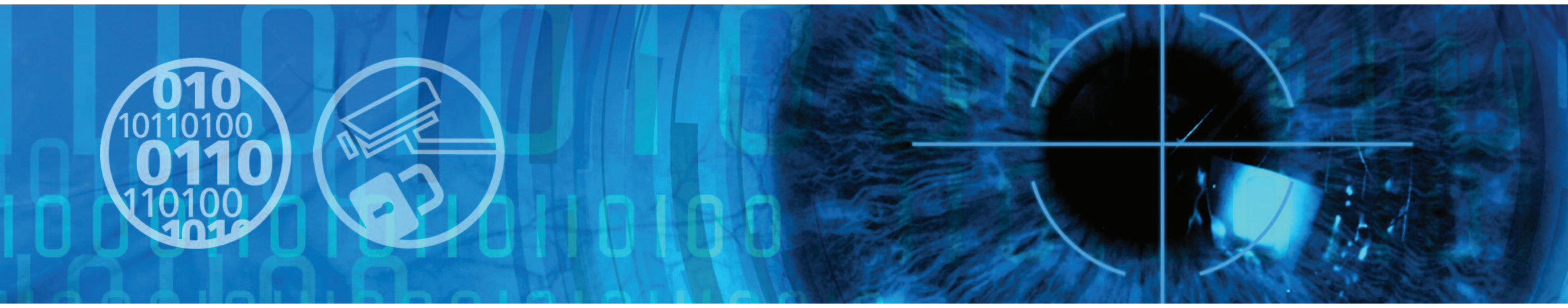
Ultra Electronics Holdings plc

Preliminary results for the year ended 31 December 2015



Results presentation and script

Rakesh Sharma, Chief Executive
Mary Waldner, Group Finance Director

29 February 2016

making a difference

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

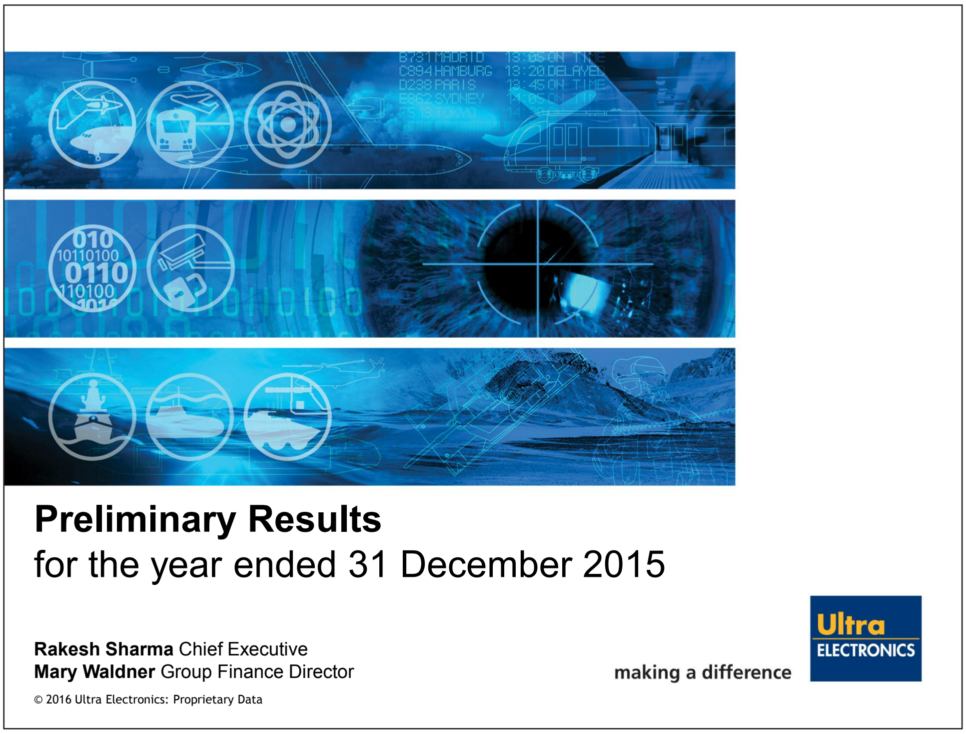
TRANSPORT

ENERGY

…by applying electronic and software technologies in demanding environments and critical applications to meet customer needs.

Cautionary statement

This document contains forward looking statements that are subject to risk factors associated with, amongst other things, the economic and business circumstances occurring from time to time in the countries and sectors in which the Group operates. It is believed that the expectations reflected in these statements are reasonable but they may be affected by a wide range of variables which could cause actual results to differ materially from those currently anticipated.



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 2015. Mary will cover the full year performance of the Group, using our new divisional structure and I will then cover the future performance and market dynamics against our market segments. 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 2015
SLIDE 2

2015 overview

- Results in line with expectations
- Market conditions worsened in 2015 as anticipated
- Market segment organisation has been embedded
- Standardisation and Shared Services (S3) programme on schedule
- Integration of Herley on schedule
- Continuing to invest for growth

Ultra ELECTRONICS making a difference

I am pleased to say that our results for 2015 are in line with expectations. Our decision to enter the year cautiously, enabled us to be proactive as industry and macro-economic conditions worsened. This was helped by our analysis, mentioned at last years prelims, that in a UK election year and in the year prior to a US presidential election, government markets have always been more difficult than normal.

It has been a very busy year – both internally and externally. We have bedded down our market segment organisation and launched our Standardisation and Shared Services programme or S3 for short. As well as that, we also completed a significant acquisition, now known as Ultra Electronics Herley or just Herley. I am pleased to report that we have made very good progress on all three. The integration of Herley is on schedule, S3 is also on track and the market segment organisation of our capabilities has provided the framework to better position ourselves. This years performance has been delivered while also continuing to invest for growth in disruptive technologies and product offerings.

Now let me hand over to Mary.

Preliminary Results 2015
SLIDE 3

Key metrics

£m	2015	2014	Growth
Order book	753.8	787.3	-4.3%
Revenue	726.3	713.7	+1.8%
Operating profit*	120.0	118.1	+1.6%
Operating margin*	16.5%	16.5%	
Profit before tax**	112.4	112.0	+0.4%
Earnings per share**	123.9p	123.1p	+0.6%
Dividend per share	46.1p	44.3p	+4.1%
Operating cash flow	**81.3**	**83.1**	**-2.2%**
Cash conversion	68%	70%	

** before Oman contract termination and liquidation related costs, amortisation of intangibles arising on acquisitions, impairment charges, the S3 programme and adjustments to deferred consideration net of acquisition 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 interest charges and adjustments to deferred consideration net of acquisition related costs and, in the case of underlying earnings per share, before related taxation.*

making a difference

Mary Waldner, Group Finance Director, presented the review of Ultra's financial performance for 2015.

Good morning to everyone.

