Why Ultra?
We enjoy solving tough problems, beating our competitors and **making a difference** for our **customers**, **people** and **shareholders.**

Ultra Electronics Holdings plc

Results presentation and script

for the year ended 31 December 2016

Rakesh Sharma, Chief Executive
Amitabh Sharma, Group Finance Director
6 March 2017

Ultra ELECTRONICS

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.

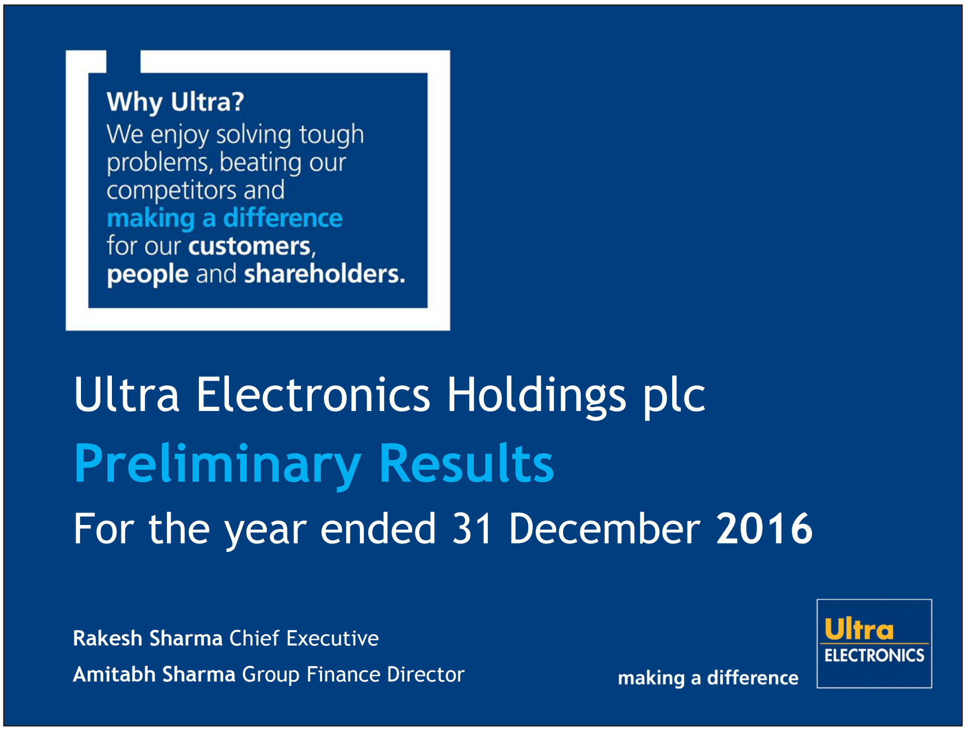
DEFENCE & AEROSPACE

SECURITY & CYBER

TRANSPORT

ENERGY

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



Rakesh Sharma, Ultra's Chief Executive provided an overview of the results.

Good morning everyone it's good to see you all and welcome to Ultra's presentation of the Prelim results for 2016. The structure for today is as follows: after my quick overview, I'll pass over to Ami who will cover the full-year performance of the Group and then I will cover the market dynamics and our segments as well as future performance. The presentation and script will be available later this afternoon on our website. Please remember that this session is being audio recorded and a transcript of the Q&A session will be available, later this week.

So, onto the overview.

Preliminary Results 2016
SLIDE 2

2016 Overview

- Full year in line with expectations
- US defence market conditions improved through 2016 as anticipated
- Order intake increased by 22.0%, with organic order intake up 10.4%
- Standardisation and Shared Services (S3) programme on schedule and achieved self-funding
- Herley performing well and integration ahead of schedule
- Continuing to invest for long-term growth

Better year… focused on delivering the goals we set

Ultra ELECTRONICS making a difference

I am pleased to say that the result for 2016 is in line with expectations. The market analysis that we presented at our Prelims in 2015 has proved to be accurate and has allowed us to anticipate the difficulties and seize the opportunities. We "hoped for the best but prepared for the worst" and have done what we said we would do. Despite the understandable unpredictability of contract award in our export markets we have delivered quality growth underpinned by a strong cash conversion.

The underlying indication of our future performance is our order intake, which increased by 22% with organic order intake up 10.4%.

Our Standardisation and Shared Services programme, known as S3, achieved a significant milestone in 2016 being self-funding. The S3 programme is on track and I grow increasingly confident in our ability to deliver at least £20m of annual savings by the end of 2018.

Herley has continued to perform well. It was the largest acquisition in Ultra's history and I know in 2015 there was some concern about whether we had bitten off more than we could chew. Let me re-assure you, the integration plan is ahead of schedule and with the win of eleven modules on the SEWIP programme, Herley is well positioned for growth and meeting the acquisition case.

R&D investment slowed in 2016. This slowdown is related to some targeted programmes moving to the right. Remember, we do small 'r' but big 'D'. So, if an opportunity slips to the right then so does the corresponding R&D. In our case, the investment in commercial aerospace is coming to an end but the investment in our towed sonar arrays has moved into 2017. Nonetheless our R&D investment at 4.3% is still one of the highest in the sector and is the seed corn of our future growth.

With that I'd like to handover to Ami.

Preliminary Results 2016
SLIDE 3

Key metrics

EARNINGS UNDERPINNED BY STRONG CASH FLOW

£m	2016	2015	Growth
Order book	799.3	753.8	+6.0%
Revenue	785.8	726.3	+8.2%
Operating profit*	131.1	120.0	+9.3%
Operating margin*	16.7%	16.5%	
Profit before tax**	120.1	112.4	+6.9%
Earnings per share**	134.6p	123.9p	+8.6%
Dividend per share	47.8p	46.1p	+3.7%
Operating cash flow	**120.4**	**81.3**	**+48.1%**
Cash conversion	92%	68%	

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

*** before Oman contract termination and liquidation related costs, amortisation of intangibles arising on acquisitions, impairment charges, the S3 programme, fair value movements on derivatives, unwinding of discount on provisions, defined benefit pension curtailment gain and interest charges and adjustments to contingent consideration net of acquisition and disposal related costs and, in the case of underlying earnings per share, before related taxation.*

making a difference

Amitabh Sharma, Group Finance Director, presented the review of Ultra's financial performance for 2016.

Thank you Rakesh and good morning to everyone.

I am pleased to present our Preliminary results for the year ended 31 December 2016.

You will have seen the numbers for this slide earlier this morning so I intend only to cover a few points.

The Group has closed with a good order book, improved order intake during the year and strong cash conversion. A lower tax rate has helped increase earnings per share.

Acquisitions and FX movement during 2016 clearly had a positive impact on most of our key indicators. For reference, Sterling weakened 11.4% against the US Dollar, with the average rate moving from 1.53 to 1.35 over the period.

The order book was up 6.0% with the underlying order book growing by 0.4%.

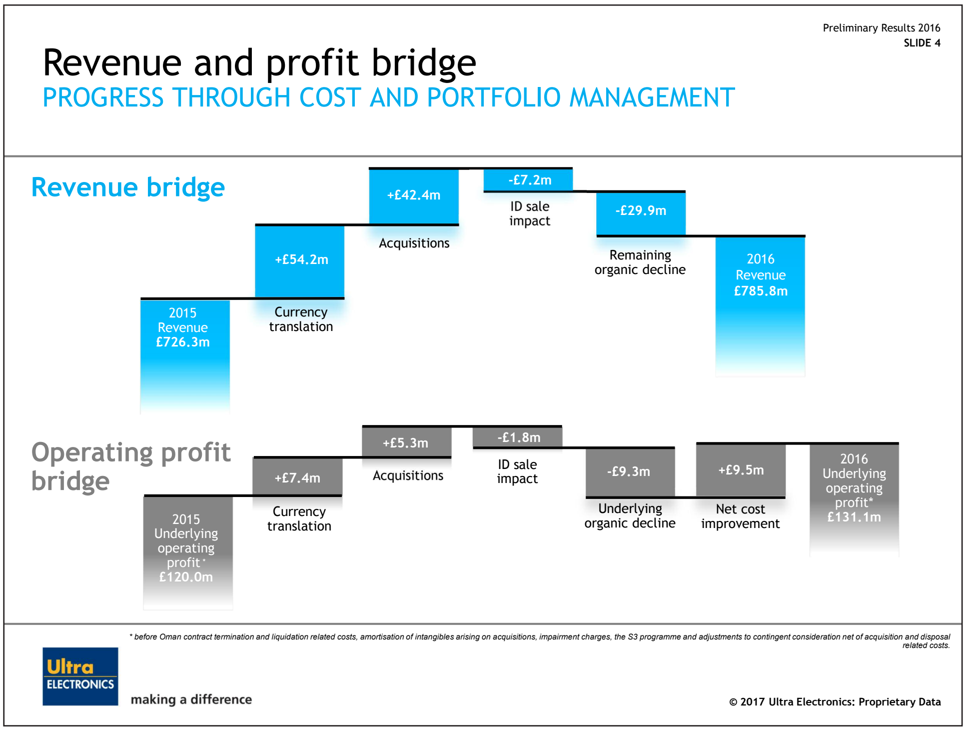
Order intake increased 22% to £778.3m, of which £51m was accounted for by foreign exchange. Underlying order intake increased by 10.4%. This reflected improving market conditions.

Revenues grew by 8.2% and operating profit by 9.3%. Margins remain strong at 16.7%. Earnings per share improved by 8.6%.

