Interim results presentation and script

Rakesh Sharma, Chief Executive
Mary Waldner, Group Finance Director

4 August 2014

making a difference

Ultra ELECTRONICS

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**…

DEFENCE & AEROSPACE

SECURITY & CYBER

TRANSPORT

ENERGY

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

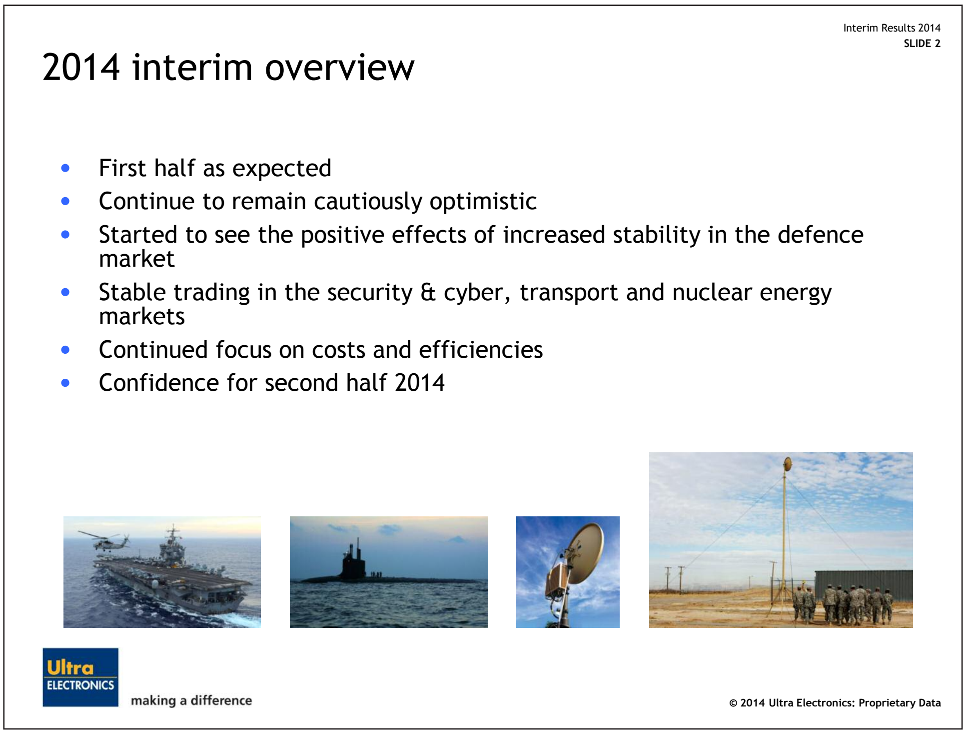
Cautionary statement

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 and welcome to Ultra's presentation of the interim results for 2014. We will follow a similar format to the prelims and the scripts presented today will be available later this afternoon on our website. After a short overview from me, Mary will provide the operational detail before I then discuss the market, acquisitions, opportunities and outlook.

So, on to the overview.



These interim results are as we expected and in line with the guidance at the Prelims. The theme continues to be "cautious optimism". Optimism because as you have observed, there have been a number of contract awards over £10m in the last couple of months, largely as a result of increased stability in the US defence market. As anticipated, those of our businesses contracting directly with the DoD saw an increase in contracts being awarded at the end of Q1. Those businesses contracting through the major primes have started to see an increase more recently as there is a natural time lag. As highlighted in the press release, book to bill for the first-half was 1.2.

Our end markets in security and cyber, transport and nuclear energy, have continued to make steady progress.

We don't make a big fanfare about our usual focus on cutting the cost base and implementing efficiencies, but this has continued. Mary will discuss this in more detail, but I would like to remind you that the cost of all the restructuring and efficiency drives are included above the line.

Despite being more heavily weighted in the second-half of this year, I am confident of a strong performance in this period.

Now, over to Mary.

Interim Results 2014
SLIDE 3

Key metrics

£m	2014 H1	2013 H1	Growth
Order book	876.8	877.2	-
	December 2013 order book £781.2m		
Revenue	341.0	367.7	-7.3%
Operating profit*	53.0	57.9	-8.5%
*Operating margin**	*15.5%*	*15.7%*	
Profit before tax**	50.5	55.4	-8.8%
Earnings per share**	55.4p	59.5p	-6.9%
Dividend per share	13.2p	12.7p	+3.9%
Operating cash flow	42.4	46.7	-9.2%
Cash conversion	80%	81%	

** before amortisation of intangibles arising on acquisitions, impairment of goodwill and adjustments to deferred consideration net of acquisition costs.*

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

making a difference

Mary Waldner, Group Finance Director, presented the details of Ultra's first half financial performance.

Thank you to Rakesh, good morning to everyone.

Starting with the key metrics;

The order book was in line with last year at £877m. Foreign exchange impacts reduced orders by 4%, however this was offset by a 5% increase from the acquisitions made in the period. Excluding the trading of our large Oman contract, the underlying order book increase was 2%

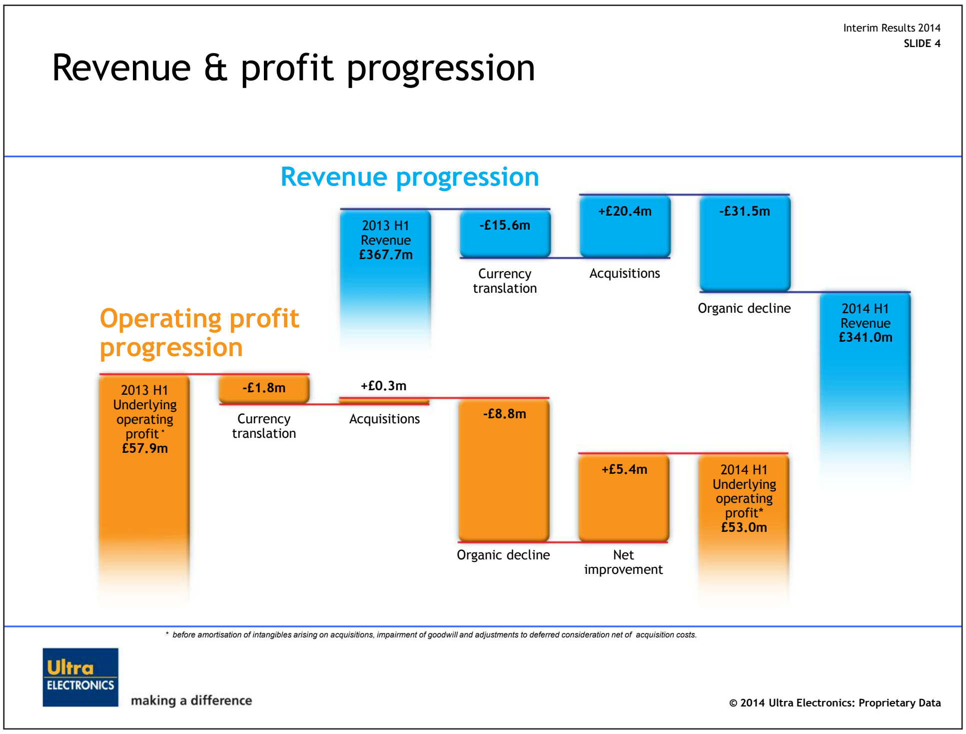
With order intake for the half of £408.2m, the increase in order book from December 2013, excluding the effect of exchange, is £102.5m or 13.2%. This takes order cover for 2014 to 82%.

Revenue, at £341m, was 7.3% down on last year and operating profit at £53m saw a 8.5% decline.

Profit before tax was down by 8.8% but earnings per share declined by only 6.9% as the tax rate reduced to 23.8% from 24.5% last year.

The dividend has increased by 3.9% to 13.2p.

Cash conversion during the period was 80% compared to 81% last year.



Moving to the revenue progression

Currency translation resulted in a decline of £15.6m or 4.2% – Sterling was on average just over 8% stronger against the US Dollar at 1.67 compared to 1.54.

Acquisitions added £20.4m with 3 Phoenix contributing the majority at £13m.

Organically, there was a reduction in revenue of £31.5m or 8.6%. Whilst there was an increase in revenue relating to the Fatahillah contract, and in sales of sonobuoys in the US and in Australia, a number of factors contributed to the reduction.

The prior year one-off Urgent Operational Requirement for the British Army had an £8m impact and the delay in building access on the Oman contract led to a £10m reduction in revenue. The balance of the decline primarily relates to US defence spend with, in particular, lower revenue from communication and land related products.

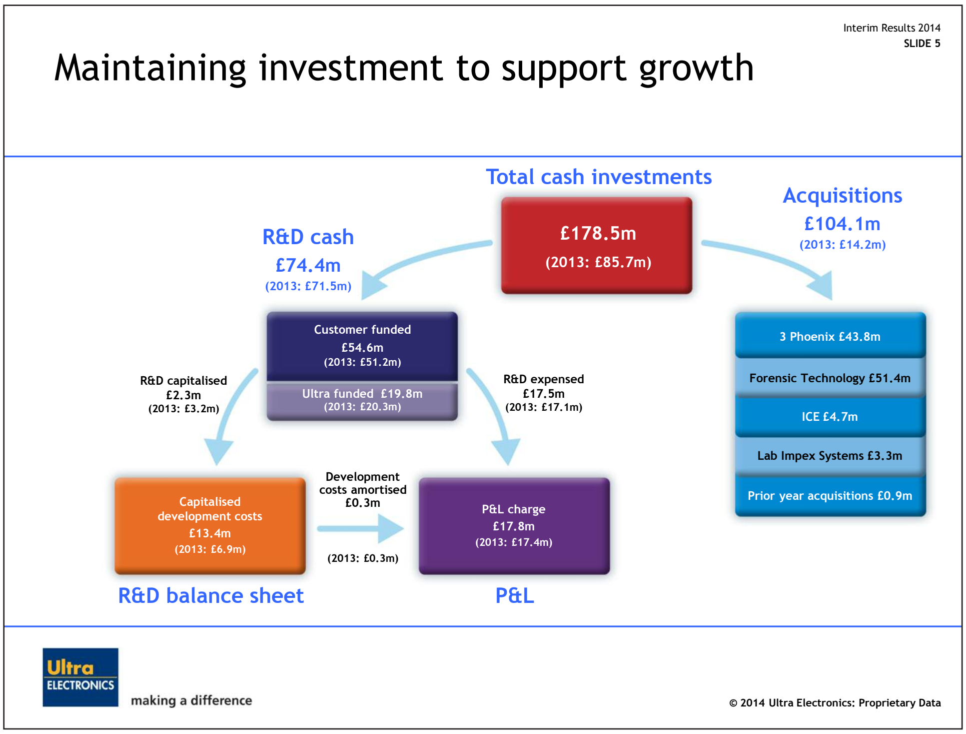
Turning to the profit section of the slide.

