positioned for growth…

through portfolio strength…

focused on customer need

Interim results presentation and script

Rakesh Sharma, Chief Executive
Mary Waldner, Group Finance Director
3 August 2015
Ultra Electronics is a Group of businesses which manage a portfolio of specialist capabilities, generating highly differentiated solutions and products in the defence & aerospace, security & cyber, transport and energy markets…

…by applying electronic and software technologies in demanding and critical environments 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 interim results for 2015. The presentation will follow the usual format. Mary will cover the first half performance of the Group, using the new market segment organisation and I will then cover the future performance. The presentation and script will be available later this afternoon on our website. I would like to point out that this session is being audio recorded and a transcript of the Q&A session will be available later this week, also on our website.
It has been a busy first half and we are well positioned for the future.

Before Mary goes into the details let me give you the headlines;

• The first half performance is in line with our expectations.
• Market conditions remain difficult in the UK and US Government related sectors. Particularly down to the election cycles.
• The full year outlook is unchanged.
• Ultra continues to invest for medium term growth both through R&D and acquisitions.
• The acquisition of Herley was announced and will close soon subject to US Government approval.
  and finally,
• I anticipate improved performance from 2016.

Now let me hand over to Mary.
Mary Waldner, Group Finance Director, presented the details of Ultra's first half financial performance.

Thanks Rakesh and good morning to everyone.

Starting with the key metrics;

The order book was £762m compared to £877m at the end of June 2014. Excluding the removal of £92.5m of orders relating to the Oman Airport IT contract and the impact of exchange, the underlying reduction is 4%. This primarily reflected the trading of our ECU RP contract and the Indonesian Fatahillah contract.

The order intake for the half of £310m takes order cover for 2015 to 83%.

Revenue, at £331.7m, was 2.7% down on last year and operating profit at £50.4m saw a 4.9% decline reflecting the impact of increased restructuring costs this year.

Profit before tax was down by 6.1% and earnings per share declined by 5.8% as the tax rate reduced from 23.8% to 22.8%.

The dividend has increased by 4.5% to 13.8p.

As we discussed at the prelims, we expected cash to be strongly half two weighted this year. Cash conversion during the period was 31% compared to 80% last year. A number of factors both around timing of working capital and the impact of Oman have unfortunately combined to make this an unusually low period for cash conversion. We anticipate that it will move back towards more normal levels during the second half of the year.

Finally, following the termination of the Oman contract, the liquidation of Ithra has resulted in a non-cash, non-underlying IFRS accounting charge of £16.5m. It primarily reflects the accounting treatment of the minority interest.
Moving to the revenue bridge

Currency translation resulted in an increase of £14m or 4.1% with sterling on average 9% weaker against the US dollar at 1.52 compared to 1.67.

The four acquisitions made in the previous year added £17.3m with Forensic Technology contributing the majority as we had only six weeks of ownership in the first half of last year.

Excluding the reduction relating to Oman, the underlying organic decline was £26.6m or 7.8%.

The impact from challenges to the US Patriot Act on domestic intercept revenues from our SoTECH business led to a £13m decline. The balance reflected the generally lower level of activity across our government related business, in particular the uncertainty surrounding the next US fiscal budget and the impact of the US and UK election cycles.

Turning to the profit section of the slide.

If you follow the slide from left to right, it highlights the main reasons for the reduction in profit from £53m to £50.4m.

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

Acquisitions added £1.3m and there was an organic volume decline of £7.4m, representing the effect of lower revenue at last year’s margin.
Turning to our investments to support future growth.

You will see on the right hand side that the acquisition spend in the period was limited to £3.7m, reflecting earn-out arrangements on prior year acquisitions. This is compared to the £104m we spent on the acquisitions in the prior year. During the period we agreed the acquisition of the Electronic Products Division of Kratos, with the deal expected to close in Quarter 3.

Research and development spend declined by 4% to £71.4m. However this primarily reflected an expected reduction in customer funded development. Rakesh will elaborate further on this later. Ultra funded development was 5.7% of revenue or £18.8m.

Expensed R&D was broadly flat at £17.3m and capitalised R&D £0.8m lower at £1.5m. This is well within our usual range of self-funded R&D being 5 to 6% of revenue.

