

CEO Letter



DEAR FELLOW SHAREHOLDERS,

In 2015 we firmly established Cubic on a trajectory of transformative change. We pursued new growth markets and took important steps to improve our long-term profitability.

We grew sales and adjusted EBITDA despite challenging U.S. defense market conditions and foreign exchange headwinds. We gained new customers and took important steps in implementing our growth strategy in our defense systems business for Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance (C4ISR), while solidifying our leadership in our core markets. We unified the defense businesses and streamlined certain support functions. We accelerated key investments to improve our infrastructure that will drive increased productivity and efficiency over the long term. Backlog, which is a measure of future business, was strong at two times annual sales.

We also made important progress on our OneCubic initiatives that I introduced in last year's annual report. Productivity, efficiency and focus are the cornerstones of these initiatives. In order for us to grow and prosper in the years ahead, we are changing the way we operate. We are becoming

more unified and nimble, and creating a more scalable operating infrastructure. Our goal with these initiatives is to improve on the 2015 operating profit percentage to sales by 200-250 basis points by 2018.

In the first half of the year, we combined our defense systems and services businesses under one leader, William Toti, former president of our defense services business. This organizational realignment has enhanced collaboration between our two defense businesses that are now presenting a unified face to customers. As a result, we have expanded our pipeline of opportunities by \$9 billion, and are pursuing larger opportunities, such as the U.S. Air Force KC-46 Maintenance Training program, the U.S. Army Enterprise Training Services Contract and numerous international training range programs, where we are differentiating ourselves from the competition with turnkey solutions for systems and services.

We also reduced our manufacturing sites from five to two main locations and are in the process of combining our purchasing activities into one worldwide organization. We believe this new global function will lead to improved profitability through reduced overhead costs and by leveraging our supply chain against greater scale.

EVERY DAY WE ARE WORKING HARD TO MAKE CUBIC AN EVEN BETTER COMPANY. OUR VISION REMAINS CENTERED ON WINNING THE CUSTOMER TO CREATE MARKET-LEADING POSITIONS THROUGH INNOVATIVE SOLUTIONS AND SUPERIOR OFFERINGS.

The most pivotal component of the OneCubic agenda is our new enterprise resource planning system that we started to implement in April of last year. The bulk of the investment for this new system will occur in 2016. In the short term, this investment will impact our profits, but once completed we believe it will substantially reduce our operating costs. It will provide a platform for scalable growth that will be, for the first time, consistent across the enterprise.

GOAL 2020/GROWTH STRATEGY

We are focused on high growth and higher margin business areas while improving overall productivity and efficiency.

Build NextCity Globally

Continue expansion into adjacent markets beyond our core fare collection business, such as toll and road user charging, intelligent transportation systems, parking, data analytics and mobile applications

Grow Command, Control, Communications, Computers, Intelligence, Surveillance and Reconnaissance Business

Expand from secure communications to network solutions, surveillance systems and satellite communications

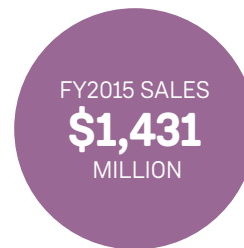
Build NextTraining Globally

Innovative, integrated live, virtual, constructive-gaming solutions for air, ground, sea and cyber