Let's start with the key metrics;

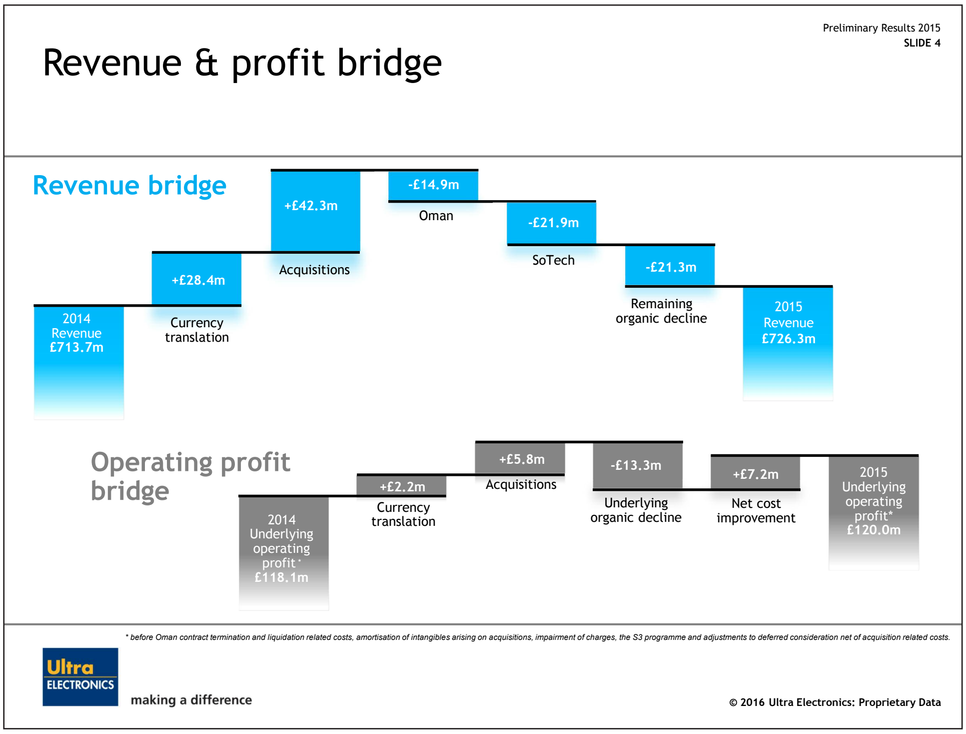
The order book at the end of 2015 was £753.8m compared to £787.3m in the prior year. Acquisitions, primarily Herley, contributed 7.3%, and there was a foreign exchange benefit of 0.9%. The underlying order book declined by 12.5%, reflecting the delay into 2016 of more than £100m of orders, a substantial number of which are expected to be secured in the first half of the year. In the majority of cases, we have been down-selected for the award. To give you a couple of examples of this. On the Indian Torpedo Defence, we were down-selected in 2015 but contract negotiations did not commence until the middle of January this year. These have now taken place and we are waiting for the Indian commercial team to issue the agreed contract. Secondly on UK sonobuoy partnering, we are the sole-source supplier but the contract award was delayed over the year-end.

Revenue, at £726.3m, was 1.8% up on last year and underlying operating profit at £120m saw a 1.6% increase.

Profit before tax was up only 0.4% as financing costs increased reflecting the acquisition related increase in debt. Underlying earnings per share were up 0.6% with the tax rate remaining broadly flat at 22.8%.

Reflecting confidence in the medium-term, we are recommending an increase in the dividend by 4% to 46.1p.

Cash conversion during the period was 68%. If you exclude the impact of the outflows on Oman this year, the cash conversion is 77% compared to 70% last year.



Moving to the revenue progression. If you follow the slide from left to right, it highlights the main reasons for the year on year revenue movement.

Currency translation resulted in a gain of £28.4m or 4.0% – The Dollar was on average just over 7% stronger against Sterling at 1.53 compared to 1.65.

Acquisitions added £42.3m with Herley and Forensic Technology contributing the majority.

Of the organic decline, a £14.9m reduction related to Oman and the impact from challenges to the Patriot Act on domestic intercept revenues from our SoTech business led to a £21.9m decline. The remaining decline of £21.3m or 3% reflected the generally lower level of activity across our government related business.

Turning to the profit, at the bottom of the slide.

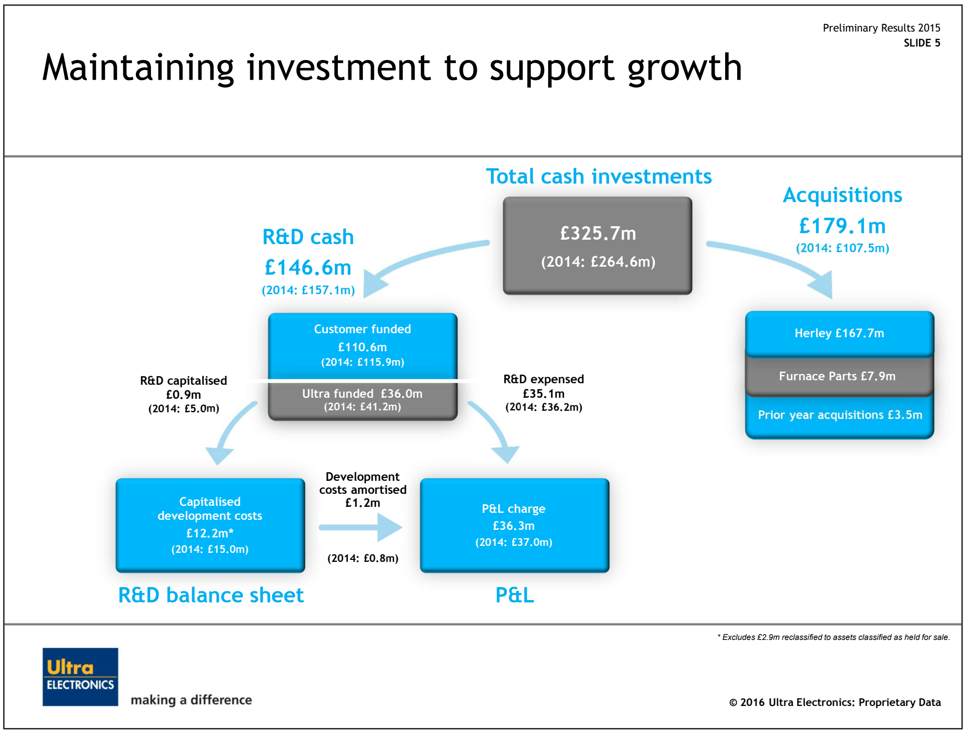
Again, if you follow the slide from left to right, it highlights the main reasons for the increase in profit from £118.1m to £120.0m.

Currency increased profit by £2.2m, again due to the relative strength of the US Dollar against Sterling.

Acquisitions added £5.8m, with Herley performing particularly strongly.

There was no underlying profit taken on the Oman revenue in the prior year, and the effect of lower revenue at last year's margin led to an organic volume decline of £13.3m.

After allowing for the currency, volume and acquisition effects, there was a net improvement of £7.2m reflecting cost reductions which I will discuss shortly.