As a result of this, capitalised development costs on the balance sheet stand at £16.2m.
Moving to the income statement, I want to highlight elements of the cost reduction programme.

We have continued to cut costs across the Group to protect the margin in the face of declining revenues.

In the period there have been a total of 203 headcount reductions at a cost of £2.2m compared with 159 during the first half of 2014 at a cost of £1.4m. 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. Our cumulative headcount reduction since 2012 is 1,308.

We continue to monitor the rest of the cost base across the Group and we have consolidated businesses where this has been appropriate. Surveillance & Security Systems and AEP are being integrated with CIS to bring our crypto and security businesses together. The ProLogic and SoTECH businesses have also been merged under the US Proxy Board.

Finally a word about tax – the rate continues to reduce as the headline rate of corporation tax falls in the UK, and is at 22.8% down from 23.8% last year. We expect it to remain around 23% going forward.
Turning to cash.

As discussed at the prelims we expected cashflow to be strongly half two weighted this year. A number of factors have combined to make cash conversion unusually low this period. I’ll run through the key elements now.

Depreciation and disposals were at similar levels to last year.

Tangible capital expenditure was £2m, £3m lower than last year with intangible asset expenditure also down reflecting a reduction in capitalised development costs.

Working capital increased by £34.9m, reflecting a reduction in creditors and an increase in inventory partially offset by a reduction in debtors. Let me talk you through the main drivers of the increase, and why we should see cash conversion returning to more normal levels during H2.

Firstly there was around £10m impact relating to Oman. Secondly, reflecting a trend we have been discussing for some time, around £21m related to the continuing unwind of advanced payment balances including on our ECU RP contract and on our US sonobuoy IDIQ. In both cases the impact is particularly marked at the moment; on the ECU contract as we move to the production phase which will be largely complete in 2015, and on the IDIQ as we unwind the 2014 contract and move, during the second half of this year, on to the 2015 contract where advanced payments are more closely matched to delivery.

The final element I want to highlight is an inventory impact of around £4m. This reflects a large increase in inventory to deliver second half sales, partially offset by an underlying reduction resulting from our company wide initiative targeting working capital.

During the second half, as a result of this initiative and reflecting the second half sales profile we expect underlying inventory to reduce. Although some advanced payment unwind will continue, the factors I have mentioned should ensure that cash conversion returns to more normal levels.

The Other outflow of £2.6m primarily represents the pension deficit reduction payments agreed with the trustees.

Moving to non-operating cash flow, interest, tax and dividends reduced by £2.5m as a reduction in tax paid was partially offset by an increase in the dividend.

Acquisition costs were £3.7m, with spend limited to prior year earnouts and other acquisition-related spend, compared to the prior year where £104m was invested in four businesses.

Our closing net debt was £150m. We recently took advantage of a strong borrowing market and refinanced our £100m facility early. This allowed us to match the favourable interest pricing of our £200m facility and extend the £100m facility to expire in August 2019. This leaves our headroom on current facilities at £157.2m with an additional £79.5m on our uncommitted Pricoa bilateral facility.
For completeness we are including the geographic and sector analysis.

To the right of the slide we are for the first time including an analysis of our market segments along with a comparison to the prior year.
Moving on to an analysis of how the divisions performed. We are now reporting in the new divisional structure. As discussed at the capital markets day we are also providing in the Appendices an analysis of the results versus the prior year in the previous divisional format.

Starting with Aerospace & Infrastructure.

The reduction in the order book and in revenue almost entirely reflect the termination of the Oman contract. Pressures that EDF are experiencing across the UK reactor programme also impacted revenue spend with our UK nuclear business. Elsewhere the general low level of activity in government spending was reflected in a reduction in aftermarket sales and the timing of JSF controller deliveries.

The revenue reductions above were partially offset by a positive contribution from foreign exchange and the acquisitions of ICE Corporation and Lab Impex Systems in the prior year. Following the securing of a number of new orders to develop products for the commercial aerospace sector, increased R&D investment continues to impact divisional profit. However there was a contribution from acquisitions and the margin was also impacted by the termination of the Oman contract, where no profit was recognised in the prior year.