If you follow the slide from left to right, it highlights the main reasons for the reduction in profit from £57.9m to £53m.

Currency reduced profit by £1.8m, again due to the relative weakness of the US Dollar against Sterling.

There was an organic volume decline of £8.8m, representing the effect of lower revenue at last year's margin. Acquisitions added £0.3m, with the margin on revenue from 3 Phoenix partially offset by integration costs.

After allowing for the currency, volume and acquisition effects, there was a net improvement of £5.4m reflecting cost reductions which I will discuss shortly.



Turning to our investments to support future growth.

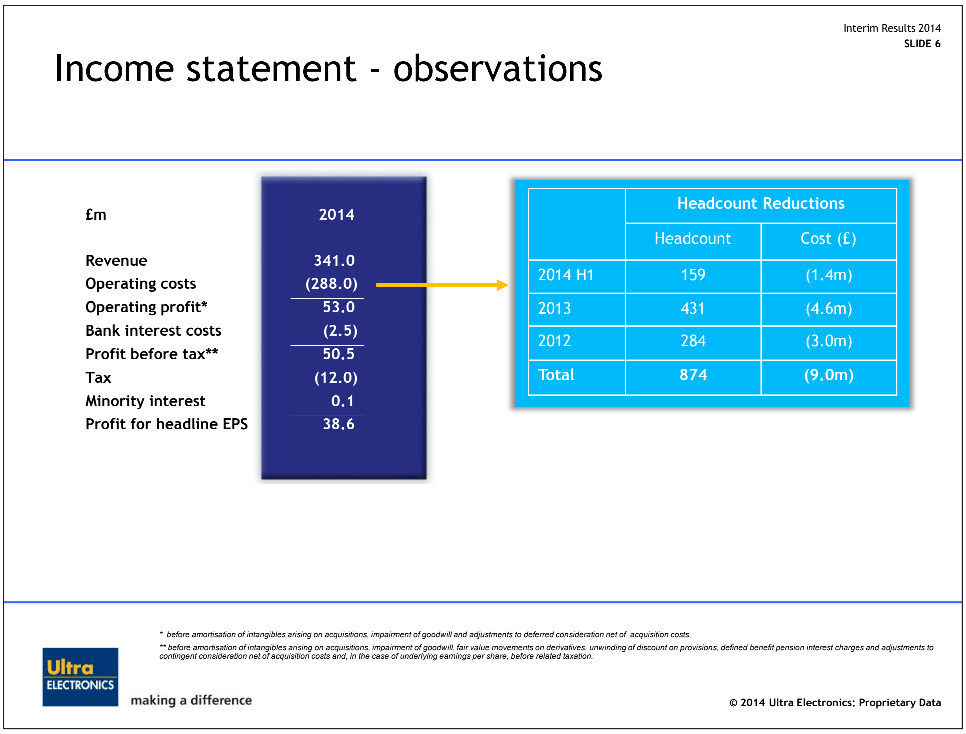
You will see on the right hand side that we spent £104m on acquisitions, on four companies all of which provide both complementary capability and access to adjacent markets. Rakesh will talk later about the two larger acquisitions of 3 Phoenix and Forensic Technology.

We also recently completed two smaller, but important acquisitions. The first is ICE Corporation, a US civil aerospace company acquired for £4.7m which bolted into our Controls business. It brings complementary technology on smaller platforms, including motor control electronics and ice protection. The second is Lab Impex Systems, a nuclear business which we acquired for £3.3m. This bolted into our Nuclear Controls business and extends our radiation monitoring product capabilities, as well as strengthening our position within the global nuclear sector.

Research and development spend increased in total by 4.1% to £74.4m. Customer funded development rose by £3.4m to £54.6m including the impact of 3 Phoenix.

Ultra funded development was £19.8m or 5.8% of revenue in line with the prior year. Expensed R&D was slightly higher at £17.5m and capitalised R&D £1m lower at £2.3m. 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 £13.4m.



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. The annualised saving from the headcount reduction in the first half is £8m. Part of the saving in our cost base can be seen in the level of administrative costs on the P&L account, which since 2012 have reduced by £20m on an annualised basis excluding intangibles amortisation.

In the period there have been a total of 159 headcount reductions at a cost of £1.4m compared with 284 during the first half of 2013 at a cost of £3.2m. 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 874.

We continue to monitor the rest of the cost base across the Group and have consolidated businesses where this has been appropriate. In the first half, AEP, our commercial crypto business, is being aligned with CIS, our high-grade crypto business, eliminating a further set of overheads. Additionally, the ProLogic and SOTECH businesses under the US Proxy Board are operating with shared support services.

Finally a word about tax – the rate continues to reduce as the headline rate of corporation tax falls in the UK, and is at 23.8% down from 24.5% last year. We expect it to remain around 24% going forward.

Interim Results 2014
SLIDE 7

Operating cash flow and net debt

£m	2014 H1	2013 H1
Operating profit*	53.0	57.9
Depreciation and disposals	5.3	5.7
Tangible capital expenditure	(5.1)	(9.2)
Net intangible capital expenditure	(2.3)	(2.7)
Working capital increase	(4.2)	(3.6)
Other	(4.3)	(1.4)
Operating cash flow	42.4	46.7
NET DEBT		
Opening net debt	(42.2)	(43.0)
Interest, tax and dividends	(35.4)	(36.5)
Acquisition costs	(104.1)	(14.2)
Other	1.5	0.3
Closing net debt	(137.8)	(46.7)
Cash conversion	*80%*	*81%*

Headroom
(current facilities)
Borrowing
£161.4m
Pricoa
£73.5m

** before amortisation of intangibles arising on acquisitions, impairment of goodwill and adjustments to deferred consideration net of acquisition costs.*

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Turning to cash.

Operating cash flow was £42.4m, taking cash conversion to 80%, compared with 81% last year.

Depreciation and disposals were at similar levels to last year.

Tangible capital expenditure was £5.1m, £4.1m lower than last year which included the site refurbishments at Arle Court in Cheltenham and our Neutron Flux Detector in Wimborne, as well as the investment in our Cyber Protection Lab.

The net outflow on intangible capital expenditure was £2.3m, mainly resulting from the capitalised development I referred to previously.

Working capital increased by £4.2m, compared with £3.6m in the prior year. Both receivables and inventories reduced during the period, reflecting the expected reversal of the year end position. However, offsetting these improvements, payables also reduced, reflecting the unwind of multi-year advanced payments.

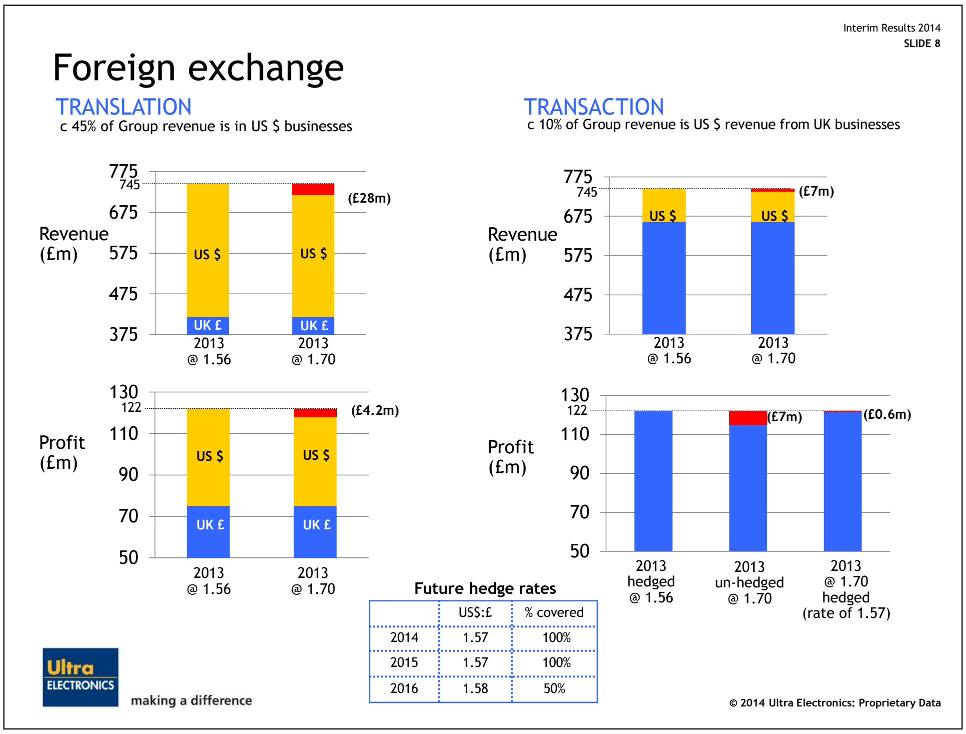
The other outflow primarily represents the pension deficit reduction payments of £3.9m agreed with the trustees.

Moving to non-operating cash flow, interest, tax and dividends reduced by £1m as a reduction in US tax paid was partially offset by the increase in the dividend.

Acquisition costs were up reflecting the £104m invested in the four businesses acquired this year against only one last year. We retain firepower of £100m to £150m per annum, but expect acquisition completion activity to slow during the second half.

Within other debt movements, currency movements reflected the weakness of the Dollar, and took closing net debt to £137.8m.

We recently took advantage of a strong borrowing market and refinanced our £90m facility a few months early. In order to protect our headroom we increased the available facility to £200m. This takes headroom on current facilities to £161.4m, with an additional £73.5m on our uncommitted Pricoa bilateral facility. We also reduced the RCF rate by 65 basis points from LIBOR plus 150 to LIBOR plus 85.



The US Dollar has remained weak against Sterling during the period so I wanted to remind you of our sensitivities to the Dollar that we discussed at the prelims.

