Ultra Electronics Holdings plc

Focusing on fundamentals…

Preliminary results presentation and script

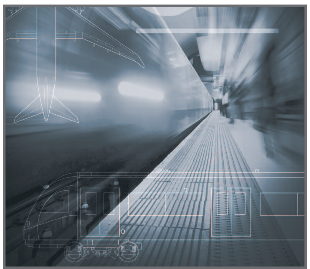
for the year ended **31 December 2017**

Douglas Caster, Executive Chairman
Amitabh Sharma, Group Finance Director
5 March 2018

The **Ultra Electronics** Group manages a **wide range of specialist capabilities**, generating **highly-differentiated** solutions and products in the **Defence & Aerospace**, **Security & Cyber**, **Transport** and **Energy** markets.

DEFENCE & AEROSPACE

SECURITY & CYBER



TRANSPORT

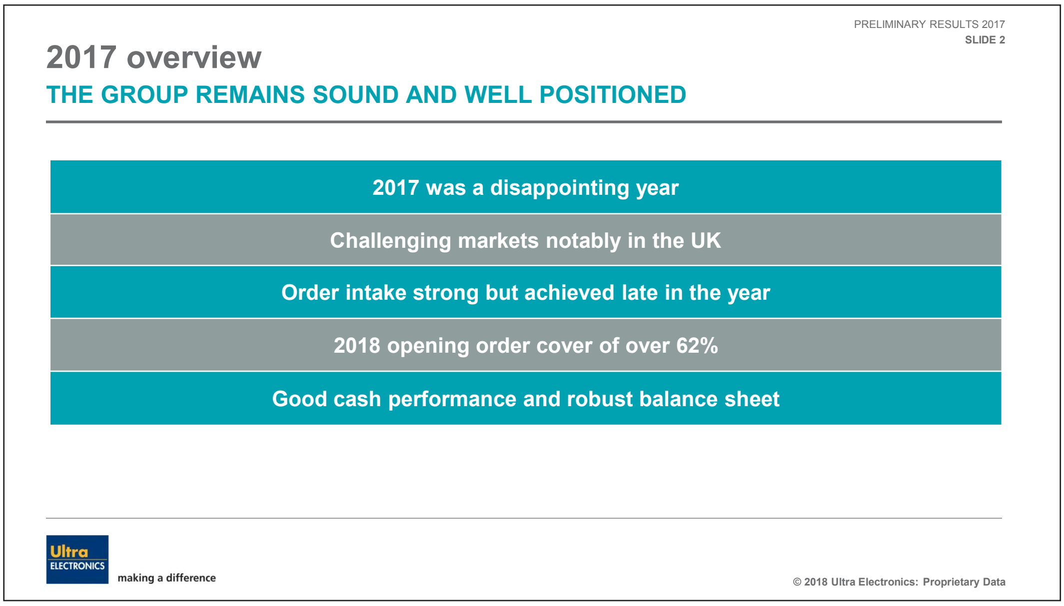
ENERGY

We meet **customer needs** by applying **electronic** and **software technologies** in **demanding environments** and meeting **critical requirements**.

Douglas Caster, Ultra's Executive Chairman provided an overview of the results.

Good morning and welcome to the presentation of the Preliminary results for Ultra Electronics for 2017.

I think that most people here know who I am but for the few that don't know me I am Douglas Caster and the Chairman of Ultra. I have been with the Group for 30 years, I was one of the directors that founded Ultra back in 1993 and was previously Chief Executive from 2005 to 2011. For the time being I have stepped back in to take the helm at Ultra as Executive Chairman until we can appoint a new Chief Executive. I'll say more on this later, but I'll start by giving a summary overview of the year.



There is no doubt that 2017 was a disappointing year for Ultra with the Group's financial performance falling short of expectations and the prior year.

Despite the expected up-turn in defence markets, we found market conditions in 2017 to be challenging, and this was particularly so in the UK. In addition the extended Continuing Resolution in the US delayed defence budgets being released until May. This resulted in expected order intake, from which in-year revenue was planned, being delayed until the second half of the year or beyond. Additionally in the UK, for short-term support activity, which we would characterise as routine, we experienced a significant downturn late in the second half owing to customer funding constraints.

Overall, at £901 million, Group order intake was strong, but it was achieved just too late in the year to support the projected 2017 financial performance. The order-book at the beginning of 2018 stood almost £100 million higher than at the previous year at £914 million under IFRS 15. This level of order book gives us opening order cover against expected 2018 revenues of over 62%.

One of the high points of the year was cash-flow. Cash flow at £117 million was good and resulted in an underlying profit to cash conversion of 97%. I believe that this represents a return to a consistent level of cash generation for which Ultra was always noted. Ami will give you more details on the financial performance but I'll finish these initial financial points by saying that the Group's year end net debt was low at £74.5million resulting in a gearing of 0.56 times giving the Group a robust balance sheet.

Despite the 8.4% decline year-on-year in underlying operating profit in 2017, as it says at the head of this slide, Ultra remains a fundamentally sound company with great potential. The Group is well positioned in what we expect to be growth markets with strong niche positions and talented people. These talented people provide specialised technologies and capabilities that our customers need to support their platforms and programmes.

PRELIMINARY RESULTS 2017
SLIDE 3

Priorities for 2018

REFOCUSING ON FUNDAMENTALS

- Resetting empowerment within the businesses
- Refocusing on LEAP* behaviours
- Improving operations within the businesses
- Improving sales force effectiveness
- Continuing high quality of cash generation to maintain an efficient balance sheet
- Increasing investment for future growth
- Focusing on S3 and cost efficiencies
- Appointing a new Chief Executive

*LEAP – Leadership, entrepreneurship, audacity, paranoia

Ultra ELECTRONICS making a difference

There is no doubt that, for the last six years, market conditions have been challenging for Ultra. As a result there has probably been an over-emphasis on driving performance through acquisition and achieving cost efficiencies plus an increasing amount of centralisation. In coming back into the driving seat therefore I see my priorities to refocus the Group on the fundamentals that made Ultra a successful company. A key element in Ultra's success is the organisation into autonomous business units serving customers in niche markets. In the last few months I have been resetting the empowerment of the leaders of these business units with decision making devolved to them from the centre. There has been a re-emphasis on the so called "LEAP" behaviours that were so highly valued in the past. That is Leadership, Entrepreneurship, Audacity and Paranoia. Through encouraging the re-establishment of these behaviours as well as drawing attention to the eight fundamental strategic tenets that have driven growth successfully in the past, I have sought to increase the overall sales force effectiveness of the Group through reinvigorating the innovative culture. This enables the creation of offerings that are highly differentiated in the eyes of customers and enable Ultra to compete successfully, at the same time as delivering shareholder value through a renewed focus on organic performance.