Moving to Communications & Security, the order book decline reflected the reduction in US contract placement over the last twelve months as well as the trading of the ECU RP Crypto contract.

On revenue, there was a positive impact from the acquisition of Forensic Technology in the prior year, and an increase in revenue on the ECU RP programme as it is now in its production phase. There was also an increase in security and surveillance sales. However this was partially offset by the impact of the recent legal challenges to the US Patriot Act on the domestic activities of our SoTECH business, although there was a positive contribution from Foreign Exchange.

The reduction in high-margin SoTECH revenue together with restructuring costs to address the market challenges was more than offset by an increase in margin on our ECU RP programme and on security products. The division also benefited from the impact of prior year restructuring.

Finally to Maritime & Land. This division continues to benefit from the ‘pivot to the Pacific’, with increased sales from our Australian and US maritime businesses. The order book increase reflects the award of the Royal Navy Sonar 2050 contract. There was also a contribution to revenue from the prior year acquisition of 3 Phoenix and from foreign exchange. However these were offset by the general impact of the lower level of activity on our defence businesses. There was also a reduction in revenue on the Fatahillah programme reflecting the timing of milestones.

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**Divisional performance**

<table>
<thead>
<tr>
<th>Division</th>
<th>2015 H1</th>
<th>2014 H1</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Aerospace &amp; Infrastructure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>£86.1m</td>
<td>£98.2m</td>
</tr>
<tr>
<td>Operating profit*</td>
<td>£12.9m</td>
<td>£15.2m</td>
</tr>
<tr>
<td>Order book</td>
<td>£243.1m</td>
<td>£353.8m</td>
</tr>
<tr>
<td>Operating margin*</td>
<td>15.0%</td>
<td>15.5%</td>
</tr>
</tbody>
</table>

| **Communications & Security** |            |            |
| Revenue                     | £103.2m    | £98.4m     |
| Operating profit*           | £14.2m     | £13.4m     |
| Order book                  | £194.4m    | £236.6m    |
| Operating margin*           | 13.8%      | 13.6%      |

| **Maritime & Land**         |            |            |
| Revenue                     | £142.4m    | £144.4m    |
| Operating profit*           | £23.3m     | £24.4m     |
| Order book                  | £324.6m    | £286.4m    |
| Operating margin*           | 16.4%      | 16.9%      |

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*before the amortisation of intangibles arising on acquisitions, impairment of goodwill and adjustments to deferred consideration net of acquisition related costs.
**colour coded as slide 8

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continued on next page
Margins were impacted by the release of some contract risk reserves in the prior year comparative, and by product mix within our sonobuoy businesses.
Before I move on to more general comments on outlook I want to remind you of the key elements of our Shared Services and Standardisation or S3 programme.

We are now into detailed design. Our estimate of the one-off project costs remains approximately £30m over three years, split between investment in Enterprise Resource Planning systems, costs of managing the project, redundancy costs and the costs of exiting facilities.

This includes an initial one-off non-underlying cost of £5m in 2015, of which around half will be cash, to set up the programme.

As we have discussed, cost efficiencies will start to come through from the end of this year and will self-fund the programme from a cash perspective from 2016. The efficiencies which are in headcount, facilities, IT and procurement will generate enduring savings of around £20m which as well as investing in the programme until 2018, will be deployed into R&D investment, pricing, and profit improvement in the medium term.

From an earnings perspective, this should allow us during 2016 and 2017 to retain margins at around current levels, which as we have said are already at the top end of our historic range. And this is whilst maintaining R&D at the necessary level and ensuring pricing is competitive. As the programme is completed from 2018 onwards, margins should rise towards 17%. This is excluding the impact of the Herley acquisition.

Finally, to update you on where we are now with the programme. We have commenced the procurement phase, which will review spend across all our 5000+ suppliers and put in place plans for common procurement to take advantage of volume discounts, umbrella agreements and general overhead savings.

By the end of this year we will also have carried out a detailed review of the 20+ systems we have in place across our businesses and what exactly they are used for to confirm the common operating model, processes and 3 or 4 common systems we will be implementing from next year.
Finally some thoughts on outlook.