Turning to our investments to support future growth.

You will see on the right hand side that we spent £179.1m on acquisitions, primarily on Herley, the Electronic Products division of Kratos, which provides us with an important position in the growing Electronic Warfare Market. During the fourth quarter, we also acquired Furnace Parts, a bolt-in to our US Nuclear business,

Total Research and Development spend reduced by 6.7% to £146.6m reflecting a reduction in customer funded R&D and the timing of our commercial aerospace investment.

Ultra funded development was £36.0m or 5.0% of revenue, within our normal range. Of this, only £0.9m was capitalised, less than the £1.2m amortised in the year. This compares to the net capitalisation of £4.2m in the prior year.

At the year-end, capitalised development costs on the balance sheet stand at £12.2m.

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Preliminary Results 2015
SLIDE 6

Income statement – observations

£m	2015
Revenue	726.3
Operating costs	(606.3)
Operating profit*	120.0
Interest costs	(7.6)
Profit before tax**	112.4
Tax	(25.6)
Profit for underlying EPS	86.8

	Headcount Reductions	
	Headcount	Cost (£)
2015	467	(3.6m)
2014	390	(2.9m)
2013	431	(4.6m)
2012	284	(3.0m)
Total	**1,572**	**(14.1m)**

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

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making a difference

Moving to the income statement, I want to highlight elements of the cost reduction programme.

Our businesses are still operating autonomously and they continue to cut costs across the Group to protect the margin in the face of declining revenues. This is in addition to the Group-wide S3 programme.

As a result, in the period, there have been a total of 467 headcount reductions at a cost of £3.6m compared with 390 during 2014 at a cost of £2.9m. 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 more difficult market conditions. These savings will generate an annualised benefit of more than £10m going forward.

We continue to monitor the rest of the cost base across the Group and we have consolidated businesses where this has been appropriate. CEMS, our Contract Electronic Manufacturing business, is being aligned with Nuclear Control Systems, our UK nuclear business, eliminating a further set of overheads. Additionally, the ProLogic and SoTech businesses have been merged under the US Proxy Board.

Finally a word about tax – the increase in the rate as the proportion of our business in the US increases is offset by the reduction in the headline rate of corporation tax in the UK. We expect the rate to remain around 23% going forward, subject to any legislation changes.

Preliminary Results 2015
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Operating cash flow

£m	2015	2014
Operating profit*	120.0	118.1
Depreciation and disposals	11.9	10.9
Capital expenditure	(4.6)	(10.7)
Net intangible asset expenditure	2.1	(3.6)
Working capital increase	(46.9)	(24.6)
Other	(1.2)	(7.0)
Operating cash flow	81.3	83.1
Cash conversion	*68%*	*70%*

2015 working capital increase	(£m)
Oman	(11)
Payables	(36)
Receivables	(4)
Inventory	4

Note: cash conversion ex. Oman is 77%

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

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Turning to cash.

Operating cash flow was £81.3m, taking cash conversion to 68%, compared with 70% last year. However excluding the impact of £10.8m of outflows following the termination of the Oman contract, cash conversion this year was 77%.

Depreciation and disposals were slightly higher than last year reflecting the sale of an airport systems building in the UK.

Capital expenditure was lower than last year, at £4.6m as the scheduled Enterprise Resource Programme or ERP system upgrades have moved into 2016 in order that they can be implemented through the S3 programme.

The net flow on intangible capital expenditure was positive as capitalised development reduced below amortisation as we have discussed earlier.

Working capital increased by £46.9m, reflecting a reduction in creditors and an increase in debtors, partially offset by a reduction in inventory. Let me talk you through the main drivers of the increase, which you can see in the box to the right of the slide.

First there was the £11m impact relating to Oman. Secondly, reflecting a trend we have been discussing for some time, the movement in payables included around £20m related to the continuing unwind of advanced payment balances including on our ECU RP contract as we move to the production phase. The impact is particularly marked at the moment but we expect its impact to lessen in 2016. Debtors increased reflecting the phasing of some vehicle programmes. This was partially offset by a £4m reduction in inventory, resulting from our company wide initiative targeting working capital.

The other outflow primarily represents the pension deficit reduction payments of £8.5m agreed with the trustees offset by the receipt of a £5.3m dividend from Al Shaheen.

Preliminary Results 2015
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Net debt

£m	2015	2014
Opening net debt	(129.5)	(42.2)
Operating cash flow	81.3	83.1
Interest, tax and dividends	(54.7)	(57.0)
Acquisition costs	(179.1)	(107.5)
Other	(13.6)	(5.9)
Closing net debt	(295.6)	(129.5)

Headroom
(current facilities)

Borrowing
£159.8m

Pricoa
£84.3m

making a difference

Moving on to net debt.

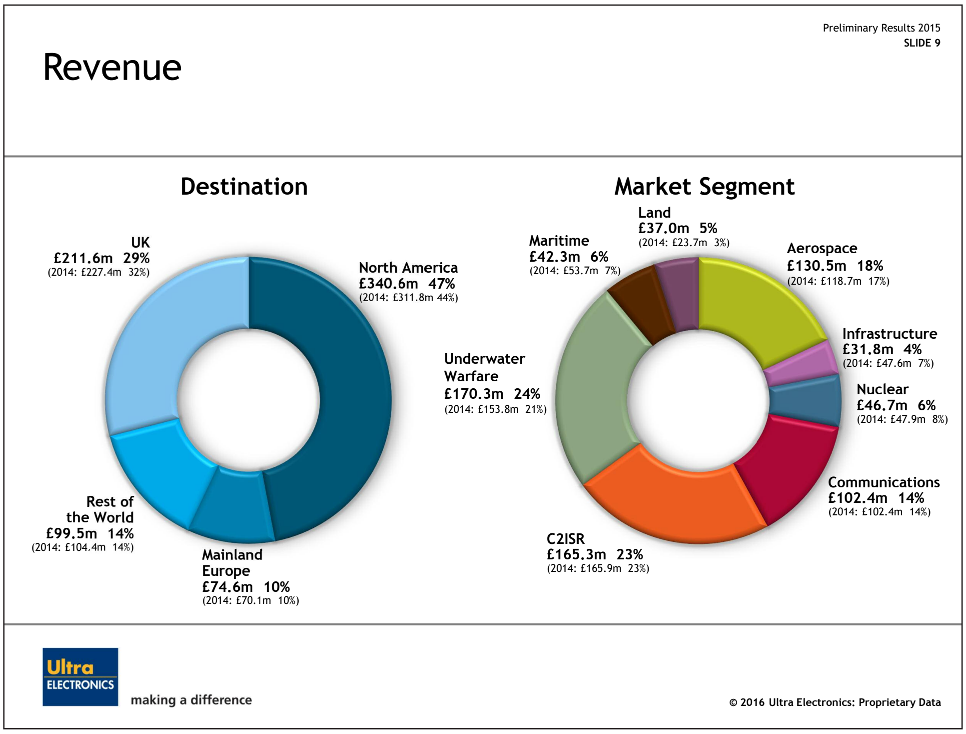
Interest tax and dividends were slightly down as cash tax paid was lower than the prior year.