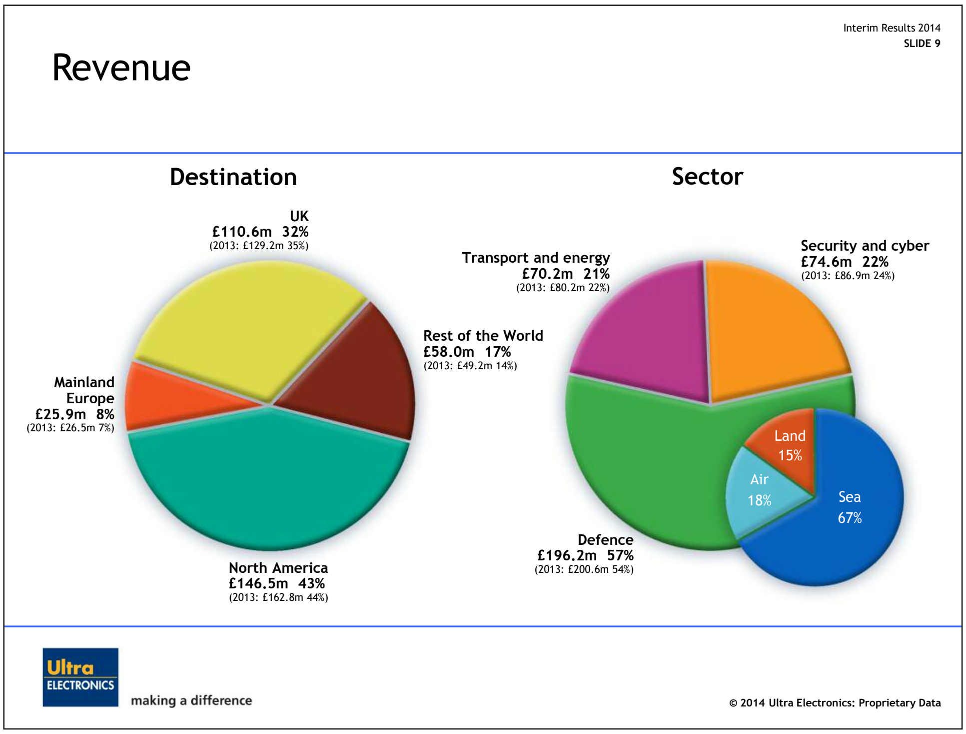
This chart highlights the impact of a 14 cent year on year movement in the Dollar/Sterling exchange rate from 1.56 last year to an assumed average rate of 1.70 this year.

I am using our 2013 revenue and profit as a base, with the proportion of our revenue in US Dollars shown in yellow on the chart.

Looking at translation first. With around 45% of our revenue through US businesses, this results in a £2m revenue impact for each 1 cent weakening of the Dollar. The year on year movement from 1.56 to 1.70 would therefore result in a £28m reduction in revenue.

On profit there is a £0.3m impact for each 1 cent weakening of the Dollar. Again if the Dollar were to average 1.70 for this year this would result in a £4.2m or 3.5% reduction in profit.

Second transaction. Revenues from our UK businesses into the US are also impacted by foreign exchange. In this case we do not have natural hedging on costs, so we hedge forward our flows in order to protect the profit. I am pleased to confirm that we are 100% hedged for both 2014 and 2015 at 1.57. So, as shown on the chart, with around 10% of revenue in Dollars, for every 1 cent movement in the Dollar there is a £0.5m reduction in revenue. An unhedged movement to 1.70 would reduce both revenue and profit by around £7m. However given our hedged position the total year on year impact on profit is only around £0.6m for 2014.



Turning now to the geographic and sector analysis.

Firstly, revenue on a geographic basis. The reduction in UK revenue from 35% to 32% this year reflected the impact of the UOR together with reduced sales of Litening Pods. The 1% reduction in the North American market reflected the budget-related delays, partially offset by the impact of the acquisition of 3 Phoenix.

The increase in Rest of the World revenue reflected the impact of the Fatahillah contract partially offset by delays in Oman. Europe revenue was broadly flat.

On a sector basis, Defence grew as the acquisition of 3 Phoenix and international sales offset the impact of the US budget. The analysis at the bottom right of the chart shows that maritime defence remains our most significant sector at 67% of defence sales.

The reduction in Security & Cyber reflects the continuing effect of the Snowden leaks.

Interim Results 2014
SLIDE 10

Aircraft & Vehicle Systems

PERFORMANCE DRIVERS IN PERIOD

Financial results

	2014 H1	2013 H1	
Revenue	**£67.7m**	£74.3m	**-8.9%**
Profit*	**£11.8m**	£16.0m	**-26.3%**
Order book	**£170.3m**	£162.6m	**+4.7%**
Operating margin*	**17.4%**	21.5%	


20% of Group sales


22% of Group OP


Revenue by sector**

- Increased sales of specialist ice protection systems offset by reduction in US land systems revenues
- Increased R&D investment following new orders in the aerospace sector
- Order book includes LM Warrior contract and increase in aerospace contracts

** before amortisation of intangibles arising on acquisitions, impairment of goodwill and adjustments to deferred consideration net of acquisition costs.*
***Colour coded as slide 9*

making a difference

Moving on to how the three divisions performed and starting with Aircraft & Vehicle Systems.

The AV&S orderbook increase reflected the award of the Lockheed Martin Warrior contract in the second half of 2013 as well as the Airbus A400 NIM 6 order. This was partially offset by the impact of foreign exchange.

Divisional revenue was down reflecting the prior year benefit of the £8m Urgent Operational Requirement for the British Army. An increase in revenue from our specialist ice protection systems was offset by a reduction in revenues from US land systems and the impact of exchange.

Profit on ice protection systems was offset by increased investment in commercial aerospace programmes, including control systems for the Gulfstream and MRJ, and by foreign exchange. The prior year also included the benefit of the high margin UOR. This led to the reduction in margin to 17.4%.

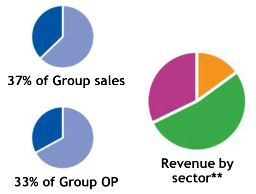
Interim Results 2014
SLIDE 11

Information & Power Systems

PERFORMANCE DRIVERS IN PERIOD

Financial results

	2014 H1	2013 H1	
Revenue	£124.8m	£154.8m	-19.4%
Profit *	£17.3m	£20.4m	-15.2%
Order book	£318.6m	£405.9m	-21.5%
Operating margin*	13.9%	13.2%	



- Impacted by delays in US defence and security contract placement, particularly law enforcement and communications
- Reduced sales from Oman Airport IT project following prolongation of the contract
- Increased revenues from naval and nuclear programmes

* before amortisation of intangibles arising on acquisitions, impairment of goodwill and adjustments to deferred consideration net of acquisition costs.
**Colour coded as slide 9

Ultra ELECTRONICS making a difference

Moving to Information & Power.

The I&PS orderbook decline reflected the trading of the Oman Airport IT contract and the Fatahillah corvette contract. This was partially offset by the Virginia Class Block IV order and an increase in orders for submarine power management in the UK. This division was also impacted by the delays in US contract placement over the last 12 months.

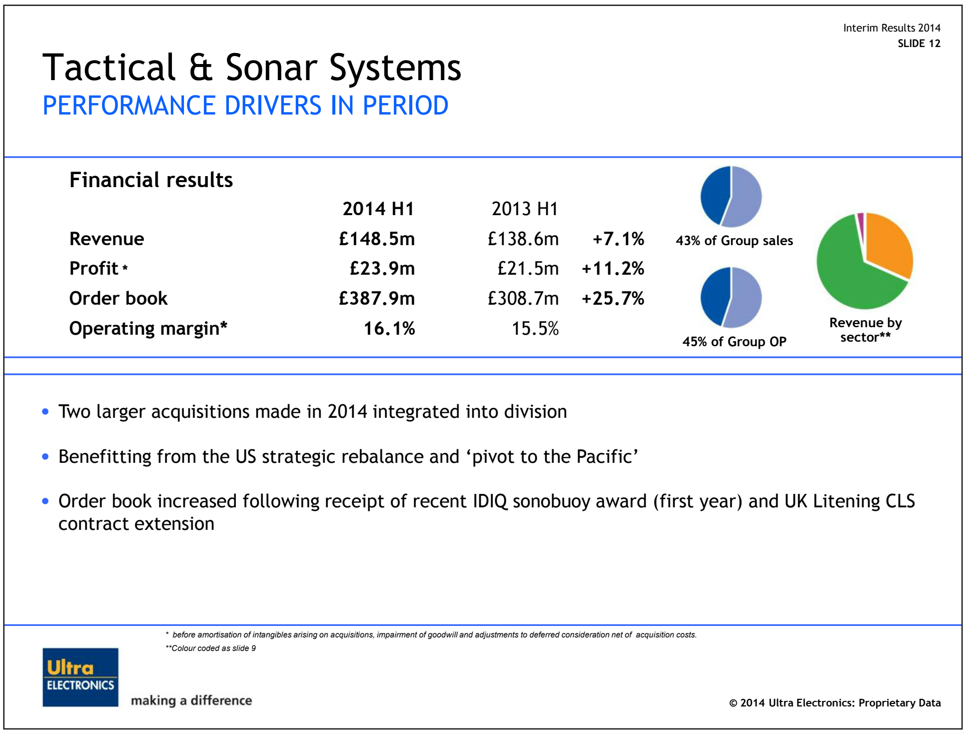
Revenue was down reflecting both the delays in access to buildings on the Oman contract, which is driving the prolongation of the project, and also higher revenue from communication products in the prior year. This was partially offset by an increase in revenue from the Virginia Class submarine programme in the US, and the sales of nuclear sensors into the EDF Detector Management Programme in the UK. The Fatahillah contract also contributed.

These factors, together with foreign exchange, led to a decline in profit, although there was a partial offset from prior year restructuring at Prologic. Divisional margins increased, reflecting the lower contribution from the Oman contract which trades at a relatively low margin, and a higher contribution from the Fatahillah programme.

Two further points here.

First, on Group structure. With the delivery of the Fatahillah contract, during the second half we will be aligning all our naval systems businesses by moving our Command & Control Systems business from the Information and Power Systems division to Tactical & Sonar Systems. We will provide more details at the full year.