Our 2015 expectations remain in line with previous guidance, of a flattish performance year on year. The positive impact from the prior year acquisitions and from foreign exchange will be offset by an organic decline.

Turning to earnings, we will continue to balance investment for future growth with focus on efficiency which should allow us to maintain full year margins at the top end of our usual range and hold performance stable in 2015. As we have discussed S3 will support margins going forwards.

Excluding Oman we expect cash conversion to remain around the 70% level for this year, although we expect it to return towards our through the cycle target of 80-85% from next year. However as discussed at the preliminary results, the Oman termination is resulting in outflow during the year relating to creditors due and legal costs, with expectations remaining around £10-20m.

Thank you. I will now hand over to Rakesh to discuss future prospects.
Rakesh Sharma, Ultra’s Chief Executive, continued by explaining how Ultra will achieve short term performance and position for medium term growth.

Thank you Mary.

My presentation is going to have two distinct sections. These being;

- Details of how we are going to achieve the H2 performance required to deliver the guidance for 2015 and,
- Further details and data on the drivers for achieving medium term organic growth.

The presentation today excludes any effects to the numbers and data, as a result of the acquisition of the Electronic Products Group from Kratos. However, I believe you currently have enough high level information to be able to model the effect.

So first, onto the market environment.
Market conditions have generally remained the same as I presented at the 2014 Prelims earlier this year. The energy, transport, security and cyber markets remain stable and continue to meet expectations, so I will not cover these in any detail this time.

As anticipated, the UK market went into its normal pause during the General Election with minimal procurement decisions being made during election purdah, which was evident from the end of February. With the surprise victory of the Conservative Party, one aspect of an election year avoided, was that of post election uncertainty as a new government takes office. We have also seen some of my other comments being borne out. The MOD budget has been cut but contained within the underspend from previous years. The commitment to maintaining spending at 2% of GDP is welcome news. The Prime Minister’s comments about increasing spending on UAVs, Special Forces and re-building a maritime patrol capability all play into Ultra’s sweet spot of smart electronics and software, in specialist areas. On the negative side, procurement continues to be delayed by MOD’s lack of commercial staff, with some sections only able to work on contract awards on a sequential basis. However, the appointment of Tony Douglas as Chief Executive of DE&S is very good news for the industry.

Tony was Ultra’s customer for the construction of Heathrow’s Terminal 5 and is one of the best procurement professionals we have ever worked with. I look forward to re-engaging with him in the near future.

In March of this year I commented that 2015 would be another difficult year in the US defence market. This has proven to be the case. The US is now in the run up to a Presidential election cycle which, unlike the UK, starts well before the actual election. Consequently, this causes uncertainty the year before, rather than during, the election. This has been exemplified by the defence outlays being down just under 10% at the end of June compared to last years like for like number of 2.4% down. This is the cause for our anticipated more than normal skewed performance towards the second half. It is interesting to note that more of our industry is now agreeing that it is uncertainty that causes long term issues rather than one off budget cuts. The uncertainty will lessen in 2016 as during an election year the two parties don’t like to be portrayed as playing politics hurting the citizens that they are hoping to secure votes from.

We continue to expect and all recent indications from Washington are, that the FY 15/16 budget will not be agreed in time and that a Continuing Resolution will be required till at least the end of
December. We continue to believe that the result will be a base budget of $499B, in line with the Budget Control Act caps and a Global War on Terrorism budget (previously called the OCO) of less than the currently tabled $84B.

As far as the rest of the defence world is concerned, we don’t expect a massive change in requirements in 2015 but we do anticipate increasing investment in naval power in the Far East and border surveillance and protection in the Middle East.

With these market conditions in mind let me move on to 2015 orders.
Although the required second half performance is not that far from our typical range it is the highest that we have experienced, so let me give you some detail.

On this slide you can see that at the end of the first half we had order cover of 83% of the full year revenue, in-line with 2014. That quite simply means that we need to “book” 17% of revenue in the following five months and “ship” it by the end of December. On the right hand side of the slide I have broken down the order cover by our eight market segments. The remaining 17% of “book and ship” will have a similar profile and roughly represents the following categories;

- 12% is spares and repairs
- 1% is short term contracts
- 7% is amendments we anticipate on existing orders and
- 80% is new business

Currently the total value of bids outstanding and opportunities yet to be bid that will provide revenue this year is 125% of the new business target needed. This is normal for our business as we typically win 80-85% of these types of bids.

