

Ultra Electronics Holdings plc
Interim results for the six months ended 1 July 2016



Interim results presentation and script

Rakesh Sharma, Chief Executive
Amitabh Sharma, Group Finance Director

1 August 2016

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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.



Interim Results
for the six months ended 1 July 2016

Rakesh Sharma Chief Executive
Amitabh Sharma Group Finance Director

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

Good morning everyone it's good to see you all and welcome to Ultra's presentation of the Interim results for 2016. Ami will cover the first half performance of the Group and I will then cover the full year as well as future performance and market dynamics against our market segments. The presentation and script will be available later this morning 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.

2016 interim overview

- First half performance in line with expectations
- Organic revenue performance improved to -2.5% from -11.9% in 2015
- Underlying operating margin of 15.7%
- Order book of £785.7m, up from £753.8m at start of 2016
- Cash conversion improved to 67%
- First disposal announced in period after Group portfolio review
- S3 initiative on track
- Herley performing well and integration ahead of expectation

Capturing, executing and positioning for success



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I am pleased to say that the results for H1 2016 are in line with expectations as shown on this slide. The market analysis that we presented at Ultra's 2015 Prelims in March of this year proved to be correct and allowed us to anticipate the difficulties as well as the opportunities. (Other than the result of the referendum!).

The first half of 2016 has been one of capturing opportunities, execution and positioning for the future.

We have successfully embedded our segment organisation and it is bringing positive results in terms of capability management and collaborative working. The Standardisation and Shared Services programme (S3) is progressing satisfactorily with the savings identified by analysis being realised.

The integration of Herley is going very well, not just in the planned cost synergies, but also in the orders won but not yet booked. More of this later in Ami's section. In terms of contract execution, Ultra continued to perform and deliver at increasing efficiency yielding a very pleasing underlying operating margin.

As well as all this activity, the Group continued to position for the future with R&D and bid activity to support the second half as well as 2017 and beyond. Although, as ever there is still a lot of hard work to be done, to deliver the years performance, but we are well positioned to achieve it.


Now let me handover to Ami.

Interim Results 2016
SLIDE 3

Key metrics

£m	2016 H1	2015 H1	Growth
Order book	785.7	762.1	+3.1%
Revenue	366.6	331.7	+10.5%
Operating profit*	57.7	50.4	+14.5%
Operating margin*	15.7%	15.2%	
Profit before tax**	52.4	47.4	+10.5%
Earnings per share**	58.1p	52.2p	+11.3%
Dividend per share	14.2p	13.8p	+2.9%
Operating cash flow	38.5	15.8	+143.7%
Cash conversion	67%	31%	

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



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Amitabh Sharma, Group Finance Director, presented the details of Ultra’s first half financial performance.

Thank you Rakesh and good morning to everyone. Starting with the key metrics;

The order book was £786m compared to £762m at the end of June 2015 and £754m at the end of December 2015. Looking at the order book increase compared to June 2015, acquisitions, primarily Herley, contributed 6.3%, and there was a foreign exchange benefit of 5.8%. The underlying organic reduction is largely driven by continuing delays in major export orders.

Order intake for the half was £363m which takes order cover for 2016 at this stage to 84%, compared to 83% last year.

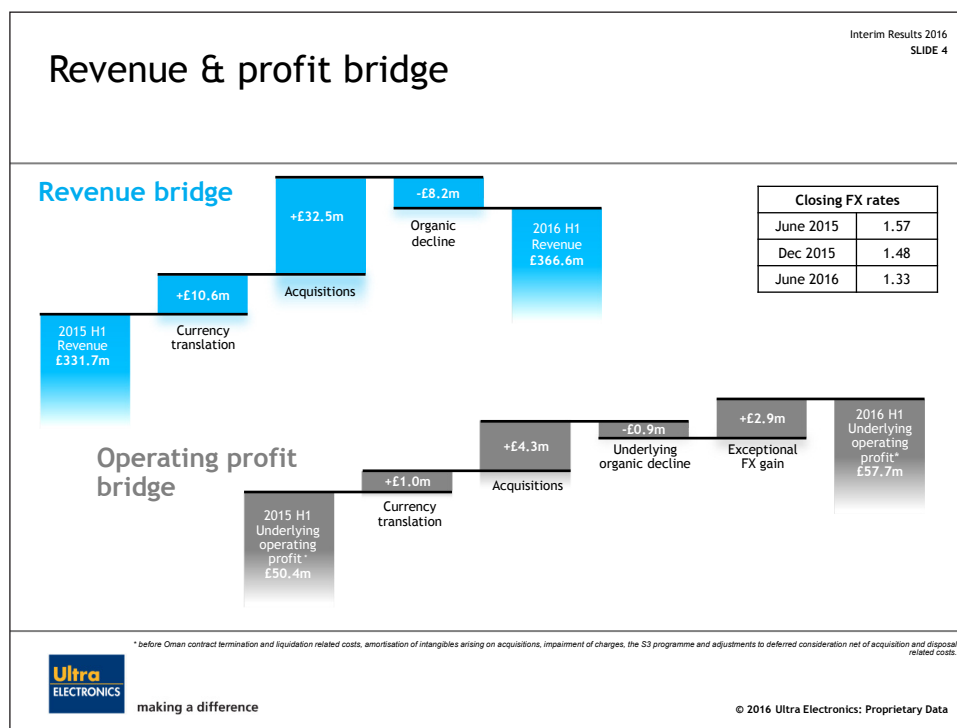
Revenues, at £367m, increased 10.5% compared to last year.

Underlying operating profit at £58m saw a 14.5% increase whilst profit before tax increased 10.5%. This reflected an increase in financing costs due to the acquisition related increase in debt.

Underlying earnings per share were up 11.3% as the tax rate reduced slightly to 22%.

The dividend has increased by 2.9% to 14.2p.

Cash conversion at 67% for the period showed a significant improvement compared to 31% in the previous period



Moving to the revenue bridge.

Currency translation resulted in an increase in revenues of £10.6m or 3.2%. The US dollar was on average just over 6% stronger against Sterling at 1.43 over the six month period compared to 1.52 in the comparable period.

Last year's acquisitions, Herley and Furnace Parts, contributed £32.5m.