Acquisition costs were up reflecting the investment in the Herley business this year. Our leverage at the end of the year is 2.2x Net Debt to EBITDA, in line with expectations. We expect it to reduce to below 2x by the end of 2016.

Within other debt movements, the impact of currency reflected the strength of the Dollar at year-end, and took closing net debt to £295.6m.

During the period, we amended our £100m revolving credit facility to match the favourable interest pricing of our £200m facility, and also extended the facility to expire in August 2019. A $225m term loan, also expiring in August 2019 was also put in place at the time of the Herley acquisition. The covenants match the revolving credit facilities. This takes headroom on current facilities to £159.8m, with an additional £84.3m on our uncommitted Pricoa bilateral facility.

Finally, whilst on the balance sheet, a note on pensions. Following the consultation during 2015, this month we announced to members that we had reached agreement with the Trustee and plan to close the defined benefit pension scheme to future benefit accrual from 6 April 2016. This does not impact the 2015 results, but will reduce risk going forward.



Here we include the geographic and segment analysis.

As there are no major changes, I will not comment on the detail.

Preliminary Results 2015
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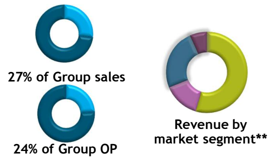
Divisional performance

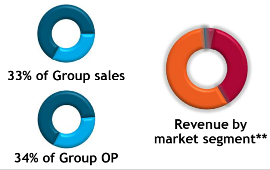
Aerospace & Infrastructure

	2015	2014	
Order book	£265.4m	£252.9m	+4.9%
Revenue	£193.2m	£198.6m	-2.7%
Operating profit*	£28.7m	£29.6m	-3.0%
Operating margin*	14.9%	14.9%	



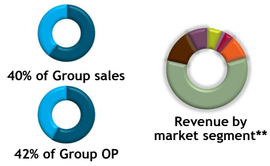
Communications & Security

	2015	2014	
Order book	£213.7m	£214.5m	-0.4%
Revenue	£239.3m	£224.4m	+6.6%
Operating profit *	£40.4m	£37.0m	+9.2%
Operating margin*	16.9%	16.5%	



Maritime & Land

	2015	2014	
Order book	£274.7m	£319.9m	-14.1%
Revenue	£293.8m	£290.7m	+1.1%
Operating profit *	£50.9m	£51.5m	-1.2%
Operating margin*	17.3%	17.7%	



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***colour coded as slide 9*

Ultra ELECTRONICS making a difference

Moving on to how the three divisions performed and starting with Aerospace & Infrastructure at the top.

The reduction in revenue reflected the £11.7m of sales from the Oman airport IT programme in the prior year. Excluding the impact of Oman, divisional revenue increased by 3.4% reflecting higher Aerospace revenue, particularly on the MRJ and the JSF platforms. There were also increases in airport systems and vehicle programme revenues.

The divisional margin was 14.9%, in line with last year as lower margins in the engineering phases of certain aerospace projects were offset by higher margins on our vehicle programmes as they enter the production phase. There was also a positive impact from foreign exchange.

The order book reflects increased orders for commercial aerospace products and services.

Moving to Communications & Security. This division saw the benefit of the acquisition of Herley in the period together with the prior year acquisition of Forensic Technology. Against this, revenue was impacted by the repeal of the US Patriot Act which significantly reduced domestic legal intercept revenues in our SoTech business. However this was offset by an increase in revenue from security and surveillance products and from the ECU RP programme as well as the positive impact of foreign exchange.

The margin increased to 16.9% as the ECU RP programme completes its production phase and Herley also improved the mix. This more than offset the impact of the loss of high margin revenue in the SoTech business.

The order book saw the impact of Herley offset by the trading of the ECU RP Crypto contract and the reduction in US contract placement over the last 12 months.

Finally moving to Maritime & Land.

There was an increase in revenue from US and international sonobuoys reflecting the continuing Pivot to the Pacific. We also saw increased revenue on the Sonar 2050 programme for the UK MoD, however this was offset by the impact of funding delays on the Torpedo Warning System in the US and by a reduction in rail power management revenue. Margins were lower, at 17.3%, reflecting the release of some contract risk reserve in the prior year and the product mix in our sonobuoy business.

Finally the order book reflected the trading of contracts including Fatahillah and sonobuoy partnering. This division was also particularly impacted by the delay of contract awards into 2016

Preliminary Results 2015
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S3 – Standardisation and Shared Services

- Programme on track
- Shared Services Centres planned in UK and US
  - UK centre to be set up in Wimborne, Dorset during H1 2016
- Procurement savings being delivered



Ultra ELECTRONICS making a difference

Before I finish I wanted to update you on progress in two key areas, S3 and the integration of Herley

Firstly S3. The programme is on track. We have recently announced the location of our UK Shared Service centre in Wimborne Dorset – this will be set up during the first half of this year, with the US centre following. Procurement savings are already being delivered with our UK mobile phone contract being the first example.

The costs of the programme during 2015 were in line with expectations and comprised project costs, together with the costs of headcount reductions and property consolidations.

These will generate savings during 2016 of c£3m which will allow the programme to start to self-fund during the year. Along with delivery of property and procurement savings from the shared service centre, 2016 will see the confirmation of our ERP strategy and the implementation of an ERP pilot.

In the future, S3 will bring scaleability as we make acquisitions – as a reminder we have not included any S3 savings in the Herley acquisition case.

Now to Herley. The integration is on schedule, with $1m of the acquisition case synergies already actioned and a further $0.5m planned. In terms of its market performance, Herley's future position is improved by its selection for more than expected of the modules in the major US Ship Electronic Warfare Improvement Programme (SEWIP). This will secure significant revenue opportunities over many years.

And finally moving to guidance.

Preliminary Results 2015
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Guidance

- Current volatility in the world markets
- 2016 will benefit from acquisitions and foreign exchange translation
- 2016 organic growth in a range within expectations
- Overall performance in line with expectations
- Continue to balance investment for future growth with focus on efficiencies
- Excluding Oman, cash conversion between 70% and 80%

making a difference

As with 2015, our aim is to enter the year cautious. Despite some increased clarity in defence budgets, we recognise the current uncertainty in the world markets.

2016 will benefit from acquisitions made in 2015 and from foreign exchange translation at current rates. However, given the uncertainty I have mentioned, we currently see organic growth in a range from -2% to +3%. This should lead to overall performance in line with expectations. We will continue to balance investment for future growth with focus on efficiencies and managing our costs to support profitability.

Excluding Oman we expect cash conversion between 70% and 80%.

On Oman, we originally guided to an impact post-termination of between £10m and £20m. In line with this guidance, and reflecting our management of cashflows in 2015, there is the potential for further short-term outflow of up to £10m.

The timing of any recovery will be determined by whether we settle amicably or proceed to arbitration.