I have already mentioned that the Group was always noted for its high-quality cash generation and this too continues to be a priority for 2018 and it will continue to be incentivised through the Group's bonus arrangements. At the same time we have increased the budgeted level of investment in the Group for 2018. Ami will give details of what investment was achieved in 2017 but for this year we have budgeted to increase investment in three main areas. The most obvious is in R&D to generate new intellectual property to position us for bidding for new projects and to provide the winning competitive edge. In recent years because of challenging financial performance the Group has fallen behind in investing in new ERP systems so that we can operate the businesses efficiently. Therefore capital expenditure on new business IT will be increased in 2018. Finally, we are continuing to invest in the Standardisation and Shared Services, or S3 programme, to improve efficiencies further.

As a result of the announcement today that we have abandoned the Sparton acquisition, we propose to engage in a share buy-back process which will be aligned to cash generation and capital allocation. I'll speak more about Sparton later.

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PRELIMINARY RESULTS 2017
SLIDE 3

Priorities for 2018

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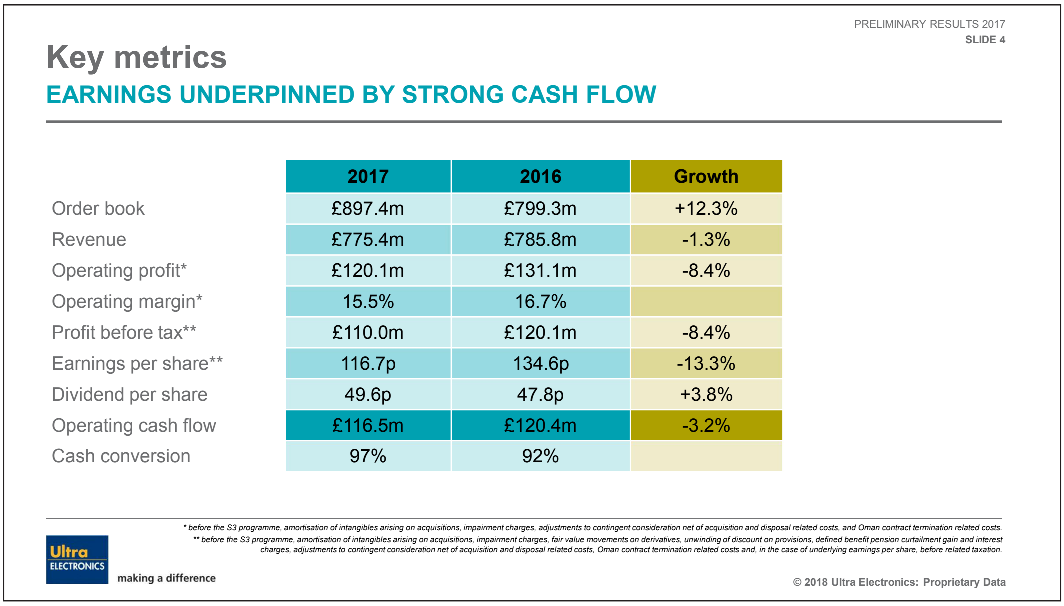
Ultra ELECTRONICS making a difference

continued from previous page

A priority for the whole Board is the search for a new Chief Executive. A search process was initiated prior to the year end and is now well underway. Several candidates have had initial interviews with the search company and this has resulted in a number of candidates being interviewed by Sir Robert Walmsley, Ultra's Senior Independent Director, and myself. Subsequently we have recommended that a short list of potential candidates to meet the other members of the Board. I can safely say therefore that the search process is well underway and as soon as we are able to announce who the successful candidate is, we will do so.

I will now like to hand over to Ami.



	2017	2016	Growth
Order book	£897.4m	£799.3m	+12.3%
Revenue	£775.4m	£785.8m	-1.3%
Operating profit*	£120.1m	£131.1m	-8.4%
Operating margin*	15.5%	16.7%	
Profit before tax**	£110.0m	£120.1m	-8.4%
Earnings per share**	116.7p	134.6p	-13.3%
Dividend per share	49.6p	47.8p	+3.8%
Operating cash flow	£116.5m	£120.4m	-3.2%
Cash conversion	97%	92%	

Amitabh Sharma, Group Finance Director, presented the review of Ultra's financial performance for 2017.

Thank you Douglas and good morning to everyone.

I am pleased to present our Preliminary results for the year ended 31 December 2017.

The Group has closed 2017 with a good order book, improved order intake during the year and excellent cash conversion which has contributed to a strong balance sheet.

FX movements during 2017 had a positive impact on most of our key indicators. For reference, Sterling weakened 4.8% against the US dollar, with the average rate moving from 1.35 to 1.29 over the period.

The order book was up 12.3% to a pre IFRS 15 £897m, with the underlying order book growing by 16.8%.

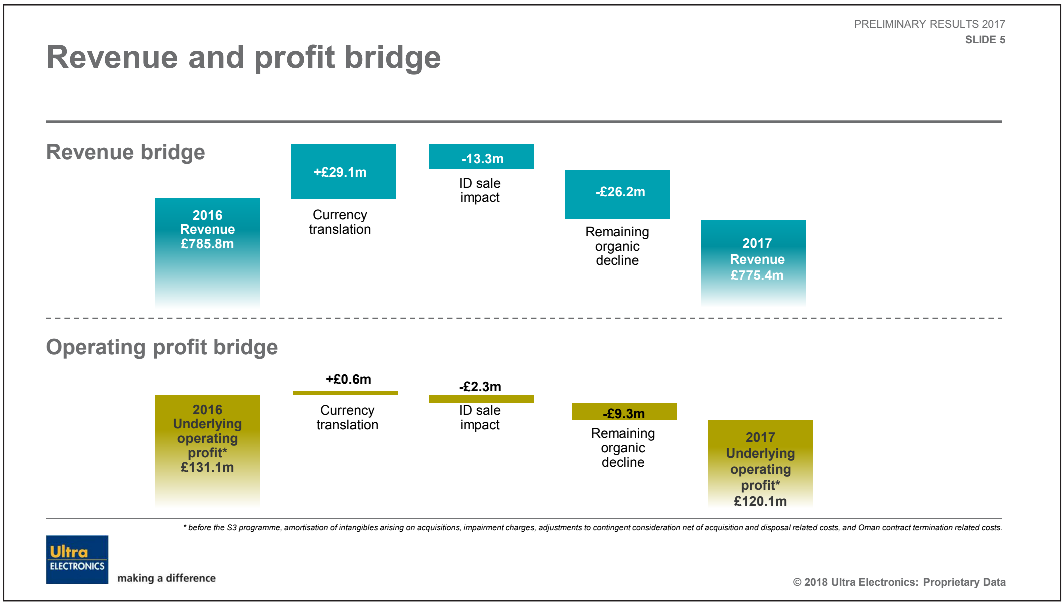
Order intake increased by 15.8% to £901.4 million, of which £29.6 million was accounted for by foreign exchange. Underlying order intake encouragingly increased by 12.0%.