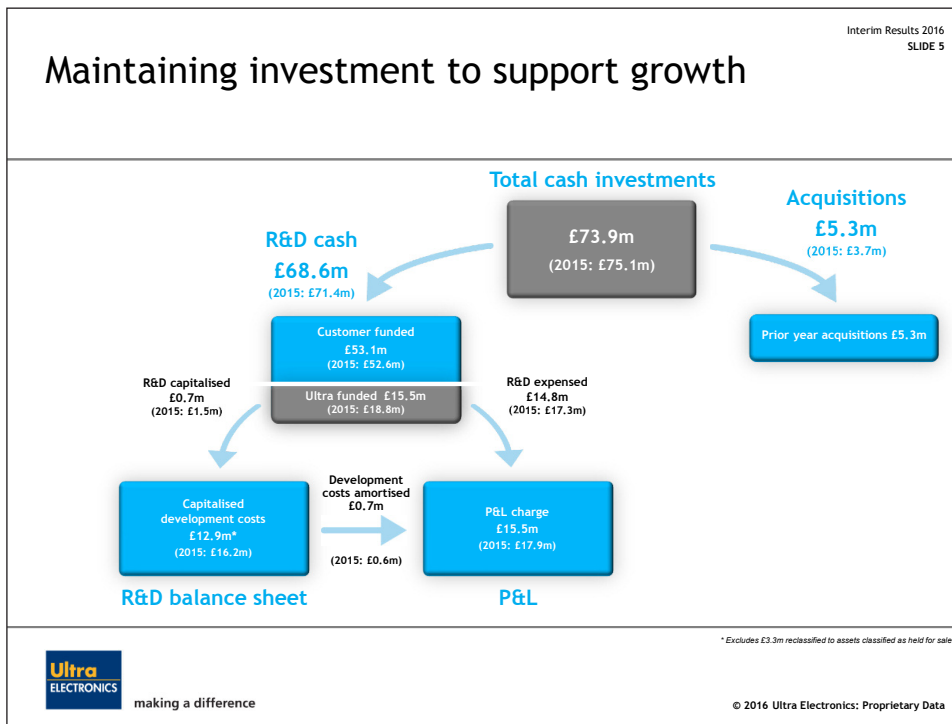
The underlying organic decline was £8.2m or 2.5%. The ECU RP programme represents £7.4m of this as it nears the end of its production phase while the balance reflects broadly flat government related business.

Turning to the profit section of the slide.

The profit bridge highlights the main reasons for the increase in profit from £50.4m to £57.7m.

Currency translation of our overseas businesses increased profit by £1m. Herley and Furnace Parts added £4.3m or 8.5% to profit, and the organic decline was £0.9m or 1.8%.

I have separated out the FX gain of £2.9m as it was an unusual item. This occurred during the last week in June after the UK EU Referendum when sterling fell sharply against the US Dollar. This resulted in our UK held US Dollar assets, of approximately \$40m, increasing in value after retranslation, hence increasing profit by the same amount. This represents 5.8% of the growth compared to last year.



Turning to our investments to support future growth.

You will see on the right hand side that the acquisition spend in the period was £5.3m, reflecting earn-out arrangements on prior year acquisitions and the final payment relating to Herley. This compares to the £3.7m we spent on such expenditure in the prior year.

The acquisition of Herley supported the increase in customer funded R&D of £53.1m. This reflected the increasing support to this high priority EW sector. At £15.5m, Ultra funded R&D was marginally lower than the comparable period. This was a consequence of investment in some of our aerospace programmes coming to an end. We expect internal R&D to normalise over the full year.

Operating cash flow

£m

	2016 H1	2015 H1
Operating profit*	57.7	50.4
Depreciation and disposals	5.9	5.0
Capital expenditure	(2.0)	(2.0)
Net intangible asset expenditure	0.9	(1.0)
Working capital increase	(19.8)†	(34.9)
Other	(4.2)	(2.6)
Operating cash flow	38.5	15.8
<i>Cash conversion</i>	<i>67%</i>	<i>31%</i>

†2016 working capital increase	
	(£m)
Payables	(29)
Debtors	12
Inventory	(3)



* 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 and disposal related costs.

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Turning to cash.

I am pleased to be able to report that operating cash flow was £38.5m, representing cash conversion of 67%, compared with 31% last year. Last year included £10m of Oman payments and a much larger unwind of ECU RP and US sonobuoy IDIQ advanced payment balances than in 2016.

Depreciation was higher than last year due to the inclusion of Herley, whilst capital expenditure was maintained at £2m.

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

Working capital increased by £19.8m. A reduction in trade creditors across a number of businesses was responsible for £13m of the reduction in creditors and around £8m related to the continuing unwind of advanced payment balances, some of which related to the ECU RP programme. Encouragingly, debtors reduced by £12m and there was a small increase in inventories.

Finally there was an outflow of £4.2m which represents pension deficit reduction payments, as agreed with the trustees.

Interim Results 2016
SLIDE 7


Net debt

£m	2016 H1	2015 H1
Opening net debt	(295.6)	(129.5)
Operating cash flow	38.5	15.8
Interest, tax and dividends	(31.1)	(32.9)
Acquisition costs	(5.3)	(3.7)
Oman bond	(8.2)	-
Other	(23.7)	(0.4)
Closing net debt	(325.4)	(149.9)

Headroom (current facilities)
Borrowing £160.4m
Pricoa £94.2m

Net Debt to EBITDA ratio: 2.29x

Net US dollar borrowings increased by £19m between the end of May 2016 and end of June 2016 due to post Brexit referendum FX changes



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Moving on to net debt.

Interest, tax and dividends were lower at £31.1m as cash tax paid was lower than the prior year.

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

The sharp movement in the Sterling to US Dollar exchange rate over the last week in June following the UK EU referendum resulted in US\$ net debt increasing in value by £19m. This foreign exchange difference, together with the pension deficit payments, represents most of the other balance. As a result net debt was £325.4m at the end of June.

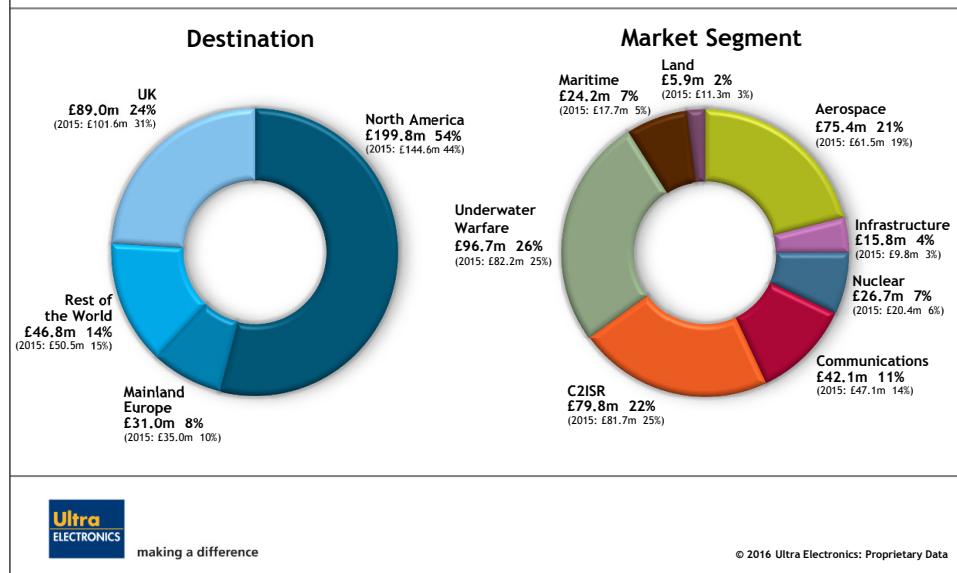
The increase in sterling value of the US\$ net debt over the last week in June added 0.1 to the Net Debt to EBITDA ratio, resulting in leverage of 2.29 times at the end of the period.

The disposal of ID Systems will generate £22m in cash in the second half and this will be used to reduce borrowings.

Our headroom at the end of the half was £160.4m, with an additional £94.2m on our uncommitted Pricoa bilateral facility.

Finally, whilst on the balance sheet, a note on pensions. As we advised previously, the scheme was closed to future benefit accrual from 5 April 2016. This has resulted in a curtailment gain of £15.5m which has been recognised in the statutory P&L in the first half of 2016. A triennial valuation is currently being undertaken and the results should be known by the early part of next year.