Now let me provide you with an update for July.
We have yet to close the month of July and these numbers are taken from the flash results and so are subject to marginal changes.

In July we had an order intake of about £53m and revenues of approximately £43m. This means that our order cover for full year revenue is now 85% leaving 15% of orders to book in the remaining 5 months. The pie chart clearly shows you the progress that we have made in the month.

Major orders booked in July included;
- Pratt & Whitney JSF engine ice protection controllers at £15m.
- Lockheed Martin HIPPAG at £3m.
- Network Rail high voltage maintenance support at £3m.
- IBIS Ballistics technology at £2m.

Mahindra teaming agreement has been signed
- AADI teaming agreement has been agreed

Likely orders for the remainder of book & ship
- ID printers - £10m
- EW for Turkish Air Force - £9m
- HIPPAG spares - £5m
- Commercial aerospace support - £5m

We have yet to close the month of July and these numbers are taken from the flash results and so are subject to marginal changes.

In July we have won orders of about £53m
- Order cover for the remainder of the year is 85%
- July close expected to include the following orders:
  - Pratt & Whitney JSF engine ice protection controllers - £15m
  - Lockheed Martin HIPPAG - £3m
  - Network Rail high voltage maintenance support - £3m
  - IBIS Ballistics - £2m
- Mahindra teaming agreement has been signed
- AADI teaming agreement has been agreed

Likely orders for the remainder of book & ship
- ID printers - £10m
- EW for Turkish Air Force - £9m
- HIPPAG spares - £5m
- Commercial aerospace support - £5m

Major orders that we see that could make up the remainder of the “book and ship” include:
- ID Printers of £10m.
- Electronic Warfare for Turkish Air Force of £9m.
- Weapons Ejection Spares of £5m and,
- Commercial aerospace support of £5m.

In addition to this, good progress has been made on our Indian opportunities with teaming agreements signed or agreed and about to be signed with Mahindra and AADI Group for torpedo defence and cyber security respectively. Both of these segments are set to grow rapidly in the Indian sub-continent.
Now let me turn to medium term growth.

Those elements that have made us successful in the past are still with us today.

- Our eight strategic guidelines
- LEAP – Leadership, Entrepreneurship, Audacity and Paranoia
- An Autonomous and flat business structure
- Accountability, Authority and Responsibility being kept together at all levels

However, the world and the market have changed and we have adapted our business model to succeed in this new world. The market facing segments are an important step in how we present ourselves to the customer but it is not a fundamental change to our underlying approach.

The next few slides bring together the data that I have previously provided. There is no radically new information in today’s presentation but I hope it will assist you to see the overall jigsaw picture rather than just the individual pieces of data.

Moving on
Despite the turmoil in global markets especially in defence, our order book has stayed relatively constant and pleasingly, margins have been maintained. However, there have been subtle changes in composition that are worth sharing with you.

Historically, Ultra had a very strong opening order book of 60% plus. More recently this has dropped to around 50% plus. This has been driven by a number of factors. First, since 2008 we have acquired a number of short cycle businesses in the commercial sector. Second, Government procurement procedures have become more legislated and they have increasingly contracted for feasibility and demo contracts before moving to full scale development or production. Consequently contracts have become smaller in value.

This reduction has now stabilized at 50% plus. The acquisition of Herley, since it typically has an opening order cover of 65%, will help to slightly lift the Ultra opening order cover thereby providing some improved short term visibility.
As well as a lower opening order cover, we also experienced a drop in the visibility of the order book, for the same reasons as presented on the previous slide. We have worked to improve the medium term visibility over the last four years. As you can see by this graph since 2010 the value in years 2-4 has increased by 50% and is being sustained at that level. We have achieved this by:

- Negotiating multi-year contracts where possible.
- Adding a Contractor Logistics Support service to our products and,
- As products have transitioned from engineering to longer term production cycles.