Overall revenues declined by 1.3% and operating profit by 8.4%. Excluding the ID business, which was sold in August 2016, revenues were broadly flat and profits reduced by 6.7%.

Margins remain within our customary range at 15.5%. Earnings per share declined by 13.3% due to the lower profits, and the mid-year Sparton-related equity raise.

Reflecting confidence in the medium-term, we are recommending an increase in the final dividend by 4% to 35.0p.

I would like to highlight our strong operating cash flow of £116.5 million. This represents cash conversion of 97%, which is the best we have achieved since 2011. The strong cash flow underpins our earnings for the period.



Moving to the revenue bridge.

The weakening of sterling against the US dollar increased revenues by 3.7%.

The ID business was sold in August 2016 and diluted revenues by £13 million or 1.7% compared to 2016.

This left an underlying organic decline of £26 million or 3.3%. This decline was largely due to a difficult UK market, particularly over the last four months of the year. Mounting pressures in the funding of UK programmes resulted in some crypto and defence contracts being paused or delayed. A greater number of development programmes at Herley, as well as the Continuing Resolution lasting until May, also contributed to lower revenues.

Turning now to the profit bridge.

Currency increased profit by £0.6 million or 0.5%.

The ID disposal diluted profit to the tune of £2 million or 1.8%.

The effect of lower revenues led to an organic decline of £9 million or 7.1%. Profits were also impacted by £6 million of increased investment on certain platforms at Herley.

This is probably the moment to mention IFRS 15, which is the new accounting standard on revenue recognition. This will be effective for the calendar year 2018 so we undertook a project to identify the impact the standard would have had on our 2017 results. The project determined that 2017 Group revenues would have been £7.1 million lower at £768.3 million and 2017 underlying operating profit would have been £2.4 million lower at £117.7 million if IFRS 15 had applied. We have included a slide with these figures in the appendices.

Any comments we make around 2018 will use these numbers as the starting point.

PRELIMINARY RESULTS 2017
SLIDE 6

Operating cash flow

CONTINUING STRONG CASH CONVERSION

	2017	2016
Operating profit*	£120.1m	£131.1m
Depreciation and disposals (incl. IT licences)	£13.1m	£14.5m
Capital expenditure (incl. IT licences)	(£11.2m)	(£5.4m)
Net capitalised R&D	(£0.3m)	£1.1m
Working capital decrease/increase	£3.1m	(£13.3m)
Pension contribution and other	(£8.3m)	(£7.6m)
Operating cash flow	£116.5m	£120.4m
Cash conversion	**97%**	**92%**
Net debt to EBITDA	**x0.56**	**x1.76**

Working capital reduction	
Inventory	(£2m)
Debtors	(£15m)
Creditors	£20m

* before the S3 programme, amortisation of intangibles arising on acquisitions, impairment charges, adjustments to contingent consideration net of acquisition and disposal related costs, and Oman contract termination related costs.

making a difference

Turning to cash.

As already noted, operating cash flow was £116.5 million in 2017. When you exclude the UK annual pension defecit reduction payments of £9.5 million, this represents 105% cash conversion. Furthermore our two year cash conversion percentage is 102% if pension defecit reduction payments are excluded.

The excellent cash conversion over the last two years marks a return to strong cash performance, which Ultra was well known for.

Cash continues to be a major indicator of the underlying health and robust nature of a company. I hope this recent performance will help allay some of the concerns we have been aware of around Ultra's accounting.

I have included a slide in the appendices which provides some detail about the maturity profile of the amounts recoverable on long-term contracts.

After the IFRS 15 adjustments, 76% of amounts recoverable on long-term contracts will be invoiced in 2018. The balance of 24% reflects the nature of some of the programmes we are on, which can require some long-term receivables to be carried on balance sheet. For example, the Airbus A400 NIM programme represents £10 million of this balance and will not be invoiced until 2019 and beyond as deliveries continue.

Moving onto the components of cash flow: we undertook two IT system implementations in 2017, one at our PCS business and the other at our CSS business. Together these contributed to the £5.8 million increase in capital expenditure compared to 2016. A further five IT replacement projects either have commenced or will start in 2018.

Pleasingly, our working capital reduced by £3.1 million this year. A huge amount of effort took place over November and December to deliver the year end results and the resultant customer billing and increased supplier invoicing were reflected in our debtor and creditor movements. Let me give you some details.

Inventories increased by £2 million as our aerospace business increased stock levels to meet increased 2018 production requirements.

Whilst overall trade debtors increased, debtor days reduced from 36 to 32 which improved cash flow by £11 million.

Overall creditors increased by £20 million. This was driven by a number of factors. Trade creditors went up due to the high level of activity in the latter part of the second half which resulted in a significantly higher level of supplier invoices received in November and December.

Within creditors, provisions, excluding Oman-related items, reduced by £5 million due to £2 million in reclassification adjustments and a further £2 million was utilised. This was offset by advanced payments from customers, which increased by £7 million due to the strong order intake over the last quarter.