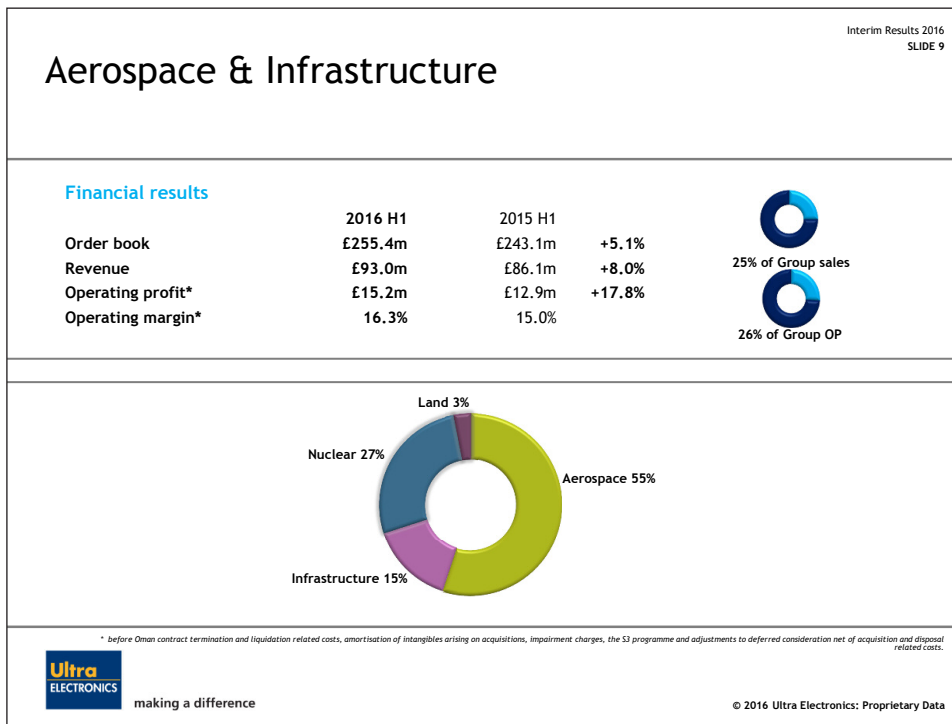
H1 Revenue



For completeness we are including the geographic and segment analysis.

Owing to the ECU RP programme nearing completion, UK revenues reduced from 31% in 2015 to 24% for this first half. The North American revenue by destination has increased to 54% reflecting the addition of Herley, foreign exchange and demand in that market place.

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

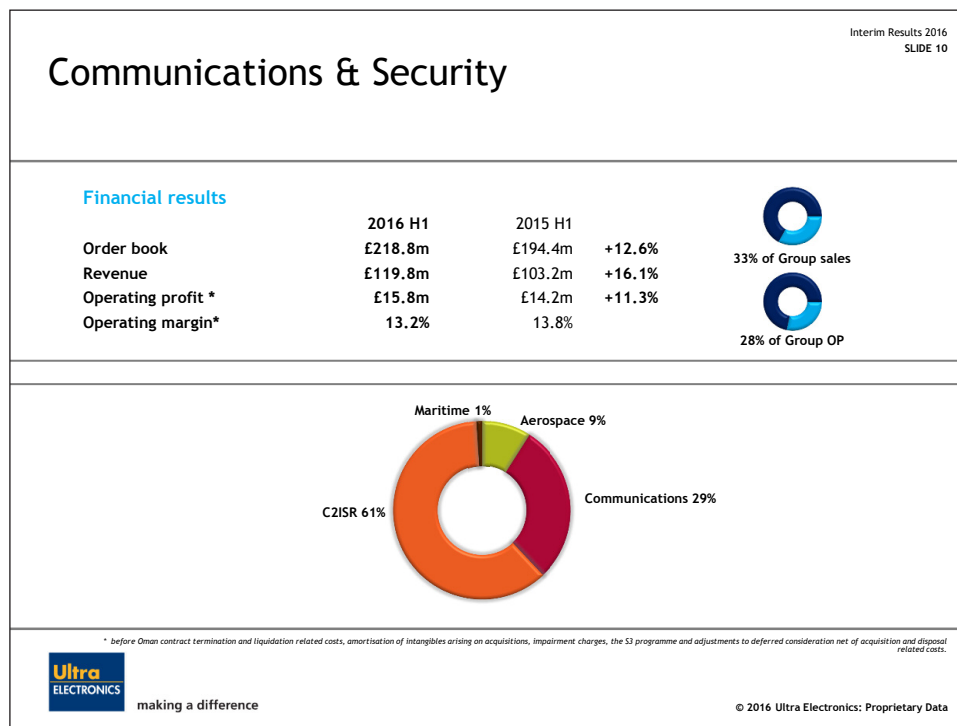


Moving on to how the three divisions performed, we start with Aerospace and Infrastructure.

Revenues increased by 8%, reflecting improved support sales at Airport Systems, demand for propeller electronic controllers and for nuclear high temperature sensors. There was also a contribution from the prior year acquisition of Furnace Parts.

The aerospace industry is denominated in US dollars so this division benefited most from the transactional impact arising from the weakening of Sterling against the US Dollar and this is reflected in the divisional margin increasing to 16.3%.

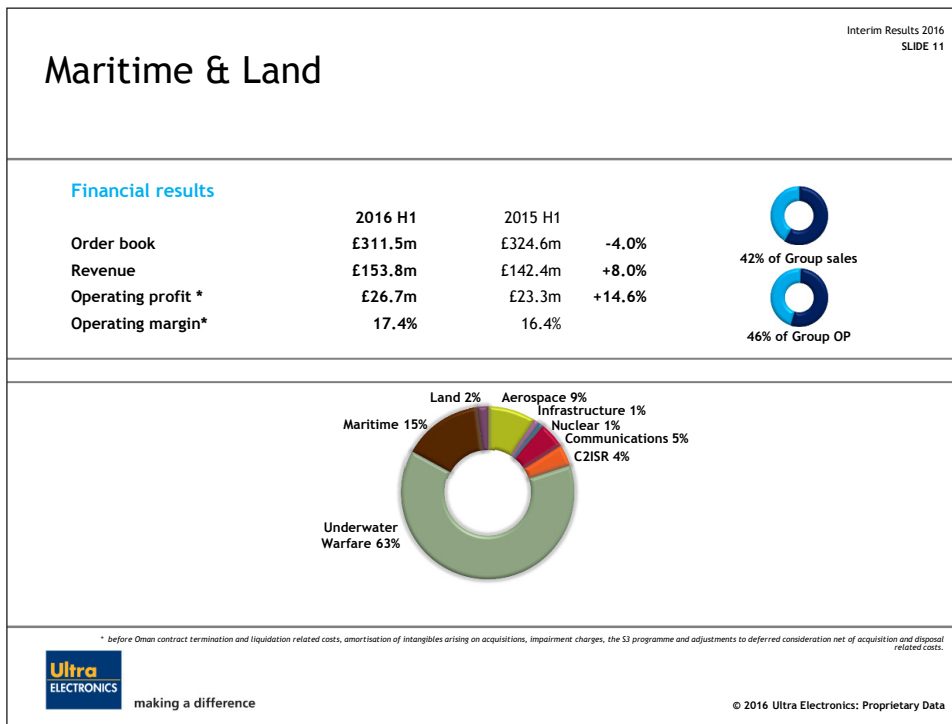
The order book also benefited from favourable exchange rates.



