
U.S.				
Cash and cash equivalents	\$ 6	\$ —	\$ —	\$ 6
Fixed- income investments	—	54	—	54
Fixed-income mutual funds	20	—	—	20
Corporate equities	—	27	—	27
Commingled equities	—	88	—	88
Equity mutual funds	68	—	—	68
Real estate mutual funds	14	—	—	14
Total U.S. assets in the fair value hierarchy	108	169	—	277
Hedge funds ^(a)				48
Total U.S. investments at fair value				325
Non U.S.				
Cash and cash equivalents	1	—	—	1
Commingled funds	—	35	—	35
Guaranteed investment contracts	—	—	27	27
Total non U.S. assets	1	35	27	63
Total pension assets				\$ 388

(a) Described in previous table.

The following table summarizes the changes in fair value of the Company's Level 3 pension assets:

(in millions)	
Balance at December 31, 2020	\$ 29
Unrealized loss	(2)
Balance at December 31, 2021	\$ 27
Purchase, sales and settlements, net	1
Unrealized loss	(1)
Balance at December 31, 2022	\$ 27

Valuation Methods

The Company follows ASC Topic 820, *Fair Value Measurement*, in determining the fair value of plan assets within the Company's defined benefit pension plans.

Quoted market prices in active markets for all Level 1 investments were available at December 31, 2022 and 2021.

Fixed-income investments, corporate equities, and master limited partnerships have been categorized as Level 2 as these investments do not have publicly quoted prices in active markets. Commingled funds have been categorized as Level 2 and are maintained by investment companies that hold investments in accordance with a stated set of fund objectives. The values of the commingled funds are not publicly quoted and must trade through a broker. These funds are invested in equity and fixed-income mutual funds. The fund administrator values the

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

fund using the net asset value per fund share, derived from the quoted prices in active markets of the underlying securities.

Level 3 investments include several guaranteed investment contracts and a private real estate fund. These investments do not have actively traded quotes as of December 31, 2022 and 2021, and require the use of unobservable inputs, such as indicative quotes from dealers, estimates provided by the fund managers and third-party property appraisals, to value these securities.

For the U.S. plan, the 2022 target investment allocation was 50% for equity strategies, 24% for fixed-income and cash strategies and 26% for alternative strategies. The 2021 target investment allocation was 56% for equity strategies, 25% for fixed-income and cash strategies and 19% for alternative strategies. Actual investment allocations may vary from target investment allocations due to prevailing market conditions. The Company regularly reviews actual investment allocations and periodically rebalances investments to achieve target allocations.

Actual pension plan asset allocations at December 31 were as follows:

	U.S.		Non U.S.	
	2022	2021	2022	2021
Equity securities	50%	56%	37%	38%
Fixed-income securities	22%	23%	20%	18%
Alternatives	26%	19%	—%	—%
Guaranteed investment contracts	—%	—%	41%	42%
Cash and cash equivalents	2%	2%	2%	2%
	100%	100%	100%	100%

Postretirement Benefit Plans

The Company has contributory postretirement medical benefits plans for certain employees and retired employees of the Company and its subsidiaries. The U.S. plan has been closed to new entrants since January 1, 2016. For its U.S. plan, the Company adopted the spot rate approach for calculating service cost and interest cost.

Underwriters Laboratories Inc. Notes to Consolidated Financial Statements

The following table sets forth the projected benefit obligation of postretirement benefits at December 31:

(in millions)	U.S.		Canada	
	2022	2021	2022	2021
Change in projected benefit obligation				
Projected benefit obligation at beginning of year	\$ 22	\$ 26	\$ 8	\$ 9
Service cost	1	1	—	—
Interest cost	1	1	—	—
Actuarial gain	(6)	(6)	(2)	(1)
Benefits paid	(3)	(1)	—	—
Plan participant contributions	1	1	—	—
Projected postretirement benefit obligation at end of year	\$ 16	\$ 22	\$ 6	\$ 8
Change in fair value of plan assets				
Fair value of plan assets at beginning of year	\$ —	\$ —	\$ —	\$ —
Employer contribution	2	—	—	—
Plan participant contributions	1	1	—	—
Benefits paid	(3)	(1)	—	—
Fair value of plan assets at end of year	—	—	—	—
Underfunded status of plans	\$ (16)	\$ (22)	\$ (6)	\$ (8)
Amounts recognized in Consolidated Balance Sheets				
Current liabilities	\$ (1)	\$ (1)	\$ —	\$ —
Non-current liabilities	(15)	(21)	(6)	(9)
Total liability at end of year	\$ (16)	\$ (22)	\$ (6)	\$ (9)
Amounts recognized in net assets without donor restrictions				
Net actuarial (loss) gain	\$ (13)	\$ (8)	\$ (1)	\$ 2
Net amount recognized	\$ (13)	\$ (8)	\$ (1)	\$ 2

Total benefits cost and amounts recognized in net assets without donor restrictions for the years ended December 31 were as follows:

(in millions)	U.S.		Canada	
	2022	2021	2022	2021
Component of net periodic benefit cost				
Service cost	\$ 1	\$ 1	\$ —	\$ —
Interest cost	1	1	—	—
Amortization of net actuarial gain	(1)	—	—	—
Net periodic benefit cost	\$ 1	\$ 2	\$ —	\$ —
Amounts recorded in net assets without donor restrictions				
Balance at beginning of the year	\$ (8)	\$ (2)	\$ 2	\$ 3
Net actuarial gain	(6)	(6)	(2)	(1)
Amortization of net actuarial loss (gain)	1	—	—	(1)
Exchange rate (gain) loss	—	—	(1)	1
Balance at end of the year	\$ (13)	\$ (8)	\$ (1)	\$ 2

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

The service cost component of net periodic benefit cost is recorded in the same line items as other compensation costs arising from services rendered, in operating expenses. The other components of net periodic benefit cost are recorded in other (expense) income, net.