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PRELIMINARY RESULTS 2017
SLIDE 6

Operating cash flow

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making a difference

continued from previous page

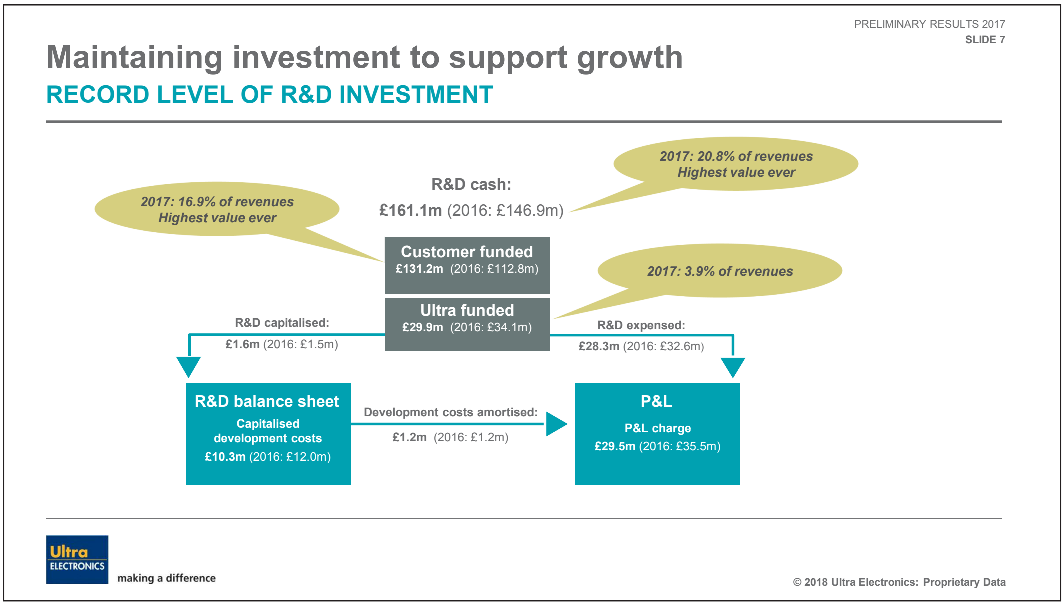
Turning back to the main table, the other outflow of £8.3 million predominantly represents pension deficit reduction payments, as agreed with the trustees.

The Group completed a placing of new ordinary shares representing 9.9% of Ultra's share capital in early July to raise net proceeds of £133.5 million to part fund the Sparton acquisition.

This, together with the strong free cash flow contributed to the material reduction in net gearing. The net debt to EBITDA ratio reduced from 1.76x at the end of last year to 0.56x at the end of December. The Group remains comfortable with debt levels at approximately 1.5x.

A slide with more detail on net debt movements is included in the appendices. You will see within this that Oman legal and related cash outflows were £10 million over the period. Ultra ceased to fund the Ithra liquidator in October 2017.

In terms of other Treasury matters, we negotiated a new £300 million revolving credit facility during the period to replace our £100 million and £200 million revolving credit facilities. This new facility has a committed maturity to November 2022 and may be extended by a further two years with lender consent. The facility agreement permits an additional £150 million accordion, which is uncommitted.



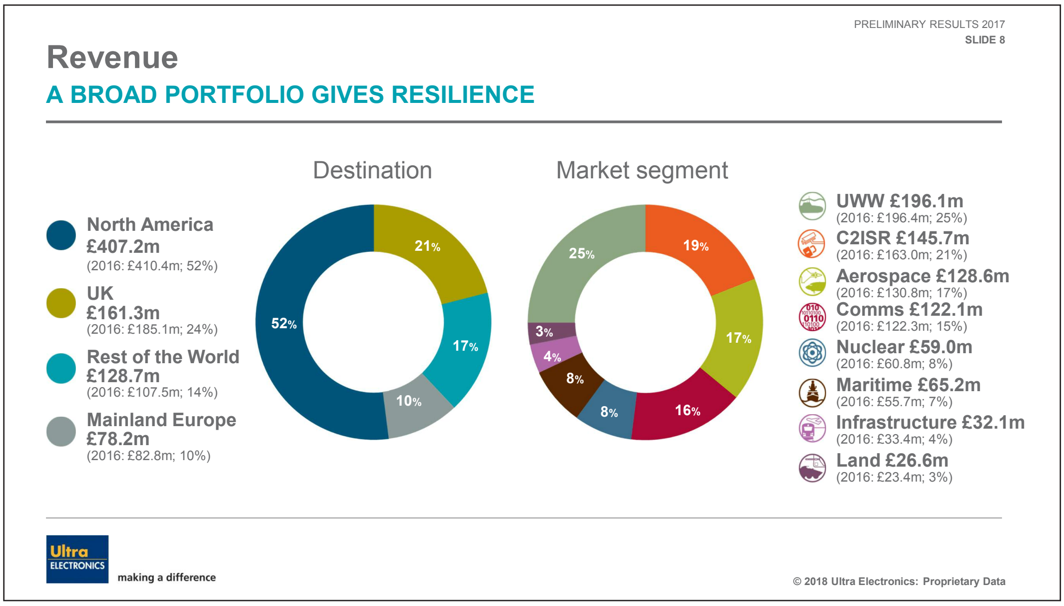
Turning to the next slide, this shows our investment to support future growth.

I am pleased to report that the total R&D spend for the period was a record £161.1 million.

This comprised £131.2 million of customer funded engineering and £29.9 million of Ultra funded engineering.

In total this represents 20.8% of revenues which compared to 18.7% in 2016. Customer funded engineering represented 16.9% of revenues and Ultra-funded R&D 3.9%.

The increase in customer funded engineering from 2016 was due to the significant investment by Herley in a number of programmes which I will come to later and investment in the Maritime & Land division.



For completeness we are including the geographic and segment analysis.

UK revenues reduced from 24% in 2016 to 21%, a fall of £24 million. This reflects the impact of pauses and delays in UK spending. Furthermore, a number of UK programmes such as the UK crypto replacement contract came to an end in 2016.

The UK continues to be a difficult market place, but our exposure has reduced over recent years. Direct sales to the UK MOD reduced from 7.4% of revenues in 2016 to 5.9% in 2017. Indirect sales to the UK MOD remained around 6%.

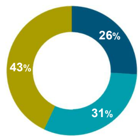
The Rest of the World has increased to 17% of total revenues. This was due to a number of the international contract wins over the last year and increased international sonobuoy activity.

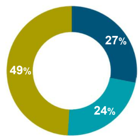
As normal we present the revenues by segment on the right for your information. The most significant movement was a lower C2ISR segment as a proportion, as the segment moved from 21% in 2016 to 19%. This was principally due to the disposal of ID.