Moving to Communications & Security.

Revenues benefited from the inclusion of the acquisition of Herley in the prior year. Revenues from the ECU RP programme, which largely completed its production phase over 2015, compared unfavourably with the same period last year. This was also reflected in the operating margin of 13.2%.

Excluding Herley, the order book was impacted by the UK Government changes to classification levels. This meant that our crypto equipment had to be recertified, along with the rest of industry, by the UK authorities creating a gap in the order pipeline.

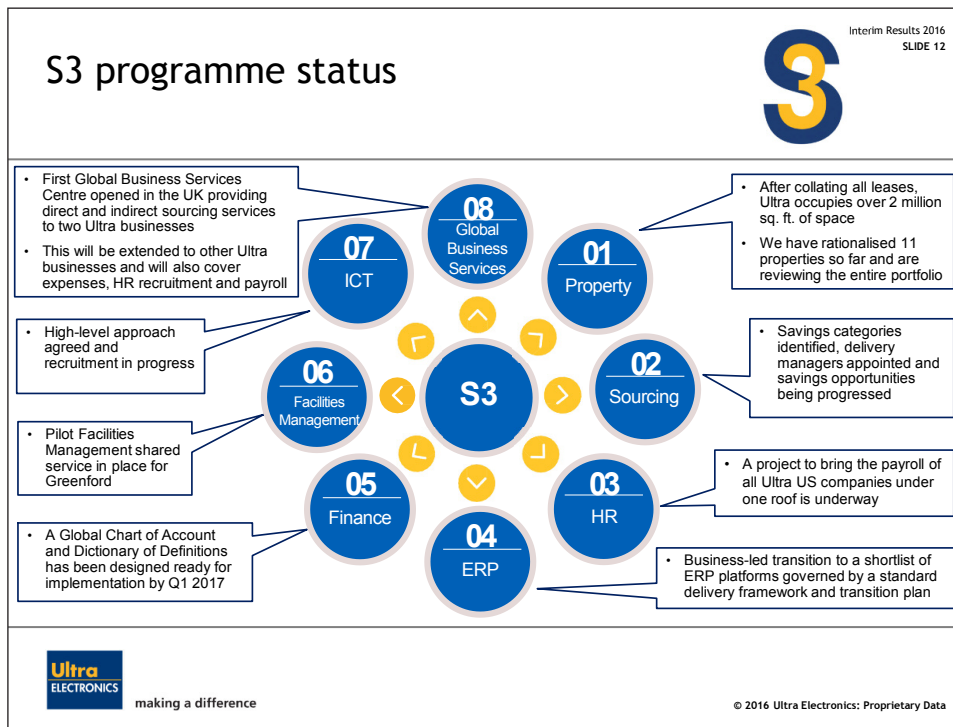


Finally to Maritime & Land.

This division continues to benefit from the US Government's 'pivot to the Pacific', with increased revenues from our US maritime businesses. There was also a positive contribution to revenue from foreign exchange. A development contract for our HUMS product together with increased demand for sonobuoy receivers also contributed.

Margins benefited in the first half as a number of sonobuoy programmes reached the end of production.

The order book decline was due to the continuing delays in placement of overseas contracts for which Ultra has been selected, an example being a £30m order for ship torpedo defence systems for India.



This slide highlights the work streams we are undertaking on our Standardisation and Shared Services or S3 programme and I would like to cover four of the work-streams in a little more detail.

Work-stream 1 – Property. We have now assessed the terms of all leases held by Ultra and we have rationalised 11 sites so far. Further work will be undertaken to identify other opportunities as they present themselves.

Work-stream 2 – Sourcing. The greatest cost saving opportunities are in sourcing materials. We have selected a procurement system and will utilise this to help deliver savings over H2 2016 and beyond.

Work-stream 4 – ERP. No one ERP system best fits the different types of businesses within Ultra be they products based, project based or services based.

We have selected four ERP systems to standardise on. Our businesses will be able to select from one of these systems when they are next due to upgrade their ERP system. The cost of implementing these new systems will form part of our continuing capital expenditure. It is anticipated that this will happen over the next five to seven years.

Finally Work-stream 8, Global Business Services. The UK Shared Service centre in Wimborne, Dorset has gone live, with direct and indirect procurement being the first functions on site. The selection process for the US Shared Service centre location is in progress.

S3 programme status



Interim Results 2016
SLIDE 13

Spend to June 16	Total spend budget	Workstream	Savings to June 16	Savings identified yet to be realised	Savings yet to be identified	Total enduring savings from 2018
5.8	12.2	Property/ Facilities Management	3.3	2.1	TBD	5.4
0.9	12.4	Sourcing	0.1	2.3	10.2	12.6
0.1	0.6	HR	-	0.1	TBD	0.1
0.8	4.8	ERP/ Finance	-	TBD	1.9	1.9
-	-	ICT	-	TBD	TBD	-
7.6	30.0	Total (£m)	3.4	4.5	12.1	20.0



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Having described some of the activities to date on the previous slide, I thought it would be helpful to summarise the financial elements of this initiative. The programme has cost £7.6m so far and generated savings of £3.4m to date. The costs to date are in line with expectations and comprise project costs, together with the costs of some headcount reductions due to some property consolidations.

Column 5 indicates a further £4.5m of savings that have been identified but not yet realised and of these, £2m are expected to be realised in the second half of 2016.

We have yet to identify at least £12.1m of further savings as indicated in column 6 and work will continue on this.

Herley integration

Integration

- Integration progressing well
 - Organisation alignment
 - Cultural integration
 - Management training
- Synergy cost savings ahead of plan by \$1m
- Cost savings required to support the acquisition case identified

Business performance

- Performance in line with acquisition case
- Selected for SEWIP Block III additional business



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Moving on to Herley.

The integration of Herley is progressing well and slightly ahead of schedule. The US business has been re-aligned along two main business areas being Flight Instrumentation and Microwave Components. These fit into the Communications and C2ISR market segments respectively. The UK business, EWST, based in Farnborough, has been integrated into the Communication and Integrated Systems business.

It has always been recognised that cultural integration would be important in an acquisition as large as this one. This has been achieved through:

- An employee survey to address the areas of concern to people. This is our established YourViews process which measures employee engagement.
- The Senior Management team has undergone training through our 'Maximising Leadership Impact' workshops; and
- Middle management and supervisors have all attended our internal 'Making a Difference' courses.

Herley has also been successful in winning new contracts. The most prominent being Herley's win of 11 modules for the SEWIP Block III programme. The engineering phase will be worth \$5m to be placed in H2 2016 and the production phase will be in excess of \$200m. This meets our stated objective of increasing off order book demand to increase long-term visibility.

Cost synergies identified are \$1.8m compared to the planned \$800k. We expect further savings to be accelerated from 2018 to 2017 and we can see a clear way to achieve the acquisition case of \$8m of total savings by 2019.