The projected future benefit payments, which reflect expected future services are as follows:

(in millions)	U.S.		Canada		Total	
2023	\$	1	\$	—	\$	1
2024		1		—		1
2025		1		—		1
2026		1		—		1
2027		1		—		1
Years 2028 through 2032		5		2		7

The Company anticipates contributing approximately \$1 million and \$0 for its U.S. and Canada postretirement benefit plans in 2023, respectively.

The following assumptions were used to determine the benefit obligations under the plans at December 31:

	U.S.		Canada	
	2022	2021	2022	2021
Discount rate	5.2%	3.1%	5.2%	3.0%
Health care cost trend rate (Pre-65)	6.7%	6.3%	4.6%	6.5%
Health care cost trend rate (Post-65)	N/A	5.8%	4.6%	6.5%
Ultimate trend rate reached in 2029 for U.S. / 2040 for Canada	4.5%	4.5%	4.1%	4.1%

The following assumptions were used to determine the net periodic benefit costs under the plans for the years ended December 31:

	U.S.		Canada	
	2022	2021	2022	2021
Discount rate	3.1%	2.8%	5.2%	2.6%
Health care cost trend rate	6.3%	6.3%	4.6%	4.3%

Savings Plans

The Company sponsors various defined contribution savings plans in the U.S., as well as certain international locations, that allow employees to contribute a portion of their pre-tax and/or after-tax income in accordance with plan specified guidelines. Under specified conditions, the Company will contribute to certain savings plans based on the employee's eligible pay and/or will match a percentage of the employee contributions up to certain limits. For the years ended December 31, 2022 and 2021, the Company's contributions were \$46 million and \$44 million, respectively.

11. Income Taxes

UL Research Institutes is a nonprofit organization exempt from Federal income taxes under section 501(c)(3) of the Internal Revenue Code. UL Standards & Engagement is a nonprofit organization exempt from Federal income taxes under section 501(c)(4) of the Internal Revenue Code. The Company owns various subsidiaries that are for-profit entities and subject to income tax in their respective jurisdictions.

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

Components of operating income and non-operating activity before taxes at December 31 were as follows:

(in millions)	2022	2021
Domestic	\$ (214)	\$ (75)
Foreign	358	316
Operating income and non-operating activity before taxes	<u>\$ 144</u>	<u>\$ 241</u>

Components of the provision (benefit) for income taxes at December 31 were as follows:

(in millions)	2022	2021
Current tax provision		
U.S. Federal	\$ 11	\$ 47
U.S. State	—	13
Foreign	55	50
Deferred tax provision		
U.S. Federal	7	(59)
U.S. State	(4)	(13)
Foreign	7	—
Total income tax provision	<u>\$ 76</u>	<u>\$ 38</u>

Reconciliation of the U.S. federal statutory rate to the Company's effective tax rate:

	2022	2021
U.S. Federal Statutory Rate	21.0 %	21.0 %
Effect of:		
Foreign income taxed at different rates	(6.1)%	(4.7)%
U.S. tax on foreign activities	3.3 %	0.9 %
State and local income taxes, net of federal benefit	(3.4)%	(0.9)%
Foreign derived intangible income benefit	(0.1)%	(4.5)%
U.S. tax-exempt organization	36.4 %	3.7 %
Other reconciling items, net	1.7 %	0.3 %
Effective tax rate	<u>52.8 %</u>	<u>15.8 %</u>

Other reconciling items consist of non-deductible expenses such as meals and entertainment, transaction costs related to merger and acquisition activities and general business credits such as research and development tax credits.

Results for 2021 included \$11 million of non-recurring income tax benefit due to the foreign derived intangible income ("FDII") deduction in the U.S.

The Company has not recognized deferred tax liabilities in the U.S. with respect to its outside basis differences in most foreign affiliates. As of December 31, 2022 and 2021, approximately \$243 million and \$224 million, respectively, of the Company's accumulated undistributed earnings from its foreign subsidiaries are intended to be indefinitely reinvested. It is not practicable to determine the amount of unrecognized deferred tax liabilities on these earnings. The Company is not indefinitely reinvested with regard to select other foreign affiliates and has recorded a deferred tax liability for foreign withholding taxes on the unrepatriated earnings of those entities.

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

Components of the deferred income tax assets and liabilities at December 31 were as follows:

(in millions)	2022	2021
Deferred tax assets		
Accrued pension and postretirement liabilities	\$ 52	\$ 74
Accrued employee benefits	50	71
Other accrued expenses	6	10
Net operating loss carryforward	46	44
Advance payments	38	35
Operating lease liabilities	38	38
Capitalized research and development	15	—
Other	4	7
Subtotal (before valuation allowances)	249	279
Valuation allowances	(47)	(42)
Total deferred tax assets	202	237
Deferred tax liabilities		
Basis difference for intangible assets	(33)	(24)
Basis difference for fixed assets	(14)	(19)
Operating lease right-of-use assets	(37)	(36)
Tax on unrepatriated earnings	(4)	(3)
Other	(8)	(4)
Total deferred tax liabilities	(96)	(86)
Net deferred income tax assets	\$ 106	\$ 151

As of December 31, 2022, the Company has approximately \$46 million of deferred tax assets related to foreign tax net operating loss (“NOL”) carryforwards. If not used, \$10 million of deferred tax assets will be written off to reflect the reduction of the NOL carryforwards that will expire between 2023 and 2042, while the remaining carryforward is indefinite. The use of certain NOL carryforwards is limited due to rules regarding acquired tax attributes, loss sharing between group members, and business continuity. The valuation allowances are reserves against certain NOLs and other deferred tax assets for which the realization is unlikely.

Uncertain Tax Positions

The total unrecognized tax benefits that, if recognized, would affect the Company’s effective tax rate were \$26 million and \$25 million as of December 31, 2022 and 2021, respectively. Interest and penalties related to unrecognized tax benefits are recorded in income tax expense and were \$10 million and \$8 million as of December 31, 2022 and 2021, respectively.