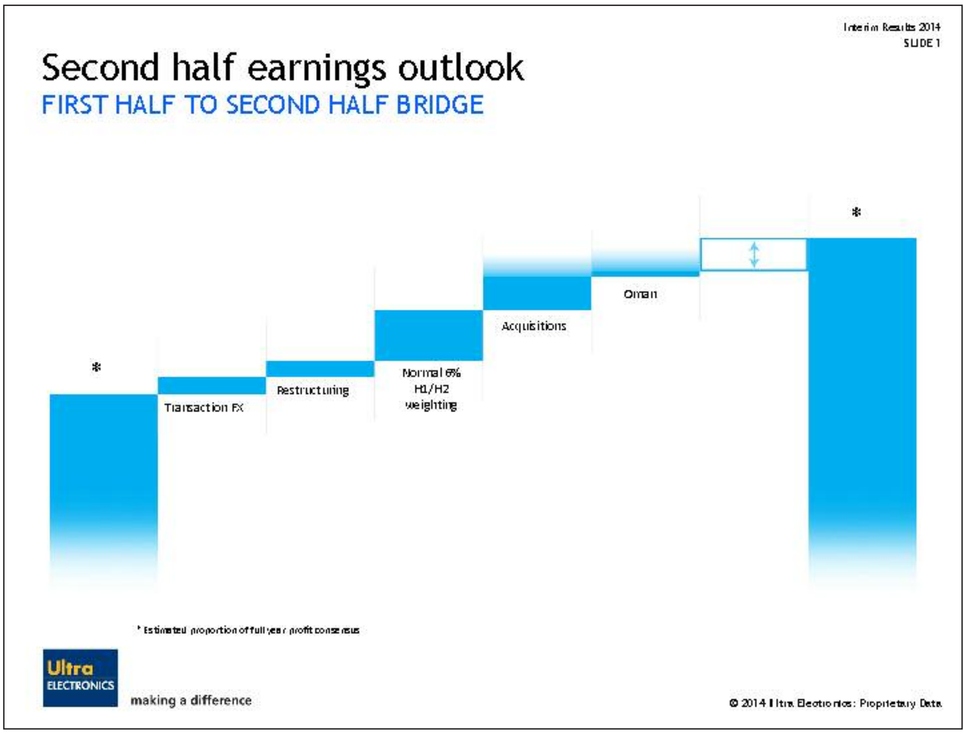
Second, the Oman contract. We are confident that we will secure the necessary extensions of time and cost, under FIDIC contracting rules, to cover the current 24 month prolongation. Negotiations to cover the extension of time and cost continue. Given the protracted nature of the FIDIC process, these negotiations could extend beyond our year end, eroding existing risk provisions held by both Ultra and the Omani Ministry. Work will continue, focused on the programmed soft-opening of the Salalah airport in October. It is at this stage, we will make a judgement on the need for any further provision, updating you at the November IMS.



Moving to Tactical & Sonar Systems, the orderbook increase included the first year of the IDIQ sonobuoy award from the US Navy and the Litening Pod CLS extension. This was supplemented by an increase from the acquisitions of 3 Phoenix and Forensic Technology partially offset by the impact of exchange.

Revenue increased reflecting sales both of sonobuoys in the US and Australia, and from the Integrated Sonar System development for the Australian Navy. This was offset by reduced revenue from Litening Pods but there was also a contribution from the acquisitions.

Profit and margin benefited from increased volume and margin on sonobuoys, as well as the prior year restructuring at our Montreal radios business. A delay in investment in the next generation of Canadian sonar systems to match the ship building programme was partially offset by the impact of integration costs relating to 3 Phoenix.



Finally to earnings outlook for the full year. We remain cautiously optimistic. If the order flow continues to improve, we believe that we can deliver earnings broadly in line with expectations.

This chart shows the earnings bridge from the first half to the second, with the estimated proportions assuming consensus for full year earnings.

First, transaction, whilst the hedged rate for the full year is 1.57, for the first half it averages 1.60. This increases profit in H2 by around 1%. Non-recurring restructuring costs in H1 were also around 1%. Next, the benefit from the acquisitions after integration costs is around 2%.

The normal H1/H2 weighting, averaged over the last few years leads to a 6% increase.

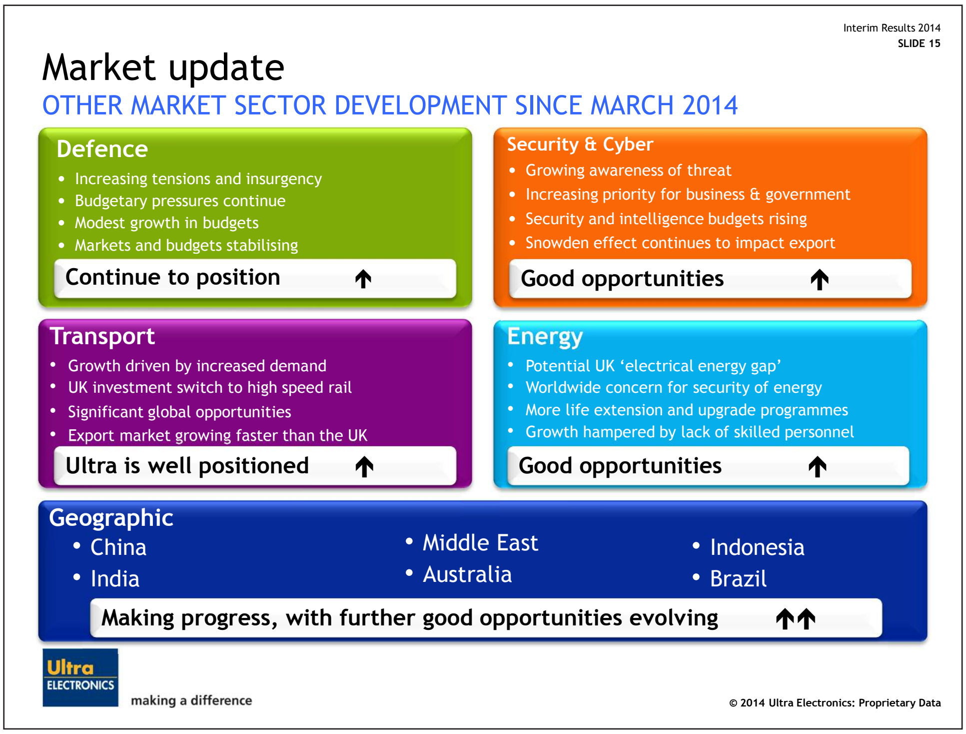
Within our Oman forecast we are assuming improved access to buildings in the second half. However, given the prolongation we have already experienced, second half Oman revenues remain uncertain.

This leaves only around 3% of full year earnings to bridge the gap. Rakesh will discuss shortly the key factors supporting his confidence in a good second-half performance, representing the 7% organic year on year earnings improvement that will bridge the gap. However there remains an element of risk given the uncertainty around a potential Continuing Resolution, which we estimate could reduce our full year earnings performance by up to 2%.

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

Rakesh Sharma, Ultra's Chief Executive, continued by explaining how Ultra will maintain business performance in the short-term whilst continuing to position to achieve medium and long-term growth.

Thank you Mary. Now on the next slide let's consider the end markets.



Worldwide, 2014 has been a year of stabilisation but budget pressures remain ever present. While many of the niches served by Ultra continue to benefit from preferential customer spending, it continues to require increased contractor engagement to get the contract awarded.

Specifically in the defence sector, the two-year US defence budget agreement has held. Early indications are that fiscal year 13/14 was a spending correction from $520b to $487b for the base budget. Discussions in the House for fiscal year 14/15 indicate an increase to the base budget of 0.8% to $491b. The Senate however is behind schedule and we now expect a Continuing Resolution come October, although the House is pushing for a CR no longer than December. This is a change to our previous position. The political gamesmanship remains a concern to the industry and this is the reason for tempering my optimism as some uncertainty continues.

Projecting forward we anticipate a flattish 15/16 US Defense budget with growth of about 1.5% CAGR over a five year period in line with the last projection by the Office of Management and Budget. This is the macro picture. However, some segments will fare better than others. The US Navy is a clear winner and within that ASW and Torpedo Defence have done especially well.

As well as this, the fog surrounding programmes has begun to clear, enabling procurements to proceed. I believe that the election cycle, with the House elections at the end of 2014 and Senate and Presidential elections at the end of 2016, will bring some sensibility to budget agreements as it has done consistently through previous cycles.

The world is not a safer place, even when compared to just a couple of years ago, with Russia supporting the Crimean separatists, ISIS re-establishing a Caliphate and the growth of Chinese power. These conflicts and tensions are a direct threat to American hegemony. In fact, in many of my meetings in the Capitol a couple of weeks ago with Senators and Congressmen, of both parties, were re-iterating the view that 'this is not the time to be cutting the defence budget any further'.

Come what may, one thing is clear, it is not just in the US but around the world including the UK, that the percentage of expenditure to be spent on naval forces is in excess of that to be spent on air and land forces.

Moving to civil aerospace, there has been increasing chatter about the alleged turn in the civil aerospace cycle. I am not seeing the top of the delivery cycle just yet. Ultra continues to see increasing opportunities being driven by fuel efficiency or savings in operational

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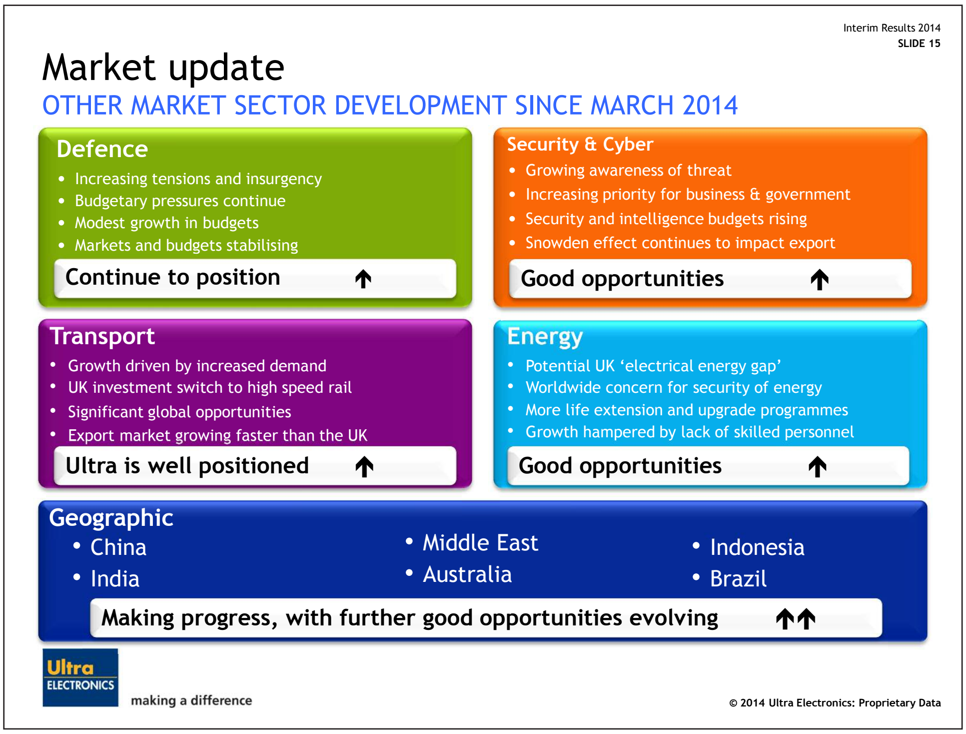