PRELIMINARY RESULTS 2017
SLIDE 9

Divisional performances

Aerospace & Infrastructure	2017	2016	Growth
Order book	£283.2m	£267.8m	+5.8%
Revenue	£203.2m	£204.7m	-0.7%
Operating profit*	£32.6m	£32.4m	+0.6%
Operating margin*	16.0%	15.8%	
Communications & Security†			
Order book	£258.7m	£227.0m	+14.0%
Revenue	£242.7m	£245.7m	-1.2%
Operating profit*	£28.2m	£37.4m	-24.6%
Operating margin*	11.6%	15.2%	
Maritime & Land			
Order book	£355.5m	£304.5m	+16.7%
Revenue	£329.5m	£322.1m	+2.3%
Operating profit*	£59.3m	£59.0m	+0.5%
Operating margin*	18.0%	18.3%	





*before the S3 programme, amortisation of intangibles arising on acquisitions, impairment charges, adjustments to contingent consideration net of acquisition and disposal related costs, and Oman contract termination related costs.
† 2016 excludes ID

making a difference

Moving on to how the three divisions performed, we start with Aerospace and Infrastructure.

Revenues were broadly flat as increased revenues on the Mitsubishi Regional Jet and a ramp up in production activity on certain armoured vehicle programmes were offset by lower license and industrial product sales. Profit margins increased due to improved operational performance at our aerospace business, where, as expected, R&D expenditure started to reduce and the benefits of S3-related business consolidations were felt.

The Communications and Security division saw an overall decline of 1.2%, when excluding the ID business which was sold in August 2016. Revenues in the division were impacted by the slowdown in UK spending, with delays to a number of crypto programmes, and by the increase in a number of development contracts at our Herley business.

This higher concentration of development contracts caused margins to reduce to 11.6% compared to 15.2% in 2016. Herley's success in winning eleven modules on the SEWIP Block 3 programme compared to the acquisition case of four, whilst good news, contributed to a £6m increase in R&D investment in the short-term. A customer-requested pause in a UK Crypto contract at our CIS business also reduced profits in 2017.

Looking at the Maritime and Land division, increased demand for both US domestic and international sonobouys continued and there was a positive FX impact. These helped offset a reduction in revenues at our Command & Sonar Systems business which experienced delays to UK orders that had been expected in year. Margins remained at a high level due the production phase of a number of US sonobuoy contracts.

All three divisions saw increases in their order books. The largest increase was experienced by the Maritime & Land division, whose 16.7% order book growth was driven by the £30 million Torpedo defence contract with the Indian Navy and a UK maritime contract worth £37 million. The Communications & Security division, encouragingly, grew its order book by 14% with two surveillance equipment contract wins, worth £16.6 million and $18 million respectively and a cyber protection contract worth $16 million with the US DOD. Herley also saw strong order intake late in the year.

A Joint Strike Fighter order worth $36 million for electrical control units boosted the Aerospace & Infrastructure division order book, which grew by 5.8%.

PRELIMINARY RESULTS 2017
SLIDE 10

S3 return on investment

COST AND SAVINGS ON SCHEDULE

Workstream	2017 costs	Total costs to date	2017 savings	Total enduring savings from 2019
Property/facility management	£2.0m	£9.2m	£7.3m	£7.8m
Consolidation	£3.5m	£4.6m	£4.2m	£6.4m
Sourcing	£1.3m	£3.1m	£1.8m	£4.1m
HR	£0.4m	£0.6m	£0.2m	£0.6m
ERP related	£0.6m	£1.7m	-	£1.1m
Total	**£7.8m**	**£19.2m**	**£13.5m**	**£20.0m**

2017 workstream successes

- Two UK businesses adopted a new ERP IT system
- Further 5% reduction in property footprint
- Establishment of a UK indirect procurement IT system
- Centralisation of payroll systems within the UK and the US
- Opening of the US shared service centre

making a difference

The aim of our S3 programme is to reduce complexities within our Group so that management can focus on growing their businesses rather than managing the back office processes.

The programme remains on track.

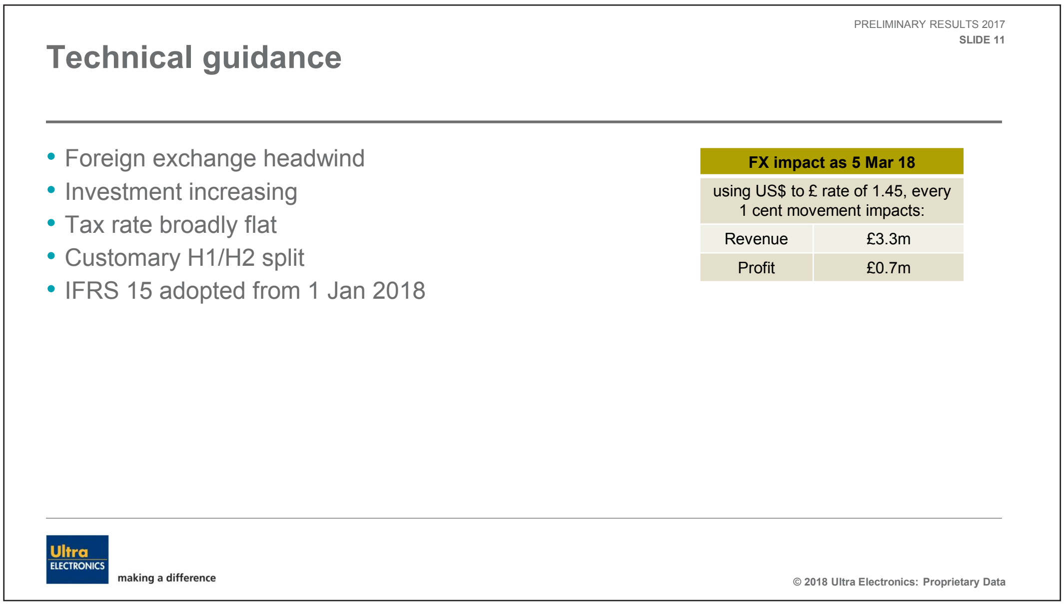
From left to right, column 1 shows the programme has cost £7.8 million in 2017 and column 2 shows that cumulatively we have spent £19.2 million.

The costs to date comprise project costs, together with onerous lease provisions, consolidation costs and the costs of some headcount reductions owing to property closures.

Column 3 shows that S3 has generated savings of £13.5 million in 2017. This was in line with our expectations at the beginning of the year.

As you may recall we have eight workstreams in place within the S3 initiative and we have made progress in all of them during the year. Notable successes in 2017 include a number of ERP implementations, a reduction in our property footprint, successful implementation of an indirect procurement system and the opening of a Shared Service Centre in the US. We have consolidated a number of functions, including payroll services both in the US and in the UK.

The project continues with the estimated cost savings of £20 million per annum by 2019 unchanged.