The Company is under audit in multiple state and foreign tax jurisdictions. It is reasonably possible that the amount of unrecognized tax benefits will change during the next 12 months. This could be due to completion of the aforementioned foreign and state income tax audits, the expiration of statutes of limitations and/or new information that causes the Company to reassess the total amount of unrecognized tax benefits recorded. Given the uncertainty and unpredictable nature of these matters, the Company cannot estimate the impact of such matters at this time. However, the Company does not expect a change, if any, to have a material effect on the consolidated financial condition, changes in net assets or cash flows within the next 12 months.

In the United States, the Company has open years ranging from 2018 to 2022 and significant foreign jurisdictions still open for audit between 2008 and 2022. The Company believes sufficient provision has been made for potential adjustments for all years that are not closed by the statute in all major tax jurisdictions and that any such

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

adjustments would not have a material adverse effect on the Company's financial position, liquidity, or changes in net assets.

12. Long-term Debt

The Company's outstanding long-term debt consisted of the following:

(in millions)	Currency	Maturity Date	Interest Rate ^(a)	As of December 31, 2022
Term loan	USD	January 2027	5.41 %	\$ 500
Unamortized debt issuance costs				(1)
Total long-term debt				\$ 499

(a) Interest rate as of December 31, 2022, which is a floating rate based on BSBY plus an applicable margin.

Credit Facility

In January 2022, UL Solutions entered into a credit agreement with Bank of America, N.A. and certain other lenders, which provides for senior unsecured credit facilities in an aggregate principal amount of \$1,250 million (collectively, the "Credit Facility"), consisting of term loans in an initial aggregate principal amount of \$500 million and revolving loan commitments in an initial aggregate commitment amount of \$750 million (including a \$25 million sub-facility for letters of credit). The Credit Facility includes an accordion feature permitting an increase in the Credit Facility by an aggregate amount of up to \$625 million (of which up to \$400 million may consist of term loans), subject to the consent of any lenders providing such increase, the absence of any default or event of default and entry into customary documentation with respect to such increase. UL Solutions' subsidiary UL LLC, a Delaware limited liability company, is the named borrower under the Credit Facility and, together with other UL Solutions affiliates, UL Solutions provides a guaranty of its obligations thereunder. At December 31, 2021, UL Solutions maintained two revolving credit facilities totaling \$400 million (the "2017 Revolving Credit Facility"), of which no borrowings were outstanding. Proceeds from the Credit Facility in January 2022, which included \$500 million in term loans and \$200 million in draws from the revolving loan commitments, were used to refinance the 2017 Revolving Credit Facility and partially fund payment of a \$1,600 million special cash dividend that was declared and paid to UL Standards & Engagement in January 2022, as well as for general corporate purposes. The Credit Facility matures in January 2027 and may be prepaid without fees or penalties. During 2022, UL Solutions made repayments of \$200 million related to the revolving credit facility. As of December 31, 2022, UL Solutions had approximately \$4 million outstanding in letters of credit, surety bonds, and performance and other guarantees with financial institutions.

Future borrowings under the Credit Facility are subject to the satisfaction of customary conditions, including the absence of any default or event of default and the accuracy of representations and warranties.

Borrowings under the Credit Facility bear interest at a rate per annum equal to, at the option of UL Solutions, (a) in the case of U.S. dollar loans, the Bloomberg Short-term Bank Yield ("BSBY") Index rate plus a margin, and for all other currencies, a specified benchmark rate for the applicable currency plus, in certain instances, a specified spread adjustment plus a margin (loans with a rate based on this clause (a), "benchmark rate loans") or (b) for U.S. dollar loans only, the base rate plus a margin (loans with a rate based on this clause (b), "base rate loans"). As of December 31, 2022, the margin was 1.125% for benchmark rate loans and 0.125% for base rate loans but will be adjusted based on the UL Solutions' most recently tested consolidated net leverage ratio and may vary from 1.0% to 1.5% for benchmark rate loans and 0% to 0.5% for base rate loans. The unused commitment fee varies from 0.1% to 0.2% based on the UL Solutions' most recently tested consolidated net leverage ratio.

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

The Credit Facility includes customary representations and warranties, covenants and events of default, subject to certain customary exceptions, materiality thresholds and grace periods. The covenants include, among other things, financial reporting, maintenance of line of business, notices of default and other material changes, as well as limitations on investments and acquisitions, mergers and transfers of all or substantially all assets, dividends and distributions, burdensome contracts with affiliates, liens and indebtedness.

The Credit Facility also includes a financial covenant tested quarterly which requires UL Solutions to maintain a consolidated net leverage ratio of not greater than 3.5 to 1.0, calculated on a consolidated basis for each consecutive four fiscal quarter period, with an increase in the maintenance level to 4.0 to 1.0 for each of the four test periods immediately following any permitted acquisition that involves the payment of aggregate consideration in excess of \$100 million, subject to a two fiscal quarter rest period between increases for separate acquisitions. The calculation of the consolidated net leverage ratio permits the netting of up to \$250 million of unrestricted cash from funded debt. As of December 31, 2022, UL Solutions was in compliance with all covenants under this facility.

As of December 31, 2022, the remaining aggregate scheduled principal repayments of the Company's long-term debt are as follows:

<i>(in millions)</i>		
2023	\$	—
2024		—
2025		50
2026		50
2027		400
Total	\$	<u>500</u>

2017 Revolving Credit Facility

UL Solutions maintained two revolving credit facilities at December 31, 2021 totaling \$400 million to be used for general corporate purposes. The 2017 Revolving Credit Facility had a maturity date of December 15, 2022 and quarterly minimum interest coverage ratio and leverage ratio requirements. Borrowings on the facility bore interest at a rate per annum equal to, at the option of UL Solutions, (a) in the case of Eurocurrency loans, the Eurocurrency rate plus a margin ranging from 1.25% to 2.0%, or (b) in the case of base rate loans, a margin ranging from 0.25% to 1.0% plus the higher of (i) the Federal Funds Effective Rate plus 0.5%, (ii) the Bank of America "prime rate", or (iii) the Eurocurrency rate plus 1.0%. The margin for both Eurocurrency and base rate loans was based on UL Solutions' most recently tested consolidated net leverage ratio. There were no borrowings in 2021 under the 2017 Revolving Credit Facility and there were no borrowings outstanding as of December 31, 2021. As of December 31, 2021, UL Solutions had outstanding letters of credit in the amount of approximately \$3 million.