Guidance

Interim Results 2016
SLIDE 15

- Overall performance in line with expectations
- 2016 organic revenue growth forecast -1% to +1%
- Acquisition growth forecast of c.5% owing to Herley
- FX currently positive but volatile
- Cash conversion expected at above 70%
- ID disposal to close imminently
- Medium term organic revenue growth returning to positive low single digits



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Finally some thoughts on outlook.

Initial guidance for 2016 was for organic revenue growth to range from -2% to +3%. Now that we are further into the year and with updated data and intelligence, we can, as promised, narrow the guidance range from -1% to +1% growth for the year as a whole.

Further, we will continue to balance investment for future growth with focus on efficiencies and managing our costs to support profitability.

2016 will benefit from the addition of Herley for eight months, providing about 5% of revenue growth. Foreign exchange will also benefit but this remains rather volatile.

Taking all these factors into account we believe that overall full year performance will be in line with expectations.

We expect cash conversion to be above 70% by the end of the year and to return towards our through-cycle target of 80 to 85% from next year.

The ID Systems disposal is to complete imminently. Revenues for this business were £19m in 2015 with profits of £4m. For your models, revenues and profits for the remainder of the year are estimated to be £11m and £2.6m respectively.

Medium term, we expect to see organic revenue growth returning to low single digits.

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

Interim Results 2016 SLIDE 16
<h2>Market outlook</h2> <h3>Drivers for growth</h3>

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Rakesh Sharma, Ultra's Chief Executive, continued by discussing full year and future performance as well as market dynamics against Ultra's market segments

Thank you Ami.

My presentation today is going to have four distinct sections;

- Geopolitical landscape
- Second half 2016 revenue
- 2016 market segment drivers and
- An update to the long term opportunities

So first, onto the geopolitical landscape.

Interim Results 2016
SLIDE 17

Geopolitical landscape

Macro Economics

- Continuing low oil price
- Continuing low interest rates
- Inflationary pressure remains weak

Defence & Security

- Spending increase in US election year
- Comprehensive UK SDSR
- Increasing global security concerns
- Increasing regional tensions - ISR demand
- More evident cyber security needs

Other

- Nuclear support CO2 commitments
- Potential trade deals with the commonwealth

Macro Economics


- Brexit uncertainty
- Ability of central banks to respond to further downturn
- Increasing concerns of isolationism
- UK political turmoil will impact procurement

Defence & Security

- CR in 2016
- BCA (Sequestration) extended two years
- US programme “bow wave”
- UK funding dependent on efficiencies
- Under-resourced customer procurement
- Increasing export competition

Other

- Nuclear programme funding delays
- Time taken to negotiate trade deals



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The geo-political landscape is generally as presented at the Prelim presentation earlier this year. Therefore, I intend to focus on the effects on Ultra of three things;

- Brexit, the European question as well as UK effects.
- The potential for a US Continuing Resolution (CR) and,
- The US Presidential election.

So first Brexit. Although unexpected, the resulting leave vote will have very little effect on Ultra’s revenue from mainland Europe. Last year this was only 10% of Group revenue. There is a clause in the Treaty of Rome that allows countries not to enforce competition in defence markets. The UK opens up its defence market but it is very difficult to sell to a European Country in competition with their national champion. The French buy from the French, the Germans from the Germans and so on. The areas where Ultra has been successful is where what we have to offer is unique. Therefore, whether in or out of the EU, I expect that Ultra will continue to conduct business at about the same level.

Two concerns that affects everyone rather than just Ultra arise out of the uncertainty caused by the Brexit vote. These are; currency volatility and trade barriers. Customers often require long price validities on bids. Where costs are in sterling and receipts in foreign currency any volatility in the FX rates between bid and contract award can have positive or negative effects. It therefore becomes very difficult to set prices and we become disadvantaged compared to our overseas competitors. We prefer long term currency stability over a particular rate. The other concern is if Brexit negotiations lead to trade barriers between countries in tit-for-tat exercise. Ultra has recently benefited from an export drive, started more than five years ago, and any move that hinders global free trade could affect that revenue.

A potential long-term advantage from Brexit is that by becoming a bloc-free country HM Government may increase defence expenditure to secure the same world-wide standing for the UK that we currently enjoy as part of the EU.


Moving on to the threat of a CR.

continued on next page

Interim Results 2016
SLIDE 17

Geopolitical landscape

<p>Macro Economics</p> <ul style="list-style-type: none">• Continuing low oil price• Continuing low interest rates• Inflationary pressure remains weak <p>Defence & Security</p> <ul style="list-style-type: none">• Spending increase in US election year• Comprehensive UK SDSR• Increasing global security concerns• Increasing regional tensions - ISR demand• More evident cyber security needs <p>Other</p> <ul style="list-style-type: none">• Nuclear support CO2 commitments• Potential trade deals with the commonwealth	<p>Macro Economics</p> <ul style="list-style-type: none">• Brexit uncertainty• Ability of central banks to respond to further downturn• Increasing concerns of isolationism• UK political turmoil will impact procurement <p>Defence & Security</p> <ul style="list-style-type: none">• CR in 2016• BCA (Sequestration) extended two years• US programme “bow wave”• UK funding dependent on efficiencies• Under-resourced customer procurement• Increasing export competition <p>Other</p> <ul style="list-style-type: none">• Nuclear programme funding delays• Time taken to negotiate trade deals
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Just as our analysis of past US Presidential election years showed that the US Government tends to spend the allocated budget in year, it also showed that a CR is normally required. The reason is fairly clear. The House of Representatives is on a two year election cycle so, when that coincides with a Presidential election year a CR is agreed to bridge the gap while everyone is on the campaign trail. The surprise to us this year, is that there is a probability that the CR could last six months to the end of March 2017 rather than the three months we anticipated. Clearly this does not change Ultra's 2016 performance but a six month CR could skew 2017 to be more second half based than usual.

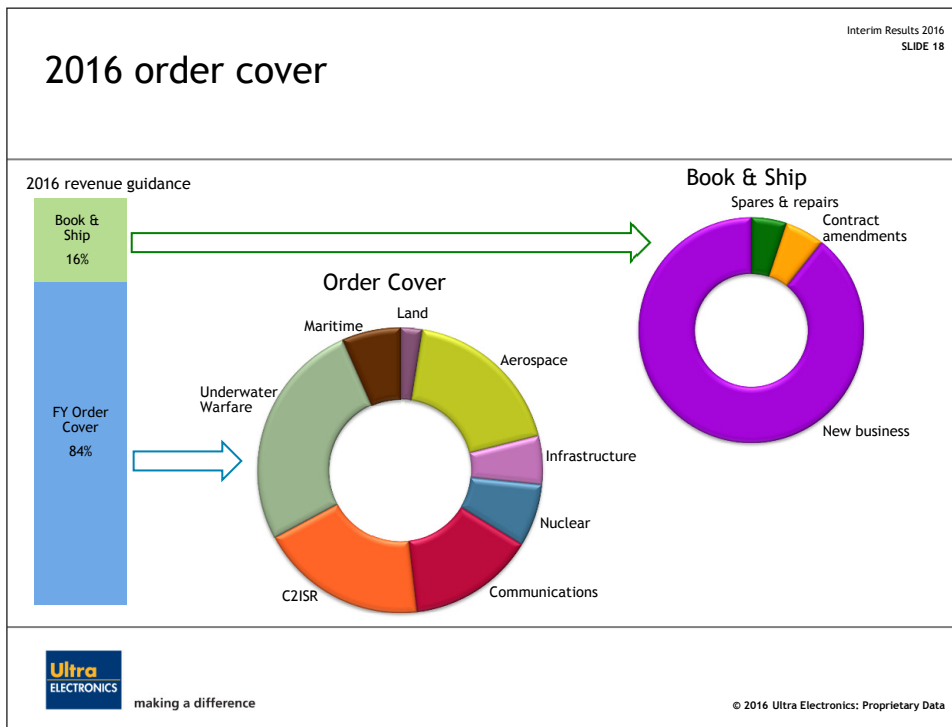
Finally, the US Presidential Election.