The book-to-bill last year was 1.1. This year we have guided to broadly flat revenue. The obvious question is, why isn’t the book-to-bill feeding into organic growth this year? Clearly, the increase appears in the medium term, thereby improving visibility. This is another reason for my confidence in medium term organic growth.
This lengthening of the order book is also true for 2015 as you can see from the graph on the left hand side. Remember we only book firm orders into our order-book. We do not book options, IDIQs or platform agreements. The increased visibility that these type of contract vehicles provide is presented on the right hand side of the slide.

Representative examples of long term contracts contained in the order book are;

- Litening Pod for Tornado and Eurofighter Typhoon £67m
- Crypto replacement £25m
- UK Royal Navy Sonar 2050 £22m

The total value of contract vehicles not in the order book is greater than £1.5bn and is presented in the graph on the right hand side and representative examples are;

- JSF engine ice protection $600m
- Boeing 787 wing ice protection $540m
- A350 controls £60m
- US Sonobuoy IDIQ $810m, I would highlight the IDIQ is joint venture so half is attributed to Ultra

Not all of these programmes have started to generate substantial amounts of revenue. This undeclared source of revenue is another reason why I’m confident not just about the second half of 2015 but also the medium term outlook. I’d now like to discuss R&D.
Over the last three years we have sustained our R&D at 5-6% of Group revenue, despite the turmoil in the market and sometimes because of it. Let me quickly remind you of the types of R&D and how the market has changed and could further change.

First, remember Ultra does small r big D. We apply technology to create disruptive solutions. We don’t create technology. Fundamentally there are three types of R&D;

- Customer funded engineering, which is usually contract specific.
- Company funded R&D, which is not contract specific but is claimed through the overhead rates and,
- Company funded R&D, which is not claimed through the overhead rates.

The US defence R&D market is set to change further. Frank Kendall, Under Secretary of Defence for Acquisition, Technology and Logistics, has launched the Better Buying Programme 3.0. Within this programme is DoD’s desire to first, have a say in all the Company funded R&D that is recovered through the rates and second, to own the interface IP so that production can be competed separately to the design and development. If this is implemented it will clearly have an effect on the entire industry. This is the reason why we anticipate that some of the enduring savings from Ultra’s S3 programme of, £20m annually, will be used to increase the company funded R&D that is not claimed through the rates. Our margins are sustainable because we own the IP.

Let’s now consider Ultra’s R&D payback.

Much of Ultra’s business is still long cycle orders, there is a lag between spending the money and generating organic growth. In addition to this, some R&D fails or creates a return from a totally different direction, for example we invested $2m in developing a prototype for the US Integrated Fixed Tower Surveillance System, which we ultimately lost. However it is this investment, several years later, that is likely to win major contracts in the Middle East. In recent years, the organic growth generated through R&D, rather than being accretive, has been used to fill the holes created by the unexpected decline of some of our businesses, especially the high capacity radios, the US services business in ProLogic and the lawful intercept business in SoTECH.

The graphs on this slide give you typical examples of the payback profile of two current investment cases – one for commercial aerospace and the other for instrumentation.

As you can see, we have to date, invested around £30m in commercial aerospace.

continued on next page
With the forecast production deliveries, on contracts already won, this will not achieve cash breakeven till 2019/2020. If however, we win further opportunities this breakeven point will stretch out even further. Since we are growing, investment outweights short term return for some time, but is nonetheless good medium to long term value to our shareholders.

The HUMS example has a quicker payback as the investment is lower. The payback profile however, is very similar to the commercial aerospace example. For those of you who attended our seminar on, “How Washington Works”, may be interested to learn that our Hill activity has resulted in $5m to be added to the defence budget. This will be to test HUMS on the US Army’s Light Utility Helicopter. If successful we would hope to add production quantities that will increase the returns presented on this slide.

Again this adds to the reasons for my medium term confidence in organic growth.
As you would expect we are looking forward to the closing of the acquisition of Herley. As an aide memoire, in the appendix, are the five slides I presented when we announced this acquisition.