The 2017 Revolving Credit Facility included customary representations and warranties, covenants and events of default, subject in each case to certain exceptions. The covenants included, among other things, financial reporting, notices of default and other material changes and maintenance of line of business, as well as limitations on investments and acquisitions, mergers and transfers of all or substantially all assets, dividends and distributions, burdensome contracts with affiliates, liens and indebtedness.

13. Leases

The Company has operating and finance leases for real estate, vehicles and equipment. Operating leases are included in operating lease right-of-use assets, operating lease liabilities - current, and operating lease liabilities in the Consolidated Balance Sheets. Amounts recognized for finance leases as of and for the years ended December 31, 2022 and 2021 were immaterial.

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

Lease costs incurred by lease type, and/or type of payment for the annual periods ending December 31 were as follows:

(in millions)	2022	2021
Short-term lease cost	\$ 2	\$ 2
Operating lease cost	54	57
Variable lease cost	21	18
Total lease cost	<u>\$ 77</u>	<u>\$ 77</u>

Other supplemental quantitative disclosures for the years ended December 31 are as follows:

(in millions)	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 52	\$ 56
Right-of-use assets obtained in exchange for operating lease liabilities	63	49
Weighted-average remaining lease term (in years) - operating leases	6.53	6.19
Weighted-average discount rate - operating leases	2.82 %	2.97 %

Estimated undiscounted future lease payments under non-cancellable operating leases as of December 31, 2022, are as follows:

(in millions)	Operating Lease Liabilities
Lease maturity	
2023	\$ 47
2024	34
2025	23
2026	20
2027	12
Thereafter	43
Total undiscounted future cash flows	<u>179</u>
Less: imputed interest	<u>17</u>
Present value of future cash flows	<u>\$ 162</u>

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

14. Net Assets

The following table summarizes the changes in net assets attributable to UL Research Institutes and non-controlling interests.

(in millions)	UL Research Institutes	Non-controlling Interests	Total
Net assets without donor restrictions			
Balance at December 31, 2020	\$ 2,160	\$ 20	\$ 2,180
Operating income and non-operating activity	187	14	201
Foreign currency translation loss	(24)	—	(24)
Pension and postretirement benefit plans, net of tax of \$21	62	—	62
Dividend to non-controlling interest	—	(13)	(13)
Balance at December 31, 2021^(a)	\$ 2,385	\$ 21	\$ 2,406
Operating income and non-operating activity	52	16	68
Foreign currency translation loss	(41)	(1)	(42)
Pension and postretirement benefit plans, net of tax of \$31	91	—	91
Dividend to non-controlling interest	—	(13)	(13)
Balance at December 31, 2022	\$ 2,487	\$ 23	\$ 2,510

(a) The Company has revised the presentation of consolidated statement of changes in net assets, which resulted in the adjustment of previously disclosed net assets table for the year ended December 31, 2021 to conform with current period presentation.

15. Stock-based and Other Incentive Compensation

Cash-settled Stock Appreciation Rights (“CSARs”)

In 2012, UL Solutions established the LTIP under which CSARs are available to be issued. This plan is intended for certain employees to maximize their contribution to the long-term success of UL Solutions and its affiliates and encourage participants to remain in the employ of the Company through awards of CSARs. CSAR awards entitle the employee to receive an amount determined based on the appreciation in the value of a specified number of shares of UL Solutions as determined by the Human Capital and Compensation Committee of the board of directors of UL Solutions (pursuant to a reasonable valuation method in accordance with Section 409A of the Internal Revenue Code, including without limitation, by reliance on an independent appraisal completed within the preceding twelve months) from the date of grant up to a specified date or dates. Benefit payments under the plan are made in cash, not common stock, beginning at the end of the three-year cliff vesting period from the original grant date up to the termination date which is five to seven years from the grant date. Expenses related to the CSARs have been recorded in accordance with ASC Topic 718, *Compensation—Stock Compensation*. As CSARs are cash-settled they are classified as a liability and remeasured at each reporting date.

Underwriters Laboratories Inc. Notes to Consolidated Financial Statements

The CSAR activity during the year ended December 31 was as follows:

	Number of CSAR Awards	Weighted Average Grant Price	Weighted Average Remaining Term	Aggregate Intrinsic Value (in millions)
Outstanding as of December 31, 2021	3,559,748	\$ 39.41	1.80 years	\$ 168
Granted	551,469	65.72		
Exercised	(1,054,346)	17.24		\$ 51
Forfeited	(78,104)	41.31		
Outstanding as of December 31, 2022	<u>2,978,767</u>	\$ 30.58	1.28 years	\$ 86
Exercisable as of December 31, 2022	<u>2,261,925</u>	\$ 26.36	0.65 years	\$ 74

In February 2022, in accordance with the provisions of the Company's LTIP, the Compensation Committee approved a reduction in the base price of all outstanding CSARs of \$18 per award. The reduction in the base price was designed to provide protection to award holders due to the impact of the special cash dividends on the Company's estimated stock price. The modification did not have a material impact on compensation expense.

As of December 31, 2022, there was \$5 million of compensation expense that has yet to be recognized related to non-vested CSAR awards. This expense is expected to be recognized over the remaining weighted-average vesting period of 18 months.