Reflecting confidence in the medium-term, we are recommending an increase in the final dividend by 4% to 33.6p.

I would like to highlight our strong operating cash flow of £120 million. This represents cash conversion of 92%, which is the best we have achieved since 2011. The strong cash flow underpins our earnings for the period.

When you exclude the annual pension deficit reduction payments of £9m, this represents almost 100% cash conversion.



Moving to the revenue bridge. It highlights the main reasons for the year on year revenue movement and reflects the management of our portfolio.

The weakening of sterling against the US Dollar increased revenues by £54m or 7.5%. The 2015 acquisitions of Herley and Furnace Parts contributed £42m, or 5.8%.

The ID business, Ultra's first divestment, was sold in August 2016 and diluted revenues by £7m or 1%.

This left an underlying organic decline of £30m. This decline was a result of timing delays in a few key export orders, together with the reduction in ECU RP production phase revenues compared to 2015.

The profit section is shown at the bottom of the slide which highlights the main reasons for the increase in profit from £120m to £131.1m.

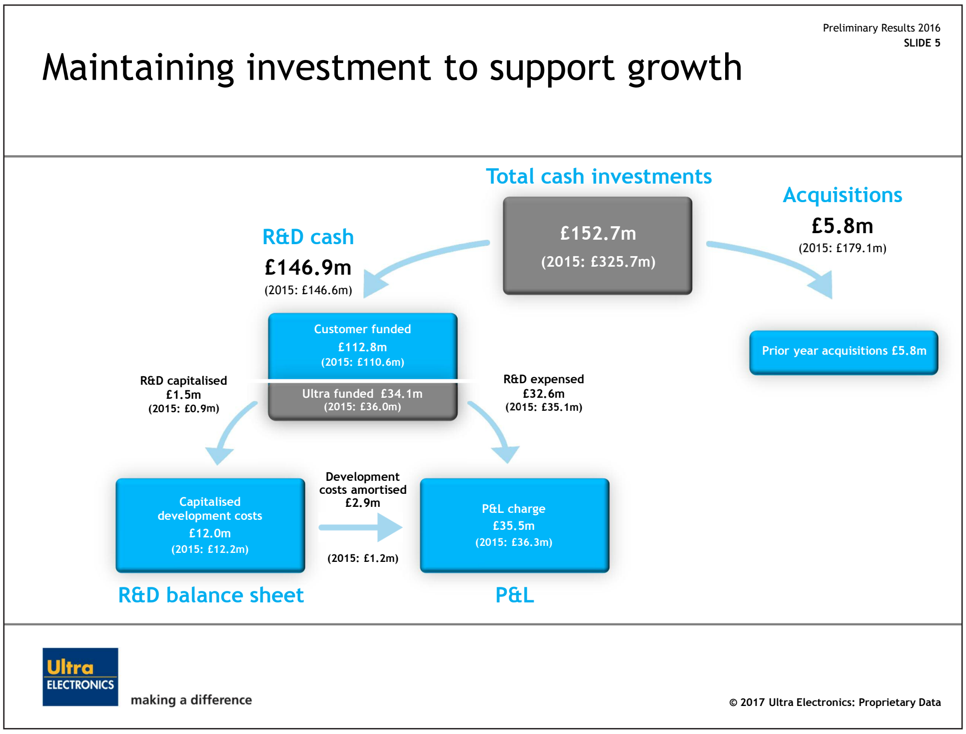
Currency increased profit by £7.4m or 6.2%.

Herley and Furnace Parts added £5.3m or 4.4%, with the ID disposal diluting profit to the tune of £1.8m or 1.5%.

The effect of lower revenues at last year's margin led to an organic volume decline of £9.3m.

After allowing for the currency, volume and acquisition effects, there was net improvement of £9.5m reflecting cost reductions, which I will explain later.

Overall there was an organic improvement in profit of 0.2%.



This slide shows our investment to support future growth.

You will see on the right hand side that the acquisition spend in the period was £5.8m, reflecting earn-out arrangements on prior year acquisitions and the final payment relating to Herley.

This compares to the significant spend of £179.1m in 2015, which comprised Herley and Furnace Parts.

On the left hand side you can see the R&D spend for the period which, in absolute terms, was £147m in 2016, similar to 2015.

At £34.1m, Ultra funded R&D was marginally lower than the comparable period. This reflects the end of a period of investment in our aerospace segment and the timing of our investment in the underwater warfare segment.

It is worth noting that amortised R&D of £2.9m exceeded the £1.5m capitalised over the year.

Preliminary Results 2016
SLIDE 6

Income statement – observations

DISCIPLINED COST CONTROL – ABOVE THE LINE AND S3

£m	2016
Revenue	785.8
Operating costs	(654.7)
Operating profit*	131.1
Interest costs	(11.0)
Profit before tax**	120.1
Tax	(25.4)
Profit for underlying EPS	94.7

	Above the line headcount reductions	
	Headcount	Cost
2016	402	(1.9)
2015	467	(3.6)
2014	390	(2.9)
2013	431	(4.6)
2012	284	(3.0)
Total	**1,974**	**(16.0)**

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

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Ultra ELECTRONICS making a difference

Moving to the income statement, the key highlights our disciplined above the line cost control, the improvement in our margins and the reduction of the tax rate.

Our businesses continue to cut costs across the Group to protect the margin. This is separate to the Group-wide S3 programme.

As a result, in the period, there have been a total of 402 headcount reductions at a cost of £1.9m compared with 467 during 2015 at a cost of £3.6m. These measures include reductions in direct headcount in certain businesses where orders have slipped to the right, as well as indirect reductions where a re-alignment of the fixed-cost base has been required to respond to difficult market conditions. These savings will generate an annualised benefit of more than £10m going forward.

This continued focus on cost control and the strong margin performance in the Maritime & Land Division resulted in our margins improving to 16.7% in 2016 compared to 16.5% in 2015.

Finally a word about tax – the reduction in the tax rate was owing to a full year impact of Herley related debt and the inclusion of credits relating to patent box claims. We expect the rate in the short term to be between 21% and 22%, subject to any legislation changes.

Preliminary Results 2016
SLIDE 7

Operating cash flow

STRONG CASH CONVERSION

£m	2016	2015
Operating profit*	131.1	120.0
Depreciation and disposals	12.1	11.9
Capital expenditure	(4.6)	(4.6)
Net intangible asset expenditure	2.7	2.1
Working capital increase	(13.3)	(46.9)
Other	(7.6)	(1.2)
Operating cash flow	120.4	81.3
Cash conversion	*92%*	*68%*

2016 working capital increase	
Creditors	(21)
Debtors	-
Inventory	8

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

Ultra ELECTRONICS making a difference

Turning to cash.

I am pleased to be able to report strong operating cash flow of £120m, representing cash conversion of 92%, compared with 68% last year.

Capital expenditure was maintained at £4.6m and the net flow on intangible asset expenditure was positive as capitalised development was below the amortisation.

The key driver of our cash flow improvement was the focus on working capital management during the year. This is detailed in the box on the right hand side of the slide.

A reduction in trade creditors across a number of businesses was responsible for £6m of the creditor decrease and a further £10m related to the continuing unwind of advanced payment balances, some of which related to the timing of sonar programmes. The reduction in advanced payments balances was expected and is signficantly lower than last year.

Encouragingly, inventories reduced by £8m. Effort is being expended company-wide on further working capital reduction initiatives and these are reflected in the results.

£3m of the reduction in inventories represented shipments of US and international sonobouys as production came to an end on certain contracts.

Finally, the other outflow of £7.6m predominantly represents pension deficit reduction payments, as agreed with the trustees.

Cash flow continues to be a key focus for the Group. Whilst there may be some reductions in advanced payments we expect to see cash conversion remain at its customary levels in the forseeable future.

Preliminary Results 2016
SLIDE 8

Net debt

MATERIAL REDUCTION IN NET GEARING

£m	2016	2015
Opening net debt	(295.6)	(129.5)
Operating cash flow	120.4	81.3
Interest, tax and dividends	(51.6)	(54.7)
Acquisitions and disposals	15.2	(179.1)
Oman Bond	(8.2)	-
Other	(36.9)	(13.6)
Closing net debt	(256.7)	(295.6)

Headroom (current facilities) £213.0m

Net Debt to EBITDA ratio: 1.76x

(2015: 2.19x)

making a difference

Moving on to net debt.

I am pleased to report that there was a material reduction in net gearing. The net debt to EBITDA ratio reduced from 2.29x at the half-year to 1.76x at the end of December, pleasingly below the expected 2x.

Looking at the various non-operating cash flow items:

Interest, tax and dividends were lower at £51.6m as compared to £54.7m last year. This was caused by cash tax paid being lower than the prior year.

The sale of the ID business generated £22m in cash, offset in part by £5.8m in payments for prior year acquisitions.

An £8.2m performance bond for the Oman contract was called during the period. This was expected and related to the termination of the contract. Other than legal fees for the continuing arbitration case, this represents the final significant cash outflow as a result of the Oman termination.