Let me provide you with some technical guidance for 2018. The recent strengthening of sterling is anticipated to be a FX headwind. Ultra has a US$ budget rate of 1.45. At present, each one cent movement in the US dollar represents a movement of £3.3 million in revenues and £0.7 million in profits.

In respect of our investment plans, our current guidance is for capital expenditure to be over £15 million as we undertake five IT system implementations and own funded R&D expenditure will increase.

The Group's effective tax rate is expected to be broadly flat, but we continue to evaluate the new US legislation. We will update the market later in the year.

Revenue performance for each half of 2018 is expected to be within customary weightings. A slightly heavier second half weighting is expected in respect of profit.

As I mentioned earlier, we are accounting under IFRS 15 in 2018 and the comparatives will be the restated IFRS 15 numbers, which are included in the appendices.

So, looking at the overall picture, we have indicated that at this stage we believe that the Group will make underlying progress at constant currencies in 2018, after allowing for the increased investment in capex and R&D. This underlying progress is expected to be more than offset by the anticipated FX headwind, and is from a lower IFRS starting point, therfore sterling profit is likely to be marginally lower than 2017. In the short term, margins will return to those levels when the Group has been investing more heavily than in recent years. For reference, margins between 2006 and 2010 were between 14.9% and 15.5%. This is still a good operating margin for our type of business and while achieving this we will be making significant investment in developing our positions on future platforms and underpinning longer term growth prospects for the Group. Douglas will expand upon this point in a moment.

In respect of Sparton, there will be approximately £4 million of costs relating to the transaction charged to the profit and loss account. In addition, there will be charges relating to the unwinding of the $250 million forward foreign exchange contract taken out to hedge the cost of the transaction.

Thank you. I will now hand over to Douglas to discuss future prospects.

Douglas Caster, Ultra's Executive Chairman, continued covering future performance and the market outlook.

When I stepped in last November as Executive Chairman to get back into the detailed management and to recalibrate my view of the Group, I immediately embarked on budget and strategic reviews. The immediate priority was for me to set a budget for 2018 that I believed would be achievable. The next priority was to look to the strategic outlook for 2019 and 2020. I carried out the budget review in November of last year and I did the strategic review in January of this year. This slide gives my impressions from those reviews. My over-riding impression is that Ultra continues to be a business with extensive intellectual property, strong market positions, differentiated technologies, talented people and a strong balance sheet. The Group's core strengths include world-leading positions in many of its specialist capabilities.

In terms of budget setting, however, I found that the businesses were too optimistic about the timing of securing bid opportunities resulting in setting expectations that were unrealistic. Owing to the pressure to achieve profits growth there had also been a tendency to hold back on R&D budgets and other requirements for investment. In assessing the overall budget position, based on the strong opening order cover for the year, I came to the conclusion from the reset that the financial performance position of last November modest progress could be achieved in 2018. Moreover I determined that this progress could also be achieved while increasing investment in R&D as well as continuing to improve business efficiency through continued investment in the Group's Shared Services and Standardisation (S3) programme, including increased capital expenditure that I mentioned earlier.

Strategically the Group will be driven forward by its positions on a large number of long-term platforms and programmes. We have significant exposure to the strengthening US defence budget where there is a growing demand for advanced defence technologies. The Group also has good visibility through a strong order book which we should remember excludes contributions from a large volume of IDIQs as well as off order book aerospace contracts. The notes of caution on this though are as shown on the slide. Continuing Resolutions in the US budget setting process have the effect of delaying contract placement. Additionally, the UK defence market is also subject to funding uncertainties.

In April 2016, the Board of Sparton Corporation ('Sparton') decided to seek a buyer for the entire Sparton group. Given that decision, Ultra considered that the acquisition of Sparton made sound strategic sense and ultimately negotiated a merger agreement with Sparton. On 7 July 2017 Ultra announced its intention to merge its wholly-owned subsidiary with Sparton subject, amongst other things, to the approval of the United States Department of Justice ('DOJ') under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ('HSR'). Following recent discussions with the DOJ, and competition concerns raised by it, Ultra and Sparton have mutually agreed to terminate the merger agreement.

The US Navy has indicated that it is now considering ways to increase competition in the sonobuoy procurement process over time, including between Ultra and Sparton. Ultra anticipates that this will take place over a number of years. The DOJ has stated that it intends to take steps to open an antitrust investigation into the ERAPSCO JV and that its approach to the investigation will depend on the US Navy's assessment of increased competition in the sonobuoy procurement process.

In the meantime, Ultra will continue to fulfil its obligations with Sparton under the ERAPSCO JV. The JV has been which has been supplying sonobuoys to the US Navy under an Indefinite Delivery Indefinite Quantity ('IDIQ') contract since 2014. The current IDIQ period of performance will end in 2020 and the ERAPSCO JV submitted bids in both November 2017 and January 2018 for the next two concurrent IDIQ contracts (for Fiscal years 2019-2023. Demand for sonobuoys from the US Navy is growing and sonobuoys continue to be a vital, strategic capability of the utmost importance for the US Navy and the ERAPSCO JV's international customers, which need reliable products and continuity of supply. It is also likely that sonobouys will become more complex in their design to counter the threats being faced today and in the future.

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PRELIMINARY RESULTS 2017
SLIDE 13

Sparton

- Merger terminated following antitrust review
- ERAPSCO JV to fulfil current IDIQ and has bid for next IDIQ
- US Navy, DOJ on-going review
- Sonobuoys continue to be vital capability for US Navy
- US sonobuoy market set for further growth
- Ultra has world-leading sonobuoy technology
- Share buy-back planned

Ultra ELECTRONICS making a difference

continued from previous page

I'm sure as you all know, Ultra has world-leading technology and expects to continue to play a significant role in this market. Sonobuoys are complex electro-mechanical devices that are required to deploy and function reliably in harsh maritime operating environments after being launched from ASW platforms. As they are expendable devices, there is considerable focus on delivering the necessary capabilities at the lowest unit cost. Ultra believes that it is pre-eminent in knowing how to build the various sonobuoy products required by the US Navy and its international customers, and how to do so at a low unit cost. Ultra and Sparton, through the ERAPSCO JV, produce tens of thousands of sonobuoys each year and they are two of the very few defence manufacturers of these large volume, high tech products. This has required a culture of working together with the cooperation of the US Navy to value engineer sonobuoy designs. In the future, the US Navy is likely to choose for any new devices to be supplied by more than just the ERAPSCO partners. Nevertheless, Ultra believes that a considerable period of time will be needed by any new entrants to design and produce sonobuoys to meet the rigorous performance standards of the customer.