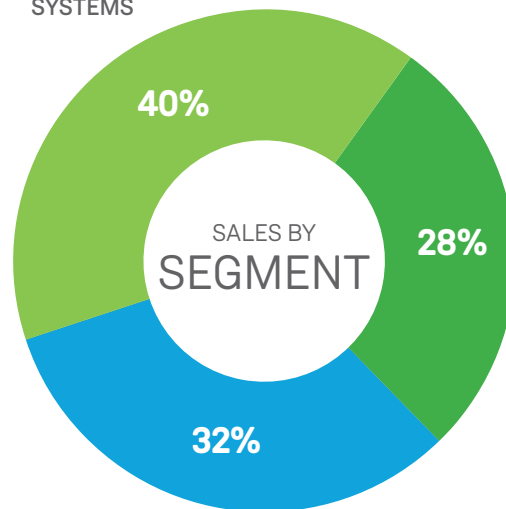


2015 Sales

BREAKDOWN

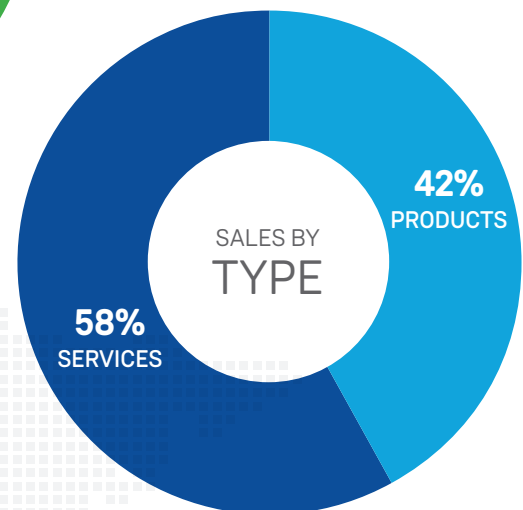


CUBIC
TRANSPORTATION
SYSTEMS



CUBIC GLOBAL
DEFENSE SERVICES

CUBIC GLOBAL
DEFENSE SYSTEMS



SALES BY COUNTRY/REGION ¹

(millions)	2015	2014	2013
United States	\$765.0	\$749.9	\$741.7
United Kingdom	282.4	294.4	267.4
Australia	164.6	161.9	148.5
Far East/Middle East	123.0	118.6	113.6
Canada	96.0	73.6	90.2
Total sales	\$1,431.0	\$1,398.4	\$1,361.4

(1) Sales are attributed to countries or regions based on the location of customers.

2015 SEGMENT HIGHLIGHTS

Transportation Systems and Services

Cubic Transportation Systems' technological leadership has created an installed base of devices, and back office systems for transportation authorities worldwide, a footprint for which we provide services, spares and repairs, and, over time, system upgrades and replacement. This advantage, which began in the 1970s with our first major automated fare collection systems contract in San Francisco, sets us apart from our competition. We have been building our leadership position in transportation ever since. Today we are the leading systems integrator of payment and information technology and services in the transportation market.

We believe transportation is an enduring market with future growth. The key trends driving this market include urban congestion, demand for state-of-the-art technology, and the growing demand for mobility coupled with convenience. Our NextCity vision and strategy exploit these trends by making systems more useful to patrons and public transportation authorities with real-time information and common back office solutions. This strategy is gaining momentum. We are adding new revenue streams from adjacent markets and innovation, which extend our core capabilities beyond automated fare collection.

Our recent entry into the toll market is a perfect example. Last year we introduced our NextCity Toll solution to the market. It is based on our proven back office systems widely used in public transport. After the end of our fiscal year, we won our first toll project awarded by our new customer, the state of New Hampshire Department of Transportation. They chose Cubic based on our compelling value proposition.

When we earn the trust of a new customer, we strive to retain their business forever. For the first time, we are integrating real-time travel information and advanced journey planning for Transport for Greater Manchester in the U.K. In another first, we won a major multi-million euro ticketing and reservation system modernization program for Iarnród Éireann Irish Rail. We win because we offer innovative technology, and we partner with our customers to achieve their goals. Like our customers, we are focused on mitigating congestion, providing



Industry leadership in Chicago

First-ever Ventra mobile app allows users to pay for rides on Chicago Transit Authority, Metra and Pace from their smartphones.

“This is an exciting breakthrough for Chicago transit customers, who can conveniently access three transit systems in the Chicago area through a single mobile app. This means customers can travel, set transit value, passes and auto loads, get real-time account status push notifications, and get real-time bus and train arrival information, all in one place,” said Mike Gwinn, director of revenue and fare systems for Chicago Transit Authority.