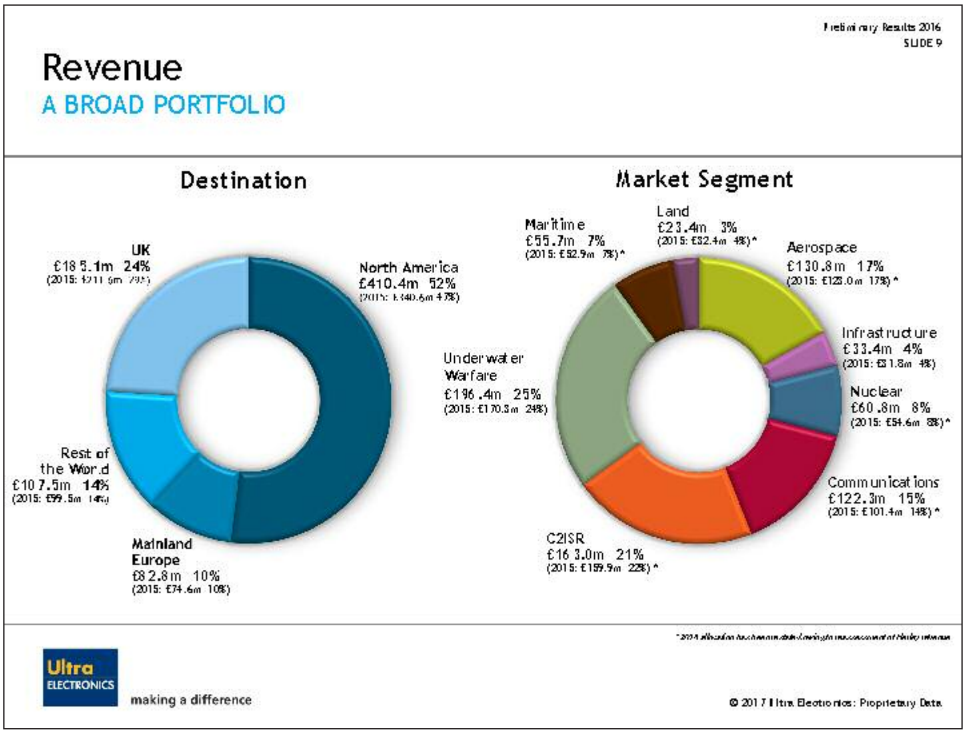
The sharp movement in Sterling to US Dollar exchange rate over the year resulted in US Dollar debt increasing in value by £35m. This foreign exchange difference represents most of the other balance.

Net debt improved significantly from £295.6m at the end of last year to £256.7m by the end of December.

During the period there were no changes to our banking facilities. Headroom on committed facilities was £213m at the end of the year.

Whilst on the balance sheet, a note on pensions. As we advised previously, the scheme was closed to future benefit accrual from 5 April 2016. This resulted in a curtailment gain of £15.5m which has been recognised in the statutory P&L.

A triennial valuation has been completed and we have agreed a payment profile with the Trustees of the Scheme for the next three years and beyond. The 2017 deficit reduction payment will be £9.5m, 2018 £10m and 2019 £10.5m. From 2020 we will pay £11m per annum.



For completeness we are including the geographic and segment analysis.

UK revenues reduced from 29% in 2015 to 24%, with the decline partly attributable to the reduced revenues on the ECU RP contract.

The North American revenue by destination has increased to 52% reflecting the full year impact of Herley, foreign exchange and greater demand in that market place.

The Rest of the World and mainland Europe revenues were unchanged in percentage terms from 2015.

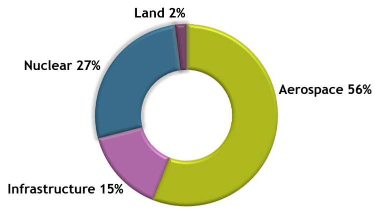
As normal we present the revenues by segment on the right for your information.

Preliminary Results 2016
SLIDE 10

Aerospace & Infrastructure

Financial results

£m	2016	2015	
Order book	**267.8**	265.4	**+0.9%**
Revenue	**204.7**	193.2	**+6.0%**
Operating profit*	**32.4**	28.7	**+12.9%**
Operating margin*	**15.8%**	14.9%	



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Ultra ELECTRONICS making a difference

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

Revenues increased by 6%, with foreign exchange providing much of this growth as the aerospace industry is largely dominated in US Dollars.

This Division saw increased license sales at our Precision Control Systems business, as well as greater demand for nuclear sensors at Nuclear Control Systems. On top of this we had a full year of revenues from Furnace Parts, acquired in 2015.

This was offset by customer delays on certain land vehicle programmes and the timing of the JSF programme.

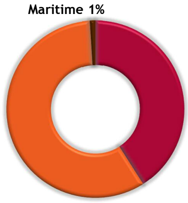
The Division's margins improved to 15.8% due to the licence revenues noted earlier and an improved operational performance at CEMS after a site rationalisation plan in early 2016.

The order book was broadly flat when adjusting for acquisitions and foreign exchange.

Communications & Security

Financial results

£m	2016	2015	
Order book	**227.0**	213.7	**+6.2%**
Revenue	**259.0**	239.3	**+8.2%**
Operating profit *	**39.7**	40.4	**-1.7%**
Operating margin*	**15.3%**	16.9%	



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Ultra ELECTRONICS making a difference

Moving to Communications & Security.

Revenues included a full year of Herley and a part year for the ID business.

This Division was impacted by the timing of overseas export orders, which caused revenue declines at our GigaSat business and the legal intercept business. As the UK Crypto programme reached completion, revenue reduced significantly as expected, although this was partially mitigated by the follow-on UK Crypto logistics contract. TCS, our radio business in Montreal, grew as a result of the Electronic Intelligence (ELINT) contract won earlier in the year.

Margins in this Division reduced to 15.3%. A strong performance from Herley, particularly over the last quarter was offset by the UK Crypto programme completion and the sale of the ID business.

The integration of Herley is ahead of schedule with $2.3m of the cost synergies already realised, $1.5m ahead of the acquisition case for 2016.

The underlying order book increased to £227m, owing to a number of contract wins, notably the UK Crypto logistics contract and the TCS ELINT contract.

Preliminary Results 2016
SLIDE 12

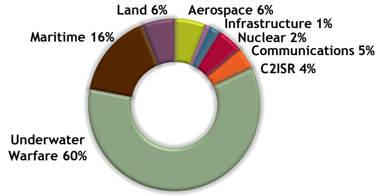
Maritime & Land

Financial results

£m	2016	2015	
Order book	304.5	274.7	+10.8%
Revenue	322.1	293.8	+9.6%
Operating profit *	59.0	50.9	+15.9%
Operating margin*	18.3%	17.3%	


41% of Group sales


45% of Group OP



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Ultra ELECTRONICS making a difference

Finally to Maritime & Land.

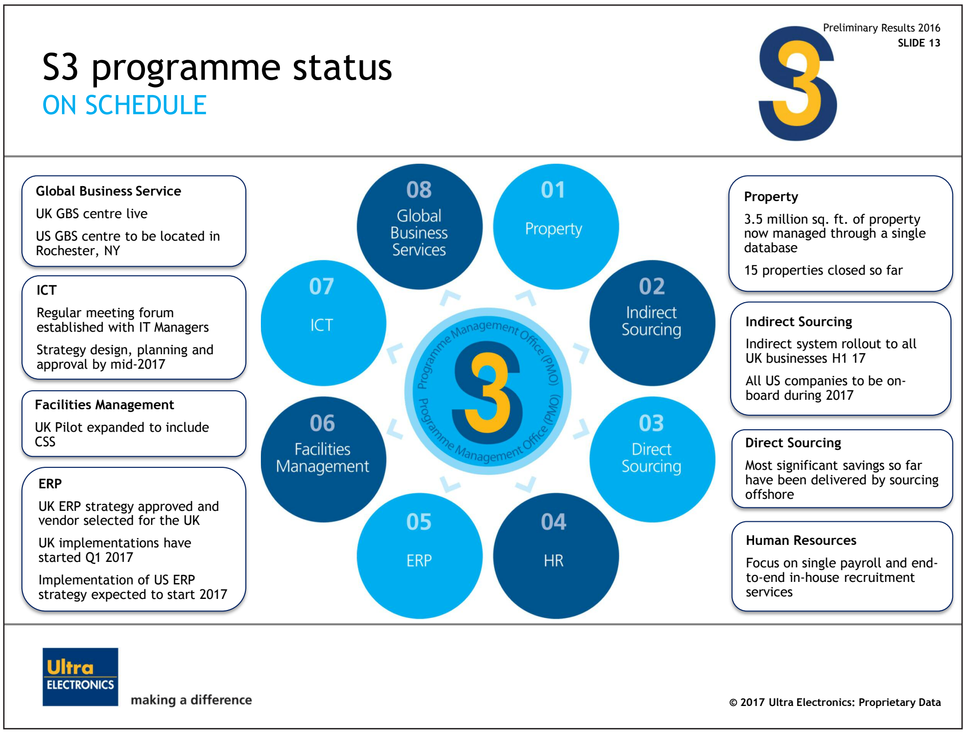
This Division continues to benefit from the US Government's increased focus on the Pacific.

There was a positive contribution to revenue from foreign exchange.

Strong demand for US and international sonobuoys drove the growth, alongside demand for sonobuoy receivers. This was offset by a number of Astute submarine-related programmes coming to an end at our PMES business.

Margins benefited as a number of sonobuoy contracts reached the end of their production phase.

The order book was largely flat at constant currencies.



The aim of our Standardisation and Shared Services, or 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 schedule and I would like to highlight some of the workstreams in a little more detail.

Workstream 1 – property. We have now assessed the terms of all leases held by Ultra and we have closed 15 sites to date. We have also sub-let a further five sites.