The following table summarizes the assumptions used in the Black-Scholes-Merton model as of December 31:

	2022	2021
Risk-free interest rate	4.12% - 4.75%	0.05% - 0.89%
Weighted average volatility	29.87%	27.70%
Expected life (in years)	0.06 - 3.25	0.06 - 2.67
Weighted average grant date fair value per share of rights granted	\$7.66	\$6.59

Expected volatility is a statistical measure of the amount by which a stock price is expected to fluctuate during a period. Since UL Solutions' common stock is not publicly traded the Company estimated the expected volatility based upon the historical and implied stock price volatility of a group of comparable industry peers relevered to reflect the Company's capital structure. The expected term assumption is based on the weighted average of historical grants.

Compensation (benefit) expense related to CSAR awards for the years ended December 31 was as follows:

(in millions)	2022	2021 ^(a)
CSAR compensation (benefit) expense	\$ (17)	\$ 115
Income tax expense (benefit)	4	(27)
CSAR compensation (benefit) expense, net of tax	<u>\$ (13)</u>	<u>\$ 88</u>

(a) The Company has revised the presentation of consolidated statement of changes in net assets which resulted in the adjustment of previously disclosed CSAR compensation (benefit) expense table for the year ended December 31, 2021 to conform with current period presentation.

On a quarterly basis during 2022, UL Solutions used third-party valuations to estimate the fair value of UL Solutions underlying stock price based on the methodology described in Note 1. Based on these valuations, UL Solutions' stock price decreased and the Company remeasured its outstanding CSAR awards at their estimated

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

fair value using a Black-Scholes-Merton option valuation model, which resulted in a CSAR compensation benefit in 2022 compared to 2021.

The Company had a short-term liability of \$80 million and \$149 million recorded in the Consolidated Balance Sheets to accrued compensation and benefits at December 31, 2022 and 2021, respectively, representing the fair value of the awards. The Company had a long-term liability of \$5 million and \$6 million recorded in the Consolidated Balance Sheets to other liabilities at December 31, 2022 and 2021, respectively, representing the fair value of the awards. The fair value of UL Solutions vested CSAR awards was \$75 million and \$134 million at December 31, 2022 and 2021, respectively.

Performance Cash

The Company has established various non-equity based Performance Cash awards, which entitle the holder to a cash payout upon the achievement of certain performance goals. The performance period for these awards is the three-year period beginning January 1 of the year granted. Actual cash payments may range from 0% to a maximum potential value of 200% of the award's target value based on the satisfaction of the applicable performance metrics for the performance period. Awards vest and amounts payable in respect thereof are paid on the three-year anniversary of the award date.

Compensation expense related to Performance Cash awards for the years ended December 31 was as follows:

(in millions)	2022	2021 ^(a)
Performance Cash compensation expense	\$ 16	\$ 20
Income tax benefit	(4)	(5)
Performance Cash compensation expense, net	<u>\$ 12</u>	<u>\$ 15</u>

(a) The Company has revised the presentation of consolidated statement of changes in net assets which resulted in the adjustment of previously disclosed Performance Cash compensation expense table for the year ended December 31, 2021 to conform with current period presentation.

The Company had a short-term liability of \$15 million and \$13 million recorded in the Consolidated Balance Sheets to accrued compensation and benefits at December 31, 2022 and 2021, respectively, representing the cash value of the award that has been accrued based on the vesting period. The Company had a long-term liability of \$14 million recorded in the Consolidated Balance Sheets to other liabilities at both December 31, 2022 and 2021, representing the cash value of the award, which has been accrued based on the vesting period.

16. Commitments and Contingencies

Future minimum payments for noncancelable purchase obligations with a remaining term of over one year as of December 31, 2022, are payable as follows:

(in millions)	Purchase Obligations
2023	\$ 35
2024	32
2025	24
2026	14
2027	3
Thereafter	12
Total	<u>\$ 120</u>

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

The Company's uncalled capital commitments relating to its private investment partnerships as of December 31, 2022 are as follows:

<u>(in millions)</u>	<u>Capital Commitment</u>	<u>Contributions to Date</u>	<u>Uncalled Commitment</u>
Private equity	\$ 94	\$ (19)	\$ 75
Venture capital	54	(11)	43
Private real estate	32	(23)	9
Private credit	12	(1)	11
Total	\$ 192	\$ (54)	\$ 138

Purchase obligations exclude liabilities that are included on the Company's Consolidated Balance Sheet as of December 31, 2022 and include commitments for outsourced services, facilities, capital expenditures, cloud service arrangements and various other types of noncancelable contracts.

The Company is party in the ordinary course of business to certain claims, litigation, audits and investigations. The Company will record an accrual for a loss contingency when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. The Company believes it has established adequate accruals for liabilities that are probable and reasonably estimable and that may be incurred in connection with any such currently pending or threatened matter, none of which are material. In the Company's opinion, the settlement of any such currently pending or threatened matter is not expected to have a material impact on the Company's financial position, changes in net assets, or cash flow.

17. Functional Expenses

The UL Research Institutes' nonprofit activities are composed of two functional programs: Research and Education & Outreach. The Research program is focused on the exploration of threats to human safety, and includes fire, battery, chemical, health safety research, and international safety. The Education & Outreach program performs communication of research insights through public education and outreach, such as youth safety awareness initiatives. In addition, UL Standards & Engagement translates research insights into practical innovations to advance human safety through the development of safety standards and proactive communication, advocacy and policy initiatives. The Company's commercial activities are performed by UL Solutions, which provides independent third-party testing, inspection and certification services and complementary software and advisory services to its customers.

Underwriters Laboratories Inc.