Rapid Uptake of Contactless Journeys in London



Cubic's customer, Transport for London (TfL), has become the fastest growing contactless merchant in Europe, with the number of contactless journeys growing by about 11 percent per month since September 2014 when this facility was rolled out to TfL's rail networks. (Source: *Travel in London Report 8*)

convenience, and making travel more efficient for patrons door-to-door.

Defense Systems and Services

Our wide range of live, virtual and constructive-gaming training technologies and services, and our focus on tactical command, control and communications distinguish us from the competition. We have retained our market leadership for more than 64 years through cost-effective solutions and innovations that improve mission readiness and human performance of defense forces worldwide. We have earned the trust of our customers in more than 35 allied nations and created a significant global footprint that differentiates Cubic from its competitors.

The defense market is complex. In an era of budget uncertainty and evolving threats, our customers face a rapidly changing security environment. They are challenged to maintain a ready and capable force while carrying out broader missions with fewer resources. As our customers focus on smaller military forces that must continue to be more capable and agile, we need to be equally nimble. We are therefore rapidly developing training and tactical solutions that improve human performance and combat skills within and between allied military forces to multiply their mission effectiveness.

We are proud to provide advanced combat training systems and support services for the U.S. and its allies. This year we expanded our presence in Australia. We won contracts that not only continue

our support for the Australian Army and the Royal Australian Air Force but also improve the integration of combat training systems within and between Australia's military services. This is an example of how we multiply our opportunities to win more work by combining our specialized expertise in training systems and training support services.



In the face of growing turmoil and instability in the Middle East, allied nations in the region are seeking to quickly build up the readiness of their security forces, so our presence in the Middle East is expanding through local subsidiaries and joint ventures in the region. The establishment of these entities gives us the credentials needed to be a prime contractor and to build a long-term presence in these markets. We established a similar entity in Italy where we are building a strong market position.

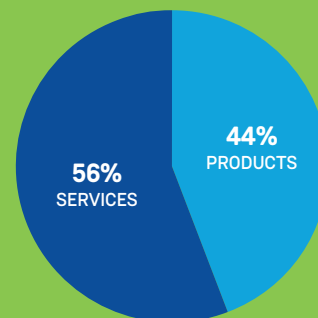
Under a new contract won this year for an army customer in the Middle East, we will provide U.S. Army versions of our MILES systems for soldiers and vehicles, including an advanced data collection

Cubic Transportation Systems

A leading integrator of payment and information technology and services for intelligent travel solutions.

OUR CORE CAPABILITIES INCLUDE:

- Transportation revenue management
- Real-time passenger information
- Traffic management solutions
- Road safety enforcement solutions
- Front line and back office services
- Transportation analytics – Urban Insights



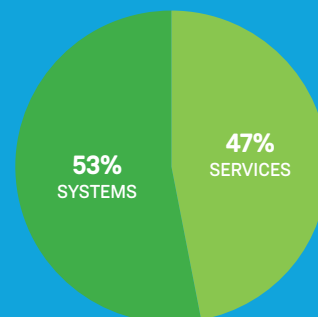
FY 15 Sales	\$566.8 M
FYE 15 Total Backlog	\$1,894.3 M
Employees	2,000

Cubic Global Defense

A leading global defense company that provides innovative systems, products, solutions and technical services to government and commercial customers worldwide.

OUR CORE CAPABILITIES INCLUDE:

- Training systems and services
- Virtual, immersive and game-based training solutions
- Special operations and national security solutions
- Range design solutions
- Secure communications, networking and cyber technologies
- Mission support solutions



FY 15 Sales	\$864.2 M
FYE 15 Total Backlog	\$1,081.3 M
Employees	5,800



High tech training

Cubic is demonstrating its leadership as an integrator of military training systems. We are helping the U.S. Air Force to develop one of the most important training technologies of our time: live, virtual, constructive air combat training. This high tech training environment increases reliance on technology to inject a wider variety of threats into training scenarios, reduces the cost of live flying and keeps pilots current on their skills and readiness.

system for video, voice and other training data. Moreover, we offer the whole spectrum of training capabilities from air to ground to sea and have had long-term partnering relationships with our customers that lead to technology upgrade cycles.