Ultra has 3.5m sq ft of property now managed through a single database.

Workstreams 2 and 3 – sourcing. A sourcing system has now been implemented and is being rolled out across the UK and US over 2017. Sourcing savings, both direct and indirect, remain a significant focus.

Workstream 5 – ERP. As you may recall at the Interims, I announced that we have determined our future ERP strategy.

We've selected four ERP systems and our businesses will be able to select from one of these when they are next due to upgrade.

The cost of implementing these new systems will form part of our continuing capital expenditure. It is anticipated that this will happen over the next five to seven years. Annual capital expenditure will return to within our historic £10m to £20m range.

These implementations have started in 2017.

Lastly, workstream 8 – Global Business Service. The UK Shared Service centre is open. Last week we announced that our US Shared Service centre would be co-located with our Flightline business in Rochester, New York.

Preliminary Results 2016
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S3 return on investment

COST AND SAVINGS ON SCHEDULE

Spend to December 2016 (£m)	Total spend budget (£m)	Workstream (£m)	2016 savings achieved (£m)	Cumulative savings to December 2016 (£m)	Savings identified yet to be realised (£m)	Savings identified yet to be actioned (£m)	Total enduring savings from 2019 (£m)
(£m)	(£m)		(£m)	(£m)	(£m)	(£m)	(£m)
7.2	12.2	Property/ facility management	5.8	6.9	0.4	1.5	7.7
1.1	-	Consolidation	0.5	0.5	1.9	-	2.4
1.8	12.4	Sourcing	0.5	0.5	1.1	6.0	7.6
0.2	0.6	HR	0.1	0.1	0.8	-	0.9
1.1	4.8	ERP related	-	-	0.5	0.9	1.4
11.4	**30.0**	Total	**6.9**	**8.0**	**4.7**	**8.4**	**20.0**

Ultra ELECTRONICS making a difference

I thought it would be helpful to summarise the financial elements of the S3 initiative. Overall the programme costs and savings are on schedule.

In 2016, the programme was self-funding. The savings you can see in column four.

The left hand column shows the programme has cost £11.4m to date, £6.5m of which was incurred in 2016 and column five shows that S3 has generated savings of £8m so far, £6.9m of which were realised in 2016.

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

Column six indicates a further £4.7m of savings that have been identified but not yet realised.

We have identified £8.4m of further savings possible as indicated in column seven and work will continue on this.

Preliminary Results 2016
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Outlook

2017 OUTLOOK UNCHANGED

- Revenue
  - Positive: additional rest of the world opportunities
  - Negative: the current six-month Continuing Resolution to US Federal funding
- Remain focused on delivering cost efficiencies
- Continue to balance investment for future growth
- Further strong cash conversion
- Order cover is at its customary levels

Ready to exploit the opportunities in our market and drive growth

Ultra ELECTRONICS making a difference

Finally some thoughts on outlook.

We are happy with current expectations for both revenues and operating profit.

There are both upsides and downsides to our revenue expectations. On the upside, a number of export orders remain difficult to predict so are outside our forecasts. If awarded they could provide additional revenue during 2017.

On the downside, should the Continuing Resolution in the US be extended beyond the end of April, which is a possibility, this will hamper our ability to turn delayed orders into revenues within the calendar year.

Despite the various scenarios that could impact upon revenues, we continue to focus on cost control to alleviate any resulting pressure on earnings.

Further, we continue to invest for future growth. The next cycle will focus on the growing demand for anti-submarine warfare, specifically sonar systems for small escort vessels and developments in airborne ASW.

We expect cash conversion to be above 80% in 2017 and to return towards our through-cycle target of 85% in the medium-term.

Order cover remains at its customary levels at the end of 2016.

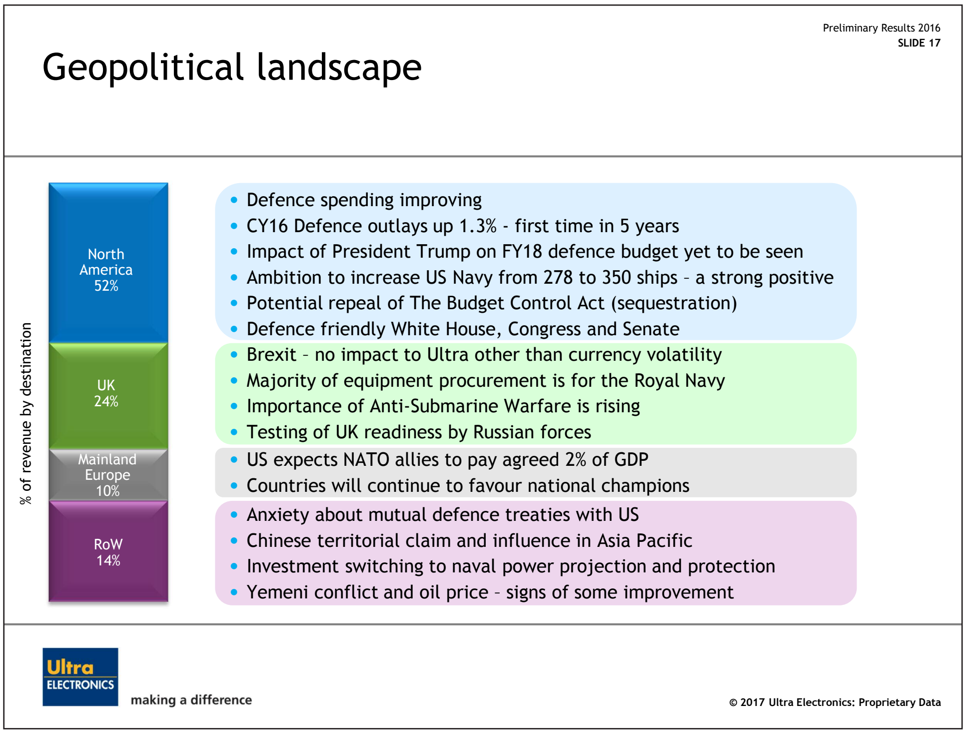
Thank you. I will now hand over to Rakesh to discuss future prospects.

Rakesh Sharma, Ultra's Chief Executive, continued covering future performance and the market outlook.

Thank you Ami.

My part of the presentation today is going to have four distinct sections:

- Geopolitical landscape
- International and US defence markets
- 2017 market segment drivers and
- An update to our long-term opportunities.



The geopolitical landscape is generally unchanged from when I presented at the Interim presentation in August 2016, with one exception – the election of "The Donald". Therefore, I'm only going to comment on some important points from this slide.

I said at the Interims that I didn't worry about who was in the White House. It was more important to have a Republican House and Senate, which is exactly what we got. However President Trump will be good for the US defence industry. He is a Keynesian and believes in fiscal stimulus to generate growth. Two areas that are going to be targeted for investment are construction and defence. I heard a good summary about President Trump from one of his closest aides. He said, "You have to take Trump seriously but, you shouldn't take him literally". I therefore think it is more important when considering defence matters to listen to General Mattis. Recently, President Trump controversially came out in favour of torture but then deferred to General Mattis when he called its effectiveness into question. I think President Trump will defer to those people that he trusts and respects. General Mattis is one of those people and he will be a stabilising influence on the US's defence strategy.

The current Continuing Resolution (CR), which expires on 28th April, will mean that Ultra's revenue in 2017 will be skewed to the second half more than usual. This is consistent with the last time that we had a six-month CR where the H1: H2 EBIT split was 42%: 58%.

In the UK, the good news for Ultra is that the Royal Navy is going to get the majority of the-procurement budget – by far. Remember, two thirds of Ultra's defence revenue comes from the naval market. Furthermore, Anti-submarine Warfare is rising in importance. It isn't just the procurement of the Boeing P8 that's doing this. It's the fact that Russian forces, including submarines, are increasingly testing the UK's and NATO's readiness. Currently the UK does not have a long distance, long-duration ASW capability.

President Trump's desire to see the rest of NATO "pay its own way" is already starting to have an effect on mainland Europe defence spending. Germany has indicated that it will increase spending, as have a handful of others. However, this increase will have very little effect on Ultra because generally mainland Europeans do not open their defence markets. The French buy from the French, the Germans from the Germans and so on. In fact, Brexit offers the UK a chance to insist on reciprocity, a point that Ultra is stressing to the UK Government.