Notes to Consolidated Financial Statements

Expenses that comprise the consolidated organization have been broken out for the years ended December 31 below:

	2022					
(in millions)	Research	Education & Outreach	Functional Programs Administration	ULSE	UL Solutions	Total
Salaries and related benefits	\$ 11	\$ 2	\$ 10	\$ 19	\$ 1,340	\$ 1,382
General & other	13	2	17	15	607	654
Depreciation and amortization	1	—	—	—	140	141
Income taxes	—	—	—	2	74	76
Interest expense	—	—	—	—	17	17
Non-operating pension and postretirement benefits	—	—	—	—	13	13
Total	\$ 25	\$ 4	\$ 27	\$ 36	\$ 2,191	\$ 2,283

	2021					
(in millions)	Research^(a)	Education & Outreach^(a)	Functional Programs Administration^(a)	ULSE^(a)	UL Solutions^(a)	Total
Salaries and related benefits	\$ 7	\$ 3	\$ 4	\$ 13	\$ 1,484	\$ 1,511
General & other ^(a)	7	2	12	8	584	613
Depreciation and amortization	1	—	—	—	143	144
Income taxes	—	—	—	2	36	38
Interest expense	—	—	2	—	1	3
Non-operating pension and postretirement benefits	—	—	—	—	19	19
Total	\$ 15	\$ 5	\$ 18	\$ 23	\$ 2,267	\$ 2,328

(a) The Company has reclassified certain expenses that were previously presented for the year ended December 31, 2021 to conform to the current period's presentation.

18. Subsequent Events

The Company has evaluated transactions through May 25, 2023, the date the consolidated financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the consolidated financial statements.

Supplemental Information

Underwriters Laboratories Inc.
Supplemental Information - Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022

Federal Grantor / Program Title	Assistance Listing Number	Award/Pass Through Number	Pass-Through Grantor	Federal Expenditures			Passed Through to Subrecipients
				Direct	Pass-through	Total Federal Expenditures	
Research and Development Cluster							
<i>Department of Homeland Security</i>							
Assistance to Firefighters Grants							
Fire Prevention and Safety FY2018	97.044	EMW-2018-FP-00476	N/A	\$ 826,674	\$ —	\$ 826,674	\$ —
Fire Prevention and Safety FY2019	97.044	EMW-2019-FP-00770	N/A	578,673	—	578,673	—
Fire training chemical exposure and cardiovascular risk reduction: Curriculum, SOP and Cleaning	97.044	EMW-2018-FP-00482 097582-18490	University of Illinois	—	45,778	45,778	—
Impact of PPE and Base Layer on Fireground Gas and Particulate Exposure Risks	97.044	EMW-2017-FP-00635 093182-17265	University of Illinois	—	30,025	30,025	—
Subtotal AL# 97.044				1,405,347	75,803	1,481,150	—
<i>Department of Justice</i>							
National Institute of Justice Research, Evaluation, and Development Project Grants							
Development of an Interactive Database of Contemporary Material Properties for Computer Fire Modeling	16.560	2019-DU-BX-0018	N/A	367,734	—	367,734	—
Evaluation of Heat Flux Profiles Through Walls in Support of Fire Model Validation	16.560	15PNIJ-21-GG-04167-RESS	N/A	193,556	—	193,556	—
Subtotal AL# 16.560				561,290	—	561,290	—
<i>Department of Health and Human Services</i>							
National Institutes of Health							
National Institute of Dental & Craniofacial Research							
African-American Susceptibility to Periodontal Disease due to Electronic Nicotine Delivery Systems (ENDS) Usage	93.121	7R56DE029950-02	N/A	64,867	—	64,867	8,062
Subtotal AL# 93.121				64,867	—	64,867	8,062
Total Research and Development Cluster				2,031,504	75,803	2,107,307	8,062
Total Federal Expenditures				\$ 2,031,504	\$ 75,803	\$ 2,107,307	\$ 8,062

The accompanying notes are an integral part of this schedule.

Underwriters Laboratories Inc.
Supplemental Information - Notes to Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant activity of the Company and is presented on the accrual basis of accounting. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the consolidated financial statements.

The Company utilizes the predetermined facilities and administrative rate as agreed upon in their Nonprofit Rate Agreement with the Federal Government when charging indirect costs, rather than the 10% de minimis cost rate as described in Section 200.414 of the Uniform Guidance.

2. UL LLC Federal Expenditures

UL LLC, a wholly-owned for-profit subsidiary of the Company, is the only subsidiary that had federal expenditures in 2022. UL LLC evaluates its federal expenditures independently of the federal expenditures incurred by other entities within the Company. A review of fiscal year 2022 federal award expenditures revealed that UL LLC has not met the requirement for an audit in accordance with the Department of Energy guidance for for-profit entities. The accompanying Schedule includes only the awards granted to Underwriters Laboratories Inc., not to UL LLC. However, the accompanying financial statements are prepared on a consolidated basis and they include federal expenditures of both the Company and UL LLC.

Part II
Reports on Internal Controls and on Compliance



Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees of Underwriters Laboratories Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Underwriters Laboratories Inc. and its subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2022, and the related consolidated statements of changes in net assets and of cash flows for the year then ended, including the related notes (collectively referred to as the "consolidated financial statements"), and have issued our report thereon dated May 25, 2023.

The PricewaterhouseCoopers affiliated firms in Greater China and Japan performed audit procedures for UL VS Shanghai Ltd., UL - CCIC Company Limited, and UL Japan, Inc., comprising approximately 8% of total assets of the Company for the year ended December 31, 2022. Personnel of these firms, excluding United States personnel, do not participate in a continuing education program that fully satisfies the requirement set forth in Chapter 4, paragraphs 4.16-4.18 of *Government Auditing Standards*. However, these firms do participate in continuing education programs applicable to their respective countries.

Further, the PricewaterhouseCoopers affiliated firms referred to above do not have an external quality review by an unaffiliated audit organization as required by Chapter 5, paragraphs 5.60-5.62 of *Government Auditing Standards*, since no such program is offered by professional organizations in the countries. However, these offices participate in the PricewaterhouseCoopers worldwide internal control review program, which requires the office to be periodically subjected to an extensive quality control review by partners and managers from other PricewaterhouseCoopers affiliated firms.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in



internal control, described in the accompanying schedule of Findings and questioned costs as items 2022-001 and 2022-002 that we consider to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Company's Response to Findings

Government Auditing Standards required us to perform limited procedures on the Company's response to the findings identified in our audit are described in the accompanying management's views and corrective action plan. The Company's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Company's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

Chicago, Illinois

May 25, 2023, except with respect to the opinion on the supplemental information, as to which the date is September 26, 2023.