On that note I will now hand over to Rakesh to discuss future prospects.

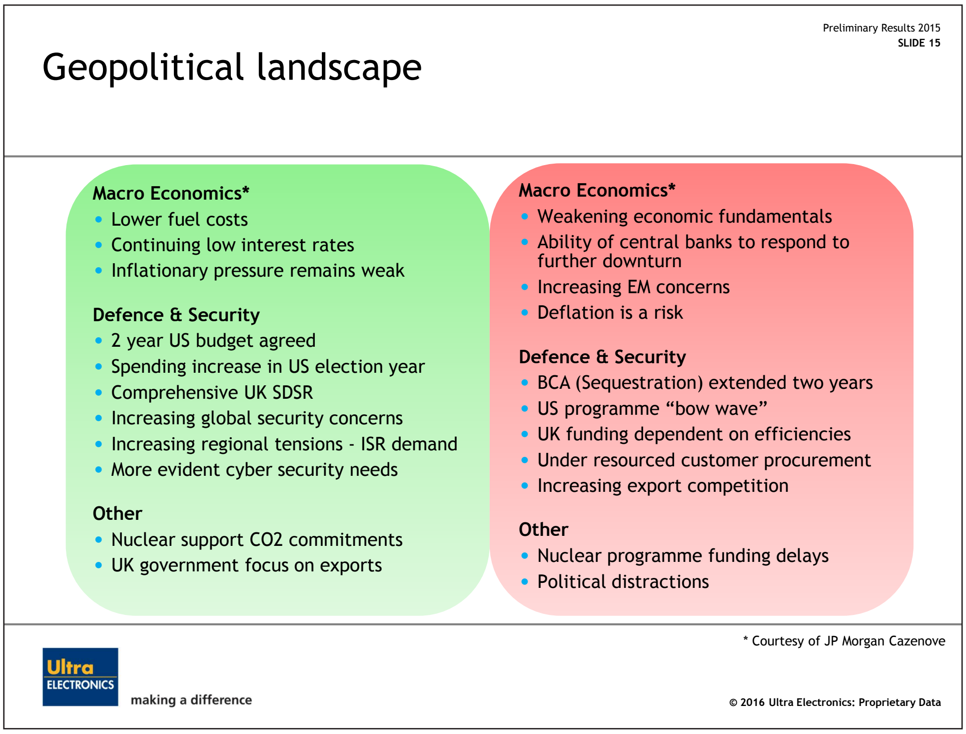
Rakesh Sharma, Ultra's Chief Executive, continued covering future performance and market dynamics.

Thank you Mary.

My presentation today is going to have three distinct sections:

- Geopolitical landscape;
- 2016 Market Segment drivers; and
- An update to the long term opportunities

So first, onto the geopolitical landscape.



Since the beginning of 2016, macro-economic conditions have become very confusing and the pieces of the jigsaw seem to no longer fit to make a coherent picture.

Looking ahead, well publicised macro factors continue to threaten future Governments' tax intake and therefore spending plans. Since a major portion of Ultra's revenue derives from Government funding these uncertainties can have an effect on Ultra. Many commentators have spoken on the macro-economic conditions so for brevity I don't intend to discuss this any further.

In the Defence & Security market some of the positive factors are:

- An unexpected two year US budget deal, reducing some of the funding uncertainty.
- In a US Presidential election year defence outlays are up. As a consequence we are anticipating better order intake in 2016. In January of this year defence outlays were up 26.9% year on year – a good start which will filter down the supply chain.
- In the UK the SDSR was positive on several fronts; a commitment to spend 2% of GDP on defence including Maritime Patrol, the deterrent, drone operations and Special Forces.
- Elsewhere tensions continue to rise. It is arguable that the world has not been this unstable since the Cuban missile crisis. Stresses in the Middle East, Asia-Pacific and the Balkans are driving demand for Intelligence, Surveillance and Reconnaissance systems including Electronic Warfare.
- Attacks on networks continue to escalate in the cyber world. Encryption and cyber protection are becoming normal conversation amongst Boards and Executive Teams. We continue to anticipate that the market will feature early adoptors for another year with profitable growth in commercial markets beyond that.

There are also some difficulties in the Defence & Security market.

- We must not forget that the US Budget Control Act is still on the statute books and will continue to influence future defence spending plans. In fact, an outcome of increased US spending in the two year budget, that was agreed late last year, is that sequestration has had to be extended by two years to 2023.
- The reduced defence outlays of the last three to four years have created a bow wave of expenditure putting pressure on programmes to delay spend into future years. The reduced quantity of F35s, in 2016, but increasing in future years, is a direct consequence of this.

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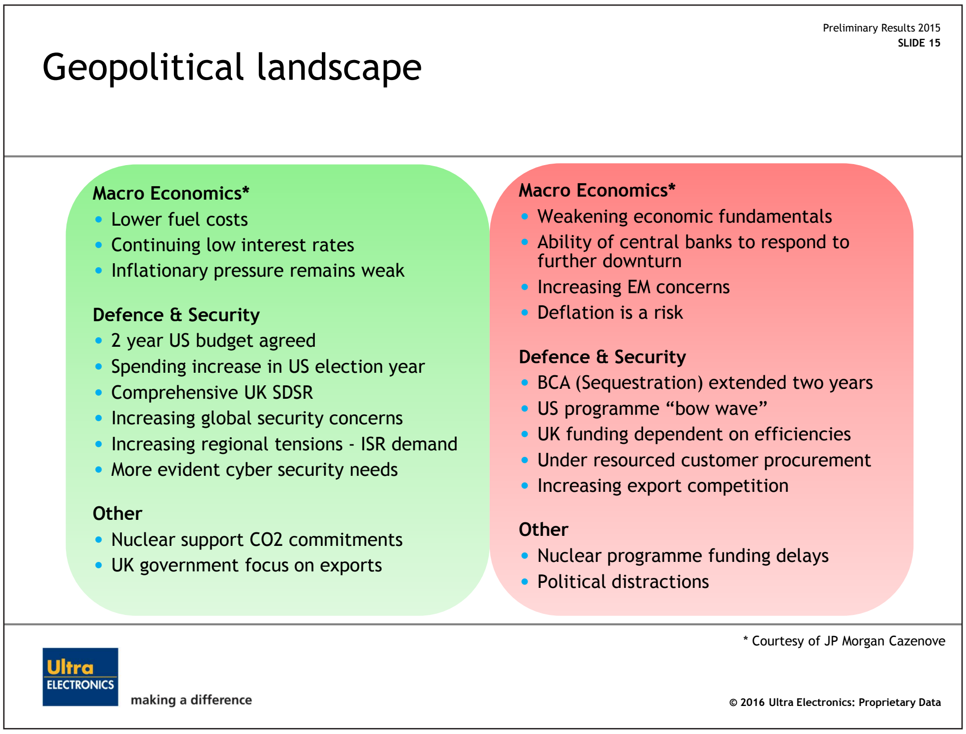

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- Although the UK five year defence spending plan has increased by £12bn to £178bn, £7bn of this is to come from efficiencies. This from an organisation already under severe pressure where there aren't enough commercial resources to be able to place contracts in a timely manner.
- Finally, no-one's backyard is now large enough to sustain its domestic defence industry. This is leading to increased competition in export markets from the French, Chinese and Americans – who are equally if not better supported by their Governments than in the UK.
- Finally, no-one's backyard is now large enough to sustain its domestic defence industry. This is leading to increased competition in export markets from the French, Chinese and Americans – who are equally if not better supported by their Governments than in the UK.