I have very little new to report. The acquisition is still going through the US Government approval process which we expect to finish shortly. Having confirmed, during due diligence, the market and company positioning through conversations with the Primes and end customers, my recent visit to the Pentagon, US Senate and Congress has further convinced me that this is a good acquisition. I have confirmed that expenditure and procurement in US Electronic Warfare is to increase to remain technologically ahead of potential threats from the Far East and the Balkans. We are preparing the ground work for the integration task so that we can hit the deck running when approval is granted.

Until we have integrated Herley into Ultra, we are unlikely to do anything other than small “bolt-ins”. This is business as usual. We are less likely to do medium sized “bolt-ons”. These types of acquisitions tend to be single product, single market and single customer organisations. In an uncertain market these businesses are vulnerable to changes in government policy or legislation, which are out of our control. This has for example happened with both ProLogic and SoTECH. Bolt-in acquisitions are less vulnerable as they are subsumed into an existing Ultra business and most of the gross margin drops to the bottom line. Equally more resilient are larger “bolt-ons” as they have multiple products, multiple markets and multiple customers.
My previous discussion has focused on tangible elements of our order book. On this slide, back by popular demand, I have provided details of some of the longer term opportunities that we need to secure to deliver our five-year forecast. Please remember though, this is just a tiny selection of all of our bids. Further, some may slip to the right and some may be substituted by other opportunities. This is a dynamic chart. We will update and report on it in the future. For the sake of time I am not going to go through the detail, but I am available if you wish to discuss it after todays presentation.

I will however mention the Middle East border security opportunity. We have learnt lessons from Oman on how we must do business in that region. These have been applied to this opportunity.

- We are not contracting directly with government. Our customer is Honeywell with whom we have completed several of these projects.
- The contract is under US jurisdiction with US terms and conditions.
- It is not using FIDIC contract rules, using US contracting law.
- We have the right to stop work if we are delayed and renegotiate the costs without automatically proceeding to arbitration.

So now onto the summary.
A very simple summary today reflecting the fact that we are on course to deliver the full year expectation.

- The results in the first half of 2015 are in-line with expectations.
- Our full year outlook remains unchanged.
- As we have previously expressed, markets continue to be uncertain primarily owing to the election cycles in the UK and US.
- Ultra continues to invest for the medium term through R&D and acquisitions.
- I hope for improved performance from 2016.

Thank you. That concludes our presentation for today.

Now, we will take your questions from today's presentation.

Note: Appendix slides omitted from this document.
Ultra 2015 Interim Q&A transcript

Q:
I’ve got three questions. First of all SoTECH, you’re in that business in other parts of the group so I was wondering why SoTECH in particular has issues. If you could walk us through to the extent that you can what actually happened there and how it looks going forward?

Secondly perhaps a futile question but Oman, is there any scope for recoveries on that and if so how would that work, timescale et cetera?

Then finally on S3 just to clarify is the £5m of initial cost incremental to the £30m or part of the £30m and will that cost and savings accumulate evenly over the three years? Thank you.

A:
Mary Waldner, Ultra
Firstly yes, the £5m is included in the £30m. The £5m is the only cost this year. What I expect is most of the cost to be in 2016 and 2017 which is where the systems investment occurs. We’ll start to see savings come through from next year particularly on the procurement phase as I discussed. We are already underway with this and it will be used to cash self-fund the programme at that point. Really it’s a case of the costs occur evenly through 2016 and 2017. The £20m savings will start to grow through next year and then as we’ve said reach a cumulative £20m in 2018 with maybe a tail of some cost.

Rakesh Sharma, Ultra
Let me cover SoTECH first. SoTECH provided products that conduct mass collection of data. We were used extensively overseas by US forces to gather actionable intelligence. The US Patriot Act which was passed after 9/11 was renewed this year and certain elements were omitted. Lawful intercept now requires a court order to collect data individual by individual.

We do sell the products elsewhere where mass collection isn’t an issue. We’re resetting the business for export to South America, the Middle East and the Far East. Obviously this reset to the export markets will take time. We know there’s interest, we’re in discussions but it will take time to rebuild that business back to where it was.