Report of Independent Auditors on Compliance for Each Major Program and on Internal Control Over Compliance Required by Uniform Guidance

To the Board of Trustees of Underwriters Laboratories Inc.

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Underwriters Laboratories Inc. and its subsidiaries' (the "Company") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on Company's major federal program for the year ended December 31, 2022. The Company's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Company complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (US GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Company's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Company's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Company's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting



from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Company's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with US GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Company's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Company's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2022-003. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the Company's response to the noncompliance findings identified in our audit described in the accompanying management's views and corrective action plan. The Company's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.



Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

Chicago, Illinois
September 26, 2023

Part III
Schedule of Findings and Questioned Costs

Underwriters Laboratories Inc.
Schedule of Findings and Questioned Costs
December 31, 2022

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ Yes _____ X No
- Significant deficiency identified that are not considered to be material weakness(es)? _____ X Yes _____ None Reported
- Noncompliance material to financial statements noted? _____ Yes _____ X No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ Yes _____ X No
- Significant deficiency identified that are not considered to be material weakness(es)? _____ Yes _____ X None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 200.516 (a) of the OMB Uniform Guidance? _____ X Yes _____ None Reported

Identification of major programs

<u>Federal Assistance Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
97.044, 93.121, 16.560	Research & Development Cluster

Dollar threshold used to distinguish between Type A and \$750,000

Auditee qualified as low-risk auditee? _____ X Yes _____ No

Underwriters Laboratories Inc.
Schedule of Findings and Questioned Costs
December 31, 2022

Section II. Financial Statement Findings

2022-001: Customer sales order price change access (Significant Deficiency)

Criteria

As part of our audit, we are required to obtain an understanding of internal controls relevant to the audit, which includes the end to end process around key financial reporting cycles and evidence of the implementation of relevant controls and the related IT dependencies (AU-C section 315).

Condition

During the 2022 audit, management identified, and we agreed, there is a deficiency in the organization's customer revenue process that is a significant deficiency. Specifically, individuals have access to change sales order prices within the enterprise resource planning IT application, but not all the changes are formally reviewed.

Cause

Management's IT application is configured to permit this access to meet business needs. However, a manual review of order changes was not designed and implemented to monitor for potential changes that are unauthorized or inaccurate.

Effect

The deficiency in monitoring customer sales order price changes results in increased risk of potential errors in reported revenue from unauthorized or inaccurate order price changes.

Recommendation

We recommend that UL undertake actions to develop a complete and accurate report of price changes and implement a formal periodic review of the changes based on management developed criteria to ensure that the risk associated with unauthorized access is properly mitigated.

Management's Views and Corrective Action Plan

Management's views and corrective action plan are included at the end of this report after the summary of status of prior audit findings.

2022-002: Software and cloud computing costs (Significant Deficiency)

Criteria

As part of our audit, we are required to obtain an understanding of internal controls relevant to the audit, which includes the end to end process around key financial reporting cycles and evidence of the implementation of relevant controls and the related IT dependencies (AU-C section 315).

Condition

During our 2022 audit, management identified, and we agreed, there were control deficiencies identified in the accounting and reporting related to the capitalization and the amortization period of certain internally developed and purchased software and cloud computing costs that aggregated to a significant deficiency.

Underwriters Laboratories Inc.
Schedule of Findings and Questioned Costs
December 31, 2022

Cause

Process and control gaps resulted from inadequate review of project costs capitalized and a lack of sufficient training of personnel involved in the processes.

Effect

The deficiencies resulted in immaterial financial statement corrections and results in an increased risk of potential errors in accounting and reporting capitalized software and cloud computing costs and related expenses.

Recommendation

We recommend that UL undertake actions to enhance training of employees involved in the software and cloud computing cost processes, improve internal communication of project information to aid in recording such costs and to implement enhanced monitoring and review of software and cloud computing financial statement impacts on a recurring basis to ensure that the risks associated with these costs is properly mitigated.

Management's Views and Corrective Action Plan

Management's views and corrective action plan are included at the end of this report after the summary of status of prior audit findings.

Underwriters Laboratories Inc.
Schedule of Findings and Questioned Costs
December 31, 2022

Section III. Federal Award Findings and Questioned Costs

2022-003: Procurement/Full and open competition

Cluster Name: Research and development

Award Name: 2019 Fire Prevention and Safety (FP&S)

Assistance Listing Number: 97.044

Award Number: EMW-2019-FP-00770

Agency: Department of Homeland Security

Award Year: 2019

Criteria

Underwriters Laboratories Inc. has a policy whereby purchases shall comply with Uniform Guidance for Grants and Cooperative agreements, as established in 2 CFR 200.320 Methods of Procurement and they have adopted \$10,000 as their micro-purchase threshold. 2 CFR 200.318 requires that documentation of the history of the procurement, the procurement method and rationale for the method selected, selection of contract type, basis for contractor selection, and basis for the contract price to be included in the procurement file.

Condition

There were two transactions over the \$10,000 threshold and both were selected for testing. For one transaction in August 2022 totaling \$69,239 out of the two transactions tested totaling \$123,408, excluding transactions with subrecipients, management provided us with the Underwriters Laboratories, Inc. Vendor Selection Form noting multiple vendors were identified for the project at hand. However, management received two responses (one being a decline of services), of four vendors identified, and did not provide rationale for why the selected vendor was sufficient (both from a capabilities and cost side) within the Vendor Selection Form section "Why did you choose the selected vendor?" prior to the purchase being made. Note, as of September 2022 a corrective action plan around procurement/full and open competition was created by management related to finding 2021-002 from FY21. As such, this had not been implemented at the time of vendor selection in August 2022. There were no exceptions noted for the other selection.

Cause

At this point in time (August 2022) there was no formal review to ensure all federal documentation requirements related to purchases above the micro-purchase threshold had been included in the procurement files (i.e., Vendor Selection Form).