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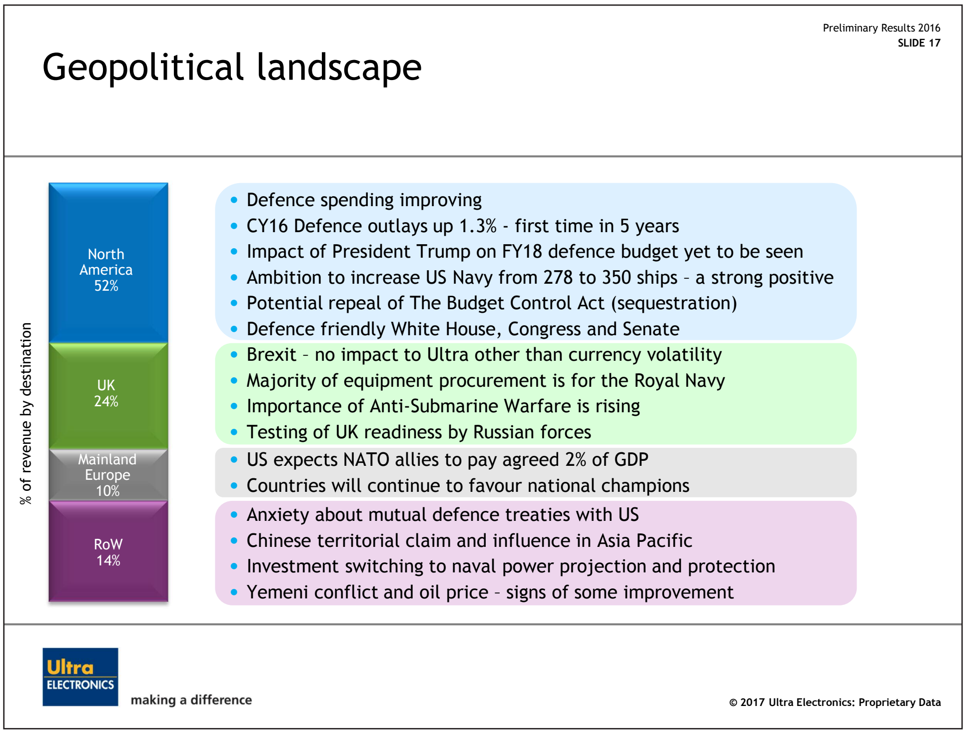

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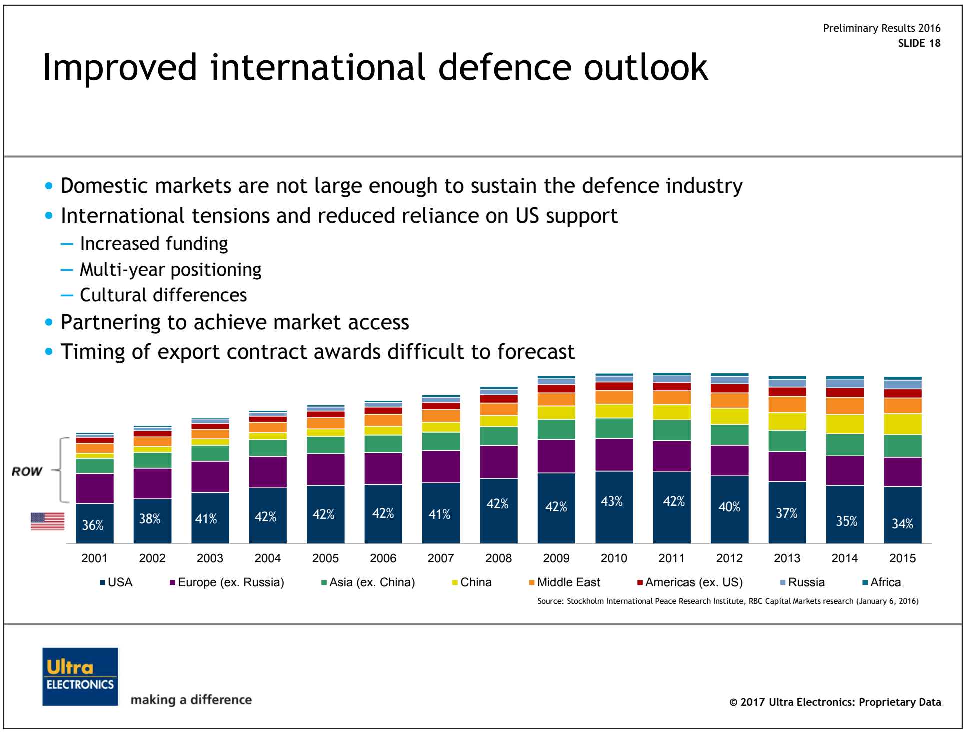
In Asia-Pacific, tensions continue to mount for two key reasons:

- One: China continues to press its territorial claim in the South China Sea, despite losing its case at the UN and,
- Two: anxiety about President Trump's tweets and withdrawal from the Trans-Pacific Partnership.

We see the Asia-Pacific region as a good opportunity for Ultra as expenditure is rising specifically in maritime and underwater warfare for protection and power projection purposes.

The Middle-East continues to be a subdued market because of the war in Yemen and the low oil price. We have removed the majority of these export opportunities from our forecast. Furthermore, we are limiting the marketing spend and business risk by supporting the large primes in their pursuits rather than selling directly.

Moving on.



It is true to say that Ultra has become more international in its outlook over the last five years. This trend is going to continue so I'd like to take a few minutes to explain why we are doing this and the benefits of such a strategy.

You can see from this graph that the global expenditure on defence has remained constant over the last six years. However within that, the US share has dropped from a peak of 43% in 2010 down to 34% in 2015. There is a similar trend in the UK. This has meant that the UK and US defence markets are no longer large enough to sustain their domestic industries. Therefore companies, including Ultra, have had to become more internationally focused to sustain capability and deliver growth. The international markets rely on personal relationships more so than in the UK and the US. Relationships with potential customers and partners take years to create using up senior resources with little initial return. In 2010 the ROW sector for Ultra was 10.8% of revenue £710m, at the end of 2016 it was 13.3% of revenue £786m. Even if the UK and US markets recover I do not expect our interest in the international market to wane because we have now established long-term relationships that can benefit us for years to come.

So although this increased geographic profile has reduced Ultra's revenue risk to changes in a single geographic market, it has also increased the revenue risk because forecasting contract awards is always difficult. I do believe even Nostradamus would find it difficult to forecast when these contract awards will be awarded.

It is for this reason that I used the phrase "hope for the best but prepare for the worst". I am confident about the consensus for 2017 but it is difficult to predict the split of revenue. This is the new norm for a business such as ours where we start the year typically with an order cover of around 55%.

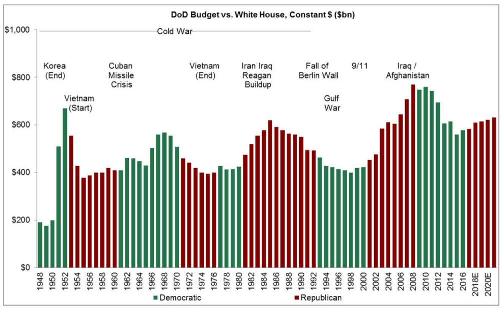
On the whole our risk profile remains the same with one advantage counter balancing the other risk.

Now let me discuss the differing strategies to cope with the defence spending cycle.

Preliminary Results 2016
SLIDE 19

Defence cycles and Ultra's approach

- Defence spending is cyclical - correlated to conflicts or GDP growth
- The new US administration supports an increase in defence spending
  - Keynesian stimulus
  - Populism creates strained international relationships
  - 'Make America Great Again' is synonymous to 'Make US Military Powerful Again'
- Four strategies for tough markets
  - Diversify
  - Divest
  - Sell and buy back, peak to trough
  - Improvise, Adapt and Overcome → Ultra does this



Source: DoD FY 2017 Green Book, FY17 FYDP, White House

Ultra ELECTRONICS making a difference

I think we would all agree that defence spending follows a cyclical process like most markets and that it is linked to conflicts and/or GDP growth. History teaches us that when a country develops its economic power it increases its military might in order to protect its economy. China is the latest exemplar of this concept.

Let's take a look at US defence spending as a key example. This graph from the DoD Green Book clearly demonstrates the defence cycle.

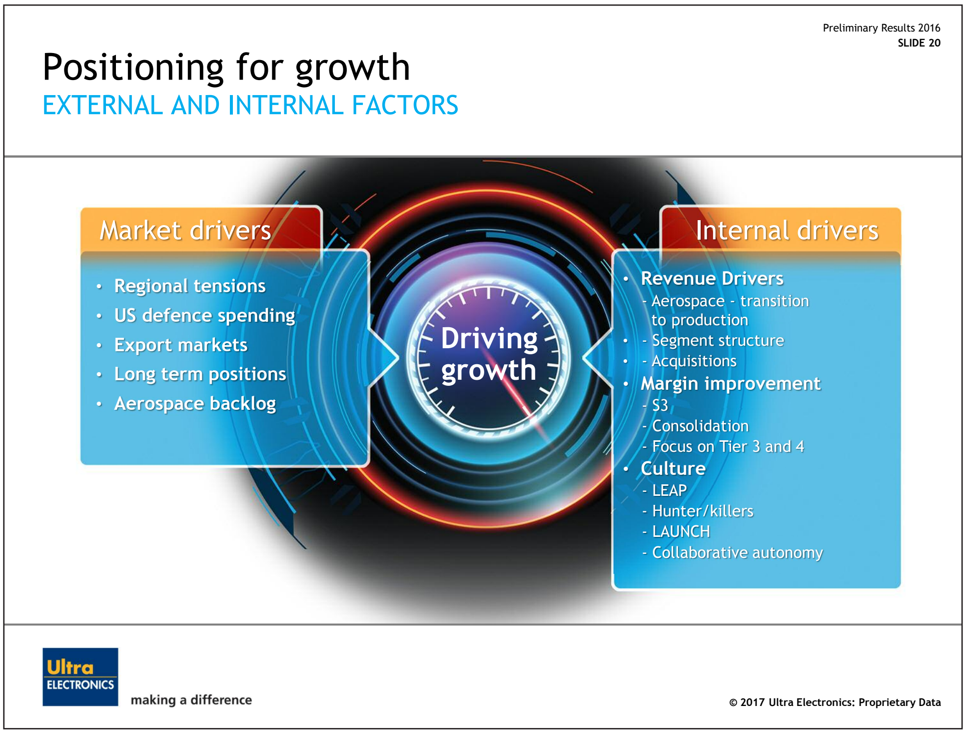
While current defence markets are looking more positive, what strategies should businesses adopt in the downturn to survive and prepare themselves for the upturn? Well first of all, you can diversify. This is the Lockheed Martin approach and explains their move into the Federal services market. You can also divest and "concentrate on your knitting". Something that Rockwell-Collins tends to do. Then of course there is the GD strategy in which, if you're clever enough to predict the cycle, you sell assets at the peak and buy new assets at the trough to suit future markets.