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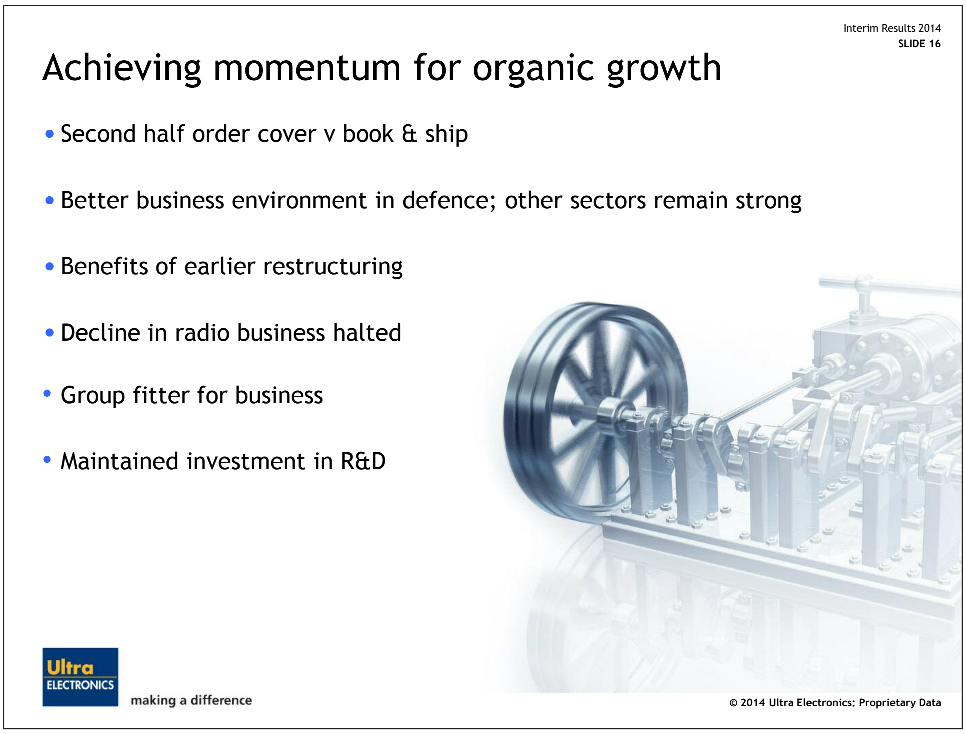
maintenance. You will recall that I have previously said that this segment, within Ultra, will double in size from its current revenue by 2018/19.

The transport and energy markets continue to be buoyant as previously indicated. Growth in the railway sector is shifting to the export market as investment in UK commuter infrastructure slows to favour high speed options. Likewise, there is no change in the energy market and it remains very much as discussed at the prelims.

In the security and cyber segment, continuing leaks from Snowden introduce delays into the intelligence market. Many governments are quite content to buy American equipment but cannot be seen to be doing so by the public, owing to the stirring up of sentiment by the worldwide media. The border surveillance and security segments however, are increasing at a higher rate than seen previously. This growth is being driven primarily by regional tensions and an increasing desire to control incursions by potential hostile forces, whether national, terrorist or economic.

Having painted the market picture let's now move on to why I believe Ultra can return to its historic organic growth level.



Mary has been through the operational review and shown you some of the work we have done and continue to do so, to steer the business through a difficult market. Now, I'd like to add a little depth to this picture and show you how we are going to generate organic growth and why I am confident of a good second-half performance. There are six main factors, let me address these in turn:

1. Order cover
The order cover for the second-half at the end of June 2014 stood at 82%. With our customary 10% book and ship of spares and repairs plus orders to be placed on our IDIQ contract vehicles and from annual contracts, it leaves very little to find to achieve consensus revenue. Given there was a Federal Government shutdown in the second-half last year, this is a better position. A potential US Congress Continuing Resolution, in relation to defence appropriations, could constrain orders after October 2014.

2. Better environment
The defence market is now stabilising, but we haven't let the previous difficulties paralyse us, nor have we become obsessive about them. We have been quietly working away in our other end markets and executing the portfolio and geographic strategies. It is likely that over the medium term our defence revenue will be less than 50% of our Group revenue.

3. Benefits of earlier re-structuring
At Ultra we are pragmatists. We have not consolidated businesses for consolidation's sake. We have done so where there has been convergence in technology, market or customers. As an example we merged Electrics and Precision Air Systems to form Precision Air & Land Systems so that jointly they could better address the military and civil aerospace market. This merger has led to the Fuel Tank Inerting and Translating Wire Harnesses opportunities. We have also done the reverse. We de-merged the nuclear business from our Command & Control business as it developed a civil nuclear offering that no longer fitted the original business. At Farnborough, I heard a snippet that "in a difficult market it was better to consolidate and centralise, so costs could be cut, rather than have multiple businesses". I continue to resist centralisation. In a difficult market it is better to be agile than be a lumbering organisation. We remain a lean and hungry outward facing business. Agility and autonomy are core to Ultra returning to organic growth in the medium term.

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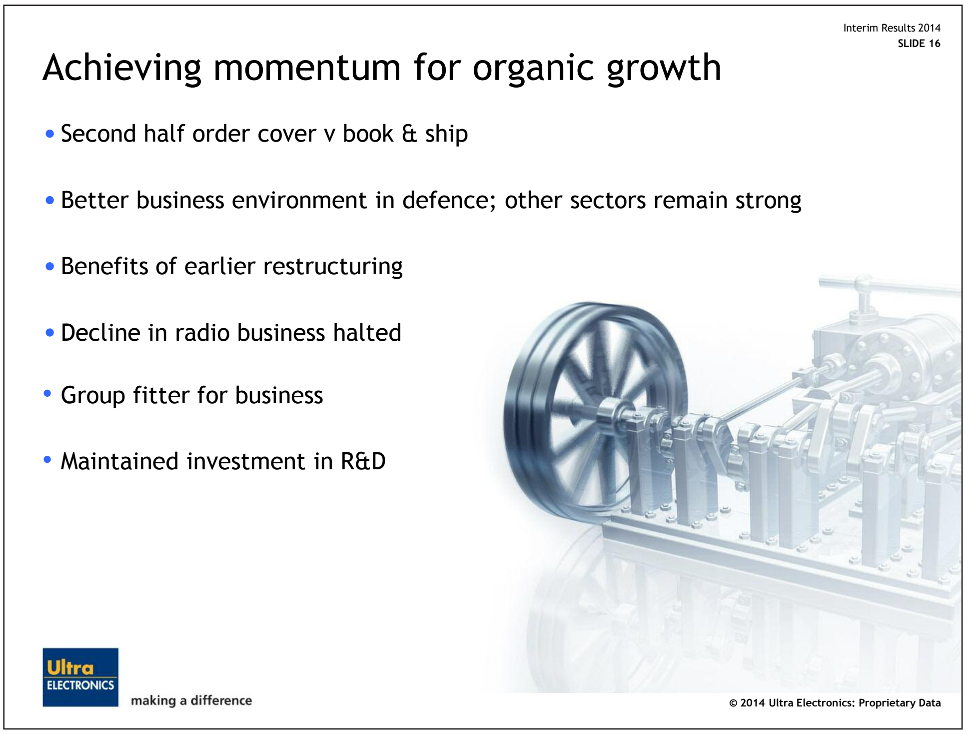

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4. Decline in radio business has halted
A factor that we have not explained clearly enough is the consequence of the decline in our Montreal based radio business. At its peak in 2010, it had revenues of $143m. Since then it has declined to $28m in 2013 – a cumulative fall of $115m. The radio business, where R&D is all internally funded, is a very high margin business. Therefore, the consequence of this revenue decline is a loss of margin of approximately $40m. This loss does not include the cost of re-structuring, which was expensed above the line. So let me repeat that. Between the end of 2010 and 2013 we had to generate compensating organic profit growth of $40m just to stand still.

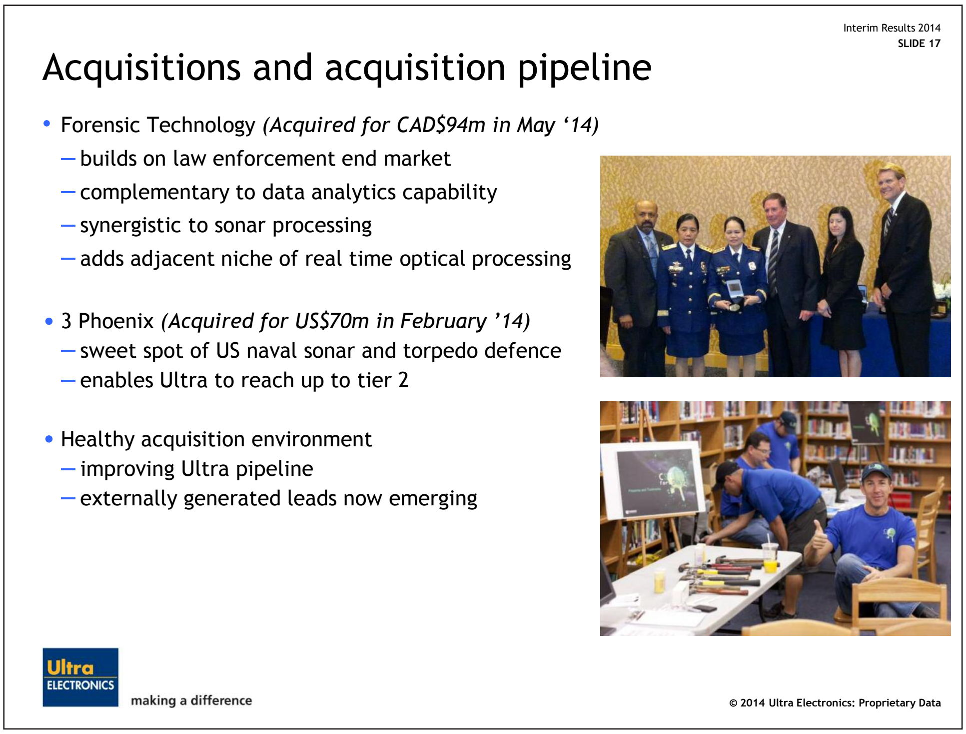
So where are we now? The new ORION radio, as you will have read in the press release today, has successfully completed the US National Integration trials. The quotes from the US military, contained in the press release, were approved by the DoD and don't come close to how well we believe the ORION radio has performed. The business in Montreal has now stabilised and should no longer be a drain on the organisation.