Effect

The lack of a formal process for review of the Vendor Selection Form could result in inadequate bids and competition.

Questioned Costs

There are no questioned costs associated with this finding.

**Underwriters Laboratories Inc.
Schedule of Findings and Questioned Costs
December 31, 2022**

Recommendation

We recommend Underwriters Laboratories Inc. formalize the documentation and review required for procurements over the micro-purchase threshold, including instances where requests for bids from multiple vendors are not received to ensure the vendor selection process is adequately communicated prior to the purchase being made.

Management's View and Corrective Action Plan

Management's views and corrective action plan are included at the end of this report after the summary of status of prior audit finding.

Underwriters Laboratories Inc.
Summary of Status of Prior Year Audit Findings
December 31, 2022

2021-001: Cash Management

Cluster Number: Research and development

Award Name: 2019 Fire Prevention and Safety (FP&S)

Assistance Listing Number: 97.044

Award Number: EMW-2019-FP-00770

Agency: Department of Homeland Security

Award Year: 2019

Condition

In testing compliance with the cash management compliance requirement in accordance with the OMB Compliance Supplement, specifically the reimbursement method, 25 individual expenditures across all grants were tested by PwC to compare the date Underwriters Laboratories Inc. paid the vendor to the date Underwriters Laboratories Inc. requested reimbursement. PwC noted 1 instance out of 25 totaling \$233,818, across all grants, in which reimbursement was requested before Underwriters Laboratories Inc. paid the vendor. Additionally, the request for reimbursement in the amount of \$233,818 was incorrect. The reimbursement should have instead been in the amount of \$223,818, resulting in a \$10,000 questioned cost.

Recommendation

PwC recommended that Underwriters Laboratories Inc. consider existing internal control procedures to ensure expenditures are paid in compliance with Federal reimbursement requirements and that requests for reimbursement are reviewed and validated against supporting documentation to identify any discrepancies prior to requesting reimbursement.

Status Update

The Company immediately requested a credit for the \$10,000 questioned costs. This credit memo was dated September 2022 and was applied to the EMW-2019-FP-00770 award in the same period. The credit was used to reduce the amount of the next drawdown from FEMA which occurred in December 2022.

Additionally, the Company's Accounting team implemented a process to review the payment status of each expenditure prior to approving the Grants Administration team's requested drawdown amount. This process was implemented to ensure that expenditures are paid prior to reimbursement from the Federal agency. The process of reviewing each expenditure's payment status prior to drawing down began in October 2022.

**Underwriters Laboratories Inc.
Summary of Status of Prior Year Audit Findings
December 31, 2022**

2021-002: Procurement/Full and open competition

Cluster Number: Research and development

Award Name: 2019 Fire Prevention and Safety (FP&S)

Assistance Listing Number: 97.044

Award Number: EMW-2019-FP-00770

Agency: Department of Homeland Security

Award Year: 2019

Condition

There was 1 transaction totaling \$233,818 out of 1 transaction tested totaling \$233,818, excluding transactions with subrecipients, over the \$10,000 threshold and this transaction was selected for testing by PwC. We provided PwC with the Underwriters Laboratories, Inc. Vendor Selection Form noting multiple vendors were identified for the project at hand. However, we received one response, of three vendors identified, and did not provide rationale for why the selected vendor was sufficient

Recommendation

PwC recommended Underwriters Laboratories Inc. formalize the documentation and review required for procurements over the micro-purchase threshold, including instances where requests for bids from multiple vendors are not received to ensure the vendor selection process is adequately communicated prior to the purchase being made.

Status Update

In response to PwC's finding, the Company completely revised its Vendor Selection Form (for Projects Expending Federal Funds Only), effective as of October 2022, to provide explicit directions on the process to be followed when requests for bids from multiple vendors result in only one responsive bid being received. In such cases, the procurement must be documented as a noncompetitive procurement in Section 3 of the Vendor Selection Form. As a result, enhanced documentation must be attached to the Vendor Selection Form to justify the use of noncompetitive procurement as a purchase mechanism before the purchase will be approved. Moreover, management oversight of the procurement process has been enhanced by having both the Legal Office and the Accounting/Finance Office review and sign-off on the Vendor Selection Form and supporting documentation prior to purchase authorization for goods or services above the micro-purchase threshold being approved.

Finding Number: 2022-01
Anticipated Completion Date: 12/31/2023
Responsible Contact Person: Aleksandar Kacharkov
Planned Corrective Action:

Management agrees with the recommendation. Management has undertaken actions to develop reporting and monitoring related to sales order price changes to reduce the risk associated with unauthorized price changes.

Finding Number: 2022-02
Anticipated Completion Date: 9/19/2023
Responsible Contact Person: Alanna Ollinger
Planned Corrective Action

Management agrees with the recommendation. Management has retrained the applicable financial team members. Management has improved communication of project information resulting in enhanced monitoring and review for these costs to ensure the financial risk is properly mitigated.

Finding Number: 2022-03
Anticipated Completion Date: 10/31/2022
Responsible Contact Person: Laurence Emrie
Planned Corrective Action:

In response to PwC's prior audit finding, the Company completely revised its Vendor Selection Form (for Projects Expending Federal Funds Only), effective as of October 2022, to provide explicit directions on the process to be followed when requests for bids from multiple vendors result in only one responsive bid being received. As such, this issue was remediated in October 2022. In such cases, the procurement must be documented as a noncompetitive procurement in Section 3 of the Vendor Selection Form. As a result, enhanced documentation must be attached to the Vendor Selection Form to justify the use of noncompetitive procurement as a purchase mechanism before the purchase will be approved. Moreover, management oversight of the procurement process has been enhanced by having both the Legal Office and the Accounting/Finance Office review and sign-off on the Vendor Selection Form and supporting documentation prior to purchase authorization for goods or services above the micro-purchase threshold being approved.

Ron Blaustein

Ron Blaustein,
Senior Vice President & Chief Financial Officer
(847)664-3699