Ultra implements a fourth strategy. We Improvise, Adapt and Overcome. We are the Marine Corp of the business world. We are entrepreneurial, innovative, disrupters and you could also say a bit anti-establishment. When there is a difficult market we react quickly, cut our cost-base, change strategy to suit the new market dynamics and continue to invest. We do this because although the other three strategies are appealing in the short-term, they can produce long-term risk. Some in the sector are now experiencing those difficulties.

However Ultra, because it has implemented the fourth strategy, is now in a position to benefit from the increased defence spending in its geographic markets. Our operating leverage will mean that a marginal increase in revenue will produce considerably higher earnings.

I know that Ultra is a difficult company to model but for the last two years we have consistently met expectations and have done what we said we would do.

So now let me explain why I am confident about meeting future expectations even though I can't predict my revenue to the nearest sixpence.



This slide brings together the market dynamics as well as the Ultra initiatives, self-help if you will, that come together to drive growth. I've already spoken about the market dynamics so now I'd like to focus on the self-help that we have embarked on for the last five years. It is these and the future actions that will help us to meet expectations. These form three distinct initiatives:

- Revenue drivers;
- Margin improvement; and
- Culture.

So first, revenue drivers – I have previously shown you the details of our commercial and military aerospace investments. As you know, in the commercial aerospace market, the business model requires up-front funding, as part of risk sharing, where very little revenue is generated. Only when production deliveries start does the revenue commence. We have previously highlighted that our production ramp-up occurs in 2017 with a corresponding increase in revenue. This is still the case.

The segment structure is driving increased revenues and is fully embedded and working really well. We are extracting more synergy from adjacent capabilities than ever before, making better informed decisions on R&D investment and creating centres of excellence in technology.

All of the acquisitions we have ever done have been financed from our own free cash flow. We have never gone back to the market to raise money. My contention is that this is different to the acquisitions done by others in the sector where substantial sums have been raised. For this reason, although you and I class it as acquisition growth, it isn't really. I accept that neither is it true organic growth. It sits somewhere in between. Herley is the latest, and largest, in a long line of successful self-financed acquisitions.

Moving on to the margin improvement. Ami gave you the detail of how S3 is going to deliver the £20m of enduring savings. This is independent of the revenue.

Also, as technology and customers have converged we have consolidated our smaller businesses. Not only does this increase the efficiency, i.e. reduce costs, but it also creates a stronger market position. Aspirations, ambitions and investments can be better leveraged by a larger company than a smaller one.

We continue to focus on Tiers 3 and 4 and only rise to Tier 2 where we have the majority of the Tier 3 supply. These are the Tiers where margin percentage is maximised and where our innovative, entrepreneurial and disruptive behaviour allows us to be most successful.

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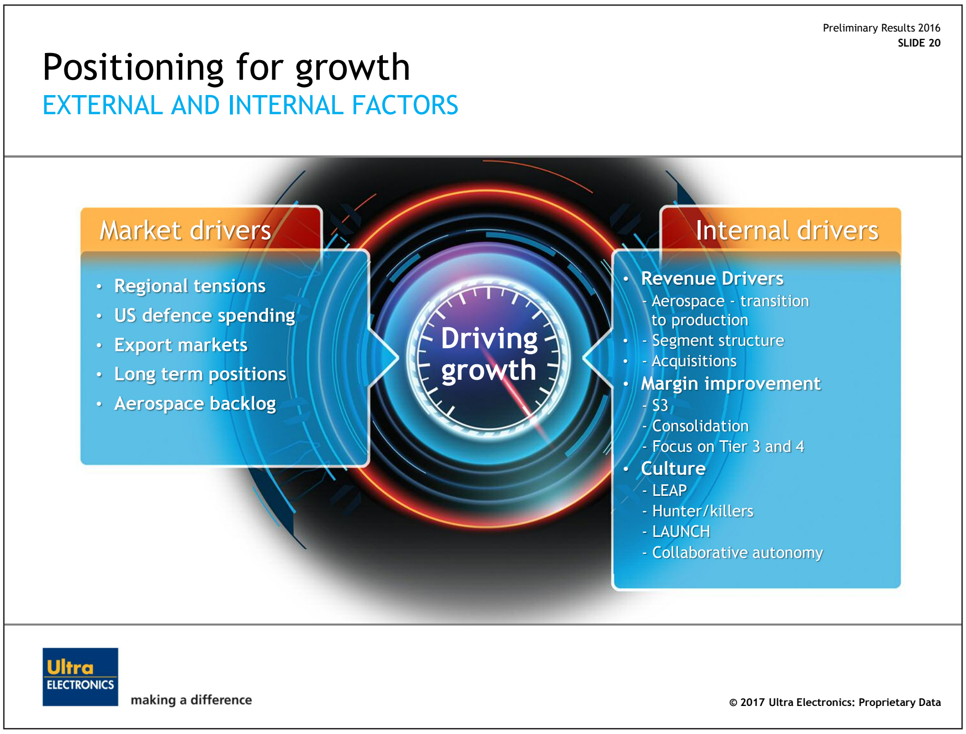

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Finally our culture: I have been through these before so let me focus on giving you some numbers regarding Collaborative Autonomy. At the end of 2014, 34% of intercompany revenue came from inter-divisional revenue. A clear sign that Collaborative Autonomy, with companies working together, was a success. At the end of 2016 this figure had dropped dramatically to less than 10%. Is this a sign of failure for Collaborative Autonomy? Absolutely not! It is a sign of the successful implementation of the segmentation structure. Companies are still working together but they are now in the same Division as the companies they are collaborating with.

Preliminary Results 2016
SLIDE 21

2017 market drivers

Segment	% 2016 revenue	Segment dynamics	Growth Indicator‡
Underwater warfare	25%	Recapitalisation has commenced for UK, Australian and Canadian ASW fleets Increasing US Navy ASW budget	Better
Maritime	7%	Declining US and UK domestic warship construction is offset by increasing submarine activity New ship build opportunities and upgrade programmes increasingly evident	In line
Land	3%	Soldier-worn power management a new growth opportunity with a demand for high bandwidth intra-soldier data transfer	In line
C2ISR*	21%	Continued requirement for high tech surveillance and security solutions Growing demand for more C2ISR equipment to detect potential threats as well as interoperable and mobile networks with real-time situational awareness	In line
Communications	15%	Rapid growth in data volumes and the rise of cloud-based platforms Increasing emphasis on interoperability, mobility and rapid deployment Growing demand for small form factor, high throughput systems based on COTS standard	Better
Aerospace	17%	Civil Aerospace orders have peaked but backlog yet to be liquidated Regional Aircraft market increasingly crowded with state-funded new entrants Military sales dominated by F-35	Better
Nuclear	8%	Increasing use of radiation monitoring systems within border protection and security Regulated market dominated by well-established Primes	In line
Infrastructure	4%	Airport IT dominates infrastructure Market commoditised and increasingly accessible to new entrants	Lower

* Command & Control, Intelligence, Surveillance & Reconnaissance

‡ Growth indicator over 5-year period relative to target organic revenue growth of 3-5%

making a difference

Moving on to the market drivers these haven't really changed much since the Interim presentation in 2016. The comments on the slide are self-explanatory, but let me explain the column titled "growth indicator". This column indicates the medium to long-term growth projection of each segment in comparison to the Group's performance. Those of you good at mental arithmetic will be able to work out that the Group's future performance is consistent with the data that was presented last year. There is no change.

Now the long-term opportunities.

Preliminary Results 2016
SLIDE 22

Long-term growth opportunities

Segment	Key programmes	Values £m	Likely award
Underwater warfare	**India NTDS** **TB-29X Towed Array** India IADS & ASW Shallow Water Canadian Surface Combatant HMS & LFTAS	**30** **83** 48 65	**2017 - contract file with Defence Minister** **Lost to incumbent** 2019 - bid submitted partnered with Mahindra 2020 - PV programme initiated
Maritime	UK Successor - power & control UK Successor Signature Management Fatahillah 2 - Indonesian Corvette Refit	13 27 15	**Won** - awarded LoL **Won** - development contract awarded Ultra will not be Prime
Land	US Army Combat Connect soldier worn power system US Army Stryker HUMS US Soldier Wearable System Nett Warrior	30 16 14	2017 - first trials underway 2017 - leveraging Government relations 2019 - funding secured for trials
C2ISR*	Middle East Land Border Security **Airborne EW system for a NATO country** NATO JEWCS - Land and Maritime Scope 4th Generation Targeting Pod for RAF	20 **65** 120 50	2017 - now a sub to in-country Prime **2017 - reset after attempted coup** 2017 - delayed 2017 - new opportunity building on existing base
Communications	ECU CLS Extension **US Army WIN-T ORION radio production** Turkish TFX Jet Fighter Programme	16 **70** 15	**Won** **2018 - contract received for first ten** 2018 - discussions with TAI/SSM via UK Embassy
Aerospace	Cessna Hemisphere control systems Gripen NG HiPPAG Integration **WheelTug on Boeing 737**	40 7 **70**	2017 - new programme launched 2017 - new HiPPAG application for 96 Gripen E a/c **2018 - certification plan agreed with FAA**
Nuclear	Chinese CPR-1000/ACC-1000 new build reactor sensors Dreadnought Class Submarine Propulsion US Plant Life Extension expanded sensors & safety I&C	10 45 30	2017 - temp and press sensors for Chinese variant 2017 - LoL placed for development 2018 - delayed
Infrastructure	London Underground upgrades LHR Baggage Reconciliation System (BRS) renewal Digital Trackside Power	9 8 10	2017 - new programme released 2017 - bid submitted 2018 - evaluation trials programme

* Command & Control, Intelligence, Surveillance & Reconnaissance

Ultra ELECTRONICS making a difference

This slide is an update to the one presented at our Interims in 2016. I have removed the programmes that were won at the time of the Interims and updated the others.