In anticipation of the acquisition of Sparton, in July 2017 the Group completed a placing of new ordinary shares representing approximately 9.9% of Ultra's existing issued share capital and we raised net proceeds of approximately £134m to part fund the acquisition. The Group remains highly cash generative with good balance sheet strength and the Group remains comfortable with debt levels of approximately 1.5x net debt to EBITDA. The Group therefore intends to undertake, over time, a share buy-back through on-market purchases in order to return the net proceeds of the earlier equity issue to its shareholders. The existing buy-back authority from the 2017 AGM allows for up to 7,047,169 shares to be bought back. And so, additional authority will be sought at the 2018 AGM and any shares bought back are expected to be cancelled.

PRELIMINARY RESULTS 2017
SLIDE 15

Making progress in 2018
DRIVERS FOR GROWTH

- Strong opening order book for year
- Good range of large programmes
- 2018 revenue driven by
  - US Air Force F-35 JSF
  - Maritime and underwater warfare
  - Electronic warfare systems
  - Surveillance and security systems including cyber protection
  - Civil aerospace production

Ultra ELECTRONICS making a difference

As we have mentioned already we started 2018 with a strong opening order book of £914 million under IFRS 15. At this level it means that over 62% of the expected revenue achievement in 2018 is already covered. This means that to achieve the expected budget the in-year revenue from new contracts or the "book and ship" requirement at constant currencies is about £40 million less than the level that was achieved in 2017 and some £60 million less than the "book and ship" achievement in 2016.

I'm also glad to say that in terms of order intake the year is not dependent on one single large contract. I have mentioned here some of the main drivers for growth for 2018. The US Air Force F35 Joint Strike Fighter aircraft continues to be an excellent programme for us. The scope of supply is for engine ice protection and stores ejection from the weapons bay. This is now being extended to include missile cooling for pylon mounted weapons. Maritime and underwater warfare systems continue to be at core of Ultra's activity.

Sonobuoys for submarine detection and tracking are on a growing trend for the US Navy and overseas sales of sonobuoys are strong. Torpedo countermeasures and acoustic torpedo guidance equipment is also seeing good demand. You will recall that we were successful in securing with Mahindra a contract to supply an initial batch of ship torpedo defence systems to India. While we will make good progress on the engineering aspects of this programme in 2018 systems sales will not occur until 2019 under IFRS15, however, we will see significant activity on a classified UK maritime propulsion system.

I am pleased to say that our most recent acquisition, Herley was successful towards the end of 2017 in securing a number of orders for their standard product range of equipment such as radio altimeters and missile range termination telemetry units many of which will be delivered in 2018. Work also continues on the SEWIP III development programmes which will still require significant investment owing to the unexpectedly larger number of system modules that were won in the recent competition.

Ultra has been successful in securing a number of surveillance and security systems. By their very nature I am restricted in how much I can say about them but they range from military airborne surveillance to cyber security systems for the protection of critical infrastructure control and monitoring at US navy bases and surveillance and security systems for the oil industry. In the latter case the systems concerned a number of sensor types including radar and electro-optical with sonars and UAVs integrated together with a secure communications system. There is a growing demand for such systems and for the sorts of enterprise cyber-protection that we are currently using to protect Ultra's IT infrastructure.

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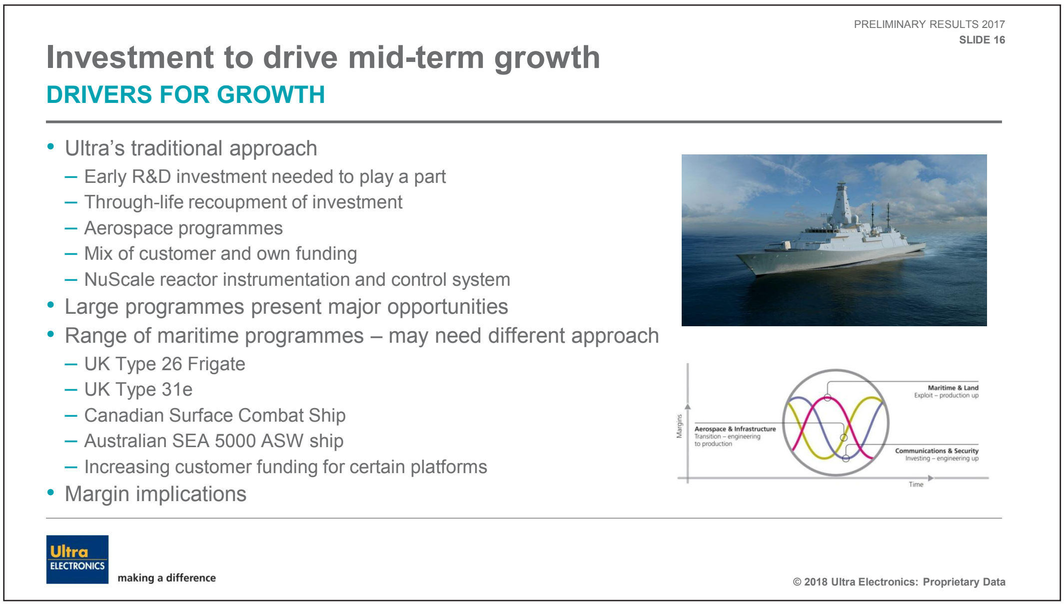
Finally, Ultra is beginning to see the benefit of the transition to production of the number of civil aircraft and business jet programmes that have until recently been in the development phase. One of the most significant programmes for Ultra is the wing ice protection system on the Boeing 787 aircraft. Current production is currently running at about ten systems per month.



I would now like to look a little further into the future and discuss programmes that will drive medium and longer-term growth. Traditionally we have made early private venture investment in the fundamental core intellectual property that will be important for a programme to enable the innovation that will give us the competitive edge in any eventual competition. Subsequently once the programme has been secured the full development cost would be funded within the contract price. This was generally so for military programmes. In the case of aerospace programmes, however, once a competition for an equipment on an aircraft has been secured, the full development and qualification costs are borne by ourselves with recoupment of the investment through the life of the programme or the initial production units. There are also examples where we have received some customer funding used to top up Ultra's own investment. Such an example where Ultra has been partially funding the development in order to secure the position on the programme is the reactor control and instrumentation for the NuScale small modular nuclear reactor for power generation. In this case, Ultra has the position as the chosen supplier for the control systems for any resulting NuScale power stations.