Other positive factors in the nuclear and export markets worthy of mention are;

- The UK legacy nuclear market is buoyant despite the reduced operation of the nuclear fleet in 2015. EDF's recent news that the lifetime of four reactors is to be extended by five to seven years is good news. It means that nuclear continues to be seen as part of the electricity generation equation and important to the UK in meeting its carbon reduction targets.
- One final aspect is exports which are vital not just to defence but to UK industry. The UK Government has been very supportive with the implementation of the Defence Growth Partnership and Aerospace Growth Partnership. There is an imperative for UK industry to have only one UK plc bid. In this way Government support can be focused and avoid the current dilution of effort.

But as before life is not all rosy and there are also some difficulties;

- New UK build reactors continue to be challenging. They require; large capital investment and a high guaranteed price of electricity while construction costs remain uncertain owing to their bespoke nature. It is currently unclear how the UK's four new nuclear reactors will be funded and when construction will commence.
- Although good progress has been made in export markets, the attention of the politicians has switched to the EU referendum causing a vacuum in Government support.

It is for all these points and counterpoints that the crystal ball is a little bit cloudy at the moment and why we have given you a range for total 2016 growth. As last year we enter this year cautiously.

2016 market drivers

Segment	% 2015 revenue	Segment dynamics	Exposure to Macro
Underwater warfare	24%	Increasing demand for ASW in US and globally e.g. resurgent Russia Export controls could limit access to emerging markets	Low
Maritime	6%	Strong submarine build programmes in US & UK likely to be prioritised Ship build programmes unaffordable and under review in US & UK	Medium
Land	5%	UK & US upgrading AFVs and export markets investing Soldier-worn power management a new growth opportunity	Low
C2ISR*	23%	Increased demand for border security and CNIP but O&G revenue impact Tensions drive ISR demands that match Ultra's capabilities	Low
Communications	14%	US & UK resetting crypto strategies but more reliant on commercial technology Military communications programmes face funding difficulties	Medium
Aerospace	18%	Commercial revenue growth has peaked but market appears resilient JSF dominates military aircraft spend	Low
Nuclear	6%	New build delayed by funding issues but legacy extension market strong SMR provide potential solution to high cost traditional construction	Low
Infrastructure	4%	Airport IT sector changing and investment impacted by macroeconomics Rail investment has moved on to AC New opportunities in smart grid	High

* Command & Control, Intelligence Surveillance & Reconnaissance

making a difference

Having set the geopolitical scene let me now discuss the key drivers for four of our market segments that together make up 80% of Ultra's revenue.

In Underwater Warfare global investment in modern, quiet conventional submarines and a resurgent Russian submarine capability are fuelling an increased demand for advanced Anti-Submarine Warfare (ASW) capabilities, including sonobuoys, torpedo defence and countermeasures, integrated wide-area search capabilities, airborne ASW and shallow water systems for smaller vessels.

In C2ISR, regional tensions and challenges are driving demand for the ability to operate forces under the threat of a range of anti-access/area denial or A2AD systems. This provides strong opportunities in ISTA and Electronic Warfare equipment. The border security market is projected to grow from $4.5bn today to $8bn by 2024 reflecting the impacts of regional conflict, security threats and migration. Increased security demands are also driving the interest in protection of fixed critical infrastructures and utilities. This degree of complexity benefits providers of robust integrated Command & Control (C2) solutions that can overlay with existing sensors and systems.

These same tensions support forecast growth in Communications at over 7% CAGR despite land force consolidation post long deployed operations. Growth drivers include reduced size, weight and power, interoperability and wide-bandwidth secure data access. Encryption programmes in the US and UK are resetting around software programmable solutions that Ultra understands well. Increased security programmes require robust, secure communications networks. In the commercial communications market a growing demand for machine-to-machine solutions to enable new smart initiatives. Government funding pressures and changes in procurement strategy will introduce some uncertainty in this segment.

Finally, in Aerospace, after several years of revenue expansion, large civil aircraft order intake growth has plateaued but with record order book levels and strong passenger travel demand which has seen 85% growth since 9/11. Attention now falls on the ability of the supply chain to meet increased production rates and on the potential for competition from new sources such as COMAC in China. The regional aircraft market is crowded and orders here will be hard won. Military aircraft will be dominated by the F-35 JSF programme and by medium size military transports, on which the Group is well established. The military rotorcraft market is declining but opportunities exist for specific capabilities to improve operational performance such as Health and Usage Monitoring Systems (HUMS) and rotary ice protection.

So now let me move on to the longer-term opportunities.

Preliminary Results 2015
SLIDE 17

Long term growth opportunities

Segment	Key programmes	Values	Likely award
Underwater warfare	India NTDS TB-34 Towed Array India IADS & ASW	£30m £30m £48m	2016 - contract negotiations completed delayed into 2016 2018
Maritime	UK Successor - power & control USN ship power products UK Successor - signature management Fatahillah 2 - Indonesian Corvette Refit	£13m £15m £11m £15m	development underway delayed into 2016 2017 - funding starts after Main Gate 2017 - following delivery of Fat'lah 1
Land	Scout SV production (now Ajax) Versatile Missile Launcher for Far East **UK VIRTUS soldier worn power system**	£12m £14m £30m	**won** **won** 2016 - first trials underway
C2ISR*	Middle East Land Border Security NATO JEWCS - Land and Maritime Scope 4th Generation Targeting Pod for RAF	£125m £100m £50m	2016 - selected as single source 2016 2017
Communications	Typhoon, Watchkeeper, A400 crypto Project REMARSHALL US Army WIN-T ORION radio production	£42m £11m £32m	**won** - development contracts 2016 - through to development phase 2018
Aerospace	Korean Military HUMS programme XAC MA700 PEC **Cessna Hemisphere control systems** WheelTug on Boeing 737	£14m £2m £40m £70m	**won** - initial contract 2016 - agreed IP license to GE Dowty 2017 - new programme launched 2018
Nuclear	**Small Modular Reactor I&C development with NuScale** US Plant Life Extension expanded sensors & safety I&C Chinese CPR-1000/ACC-1000 new build reactor sensors	£20m £30m £9m	**won** - new - first contract awarded 2016 2017
Infrastructure	**Fault & surge protection for smart grid** London Underground & Manchester Metro DC systems Baggage System upgrades (Heathrow & SA)	£2m £9m £13m	**won** - new capability development 2016 2018

* Command & Control, Intelligence Surveillance & Reconnaissance

Ultra ELECTRONICS making a difference

This slide is an update to the one presented at the Interim presentation last year. We have not lost any of the opportunities listed previously. They have either been won, delayed or cancelled. For the sake of expediency rather than go into details of each opportunity I will cover the new entries.