You will see that we have lost the US TB-29X towed array to Lockheed Martin. This is disappointing as we believe we were yet again the low-price competitor, as in the TB-34 competition. The report addressing our protest about the loss of the TB-34 was heavily redacted which we have been unable to have removed. I have decided not to protest the loss of the TB-29X as I believe security classification works against us. Our US Sonar strategy has therefore changed to supporting the major primes such as Lockheed Martin, Raytheon and Northrop Grumman as opposed to being a Tier 2 supplier.

In other news, the India torpedo defence soap opera continues. They will buy but I cannot forecast when. We have been told that the contract file is with the Defence Minister and this represents significant progress. However, as a result of the continuing uncertainty, I have removed it from the revenue forecast for 2017. If it happens this year it will be a positive.

Another opportunity that was in my forecast for 2016 but has been taken out for 2017, is the Turkish Airborne EW counter insurgency system. The contract was about to be signed when the attempted coup happened and the deal was halted. The opportunity remains real and the UK-Turkish Governments are very close to each other. However post-coup, procurement staff have been removed and are yet to be replaced thereby delaying the contract award. Again if it is awarded in 2017 it too will be a positive.

Some good news on our Wheel-Tug investment: The FAA has approved the consortium’s certification plans and we are awaiting official confirmation prior to implementing an R&D programme. You will recall that this not only provides operational savings by reducing aircraft fuel consumption during taxi but also helps to increase the capacity and throughput of an airport. With hub airport capacity approaching maximum limits, it is the right capability at the right time.

To summarise as you can see from today's presentation, 2016's results were in-line with expectations and the quality of operating profit was under-pinned by the strong cash conversion of 92%.

Our guidance for 2017 remains unchanged and in-line with expectations. Despite some unpredictability in revenue our focus on driving cost efficiencies, throughout the organisation, provides relief to pressure on operating profit.

The defence cycle in most geographic markets is returning to positive growth with the US market leading the pack in spending. The export market, particularly in Asia-Pacific and the Middle-East, has increasing equipment need but it continues to be difficult to accurately forecast contract awards.

Ultra continues to invest in R&D to support specific opportunities and is still one of the leading companies in the sector.

Finally, five years of hard work and investment has positioned Ultra to benefit from spending growth as the cycle turns. Ultra is in the sweet spots of underwater warfare, communications and C2ISR: all necessary capabilities when tensions are high.

Thank you, I have reached the end of our presentation and we will now take your questions.

Note: Appendix slides omitted from this document.

Ultra 2016 Prelim Q&A transcript

Q:

On your balance sheet, you have £173m of other intangible assets; will these have to be progressively written off under IFRS 15?

A:

Amitabh Sharma, Ultra

IFRS 15 is a revenue standard so in short no, we test these every year at each balance sheet date to see whether they are recoverable or not. That's determined by future cash flows for that particular acquisition and we do that every year end. IFRS 15 is a revenue standard, not a balance sheet standard. There will be some changes as a result of IFRS 15. There are two main areas, the accounting for multiple elements of long-term contracts which are approved at different times. For example, in development contracts which are followed by production. Where a long-term contract contains multiple deliverables, the contract price will need to be allocated to the different performance obligations and so the timing of revenue recognition will change. The accounting for certain transactions where we recognised revenue on delivery is mainly to be treated as a long-term contract. The other main area is the accounting for long-term support arrangements or maintenance contracts.

Q:

The inevitable question on organic growth and margins: your long-term chart, which is very helpful, indicates 3% to 5% organic over that medium-term, longer-term timeframe. I think the kind of implication of what you're saying today is: 'low-ish' growth for the current year is the expectation. How do we marry that up with all of those generally positive arrows in the chart?

Then the margins alongside that they were quite high this year – difficult to repeat again this year. Does that mean if we've got a flat 'low-ish' growth outlook for 2017 do we see flat profits? That's just basic maths, if you could talk about that?

A:

Rakesh Sharma, Ultra

In terms of the revenue you're absolutely right; on that long-term chart it said medium-to-long-term 3% to 5%. When you work out the numbers according to the percentage revenues it will give you what we think is capable of being achieved.

What we're saying for 2017 is that we're very happy with consensus that's out there. I've not built in any acquisitions into the forecast for 2017 so you can do the maths as well as I can. You know what our 2016 number was; you know what the consensus is. You can do that math and you don't need me to do it for you.

The reason why 2017 is lower is because of the six-month CR – it does skew revenue. If you remember when a CR finishes it takes about three months for the contracts to trickle down to us. If the CR finishes at the end of April, three months on to that is July so effectively we've lost one half of revenue. That's what's driving the lower growth in the 2017. Going forward we start to see the Trump effect.

Now some of the things that you've got to be careful about is that although the US defence budget headline figures are a 10% increase in spending, £54bn above, it isn't quite that because it always depends on the baseline you start with. It's not £54bn; it's more like £24bn because Obama had already lifted the request. That does however, still mean an increase. What we see in the medium-term is defence spending in the US rising 4% to 5%. If you're in the sweet spots, as we are, then it should help us, because those areas should get funding in preference to others. I think that's a difference between short-term, medium-term.

Amitabh Sharma, Ultra

For 2017. The spike in the margins for 2016 were caused as I mentioned by the sonobuoy spike in margins due to the production contracts coming to an end. If you remember we release risk reserves when we come to an end of a contract and that's alongside the cost reductions that we're talking about.

Q:

On the headcount reductions you made this year, you said there were a few businesses that were struggling, obviously there's always somewhere in the portfolio that is. What particular areas or businesses were those related to?

A:

Amitabh Sharma, Ultra

Yes. In terms of the cost reductions you're talking about the revenue declines for GigaSat and the legal intercept which I referred to. There were some headcount reductions there. We've merged some UK businesses together as well. We've merged two sets of businesses together and the cost reductions have helped. Well within that 400 that you were referring to.

Q:

Which business areas are you seeing more difficult to enter the market with?

A:

Rakesh Sharma, Ultra

There were three export orders that got delayed. These were; India torpedo defence, Turkish EW and Ethiopian broadcast TV. Now all three of those added together came to order values of about £100m. In the year we would have generated £14m revenue from India, £10m from the Turkish EW and £6m to £7m from the Ethiopian contract.

In those businesses where we were expecting those orders and they haven't happened, and we've taken them out of the forecast obviously, there's been some headcount reduction as a result of that. Now the reason why the revenue was affected by the export orders but not the margin is, if you remember just as Ami said, we do not take a lot of margin at the beginning of a contract. We lost the revenue but there wasn't that much margin from those contracts in our business.

If you remember at our Interims and later in the year I said our operating profit would be somewhere in the region of 0% to 1% and that's exactly where we were.

Q:

Good morning. I had about two or three questions. Just on R&D: self-funded expense R&D, how should we think about the direction there sort of 2017/2018; how much that may start to pick up or is this the new base point for a while? Do you want me to come back and ask the questions bit by bit; is it easier so you don't need to remember them?

A:

Rakesh Sharma, Ultra

Yes. On the R&D side of things, it depends on what opportunities are coming up. To try to explain let me tell you the split that we have in R&D. About 20% of our R&D goes into designing out obsolescence of products. This is where we're going to be making things for the next 20 years, components go obsolete and you have to design out that obsolescence. That's about 20% of our R&D.

About 60% of R&D is spent on contracts that we are about to bid for. What we do is, we do the up-front work so we capture the intellectual property because we never allow the customer to have the background IP, that's what enables us to take technology from one segment to another. That's 60%.

The final 20% goes into things that are a little bit more speculative in nature. Things like our Paygate business, our digital payments B2B business. That initially was set up from that 20% allocation of something that may succeed but high-risk. It very much depends on what programmes are coming up because the brunt of the PV is that 60%.

Ami mentioned that there's a huge market out there for torpedo detection and sonar for small vessels, corvette sized vessels especially in the Asia-Pacific. We see some opportunities there and that PV is going to pick up this year. We see PV this year getting back to about 5% but because the commercial aerospace is dropping off we won't see it going back to about 6% as it was previously. Keep that 5% number in your head, that's where it's likely to be.

Q:

Thank you. The second question, and sorry if it seems pedantic but you know I am pedantic, your slide 21 where you show us your 3% to 5% long-term organic growth? You've got a number of pieces better which on my mental arithmetic and is up to about 57% of your end-markets are better, 4% worse and yet you say the average is unchanged. How much of that is, look, it's just an illustrative chart; don't read too much into it.