To get the party's nomination Presidential Candidates have to appeal to the party's grass roots. That means as a Democrat you have to be left of centre and as a Republican right of centre. This is the race that has been played out by Hilary Clinton and Donald Trump. However, in normal times, to be elected as President each candidate must secure the centre ground to capture the majority vote. This election is different, as the two parties are heavily influenced by left and right wingers respectively. So how far can each candidate move to the centre before alienating their own grass-root

activists? Not very far I think. Despite, how interesting all this is (and I am happy to engage with anyone after the presentation should they wish to discuss it in more detail) I don't worry about the Presidential election. I worry about the House of Representatives election.

Those of you who attended our "How Washington Works" seminar will remember that the President makes a budget request but it is the House that appropriates and authorises. Therefore, the make-up of the House has more of a bearing on defence expenditure than who occupies the White House.

Republicans tend to be supportive of defence budget increases in isolation whereas Democrats tend to only increase the defence budget if they can also increase, in equal measure, other discretionary parts of the budget. The Republican party is currently the House majority lead and I believe it is important to Ultra as well as the defence industry that this should remain the case. For this reason I spend more time tracking the House elections rather than the Presidential one. Lets now move onto 2016 orders.



The required second half performance is typical for Ultra but I'd like to provide a little more detail to demonstrate why we have confidence in delivering our guidance for the year.

On this slide you can see that at the end of the first half we had order cover of 84% of the full year revenue, in-line with 2015 (83%). That means that we have to "book" 16% in the second half and "ship" it by the end of December. On the left hand side of the slide I have broken down the order cover by our eight market segments. The remaining 16% of "book and ship" will have a similar profile to the order book and last years second half.

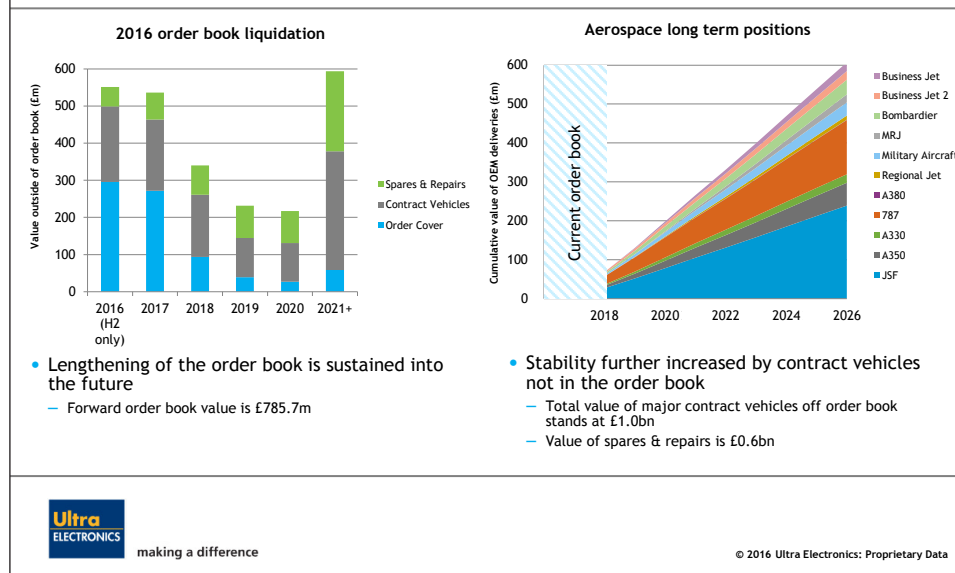
Currently the total value of bids outstanding and opportunities yet to be bid, that will provide revenue this year, is 250% of the new business target needed. This is normal for our business and we typically win around 85% of these types of bids.

Let me also provide you with the flash results for July. Please bear in mind that because this data is gleaned from our flash process it may not be wholly accurate but is indicative of the months results.

In July we had an order intake of about £26m and revenues of approximately £49m. Consequently, our order cover for full year revenue is now 87% leaving 13% as the remaining "book and ship".

Moving onto the next slide

Off order book demand



Over the last four years, to reduce the Group's vulnerability to market uncertainty, we have been pursuing and negotiating longer term contracts and platform positions. You will remember we only book firm orders into our order book. We do not book options, IDIQs or platform agreements. We have previously provided the overall position which represented about £1.5bn of off order book demand. You can see from the graph on the left hand side that this has now increased to £2.4bn. On the right hand side the graph provides increased fidelity on the aerospace platform positions.

Not all of these programmes have started to generate substantial amounts of revenue. This increasing undeclared source of revenue is one of the reasons why I'm confident about the second half of 2016 as well as the medium term outlook.

Let me give you a little bit more detail on the £100m of orders that slipped out of 2015 into 2016.

We have secured around 40% of the orders that slipped. Further, two of those slipped orders remain tantalizingly close to contract award, owing to unpredictable procurement processes. Were these to be secured, as we expect them to be, we would be over 100% of the value that

slipped from 2015. One of the orders has a value of over £30m and has become protracted as a result of me increasing the price once the bid validity had expired. This is an example of how we look after the medium to long-term value rather than accepting a poor position for the sake of ticking boxes.



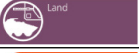





The second opportunity is larger than the first - however, I am unable to go into the detail other than to say we have been down selected.

Now let me discuss the market drivers for our growing segments.


Interim Results 2016
SLIDE 20

Market drivers for 5 year planning period

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

Segment	% 2016 H1 revenue	Growth Indicator ‡	Segment dynamics
 Underwater warfare	26%	Better	Increasing demand for ASW in US and globally in response to regional tensions Export controls could limit access to emerging markets
 Maritime	7%	Better	Strong submarine build programmes in US & UK likely to be prioritised Cost pressures in ship build programmes with reviews in US & UK
 Land	2%	Lower	UK & US upgrading AFVs and export markets investing for internal & external security Soldier-worn power management a new growth opportunity
 C2ISR*	22%	Better	Increased demand for border security and CNIP but O&G revenue impact Tensions drive ISR demands that match Ultra's capabilities
 Communications	11%	In Line	US & UK crypto strategies but more reliant on commercial technology Military communications programmes face funding difficulties
 Aerospace	21%	Better	Commercial revenue growth has peaked but market appears resilient JSF dominates military aircraft spend
 Nuclear	7%	Better	New build delayed by funding issues but legacy extension market strong SMR provide potential solution to high cost traditional construction
 Infrastructure	4%	In Line	Airport IT sector changing and investment impacted by macroeconomics Rail investment has moved on to AC Longer-term opportunities in smart grid

* Command & Control, Intelligence Surveillance & Reconnaissance



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The market drivers haven't really changed since Ultra's Prelim presentation earlier this year. Therefore, for expediency, I'm only going to comment on the column titled "Growth Indicator". Now that we have been able to simplify the organisation with the segment structure I always get asked the question "which segments will grow faster than your five year guidance and why?" Ultra's medium to long term guidance is organic revenue growth of 3-5% CAGR. In the column titled "Growth Indicator" I have provided an indication whether the segment will have better, lower or in-line organic revenue growth than the mid-point of the guidance. We expect better than 4% CAGR organic revenue growth from the following segments.