The U.S. defense services market remains challenging due to multiple competitive and contractual factors that continue to pressure profit margins for us and other companies that participate in this market. However, we believe the market is starting to improve as we continue to adapt our business to counteract these market pressures. In the near future, we will focus on more highly specialized work including opportunities to support the U.S. Special Operations Forces and the U.S. Intelligence Community.

In January the Defense Threat Reduction Agency, the U.S. Department of Defense's support agency for countering weapons of mass destruction, awarded us a prime, single award indefinite delivery/indefinite quantity contract. After multiple protests which were all denied, we are continuing our 15 years of support to this critically important agency for another 10 years. Our incumbent experience played a big role in this win.

This year we extended our more than two decades of service to the U.S. Army training support services. We won a contract to provide training, education and exercise assistance for the Army Capabilities Integration Center Training and Doctrine Command, which further strengthens our role as a key global provider of training, education and staffing services for the U.S. Department of Defense.

In another key win, we secured a prime contract position on the U.S. Air Force Training System Acquisition III Contract to support aircrew training systems globally, which positions us to be at the forefront of the development of future training requirements.

PORTFOLIO SHAPING

During the year, we took steps to strengthen our portfolio. With the acquisition of DTech early in the fiscal year, we have built up our C4ISR credentials in the area of ruggedized network solutions. I am pleased with the performance and the contribution DTech has made to our defense systems business,

CONSOLIDATED SALES

2015

\$1,431 millions

2014

\$1,398

2013

\$1,361

Sales in fiscal year 2015 increased 2% from last year.

ADJUSTED OPERATING INCOME

2015

\$103 millions

2014

\$99

2013

\$101

Adjusted operating income margin was 7.2% this year versus 7.1% last year.

ADJUSTED EBITDA

2015

\$141 millions

2014

\$130

2013

\$127

Adjusted EBITDA was 9.8% of sales this year versus 9.3% of sales last year.

ADJUSTED FULLY DILUTED EARNINGS PER SHARE

2015

\$2.79

2014

\$2.74

2013

\$2.32

Adjusted fully diluted EPS increased 1.8% from last year.

Adjusted EBITDA

Adjusted Operating Income represents operating income plus expenses incurred in the development of our ERP system and the redesign of our supply chain; business acquisition expenses including retention bonus expenses, due diligence and consulting costs incurred in connection with the acquisitions, expenses recognized related to the change in the fair value of contingent consideration for acquisitions; goodwill impairment charges; and restructuring costs. Adjusted Operating Income is not a measurement of financial performance under GAAP and should not be considered an alternative to operating income as a measure of performance.

Adjusted Diluted EPS represents diluted EPS plus the impact of adding back the following expenses, net of applicable income taxes: expenses incurred in the development of our ERP system and the redesign of our supply chain; business acquisition expenses including retention bonus expenses, due diligence and consulting costs incurred in connection with the acquisitions, expenses recognized related to the change in the fair value of contingent consideration for acquisitions; goodwill impairment charges; restructuring costs; and the impact of a 2015 valuation on U.S. deferred tax assets. Adjusted Diluted EPS is not a measurement of financial performance under GAAP and should not be considered an alternative to diluted EPS as a measure of performance.

Adjusted EBITDA represents net income plus net interest expense; income tax expense; depreciation expense; amortization expense; expenses incurred in the development of our ERP system and the redesign of our supply chain; business acquisition expenses including retention bonus expenses, due diligence and consulting costs incurred in connection with the acquisitions, expenses recognized related to the change in the fair value of contingent consideration for acquisitions; goodwill impairment charges; restructuring costs; and income and expenses classified as other non-operating income and expenses. Adjusted EBITDA is not a measurement of financial performance under GAAP and should not be considered an alternative to net income as a measure of performance.