A:

Rakesh Sharma, Ultra

No.

Q:

How much is it you actually are being quite conservative and may be too conservative or what should I read into that?

A:

Rakesh Sharma, Ultra

The chart has been produced by taking a look at our five-year strategy plan. It's not something that we've just 'magicked' up; we've actually sat down, worked out the segments and worked out what the percentages are. The better is not better than 3% to 5%, it's whether it's better than 4%; or whether it's worse than 4% because we've used the average of the 3% to 5% on the better or worse scale.

When you add that up and you factor in the percentage of revenues of the whole, whether it's better than 4% or lower than 4% you will actually come up – it's simple maths. It comes out at 4.4%. Last year when I produced that chart it was 4.2%.

It's in the rounding errors, it's about the same; we are exactly where we said we would be.

Q:

Thank you. The final question was just, I recognise you've taken out some of the higher-risk, not as a high-risk but it's more uncertain timing-wise on some of the export contract wins from the 2017 guidance. What stuff is included and still in the 2017 guidance of big order of magnitude? I know it's a difficult question to answer because you're a broad business but the things that therefore we should look for over the next six to nine months as being they've won that, that's a key thing that underpins your 2017 guidance that de-risks it or is still a question for it?

A:

Rakesh Sharma, Ultra

No, it's a good question. We actually track that as a Board. It's produced in the Board report of all the orders that we're expecting that underpin the revenue for the year which is the piece of paper that Ami has just handed me. This is out of our last month's Board report. A couple of major opportunities are for example; we are expecting a contract from BAE Systems for the Sucessor submarine. We are part of the submarine enterprise programme, there are only four companies, there's BAE Systems, Babcock, Rolls-Royce and little old Ultra. We're expecting quite a major award on that. When we get that, that will be very important. It is PMES propulsion related. We're expecting a couple of US sonobuoy contracts for a DIFAR and Active buoy. We're expecting a weapons ejection contract for the F35 which we are negotiating. The last one, but probably worth watching, is the ORION radio, low rate initial production (LRIP). The reason why that's important, it's not a huge contract but it's strategically significant because it means that our new radio, new generation of radio has been bought by the US Army again and if you remember how much that business declined since 2011. Those are the main ones.

Q:

Two questions, first on the margin profile. We've heard in recent weeks some of your peers, noticeably Cobham, who was talking about margins being kept at a lower level targeting margin which is lower than what you are achieving at the moment and some of the other peers as well talking about increased margin pressures. I'd appreciate your thoughts on where you think margins can get to?

continued on next page

A:

Rakesh Sharma, Ultra

I know – if I could answer the first bit in terms of what's happening in the industry and Ami can answer where we see margins going to. In terms of the industry I've heard various people say there's a structural change in the industry, it's no longer possible to achieve higher margins.

I have not seen that pressure. I do not believe there is a structural change in the industry for companies like ourselves. Our niche position, our niche products, the platforms that we're on, the long-term contracts that we've agreed. We do not see the pressure that everybody else is talking about.

On JSF for instance and I've mentioned this to you before we have a life of platform agreement on JSF. As long as they're producing JSF we will be doing the engine ice protection for that aircraft. Now there is price pressure on Lockheed Martin to reduce the price of that aircraft and yes they are going to go round to the supply chain but my agreement has been signed by Lockheed Martin.

I've already hit the cost bogies that they had which is why I got the lifetime agreement. There's got to be a negotiation and a negotiation is two-way, never one way. I'm not seeing those pressures in terms of where our margins are going. Ami?

Amitabh Sharma, Ultra

Yes. The S3 programme as you'll know will start to deliver changes to our margins and that you'll see from 2018, 2019 as we start to hit the £20m mark particularly in the sourcing and indirect sourcing. Margins will move to 17%, 17.5% per annum thereafter.

Q:

The second question on Sparton which is your partner in the ERAPSCO JV, and there seems to be a lot of news flow coming out from the company, they've been in a protracted process sale. I think the key question is that having an impact on your business and the way you interact with the JV?

A:

Rakesh Sharma, Ultra

Good question. It has been a very protracted process. I think they started the process back in February, March of last year and it's a JV which has been operating very successfully for the last ten years. We don't know who the buyer of Sparton is going to be. We obviously have an interest and we have rights through the JV agreement.

It hasn't affected – it has had an effect actually on how we deal with Sparton because actually it's made Sparton invest in their defence business whereas previously they were investing in their automotive business. We've seen them increase the level of investment in their sonobuoy business which helps the joint venture. The changes that we've had have been positive.

What happens to that business and to the JV I'm not prepared to speculate. It is a very long-running process.

Q:

You have this wonderful product called the Litening.

Is there a major contract from the Middle East and do you pay a fee to the original people?

A:

Rakesh Sharma, Ultra

Litening is quite a good example actually of how we conduct business and the fact that what we're good at is scouring the market, finding capability and matching that capability to requirements. Just for everybody's foundation knowledge we supply a tactical targeting pod which sits underneath the aircraft and laser designates a target.

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Actually, the Divisional MD who does that and actually did it as a company MD is sitting here today, Mike Baptist, just put your hand up Mike. Mike is responsible for that. What we did is we found equipment that Rafael made called Litening but it didn't quite meet UK requirements. We partnered with Rafael, set up a facility here in the UK and then made the modifications necessary and added equipment, things like a UK crypto, a UK data link to the pod in order to make it satisfactory to the Air Force and the MoD.

Now, what we've agreed with Rafael is that we will support certain countries outside of the UK. For the Omani requirement we will be doing the Litening Pod. For the Saudi requirement, the Saudis have chosen somebody else; they didn't want the Litening Pod. There is more business to come from export but there's also more business to come from the UK in terms of the next generation, generation five of the Litening and also a reconnaissance pod that the Air Force is after. We continue to work very closely with Rafael in that sense.

Q:

Morning. Two questions please. The first question: could you talk about aerospace a little bit, just remind us from 2017 into 2018 what the step-up in revenue assuming those particular programmes step up as expected, what that might look like?

The second question: we talk about Trump in terms of defence spend but can you also talk about potentially the tax implications? Obviously, everyone's got a view on what may happen or may not happen if Congress will go with it both from a what you pay in the US but also in terms of the threat potentially from a border investment tax in terms of you are supplying some product out of the UK to the US et cetera?

A:

Rakesh Sharma, Ultra

On the tax side of things, I know there's a lot of talk about corporation tax coming down. I think the US corporation tax is 35% at the moment coming down to sort of European levels, 20%, maybe even a bit lower. What you have to understand though is 35% is the headline figure. Nobody pays 35% in the US and if you're paying 35% in the US you should fire your accountants.

Most companies in the US pay around 21%. What seems to be being talked about in Congress at the moment is that they will – they're thinking of lowering the corporation tax rate but then raising other areas of tax so that they will give in one hand and take in the other. We are not factoring in to any of our forecasts a dramatic reduction in tax in the US. We think it will balance out, Trump will lower the corporation tax because that's what he said he will do but he'll raise something else. That will net out.

In terms of border adjustment tax that will actually work in Ultra's favour. From the US we export about $10m every year. We import only $6m so it's a square root of nothing.

Q:

It's either Canada or the UK?

A:

Rakesh Sharma, Ultra

Yes. It's either Canada or the UK.

Yes, Canada won't be affected because of NAFTA. As I said it's $6 million, I'm not losing any sleep over it.

Amitabh Sharma, Ultra

In terms of the aerospace it comes back to the slide that Rakesh showed about the future growth. In terms of aerospace segment there is expected to be an increased turnover from the aerospace segment in 2018 beyond 2017.

Q:

Do you have rough numbers?

A:

Amitabh Sharma, Ultra

Well, we've got between 5% and 6%.

Q:

Can you scale the radio business now again just to remind us where we are? Secondly, I think you said you're no longer selling directly to the Middle East or strategically not targeting that. What happened to the business, you did have a JV there at one point?

A:

Rakesh Sharma, Ultra

Okay I'll take both those. On the Middle East side of things first of all one of the lessons learnt from Oman is we are not strong enough, we are not powerful enough, we don't have enough business in the Middle East to have a position at the Royal Court. Remember most of the Middle East markets, most of the kingdoms run as feudal systems. You have to be at the Royal Court in order to argue your case. That's what happened in Oman, we didn't have a position in the Royal Court.

Our strategy in the Middle East has been to tuck under somebody who is bigger, has more business, has more representation and has a voice in the Royal Court. The example that I would point to is if you take a look at the longer-term opportunities slide, there was a land border surveillance contract which previously was about £90m, $120m, well we're now tucking in behind a prime and that contract is now worth, if I remember correctly, about £20m to us. That's the knock-on effect but it's £20m low-risk, higher margin rather than £90m higher-risk lower margin. We've adapted, we've changed that approach.

In terms of the JV that we had in the UAE we actually sold that JV to our JV partner which was the Emirates Advanced Investments, EAI. We sold our 50% of the JV to them, must have been about two or three years ago now. What we're doing now is we are conducting business in the UAE through primes rather than direct.

The second question was on the radio business. Don't go crazy on the revenue at TCS, right, because it is in LRIP, low rate initial production. What we expect TCS to do is to grow from about £20m to about £25m this year. It's when they go from the LRIP to major procurement for the Army that we'll start to ramp-up the revenue in that business. Now we're never going to get back to the 2011 revenue of $140m but what I do anticipate is we should be able to get back to about $50m but at a very nice margin, thank you.

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