There are a number of large programmes on the horizon which will present major opportunities for Ultra but for which we may have to take an alternative view on how to fund the early development stage in order to secure them. The programmes I am referring to are the maritime programmes shown on the slide, where navies around the world are embarking on major ship procurement programmes primarily as general-purpose frigates or anti-submarine warfare platforms. In the main, Ultra has the ability to bid for the sonar systems on these platforms. However, in order to be competitive prime contractors are requesting potential industry partners to take a view of absorbing up development costs to be recouped across a number of the platforms to be delivered on the various programmes. These are long term programmes indeed and represent tremendous long-term potential for the Group. I suspect though, that in order to be selected as a partner on any of the programmes, we will have to be prepared to invest development funds and cash in the early programme stages with a view to recouping it over the subsequent production units.

Fortunately, for the next few years, there does not seem to be any major civil aerospace development programmes that will require funding. The phasing of this is quite helpful in respect of the expected maritime programmes.

Overall, however, it is likely that the nature and size of the investments needed will have some impact on the Group margins achievable into the medium term which is within the guidance given by Ami.

PRELIMINARY RESULTS 2017
SLIDE 17

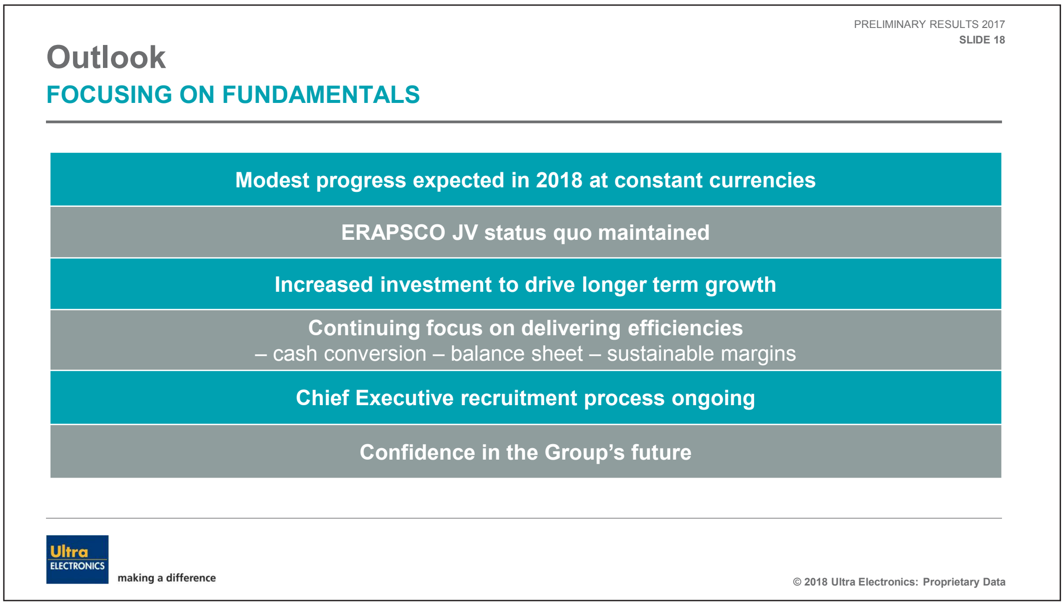
Long-term growth opportunities

Segment	Key programmes	Value	Status
Underwater Warfare	**India Naval Defence Systems** UK T-26 S2150 Hull Mount Sonar India IADS & ASW Shallow Water Craft Canadian Surface Combatant HMS & LFTAS US Navy FY19-23 Sonobuoy IDIQ	£30m £9m £94m £67m £217m	**2017 – won** 2018 – first three shipsets 2019 – SWC FET complete, partnered with Mahindra 2020 – teaming with LM on T-26, supplier to GD 2020 – proposal submitted, Award Q1 2020
Maritime	**UK Propulsion System** US Virginia Class – Power Conversion follow-on US Navy Next Gen Surface Search Radar Production	£37m £18m £17m	**2017 – won** 2018 – incumbent supplier 2020 – early development orders from 2018
Land	US Soldier Wearable System Nett Warrior UK UltraLynx soldier worn power & data system	£30m £20m	2020 – funded trials successfully completed 2020 – first trials successfully completed
C2ISR*	**Advanced airborne surveillance system** ATF IBIS bullet forensics SEWIP Block 3	£50m £40m £100m	**2017 – won. First systems orders of £17m** 2018 – five-year support contract 2019 – initially LRIP
Communications	UK government encryption & key management US Army WIN-T ORION radio production UK Air force secure radio upgrade Middle East land border security	£20m £70m £15m £20m	2018 – selected. Multiple individual orders 2018 – LRIP order initially 2018 – production orders 2017 – no bid. High risk
Aerospace	**SAAB Gripen E/F HiPPAG - First production orders** Cessna Hemisphere control systems WheelTug on Boeing 737	£9m £40m £70m	**2017 – won** 2018 – delayed by customer 2018 – certification and entry into service 2019
Nuclear	Chinese CPR-1000/ACC-1000 new build reactors US plant life extension expanded sensors and I&C AGR systems & sensors lifetime support	£9m £27m £35m	2018 – sensors for Chinese variant delayed 2018 – being bid through individual programmes 2019 – nucleonics & lifetime build of sensors
Infrastructure	**LHR Baggage Reconciliation System (BRS) renewal** Digital Trackside Power	£10m £10m	**2017 – won** 2018 – evaluation trials programme

** Command & Control, Intelligence, Surveillance & Reconnaissance*

Ultra ELECTRONICS making a difference

Turning now to long-term growth opportunities I have included this slide to indicate that there are many opportunities across all our market segments that we are targeting. I give my usual health warning that we will probably not win all of them but happily you will see that some have already been secured.



I have explained we will be focusing on the fundamentals to drive organic growth in 2018.

We have entered the year with an order book of £914 million under IFRS 15 that provides opening order cover against projected revenues for the year of over 62% which is higher than in recent times. I therefore expect that the Group will make modest underlying progress in 2018 whilst increasing investment to drive longer term growth and continuing to deliver efficiencies through the S3 programme. We have a strong balance sheet and we will continue to focus on achieving sustainable margins and good cash generation. The recruitment process is well underway for a new Chief Executive and we will provide an update on this as soon as we can. I'll conclude with saying, the Board is confident that Ultra has sustainable operating trading momentum as we go into 2018 and beyond.

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