For a reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measures, please visit www.cubic.com.

particularly since it was accretive to Cubic's earnings within nine months of closing. DTech has established a strong leadership position with the Special Operations Command, an elite force which shoulders an increasingly critical role in the U.S. defense strategy. DTech represents a very promising first step in the implementation of our C4ISR growth strategy.

Additionally, in December 2015 we continued to build our C4ISR portfolio with the acquisition of TeraLogics, LLC and the signing of a definitive agreement to acquire GATR Technologies, Inc. TeraLogics is a leading provider of real-time full motion video processing, exploitation and dissemination for the military and other government agencies. GATR expands Cubic's capabilities to next-generation satellite communications solutions and networking applications. We expect GATR to close in the second quarter of fiscal year 2016. These acquisitions significantly build upon DTech and Cubic's existing data link capabilities to ensure that Cubic is greatly positioned to support expeditionary communications through a more comprehensive suite of capabilities.



To achieve Goal 2020 we continue to focus on high margin and higher growth markets. Our primary near-term opportunities for growth include our NextCity initiatives and expansion of our C4ISR business in the U.S. and internationally. We continue to invest our capital toward internal research and development and acquisitions in these areas to accelerate our growth and create long-term value for our shareholders.

This year we divested the global tracking business, which we acquired in 2010. The business was a low risk bet in an emerging market that did not live up to our expectations.

Our global tracking product line was innovative but it was generating losses without a clear path for great improvement; therefore, we chose to exit the business.

CONTINUITY OF STRONG LEADERSHIP

Our new president of Cubic Transportation Systems, Matthew Cole, is the right person at the right time to lead the transportation segment. He earned his credentials for this job under the stewardship of former president Steve Shewmaker, who will be retiring at the end of fiscal year 2016. Steve doubled the size of the transportation business during his seven-year tenure as president, and served Cubic for a total of 30 years. Few people have Steve's depth of knowledge and experience in the industry. I'd like to extend my gratitude to Steve for leading the growth of this segment and developing a strong management team.

Matt is an inspirational leader. His drive and ambition inspired the NextCity vision that has set the strategic direction for the transportation segment, led to growth in the business on three continents, and expansion into adjacent markets. I congratulate Matt on his new leadership role.

INNOVATION

We continue the strong innovation heritage established by our founder. We are collecting ideas from our employees in an intentional way, solving customer pain points, regularly running innovation hackathons, executing potential breakthrough co-development with our customers, making short- and long-term innovation investments while ensuring transparency, speed and coordination with our internally developed innovation management software, Ideaspark.

In the context of our innovation pipeline, we are particularly excited about revolutionary antenna technologies, social media simulation, transport payment technologies, including mobile payments and "one account" integrated applications for the rider, and, finally, analytics both in transport and in training, all of which have great promise to change the game for our customers and to deepen Cubic's relationships with them.

LOOKING AHEAD

Every day we are working hard to make Cubic even better. Our vision remains centered on “winning the customer” to create market leading positions through innovative solutions and superior offerings.

As you can see, we are taking many steps to position and align the company for long-term growth. Our employees, board of directors, and executive management team remain sharply focused on accelerating growth and improving the consistency and sustainability of our earnings, while adhering to the highest standards of business ethics.

This is an exciting time of transformation and opportunity for the company. We expect fiscal year 2016 will set the foundation for higher growth and expanded profitability in 2017 and beyond. I am confident that we have the vision, strategy, capabilities and financial strength to achieve growth consistent with our historical performance and expansive objectives.

I'd like to express my sincerest gratitude to our board of directors for their wisdom and judgment and deepest appreciation to our employees who consistently demonstrate their hard work and dedication to Cubic's success.



Bradley H. Feldmann
President and Chief Executive Officer
Cubic Corporation
December 22, 2015