5. Group is fitter for business
Mary, earlier, gave you details of savings achieved over the last three years. This has increased the competitive position of our companies. Changes in marketing personnel to hunter-killers guided by LAUNCH training and Collaborative Autonomy, has strengthened our position in areas of preferential spend and we continue to "follow the money". At Farnborough I overheard a potential investor comment about our market position. Remember that 67% of our global defence revenue is maritime based. The comment was that, "Ultra had just been lucky to be positioned in maritime". Thankfully, Susan got to this individual before I did! Suffice to say I will answer simply by quoting Gary Player when he was accused of being a lucky golfer – 'the harder I work, the luckier I get'.

6. We have maintained investment in R&D
The final piece to the organic growth story is that while cuts have been made we have maintained our R&D investment. It is this seed corn funding that is responsible for the recent contract wins. This will continue to support our order winning into the future.

So why do I think we can achieve organic growth in the second-half and beyond? We have lost some of the adverse factors that were slowing us down, we are listening even better to our customers enabling winning positions to be established, there are more positive market conditions compared to 2013 and finally, we are continuing to invest in the areas of customers' preferential spend.

Now let's discuss the acquisitions that we have made this year.



I would like to focus on the two larger acquisitions made in the period.

Forensic Technology operates in law enforcement, an end market that we already have a small position in. Their customers are government agencies not, as you would first suspect, police forces. Their largest customer is the US Bureau of Alcohol Tobacco Firearms and Explosives, with whom we have recently renewed a five year IDIQ contract vehicle.

The key capabilities are; real-time data analytics, small data if you will, and optical processing. The data analytics is similar to our existing capabilities in pattern and speech recognition used in our legal intercept systems. Although optical processing is a new capability to Ultra, one that we believe has strong growth potential, it is similar in nature to our sonar processing used for Anti-Submarine Warfare and mine detection. On the next slide you will find a 3D rendition of the surface of a bullet, mapped using our IBIS ballistic profiling technology.

This technology has revolutionised the ballistics market. Globally there are approximately 2,000 ballistics labs. Of these 1,000 are addressable. The remainder are too small to be able to afford systems such as ours. Of the addressable market we have already secured 600 labs. Of the remainder around circa 100 labs are supported by a rival but inferior offering. We're therefore targeting growth by capturing the remainder of the addressable market of 300 labs. Further growth can be generated from the smaller agencies as Interpol is interested in establishing regional centres, using our system, and making them available to those smaller labs on a shared basis. It is important to note that many labs with our system will purchase more equipment to increase their capacity or simply replace their old equipment after its useful life of 7 to 10 years. There is also a support aspect to this business. Almost half of FT's IBIS revenue comes from multi-year support contracts including software upgrades.

In 2014 we have accelerated PV (R&D) investment in this technology to enter the document validation segment. Interpol has a database of 42 million false passports. The Malaysian airline that went down off Australia had two passengers travelling on false passports that had gone undetected. Our system, to be launched next year, will work with Interpol allowing border agencies to check the validity of passports against the Interpol database as well as others.

Interim Results 2014
SLIDE 19

Acquisitions and acquisition pipeline

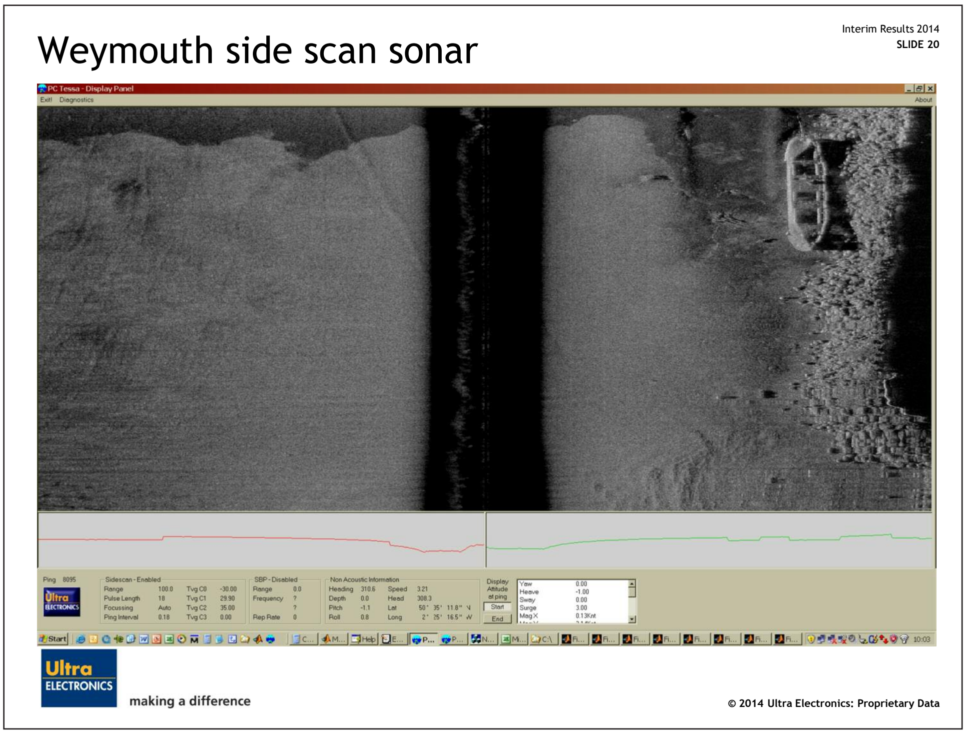
- Forensic Technology *(Acquired for CAD$94m in May '14)*
  - builds on law enforcement end market
  - complementary to data analytics capability
  - synergistic to sonar processing
  - adds adjacent niche of real time optical processing
- 3 Phoenix *(Acquired for US$70m in February '14)*
  - sweet spot of US naval sonar and torpedo defence
  - enables Ultra to reach up to tier 2
- Healthy acquisition environment
  - improving Ultra pipeline
  - externally generated leads now emerging

Ultra ELECTRONICS making a difference

Now let's discuss 3 Phoenix.

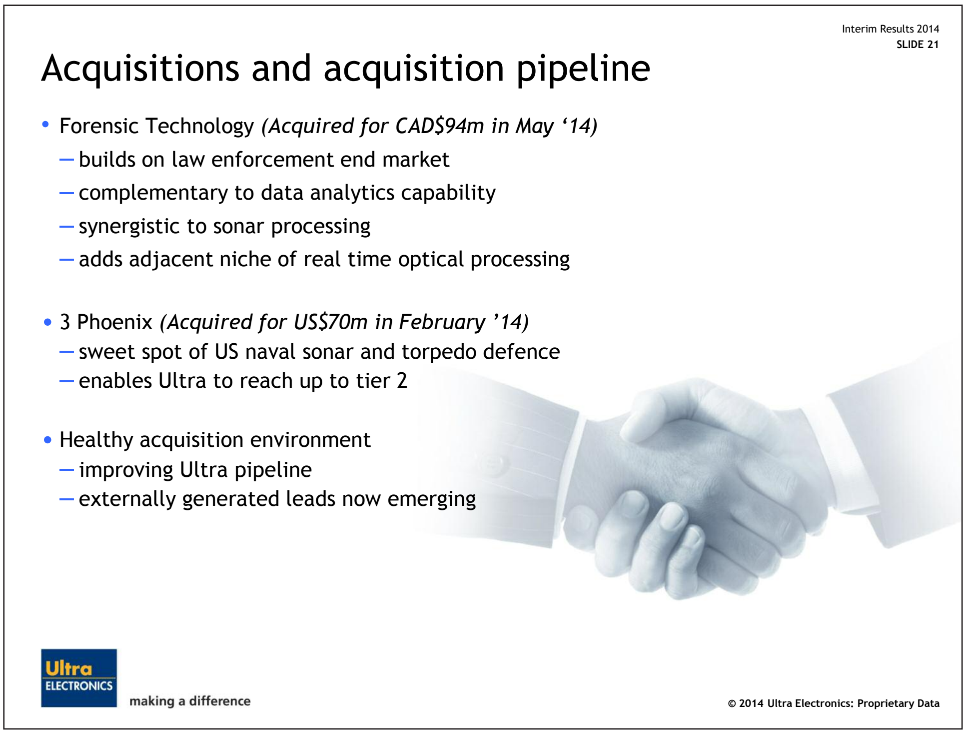
The rationale for 3 Phoenix speaks clearly on its own so I'm not going to linger on it. 3 Phoenix is very complementary to our existing Sonar and ASW portfolio. It is a system engineering company, highly regarded by its customer, the US Navy. The acquisition enables Ultra to execute a tier 2 strategy in the US ASW market where previously we have remained at tier 3 and 4 despite all our efforts to move up. Owing to the extensive synergy to our existing business, it is going to take the rest of this year to integrate it into the portfolio and will therefore become fully accretive in 2015.

Let me now show you a 3D sonar map from our Sonar Systems business in Weymouth.



This is a map of the seabed of Weymouth Harbour using our Sidescan Sonar. You will notice that the mapping technique and therefore the processing is similar to the 3-D bullet profile. The mapping capability is the same but the source and frequency of information is different. In ballistics it is light in sonar it is sound.

Moving on.



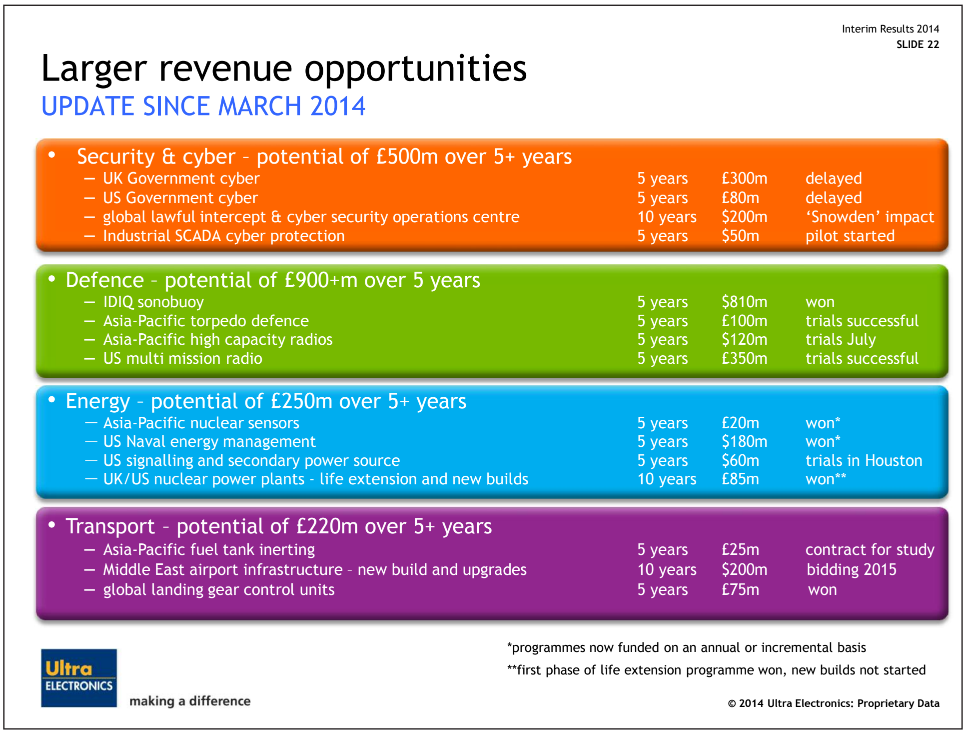
Over the last three years the acquisition market has not offered appropriate targets so we have been disciplined and not made any significant investments. The targets being offered by the investment bankers were either companies that had run out of cash or where parents were divesting dying assets. Therefore the Ultra pipeline has been filled with internally generated targets. All four acquisitions made this year came from internal suggestions and approaches. In fact, I have known the 3 Phoenix guys for 17 years and have been trying to acquire them for the past 10 years.