First, UK VIRTUS. This is wearable power and data technology incorporated into the body armour of a soldier and Ultra has developed the only known fully compliant Generic Soldier Architecture (GSA) solution. The British Army has had our equipment on trial during November and a number have been delivered to UK's DSTL as part of their soldier vision programme. Both of these engagements help Ultra to position for the UK's soldier system upgrade called VIRTUS. Ultra is also supplying systems to the export market as part of network enabled soldier upgrades.

Second, Cessna Hemisphere Control System. Last year Cessna launched the Hemisphere business jet, the largest in Cessna's "Citation" business jet family, which will have a transatlantic range. Ultra has offered its latest technology in steering, landing gear and door controllers that has been recently developed on other programmes. Our offer has been well received, owing to its fully developed and short timescale status. We expect to respond to an RFP in the second half of 2016. The aircraft is scheduled to enter service in 2021 with its first flight in 2019.

Third, Small Modular Reactor Instrumentation and Control (I&C). Ultra has a strategic partnership with NuScale to develop the I&C for its Small Modular Reactor (SMR). In 2015 Ultra received orders totaling approximately £5m contracting for the design certification phase which will extend into 2016 with another order for approximately £1m. NuScale continues to place contracts as Ultra makes progress. This activity will eventually lead to a manufacturing contract of around £20m.

Finally, Smart Grid. Electrical grids are currently running near the maximum of their capacity. Funding has been provided by Distribution Network Operators (DNO) under a smart grid programme to allow renewables and micro-grids to be added without causing an overload. Currently there are two competing technologies under evaluation.

- Passive magnetic technology led by a UK Company called FCL and
- Super-cooled magnetic technology led by a US company, American Superconductor.

The former is being supported by Ultra in Staffordshire the latter by Ultra in Long Island. The size of future opportunities is dependent on the adoption by the network operators but we believe it is a significant area for growth.

Preliminary Results 2015
SLIDE 18

Summary

- Results in line with expectations
  - market segment organisation has been embedded
  - Standardisation and Shared Services (S3) and Herley integration on schedule
- Continuing to invest for long-term growth
- Progress in 2016 in line with expectations

making a difference

So to summarise.

As you can see from todays presentation 2015 was a busy year for the group with:

- The introduction of the new market segment structure – providing greater clarity internally as well as externally.
- The initiation of the S3 programme – which will deliver group-wide cost savings and efficiencies and
- The acquisition of Herley – the integration of which is on schedule.

All of these initiatives are significant for the Group's progress and have taken time and resource to implement. Further, we faced worsening market conditions during the year. It is therefore pleasing to have achieved the in-line results we announced this morning.

Looking ahead, we are well positioned and while there are some positive macro growth drivers, there is also some increased uncertainty in the market as well as some short term political distractions. We remain committed to our R&D investment at our normal rate and expect to see full year benefits of our new initiatives. Mary has outlined our guidance for 2016 and the overall picture is one of steady progress through the year.

Looking beyond the current year we expect the increased spending levels that will come through during this year to feed revenue growth in 2017.

As this is Mary's last presentation before leaving us, I would like to thank her for her hard work. I wish her well in her new position. This leads me onto introducing Ami Sharma, no relation, as our Interim Group FD. Ami used to be Ultra's Group Financial Controller until he left to be the CFO for Gibbs and Dandy and has also thrown his hat into the ring to take over the role permanently.

Thank you that is the end of our presentation and we will now take your questions.

Note: Appendix slides omitted from this document.

Ultra 2015 Prelim Q&A transcript

Q:

I wanted to touch quickly on your expanded organic growth range of 2016. Because if I recall, as late as mid-December, you were talking about flat to 2% growth. Obviously at that point we'd already had the SDSR, we'd had the two-year budget deal and you baked in expectations of higher cash outlays in '16. Now I know Ash Carter's comments around reduced numbers for deliveries on JSF will be part of that, but can you just give me any colour in terms of what's actually changed in the last month in other markets from your December commentary?

A:

Rakesh Sharma, Ultra

I think it's more to do with the impact of the oil price. It is affecting the budgets of countries in the Far East and the Middle East. They have a big need because they have lots of instability and lots of security problems. But they also have big budget pressures. I know some of the countries in the Middle East have 2016 budget gaps. So until we know how they're going to start to fill those gaps, we feel uncertain about giving you a single number for organic growth.

However, the range that we've given you should allow us to deliver 2016 to the expectations. So we're not downgrading anything. We're happy with the expectation that is out there but we're just saying there's a little bit of uncertainty in organic growth.

Q:

I just wanted to extend that conversation and talk a bit about maybe '17. Because you can see that '18, the longer cycle stuff in the US budget in terms of outlay should start to benefit from the budget authority increase in '16, given the normal lags. You've got FX and you've got M&A full-year benefits in '16. Does that leave a hole in '17 or is there something in the order outlook that you've got that will fill that gap, if you like?

A:

Rakesh Sharma, Ultra

Good question and you sort of answered it yourself at the end. So if I can just build on that answer. Bear in mind the £100m slip in order intake in December, these are contracts for which we have negotiated positions and we're expecting more than £50m of those orders in the next month. If you remember last year, we said our second half was more dependent on the export market than it was on the US market. Therefore, we were a little bit immunised to what was going on in the US as a result, and because of the slippage of orders, we had something like £15m of revenue and £5m of profit slip out of 2015 into 2016. So the question then is, are those orders additive to 2016 or not? The answer is yes they are additive, because they're export, they tend to be one-offs. It's not something that happens every year. India's not going to order £30m of torpedo defence every year.

2016 is going to be a higher order intake year anyway because the US defence outlays will be up. Therefore we believe that leads to the organic revenue growth in 2017. We're very comfortable with the consensus that's out there at the moment.

Q:

So on S3, you charged £5m to the income statement in this period. Can you just remind me what you see being charged in '16 and also your commentary around S3 having been expanded in scope? Does that mean the £30m cost has been expanded? Or not really, it's just you think you can achieve more with the same financial outlay?

A:

Mary Waldner, Ultra

By scope, are you referring to the point that S3 will bring scalability as we acquire?

Q:

Yes.

A:

Mary Waldner, Ultra

So, as a reminder, when we launched S3, we made it clear that the Herley acquisition case didn't include S3 Group-wide savings, it just included synergies across the four Herley businesses. It's also a reminder that S3 will bring scalability going forward. So it isn't necessarily a scope change, it's more saying that the costs and the benefits that we highlighted didn't include future acquisitions, including Herley.

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Going back to the costs, so yes, we charged £5m to the income statement as a non-underlying charge in 2015. Going forward in to 2016, the savings that we're already starting to see coming through will start to self-fund the programme. However, given the timing of those, there may be a low single digit non-underlying charge in '16 also. But we expect by the end of '16 the programme to be self-funding.