- Underwater warfare – primarily owing to China in the Aisa-Pacific and Russia in the Atlantic.
- Maritime – The investment in the US and UK on the future nuclear deterrent and attack submarine drives this growth.
- C2ISR – Regional tensions around the world drive the requirement to operate and control military forces in electronically hostile environments.









- Aerospace – Even though civil aerospace orders may have peaked this has yet to be seen in the ramp up of production in the supply chain. In the military sphere JSF is the primary driver.

and finally

- Nuclear – Despite UK new build funding issues Ultra is well positioned to support the UK legacy fleet as well as new build in China. You may remember that earlier this year EDF selected Ultra for its UK supplier of the year award. We also successfully partnered with NuScale for Small Modular Reactors.

Moving onto the longer term opportunities.

Long term opportunities

Segment	Key programmes	Values	Likely award
 Underwater warfare	India NTDS TB-34 Towed Array TB-29X Towed Array India IADS & ASW	£30m £30m £83m £72m	2016 - waiting ministerial approval lost 2017 - awaiting bid assessment 2017/18
 Maritime	UK Successor - power & control UK Successor - signature management Fatahillah 2 - Indonesian Corvette Refit	£26m £27m £15m	2017 - development underway 2017 - development contract awarded 2017 - following delivery of Fat'lah 1
 Land	UK VIRTUS soldier worn power system	£30m	2017 - first trials underway
 C2BA*	Middle East Land Border Security NATO JEWCS - Land and Maritime Scope 4 th Generation Targeting Pod for RAF Airborne EW system for NATO country	£90m £120m £50m £65m	2017 - selected as single source 2017 - slipped 2017 2017 - awaiting selection of prime
 Communications	Typhoon I, Watchkeeper, A400 crypto Project REMARSHALL US Army WIN-T ORION radio production	£42m £11m £32m	won - development contracts won - development underway 2017/18 - sole source position likely
 Aerospace	XAC MA700 PEC Cessna Hemisphere control systems WheelTug on Boeing 737 Gripen NG HiPPAG integration	£2m £40m £35m £7m	won - agreed IP license to GE Dowty 2017 - new programme launched 2018 - certification starts in 2016 2017
 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 - first contracts awarded 2017 - delayed 2017 - continuing business
 Infrastructure	London Underground & Manchester Metro DC systems Baggage System upgrades (Heathrow & SA)	£9m £13m	2017 - recast as new programmes 2018 - Ultra is the incumbent



making a difference

* Command & Control, Intelligence Surveillance & Reconnaissance

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This slide is an update to the one presented earlier this year. I have removed the programmes that were won at the time of the Prelims and added four more items, being;

- TB-34 Submarine Towed array
- TB-29X Submarine Towed array
- Airborne EW for a NATO country
- Gripen NG HiPPAG (High Pressure Pure Air Generators) integration

First, the TB-34 Towed array has been lost to a teaming of Lockheed-Martin and L3. LM and L3 independently were the original designers of TB-34, which is a submarine towed array for ASW and collision avoidance. Ultra were awarded an engineering contract to develop a more reliable alternative which has been proven on sea trials. Ultra and LM-L3 scored equally on the assessment but Ultra was significantly below LM-L3s price. We await a debrief of the decision.

Second, the TB-29X is a submarine towed array used for the same purposes as TB-34 but with compact thin line technology and more reliable data transmission to maintain operational capability. Ultra has successfully matured the design to operational readiness level. This bid is for the production phase.

Third, Ultra has been selected by a NATO country to supply its EW equipment for integration into a counter-insurgency aircraft. However, Ultra cannot be placed under contract until the plane integrator has negotiated his contract. This procurement, having already stalled once, was not originally in the 2016 budget.

Finally, HiPPAG has been in our capability inventory for a few decades but is still winning new opportunities. The new Gripen fighter aircraft will use HiPPAG, both for weapon release and for cryogenic cooling of the missile seeker head, from the same unit. This dual-application is a first for HiPPAG.

Summary

Interim Results 2016
SLIDE 22

- First half performance in line with expectations
- Second half will continue activities on:
 - Capturing opportunities
 - Executing initiatives and contracts
 - Positioning for the future
- Market conditions have improved but are still challenging
- Ultra remains committed to R&D spend
- 2016 will continue to see steady progress
- Increased Government spending in 2016 will feed future organic revenue growth

Capturing, executing and positioning for success



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So to summarise:

As you can see from today's presentation the first half of 2016 was a busy start to the year with capturing opportunities, executing on our initiatives and contracts whilst positioning for the future.

Although market conditions have improved on 2015 they still represent a challenge and Ultra continues to "hope for the best" but stays "prepared for worse:"

We remain committed to our R&D investment at our customary rate and expect to see full year benefits from our continuing initiatives. Ami has outlined our guidance for 2016 and beyond, and the overall picture is one of steady progress through 2016. We will provide an update in our Full Year pre-close statement.

Looking beyond the current year we expect the increased spending levels in 2016 to feed organic revenue growth beyond 2016.

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

Ultra 2016 Interim Q&A transcript

Q:

A question for the finance director. How have you prepared for IFRS 15, and will you be compliant from the end of the year?

A:

Amitabh Sharma, Ultra

IFRS 15 will come in, in 2017/2018. We've got a project underway to identify the impact upon Ultra, and we will be compliant when the time comes.

Q:

I wanted to clarify the £2.9 million FX gain, dollar assets in the UK I think was where you put it. Can I just understand what exactly that was and how the gain was incurred?

A:

Amitabh Sharma, Ultra

We have US dollar trading assets in the normal course of business and the Foreign Exchange gain or loss on that is within the noise. So it's a very standard thing. US dollar assets are variable; they can yoyo around from month to month. At the end of June there was a significant movement, as you all know, in Sterling against the dollar, and that created this gain of £2.9 million.

Q:

Just to clarify its stuff, stuff you made which you're going to deliver. So you've written up inventory or it's become worth more in Sterling terms?

A:

Amitabh Sharma, Ultra

Correct.

Q:

If I could possibly ask a second different question on S3? Quite a bit of it appears to be a sort of corporatisation of Ultra, pulling together what was previously a lot of separate companies which had been assembled over a long period of time. Every company that does this has to go through this process, but there's always a risk of throwing the baby out with the bath water and losing some of the entrepreneurial spirit, mainly in the

people. Because one of your peers went through this, they lost some good people in that process.

So are you going to be able to do this without losing your entrepreneurial managers who drive the business forward?