This year the M&A environment is improving. The economy is recovering, defence markets have stabilised and consequently we're witnessing good quality targets, that were holding back, now coming to market. Mary's financial modelling has shown that we have the firepower to spend between £100m to £150m per year for the next 5 years and we would still remain below 2x net debt/EBITDA.

We continue to highlight that if something larger were to come along and was compelling we would venture above this range.

I would also like to highlight that I am not against divesting non-core assets. Currently, none of our businesses fall into this category. However, as the shape of Ultra continues to evolve I would be prepared to divest anything that did not fit our business model.

Now let's take a look at some of the larger opportunities I have highlighted in the past.



As always this slide comes with a major health warning. I have only included a handful of these opportunities in my five year financial planning. Most of these will be delayed or just plain cancelled as they are subject to the ebb and flow of government priorities, so please (please, please) don't add them all up. For clarity I have updated the slide with the progress that has been made since the prelim presentation. I am going to select a couple of these for further discussion.

First, UK cyber. The programme continues to morph and is now in its third incarnation of requirement definition. It has gone from CIPHER to Crypto Capability to Crypto Enabled Services. As it is a pan government requirement there are numerous stakeholders for the MoD to shepherd into a successful procurement. I am hopeful with the latest reorganisation that this aim is within sight. In the meantime, we continue to strengthen our position through the successful execution of the software programmable crypto programme, ECU, for which we are in production with the first configuration. The equivalent US programme is also within our sights.

Second, Fuel Tank Inerting. When I get asked which of our new technologies I get excited by, my response for the last year has been Fuel Tank inerting, of which we have a model at the front here. Not because of the elegant use of technology and the innovation behind it. Nor is it because it came out of the centrally run Audacity Funding competition. It is because, if proven successful and we achieve market adoption, it has a universal aerospace application and could in time spawn a completely separate company. We are at an exciting stage with a number of potential customers waiting to negotiate that first contract.

Interim Results 2014
SLIDE 23

Near term contract opportunities 2014/2015

• Aircraft & Vehicle Systems			
	Fuel tank inerting for regional aircraft	2014	£12m per annum
✓	EGDO Airbus	2014	£60m
	Boeing 737 PSC	2014	£10m initial
	XAC LGCU et al	2014+	£10m initial
• Information & Power Systems			
	Future airport opportunities in Oman	2014+	£50m
✓	UK EDF sensors	2014+	£30m
✓	UK submarine power & control	2014+	£35m*
✓	Cryptographic key configuration	2014	£10m
• Tactical & Sonar Systems			
	US Navy secure energy management	2014	$15m per annum
	Fatahillah MLM ship 2	2014+	£20m
✓	International sonobuoys	2014	$10m per annum
	WIN-T	2014+	$40m

* Broken into multi-part contracts

Ultra ELECTRONICS making a difference

So, moving on to the near term opportunities.

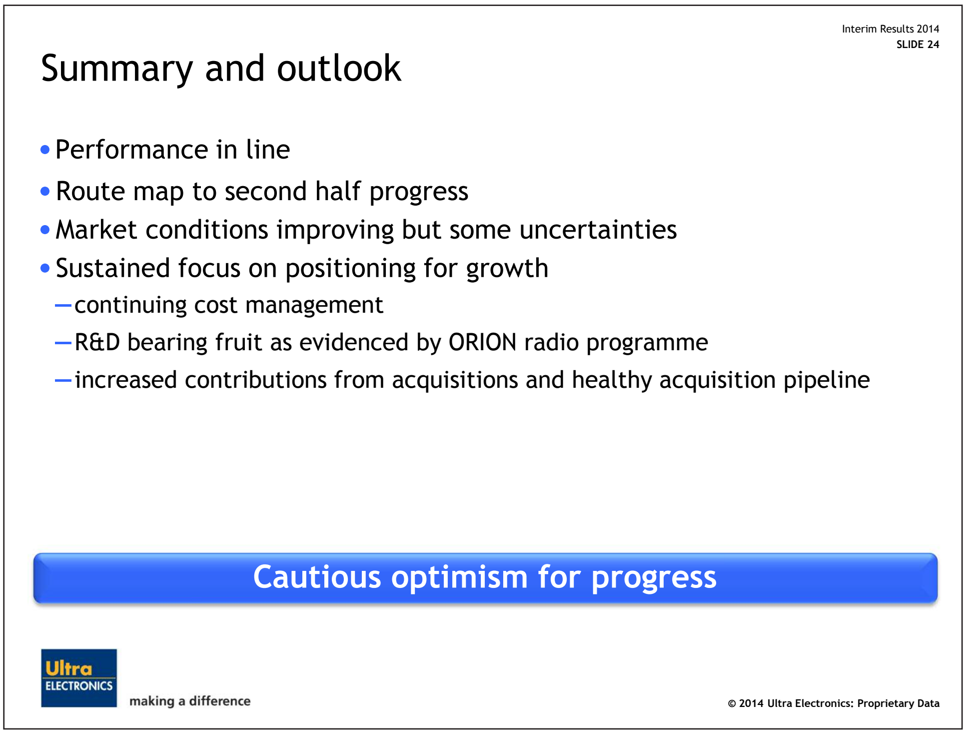
Again the usual health warning. All of these opportunities are subject to competitive pressures and for continuity all those that were listed at the prelims are listed on this slide. I will update this slide at the next prelims with the new opportunities for 2015. Clearly you can see the ones that we have already won and we remain on track for the rest.

Let me take this opportunity to explain my confidence about the Oman contract and other opportunities in the region;

- We are currently working under FIDIC rules without a formal contract, which expired on 1 April 2014. Therefore under these terms all time and cost from 1 April 2014 is claimable.
- The Government of Oman has a reputation for being a fair administrator of contracts. I have confirmed this position with the Minister and with the Royal Office.
- We always recognised that prolongation was the biggest risk in this programme. Therefore since the beginning of the contract we have sub-contracted all FIDIC claims to a company, Turner & Townsend, who are a specialist claims company, with whom we have a long association going back to our work on Heathrow Terminal 5.
- Finally, our Airport IT system design remains critical to the contracting of a further five regional airports, which the Government are keen to progress. A third party would have severe design difficulties as we have full proprietary rights to the software.

Our experience in Oman has not caused us to deviate from our strategy. We continue to pursue other airport opportunities in a growth sector in the exciting region of the Middle East.

Moving on.



Mary and I have outlined the reasons why we see progress in the second-half and we expect this to accelerate in the medium term. So now let me summarise:

- Interim performance is in line, with the guidance provided at the Prelims.
- There is a clear route map to achieving the second-half and I have explained the six factors that will help us to deliver a good second half organic performance.
- Market conditions are improving but there is some uncertainty with regards to revenues with the potential of a CR and further Oman prolongation.
- We are continuing to focus on positioning for growth through:
  – cost management
  – new product opportunities from sustained R&D and
  – a healthy pipeline of acquisition opportunities

Thank you. We will now take questions.

* before amortisation of intangibles arising on acquisition, impairment of goodwill and adjustments to deferred consideration net of acquisition costs. IFRS operating profit £57.4m (2012, as restated: £88.3m).

** before amortisation of intangibles arising on acquisition, impairment of goodwill, fair value movements on derivatives, unwinding of discount on provisions, defined benefits pension interest charges and adjustments to deferred consideration net of acquisition costs. Basic EPS 54.8p (2012, as restated: 88.1p).

† the 2012 profit and loss account has been restated to reflect the adoption of IAS19 (revised) ‘Employee Benefits’.

Note: Title and appendix slides omitted from this document.

Ultra 2014 Interim Q&A transcript

Q:

I just wanted to be clear on the Continuing Resolution; if one is optimistic and I suppose you get the Continuing Resolution just from the start of the budget year until maybe sometime just after that, and then once the elections are out of the way, it'll be maybe a two month CR? If that's the case, would it actually have any impact for you or are you only worried if it's a longer CR?

A:

Rakesh Sharma, Ultra

Good question. The indications, that we have at the moment, are that there is definitely going to be a CR. The Senate has basically run out of time to agree a budget. What the House is trying to do is to agree a CR that lasts no longer than the end of December. The House is effectively taking the budget and CR out of election consideration. The view, that we have, is if it were to last two months there would still be an impact.

The last month, December, doesn't really have an impact on the revenue because any orders that you get, you generally can't ship in the month. So, the maximum impact is from October and November because of the book and ship element. My view is that even if it lasted only two months we would see something close to 2% as the impact.

Q:

Coming back to the CR, in the past, we've seen the chilling effects on contract letting in the run up to a CR because people don't know whether they're going to actually have the funding for the year. First, are we seeing any of that? Second, when you look at your civil business doubling how much of that is driven by brand new programmes 787 etc. and how much of that is about anticipating volume increases for mature programmes? Finally on Oman, will there be a net profit contribution from Oman in the full year after the provisioning you have to take? Thank you.

A:

Rakesh Sharma, Ultra

On the chilling effects of the CR, I don't anticipate that effect; we're not seeing that happen. This CR is not about cuts or which programmes are going to go forward. This CR is an administrative CR; Senate did not have enough time to pass the legislation. So there isn't a controversy or debate about which programmes or what cuts because we already have the two year budget agreement.