Q:

The second question was you mentioned ECU RP at the end of the contract. Reading between the lines, it sounds like there was a contract provision release at the end of that contract. How significant was that? Just so we can understand in our forecast base going forwards that that obviously is a non-recurring?

A:

Rakesh Sharma, Ultra

It wasn't a provision release in that sense. Effectively, if you remember what we do, we take a very cautious position with regard to margin during the engineering phase of a contract. The outturn margin remains about the same, but it's back-end loaded on production. So it was the release of that pent up margin towards the end of the contract.

Q:

Thank you, and the final question, thank you for taking us through the detailed slides with your long-term outlooks and prospects. I always have a slight challenge in translating that, and particularly with understanding the new divisional structure into – and look, I'm not saying please give us exact numbers that plug in our model, but the organic growth range you've given for the group, if we translate your long-term, mid-term opportunities that you see and we look at that group organic growth range minus two to plus three and we just think about that in terms of overlay across the three divisions as to what's above, in line, below, where the biggest risk factors lie within the breadth of that range, it sounds like it might be in Communications & Security, based on your earlier answer, but I'm not sure. It would just be helpful maybe for me because I'm still understanding how to model these new divisions.

A:

Rakesh Sharma, Ultra

While Mary is looking up the individual divisional rates. From a Group perspective, the long-term organic growth rate that we believe – and you remember we presented a slide, at the prelims last year which gave you what our forecast assumptions were against market growth rates, was in a range between 2% and 5%. You're absolutely right, the Communications & Security division because of some of the Middle East aspects that I spoke about, that is probably most subject to volatility in government tax intake.

Mary Waldner, Ultra

In terms of the organic growth rates. Over time, they will be the same. But we continue to see Electronic Warfare and Underwater Warfare as medium term areas that will exceed that. So driving, obviously, the Communications & Security and also Maritime & Land in the short term. Commercial aerospace growth will contribute to Aerospace & Infrastructure.

Q:

Just to pick up on that answer you gave earlier, so the order slippage, you lost £15m of sales and £5m of profit from the second half of '15. Your answer seemed to imply that will be traded in '17 rather than '16?

A:

Rakesh Sharma, Ultra

No. So some of it will be traded in '16, some of it will slip into '17.

Q:

So prior consensus didn't expect you to trade that excess revenue and profit in '16. The currency has probably been a little bit more friendly to you. So if one wanted to be critical, you could say why are you only just happy with consensus numbers for '16 as opposed to saying some of this revenue and profit slip means '16 should now, in your short-cycle businesses, theoretically be better than you'd previously expected?

A:

Rakesh Sharma, Ultra

Well if you remember this time last year, I went from being optimistic to being called the most pessimistic in the market. I think results in the year have proven me to be correct. We purposefully switched our stance to being cautious at the beginning of the year and then guiding during the year upwards rather than downwards or in line rather than downwards, as circumstances developed.

It's exactly the same this year. I'm entering into the year cautious. We will see what happens in the market in terms of all these tensions that we've spoken about around the world and what that will do to government spending around the world and then provide clearer guidance as we move through the year and update everybody at the interims. We want to enter into the year cautiously. It's a very uncertain time in the world at the moment.

Q:

SDSR is now three months ago, I'm sure you've done work on that. Can you just talk a little bit around the implications that you see, the opportunities for Ultra? Also the recent Australian white paper, do you see some opportunities there as well?

A:

Rakesh Sharma, Ultra

Absolutely on both. We see opportunities in the UK and in Australia. Actually, let me cover Australia first. You'll remember we have a sonar and an EW company, in Adelaide and that Australia has the largest coastline in the world to protect. They've got the migration problems from Papua New Guinea and, although they trade very heavily with China, they've had a lot of issues with Chinese subs.

The Australians are going to invest over the next few years in their naval ship building and submarine building programmes and it is really quite exciting. We would hope, having won the sonar for the Air-Warfare Destroyer that the sonar then crosses onto the other platforms. So we do see it as good medium-term to long-term growth potential.

Here in the UK, it's good news for us that the Government is committing to a maritime patrol aircraft. Obviously we do the receivers and we do the sonobuoys in one way, shape or another. We would hope to get some of the acoustic processing on the P8 as well. All that is very positive news. I think the Government has realised it's very difficult to chase off Russian submarines when your Type 23s are based in Portsmouth and it takes them a day to get to where the Russian subs are. The Merlin helicopters don't have the legs to stay on station as long as needed.

All of this is very positive and plays to what we were saying about the Maritime & Land division. Some of the other things in the SDSR, the 2% commitment to defence spend; is very positive. I think there were rumours that it was going to go down to 1.8%. The other thing that the Treasury has done is said that any efficiency savings can be kept by the MoD and used to procure equipments.

The issue that we have within the UK is MoD's resourcing. Previous cuts within MoD have been headcount related. They've tried to protect the equipment side. The organisation has cut the headcount but hasn't really cut the bureaucracy that is in the organisation. So you've got less people trying to drive the same paperwork and there just isn't enough people. So things take longer.

In other areas our Special Forces have been very welcome, especially by the US. If you remember, Donald Rumsfeld actually said that the UK Special Forces were better than the US's. They don't really say that very lightly about anything in the US. So that was a real tick in the box. I think the Government is focusing on expanding our Special Forces and improving them.

We look forward to the SDSR coming out into reality. The question is, will they have the resources to make it happen. They've got the money; can they spend it?

Q:

One of your most successful export products have been Litening targeting pods. Are you expecting, having had the success with Litening I, with the design sourced from a non-NATO power, in the following new models, namely Litening II, III and IV?

A:

Rakesh Sharma, Ultra

Yes, if you remember, Litening is one of the things that we do in partnership with Rafael. It is actually an original Rafael product that we teamed and did a technology transfer adding our technology in datalinks and cryptos to the pod. We're supplying Litening III at the moment. It's the targeting pod for the Tornado and the Typhoon. We have had, on trial with the RAF, something called RecceLite. This is a subset of Litening III that allows them to do reconnaissance and Q surveys. So far, the pilots love it. We're hoping that it will turn into an order later this year.

In terms of supplying Litening IV, I think the RAF is very much interested in RecceLite first. Then maybe we'll consider Litening IV as something like the JSF comes into main operation and service.

Q:

Can you export it though?

A:

Rakesh Sharma, Ultra

The only areas where we can export is where we've got agreement with Rafael that we will export and not them. They take care of export to other NATO countries. We are allowed to export – I'd rather not name the countries – but there are a handful of countries that we – in our agreement with Rafael that we are allowed to export and we are following those up. There is interest in that export market.

Q:

Would you be allowed to say whether India is in the former or latter category?

A:

Rakesh Sharma, Ultra

It's in the former. Ultra will not be exporting Litening to India. That would be done directly by Rafael.

Any other questions? Thank you very much and we'll see you in six months.

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