A:

Rakesh Sharma, Ultra

We are not centralising. Over my dead body while I'm Chief Executive will we centralise. That's specifically why we've said the program is standardisation and shared services. We don't want to lose the entrepreneurial spirit. There are three elements that have made Ultra successful that we as an Executive Team and a Board have said we must preserve.

The first is the autonomy of our organisation. At the end of S3 our programme we will still be autonomous. We regard autonomy not as a pivot point on a seesaw but as a green band on an oil gauge. Anywhere in that green area you're still autonomous, just don't go left to anarchic or right to hierarchical.

The second is the agility of our organisation. The flat structure of our organisation will remain and we will continue to be agile.

The third is a combination. If you're going to have our type of entrepreneurial company culture then you have to make sure that you have the authority, responsibility and accountability in the same place. There's nothing more damaging than having someone responsible with no authority to carry out that responsibility, or giving somebody authority and then not holding them accountable for their actions. So those three things will be preserved.

To give you an indication of the sorts of things that we're talking about, the sourcing that Ami spoke about, and it's part of Ultra growing up, our businesses in the UK in the production and engineering areas, all wear white lab coats. Each company was buying its lab coats from the same supplier but on different contracts, there were five different contracts between Ultra and this company, and all the prices were different.

So we've bulked that up. We've put in an Ultra contract with this company and said not only do we want the lowest price that you've been supplying to us; we want a discount on the lowest price.

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People still order their own lab coats but they order it on the back of an Ultra contract negotiation. We're not trying to centralise, we're trying to increase the efficiency and the productivity and share best practice around the group to make us a better, more efficient, even more agile and an even more entrepreneurial organisation than we were before.

The baby is still in the bath. The bathwater may have gone but the baby is still there.

Q:

Two questions. On the F35 can you tell us what the shipset value is now post Herley, and if you expect that to be sustainable?

A:

Amitabh Sharma, Ultra

£185,000

Q:

Second question on UK short cycle orders, we've heard from some of your peers that there have been delays coming through and how are your interactions with margin – how do you expect that to play out through the rest of the year?

A:

Rakesh Sharma, Ultra

Most of our short cycle orders come out of the UK. Our US businesses are doing very well in terms of order intake this year. We're seeing a more buoyant market in the US. We've seen a bit of a gap in the UK, which we were expecting, really because for the two months before the Brexit vote and a few weeks after the Brexit vote nothing really moved in UK government. So, that was a break in the order pipeline in the UK.

One of the biggest businesses that we have in short cycle short turn orders is the ID business. They typically have to "make to stock" and then they have to deliver within two weeks of getting an order. That business has done okay in the first half of this year, and as you saw from Ami's presentation the second half of that business is very much bigger than the first half. There's a large exhibition in the fourth quarter and there's

a lot of discounts offered during that exhibition. The ID business has most of its orders in the second half.

Other than that we haven't seen a drop off in our other short cycle business.

Q:

Are you underplaying your medium term growth guidance? I ask that question for two reasons. Firstly US DoD outlays for '17/'18 driven by the budget in '16 are probably going to be up 6%, 7% a year? That's half your business, so half your business is growing 6%, 7% and you're telling us the group overall is going to grow 3%, 4%. The second thing is your slide 20, and thank you for that detail, you've got 83% of your businesses growing above average, 2% growing below average. Again is that an indication of not just bad maths but also actually we're skewed towards the conservative end when you give us those numbers?

So that was the first question, because I suppose when you say half your business is growing in the US 6% to 7% on outlays, what's happening to the rest? I mean effectively you're saying it's not growing at all.

A:

Rakesh Sharma, Ultra

Am I being pessimistic and conservative over the next two three years? If you remember, we made a philosophical decision a couple of years ago that we would go into the year cautious and come out optimistic. Because previously the market has punished us for going into the year optimistic and coming out cautious. So my position is that I want to be on the conservative side and then if I can beat the numbers so be it. That's the way it should be, I should be beating my numbers, not having to work them downwards.

For two years now we have not revised our numbers through the year even though our peers have. We have stuck with our guidance and we've delivered to consensus numbers for the last two years. I want to maintain that record. In terms of the slide yes 80% is more than guidance and 20% is less. The medium to long-term range is 3% to 5%, and so 80% will be more than 4% and some will be less than 4% but the overall range is 3% to 5%. That's what we're committing to.

Q:

My maths on the outlays, am I fundamentally flawed in saying 6% to 7%?

A:

Rakesh Sharma, Ultra

No, you're not.

Q:

Were you going to under grow that for whatever reason?

A:

Rakesh Sharma, Ultra

Well I'm not saying that we will under grow, I'm giving you what the guidance is. The problem is that we live in a very volatile world at the moment, and if I say to you yeah it's all going to grow at 6%, 7%, 8%, something could happen that means it doesn't. I don't have a crystal ball that goes out three years; I can't predict what's going to happen. We have House elections and a Presidential election. People say that if Trump gets in, defence expenditure could go up 5% or 6%. But the problem will be that a lot of my US companies won't be able to export from the US because people will stop buying from the US as a result of Trump and some of his foreign policies. That should open up some opportunities from the UK. There's a lot of movement in the marketplace and any Chief Exec that stands up today and says I'm going to grow 6% in 2018, is a braver man or woman than I am. I think we want to stick with our position to be cautious and be prepared for things on the upside rather than the other way round.

Q:

The second question was on S3, and sorry to be a bit dense here, the savings that were actually delivered in the first half. I know you've got the table, you gave us the number where I can't find it now. Was the £3.4 million savings to June '16, that's cumulative, that's not all that was delivered in the first half?

A:

Amitabh Sharma, Ultra

No, that's cumulative.

Q:

So what was in the first half?

A:

Amitabh Sharma, Ultra

£2.2 million.

Q:

Okay, which brings me back to slide four, the bridge, and thank you for providing that. So you've got £2.2 million of S4 savings and £2.4 million lower R&D. Presumably those are included in the organic bar are they?

A:

Amitabh Sharma, Ultra

Yes.

Q:

Okay, so we had basically an organic decline of around about £5.5 million on an £8 million sales decline organically. It's quite high drop through.

A:

Rakesh Sharma, Ultra

No, I wouldn't agree with that. I don't accept that premise. We take management action in order to be efficient. If we get something and we haven't done anything for it then I don't take credit for it. Which is why we've split out the currency gain, it just came through in the last week of June. I feel that if we've taken action to improve the profitability of the company, then we should be allowed to take credit for it.

Those of you that remember the first Chief Executive of Ultra, Julian Blough, when we used to have strategy and budget meetings with him, he used to challenge us by saying "if I take out all the bad it's really quite good". So therefore I'm going to look at the other side of the coin and say "if I take out all the good, it's really quite bad". I don't accept that premise. Good is good, these are a good set of numbers.

Q:

Ami, just for the next question on that FX gain on slide four, am I correct in assuming that when we see this chart for the full year, this operating profit bridge, the exceptional FX gain just moves to currency translation, so this is just timing because it's in working capital not in sales?

A:

Amitabh Sharma, Ultra

It's timing. We've got £54 million in contracts at 1.54 for the rest of the year and the dollar assets are variable.

Q:

So it's not something you're going to lose in the second half, it's just going to be reflected?

A:

Amitabh Sharma, Ultra

Within the results, yes.



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