So, we don't anticipate a chilling effect like we've had in the past. We will continue to receive orders all the way up to October 1st. Now as I said previously I will be less cautious in my cautious optimism stance if we experience a strong September. August tends to be a bit of a holiday period but if we see strong order intake in September some of my cautiousness for the year and next will start to evaporate.

On the doubling of revenue, it's difficult to say because I don't actually have that figure. Intuitively, from what I know in terms of the programmes going through, most of that doubling will be through new orders that we've won. To give you an example of how successful we've been, in a normal year we would be certifying about three products for aircraft. This year we're certifying 10. So it's just over three times the activity in civil aerospace that we would normally witness. So once those products are certified and move into production, we'll start to see the ramp up of revenue as they transition into production.

continued on next page

continued from previous page

Mary Waldner, Ultra:

Turning to Oman and just to be clear on Oman trading we have completed our design phase and as we get access to site we successfully install our equipment. Since January, we have installed equipment in the Salalah data centre which allowed us to continue to trade in the first half. We are expecting some improved access in the second half.

The Minister has personally committed to the opening of Salalah in October which will drive installation of our equipment. The equipment is already in the country and has been through testing and integration and is ready to install.

In terms of the provisioning we're talking about, clearly we currently hold risk provisions to cover the existing contract. What we're flagging is the timing of negotiations around recovery of prolongation costs, extension of time and cost which covers the future prolongation. Whilst we're confident of recovery, given the nature of those negotiations the time required to reach a conclusion could go over our year end. At the time of the Salalah opening, which Rakesh will witness, we will take a view at that point in terms of the programme and any necessary additional provisioning.

Rakesh Sharma, Ultra

If I could just cover, because you asked me this question earlier but just for the benefit of everybody else, in terms of the existing provisions, I'd rather not give details of what the existing provision is because obviously we are in the middle of a negotiation that's commercially sensitive.

Q:

I can appreciate very much what you were saying but just to clarify on the potential scale of provisioning if the negotiations go over the year end, would you conceivably therefore have a year in which you do a net zero in Oman or are you trading that profit that you would do something?

A:

Rakesh Sharma, Ultra

There are a lot of hypothetical situations. So this is just one of the hypothetical situations which is why we've said we'll update at the IMS once we get to the Salalah opening and we know what the scenario is going to be. But just let's say we open Salalah and the negotiations continue over the year end and there is a gap between finishing the work at Salalah and starting to get access at Muscat. Muscat airport is a lot further behind than Salalah. What we would do, because there's no point keeping a marching army going for that period, is we would ramp down the people that we have who don't have work to do. Effectively all the material is in country, it's the marching army cost from one airport to the other that a provision would cover. Once we get to Salalah we'll know what that shape is going to look like and we'll be able to determine the provision. So we're not talking about taking a provision for the material. The material has already been bought. It's basically the labour content to install it on site.

Q:

Yes a couple of questions. First just to help me understand a little bit more about the underlying performance of Aircraft and Vehicle Systems, the R&D obviously sounds like it was very significant in that business in the first half. Are you able to give us some sort of shape at least as to how much R&D went up in the first half and how much you're expecting that division for the full year or whether it was an unusual loading to H1?

The second question is, even leaving the Continuing Resolution to one side, and apologies if it was in the presentation and I couldn't it write down quickly enough, the slide that you took us through Mary where you showed us a 3% gap, what fills that 3% gap in your mind even if we leave aside the CR risk?

A:

Mary Waldner, Ultra

Okay, so tackling the R&D question first. We spent around £5 to £6 million on commercial aerospace programmes. Rakesh spoke about the fact that we'll certify 10 products rather than the normal level of three which gives you some idea of the relative scale. In Tactical & Sonar we've implemented a delay in the next generation of sonar systems to match the re-phased ship building programme.

Rakesh Sharma, Ultra

On the 3% gap, very basically, on the earnings bridge there was a 6% block which is the normal difference between half one/half two and this additional 3%. So that's 9% that we have to fill, 6% is normal. What that is comprised of is first the spares and repairs orders and they just come in. In the past they've been as high as 15%. During sequestration last year they dropped to about 6% to 7% but their long term average is about 10%. So we're expecting 10% of spares and repairs over the year which goes a long way to fill the gap.

The second part of filling that gap is the two months of really good order intake. Those bids and proposals have been sitting on the customer's desk for the last six months. So the bids that we've won are not bids that we bid in the last three or four months. They're bids that we made in the last six months that have now come through because the money is coming through the pipeline. The rest of that gap is filled with proposals that we have on the table with the customer today that are going through their assessment.

We anticipate contract award, as well as some of the annual orders that haven't been placed yet because they don't work on a calendar year. So we're fairly confident, Continuing Resolution apart, that second half performance is eminently achievable.

Q:

Thank you and the final question is just one on organic growth. Can you remind me where, this will partly depend on CR, but where you see organic growth coming out of the full year this year and when you piece together the big picture of US budgets where you now see organic growth? Where there's been any change to 2015, 2016?

A:

Mary Waldner, Ultra

Yes so previously we were seeing a small amount of organic growth for the full year around the 1% level. What we're saying is that this CR of three months could reduce that by up to 2%. So it would take us to a low single digit decline.

Q:

2015, 2016 or is it too early to view?

A:

Rakesh Sharma, Ultra

I think it's too early. As you know cautious optimism as always. It's a little bit too early to give guidance on 2015 and 2016 but I would hope that with the Continuing Resolution not extending beyond this year that we could start to see lower single digit organic growth next year. We're positioned in the right sectors. Our ASW businesses in the States are growing organically at 7%. This is an important point. It doesn't matter what the macro picture is doing you have to be in the right segments and if you're in the right segments growth is possible.

Q:

My question is related to the Sonobuoys contract announced this morning. The $75 million first year order compared to your expectation of £30 million. Does this mean that you have a much bigger order intake for Sonobuoys than you'd expected? If I remember, about two or three years ago you were talking about a medium term five year growth of about 2% to 3% in Anti-Submarine Warfare activities or from a top down perspective, 7% seems much higher than that. That would be the first question. The second question is about Tactical Comms in Montreal. Is $28million the bottom? You've also announced another round of ORION testing, when do you plan to see orders for that?

A:

Rakesh Sharma, Ultra

On the Sonobuoy contract you're absolutely correct. The $75 million of the first year of the IDIQ is more than we were expecting as an order intake this year. In fact the whole IDIQ is more than we had flagged. If you take a look at the previous long term opportunities slide – it had a value of $600 million. That was to the JV – $300 million each. The IDIQ has actually come in at $810 million over the five years so its $105 million more to Ultra than we were anticipating previously. So yes, we do believe that the ASW market will grow faster than the 2% previously indicated. Whether that 7% will continue into the future all depends on what happens around the world. At the moment Asia-Pacific is very hot and ASW is very hot in that region as well. All things being equal we expect higher organic growth. Additionally, this is the reason why we wanted to acquire 3 Phoenix, companies of that quality come up once in a lifetime.

On TCS in Montreal, the reason for putting out the press release, even though there's no order attached to it, is that that the integration trial is really very important. In the US Army there's a new policy, after Afghanistan and Iraq, that they will not buy equipment unless it's been trialled and proven to be inter-operable with legacy equipment. We've now been through all the inter-operability trials, very successfully. We expect an order, barring the Continuing Resolution, at the back end of this year.

One of the things that we've done to try to immunise ourselves from the Continuing Resolution is to negotiate Indefinite Delivery Indefinite Quantity contracts. If you remember we have a radio IDIQ which originally was up to the value of $650 million. There's about $350 million left on that IDIQ and we've negotiated with the US Army to put the new ORION radio onto that IDIQ vehicle. So there is a contract vehicle that gives us some immunity to the Continuing Resolution. The money still has to be appropriated. So it's a grey area. If the Continuing Resolution does stop an order at the end of this year we expect it in the first quarter of next year.

We believe the TCS business has bottomed out and we expect a small amount of organic growth next year as a result of the potential ORION radio order.

Q:

So is it $28 million last year, $28 million this year and small growth next year?

A:

Rakesh Sharma, Ultra

Yes – plus or minus.

Q:

Rakesh can you just talk to the M&A pipeline a little bit more and the mix of civil aero versus defence et cetera?

A:

Rakesh Sharma, Ultra

We really don't think like that. What we're looking for – we want to be in growth segments regardless of what the end market is. Because of our low capital nature we can move between specialist areas as the money shifts. So we don't look at our pipeline as x percent defence, y percent commercial aerospace. We take a look at those areas where we believe growth is possible regardless of what the end market is doing and we try to target acquisitions in those growth markets.

As an example in the civil aerospace segment, the ICE business that we recently acquired completes our portfolio that we have on ice protection. They've got the other type of technology that we don't have. It's also strategic to us in the sense that it gives us a footprint in the States. We're doing a lot more business with Boeing but we don't have a civil aerospace company in the US. We're going to develop the ICE business to improve our US footprint so we're not just serving it from the UK. We take a look at all of these aspects when considering an acquisition.

Q:

Are you more inclined to pursue civil aerospace businesses, when you talk about defence going below 50%, it's hard to see how that would happen?

A:

Rakesh Sharma, Ultra

It will happen because of the growth in the civil aerospace business. So at the moment defence is 57%. If I do nothing else, if I don't make any more acquisitions, the growth in the civil aerospace segment of contracts that we've already won will mean that the defence share of the pie will reduce. Now obviously if I make acquisitions I'm either going to accelerate that or I'm going to delay it because I bought more defence businesses. But if all things were equal defence would be less than 50% in a few years' time.

Q:

Sorry for another question and not a very exciting one. Contractual provisions seem to fall very significantly in the first half looking against 2013, they seem to be down about £5 million. I wonder whether – am I reading that right or is it a summary classification and just another balance sheet item, is some of it working capital, is it FX move?

A:

Mary Waldner, Ultra

No that's the final release of the Giga earn-out. So you remember last year we had a release of around £8 million, there's a further release of the final earn-out on the Giga acquisition. It doesn't go through underlying profit but it's released below the line.

Rakesh Sharma, Ultra

There was a two stage earn-out. Can I just re-emphasise that because there was misunderstanding with the Giga earn-out last year. The Giga earn-out provision release does not go through underlying profit.

Any other questions? If not we'll wind it up. Thank you very much.

Registered Office:
Ultra Electronics Holdings plc
417 Bridport Road
Greenford
Middlesex UB6 8UA
England
Tel: +44 (0) 20 8813 4321
Fax: +44 (0) 20 8813 4322
www.ultra-electronics.com
information@ultra-electronics.com

Design: **HAT Associates** +44 (0)1242 253112