On the Oman issue on the recoveries, there is a contractual process that has to be played out and it’s to do with the final settlement account. We have now claimed for the work that we haven’t been paid for. At the time of termination we thought our percentage work complete was 56% and actually an independent company has done the calculations, we’re actually 63% complete so we’ve invoiced the customer for OMR30m. That does not include any prolongation claims or any scope claims. It’s just for the work that we’d completed and hadn’t been paid for.

The engineer has to adjudicate on that claim and also has to adjudicate on our claim for prolongation and scope. I’m sure that the engineer will conclude that nothing is payable, I’m pretty certain that’s the position that the customer is going to take. Having done that we then go to an appeal process which is heard by the engineer that made the initial j udication, I’m sure that appeal process will result in upholding the previous decision. Then we go to arbitration.

We are hoping for an amicable settlement. People talk about the Omani way to settle disputes which is to have somebody facilitate a cup of coffee round a table and a discussion. We haven’t made the decision to go to arbitration. We are hoping for some sort of a settlement, an amicable resolution. We will have a case review as to whether we go forward or not and what the risk rewards are.

Q:
Well what happens if you’re wrong about the US budget if it doesn’t go through as currently expected?

A:
Rakesh Sharma, Ultra
There’s a lot of political gaming going on. The President would love for the Republicans to put a budget of $499B with a Global War on Terror addition of $84B. He’s already said he will veto it if they do without increasing the non-defence discretionary budget by an equal amount. When he vetoes it, it will go to Continuing Resolution which is why I’m 99% confident we will have a Continuing Resolution. What would be even worse for the Republicans is if they don’t agree a Continuing Resolution and they shut down the government. Whenever that happens, when there’s a CR or when the Government gets shut down the Republicans always get the blame because they’re seen as being fiscally conservative whereas the Democrats aren’t. That plays into the

continued on next page
Democrats hands leading into the Presidential Election because they can blame the Republicans for not letting them run the country.

At the end of the day, the nominal value of the Global War on Terrorism budget is about $50 billion. I’m expecting around $70 billion to be agreed.

Q:
For Obama to veto the budget, bearing in mind that he’s not – he always thought the Budget Control Act was crazy and frustrating. But then you’re right about the budget where it’s massively straining because of the procurement of the JSF and Ohio replacement submarines, on top of this they want to buy long range strikers. I don’t know whether the long range strikers will be one of these things that will shuffle off into the wild blue yonder.

A:
Rakesh Sharma, Ultra
I don’t think it will and again you have to understand how the military think over there. Over here if senior military personnel want to make a political statement the unofficial policy is that you have to resign first and then you talk politics afterwards. Over in the US the military are involved in politics and because of that they’re involved in the budget setting and they’re involved in the negotiation of where the budget eventually ends up.

The Ohio-class Submarine is the number one requirement on the Navy’s list. It’s a big programme and if they get that through then the money is allocated and spent and they can live to fight another day about all the little smaller requirements.

That’s the game that gets played so that’s the reason for JSF getting lots of support other than international requirements, it’s a big programme, the Air Force wants it, wants money allocated to it. The Navy wants money allocated to the Ohio replacement. The same is true with the long-range bomber, get the money allocated then worry about the smaller things later because you can get them through the political bargaining process.

Q:
Just questions on two businesses, can you talk about TCS and how they were doing and if you’re seeing improvements in that business and integration of Forensic Technology and if you’re seeing any synergies with the group being realised already.

A:
Rakesh Sharma, Ultra
Let me take Forensic Technology first. The company is doing great; they’ve beaten what we thought they would end up doing. We’re really pleased with the acquisition, really pleased with how it’s integrated into Ultra. Where we’re seeing synergy with Forensic is that they have channels to market through the law enforcement, as you would expect, in about 130 countries.

Now with SoTECH rather than selling it federal to federal as an agency we’re now selling direct to the law enforcement people and actually Forensic Technology are feeding SoTECH equipment into their law enforcement channel. That is working very, very well.

In terms of TCS we have actually sold the Orion radio in small quantities overseas as well as to the US Army. The WIN-T dollars that we’re after have been pushed back to 2017 and we’re doing a lot of Hill work to claw those dollars back to late 2016. We’re getting a lot of support from the Congressmen and the Senators to be able to do that. Currently it’s being used operationally in the US.

Any other questions? No? Thanks very much.