

## Letter from the CEO

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### Dear Shareholders,

**I am honored and energized to serve as Cubic's third CEO since the company's founding. In my first letter to you, I would like to share how we are building on Cubic's strengths to make the company even better. First, let's review the results for fiscal year 2014.**

Fiscal year 2014 ended with strong performance in the fourth quarter. We had record sales and record net income in the fourth quarter due to our transportation and defense systems segments. Total backlog increased 20 percent to a record high of \$3.180 billion. We generated \$114.8 million in cash flow from operations for the year, and announced that our board will increase the semiannual cash dividend by 12.5 percent at our annual meeting in February.

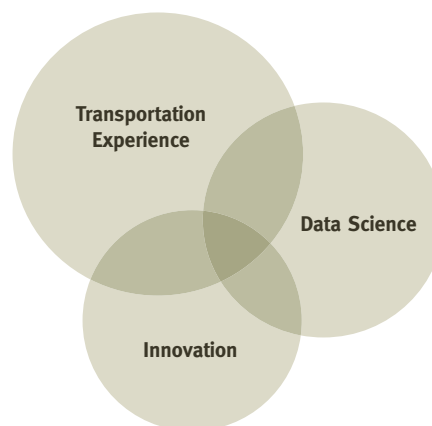
In fiscal year 2014 we set out to win our major recompetes, capture new business and focus on program execution. Each of our three segments has made important progress to achieve these goals.

**CUBIC TRANSPORTATION SYSTEMS** / We have earned enduring customer relationships with transport authorities worldwide for more than four decades due to our innovative solutions. The size and scale of our customer base and longevity of customer relations distinguish us in the marketplace as a trusted partner for solving the unique needs of our customers.

This year our transportation segment focused on the completion of three large design and build projects. The Chicago Ventra™ card system was fully deployed this year and is the largest open payment system in North America. After our fiscal year end, we completed Sydney's Opal Card system ahead of schedule and are transitioning to operations and maintenance. Opal received the 2014 Australian Smart Card Infrastructure Award, which is the fourth award it has received since 2013.

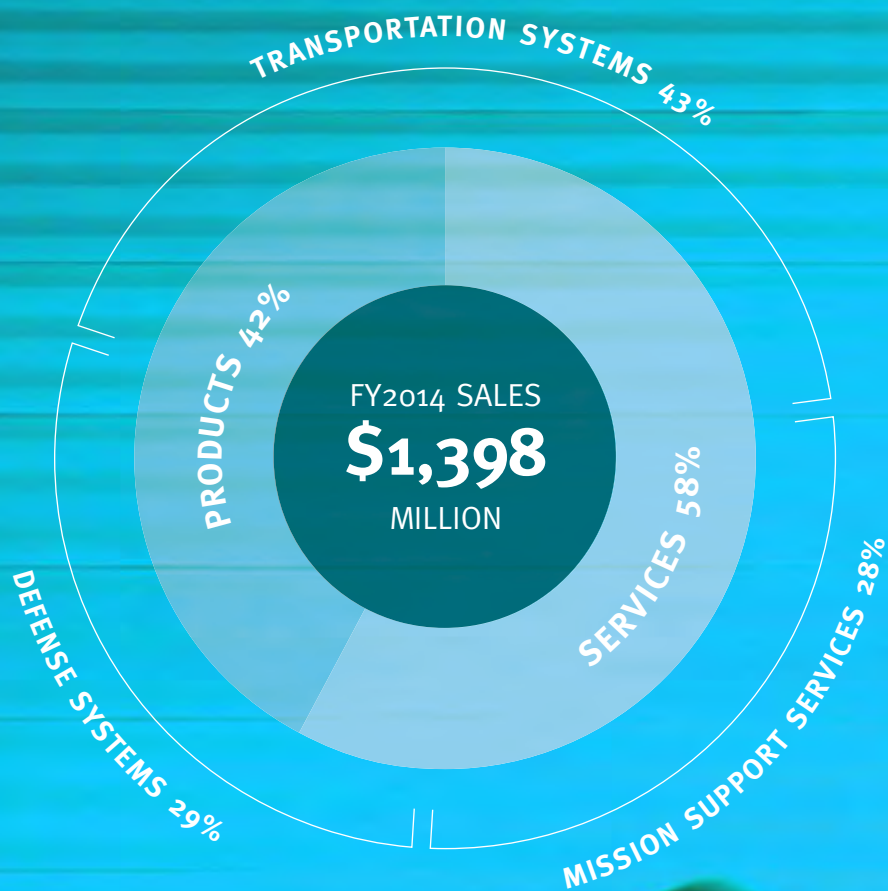
In the last fiscal year, we had cost overruns on our design and build project in Vancouver. We took steps to rectify these issues and are working with our customer on delivery of the system. We expect to start the services phase in the latter part of fiscal year 2015.

This year, our transportation segment won a critically important recompetite contract with Transport for London. We are proud to have won the new Electra contract, which has an ultimate value of \$1 billion over 10 years—the largest contract in our company's history. This contract follows the Oyster contract we originally won in 1998 and the Future Ticketing Agreement signed in 2008. We were, once again, chosen by our customer because we have earned their trust. Every day, our entire team is dedicated to keeping London's ticketing and fare collection systems running at peak performance.



We also renewed an intelligent traffic signals maintenance contract with Transport for London in the Intelligent Transport Management Solutions (ITMS) business we acquired last year. Under the contract, ITMS supports cutting-edge traffic control technology in use across London and continues our more than 35 years of service in London. Going forward our strategy is to grow this new business geographically beyond the U.K.

Our transportation segment is rapidly advancing its NextCity strategy. NextCity encompasses integrated





Recently, in another sign of market leadership, our NextBus Fleet Management application won the 2014 Most Innovative New Product Award from CONNECT, a San Diego innovation-based business association. NextBus is a modular, mobile gateway for connecting passengers and public transport operators to valuable real-time travel and operations information.

multimodal transportation payment systems, big data analytics, and personalized predictive and actionable traveler information systems. Because of our leadership in fare payment and information systems, recent acquisitions, new product launches, and contract awards, we have strong credentials in every discipline critical to our strategy. Below are examples of our recent achievements.

After completing North America's first large-scale open payment system for the Chicago Transit Authority, we are now providing them with our NextWave™ Mobile Business System, which we introduced last year. This industry first will deliver to travelers in Chicago an integrated mobile application supporting a wide variety of mobile ticketing, mobile top up, account management, and advanced trip planning features that work across all public transit in the region. Travelers with near field communication-enabled mobile phones will be able to store a virtual Ventra card in their phone.

We also have expanded our offerings by introducing our NextCity for Tolling platform. This back-office solution is the industry's first off-the-shelf alternative to proprietary legacy systems. We believe it is a best-in-class solution that provides customers choice and best value.

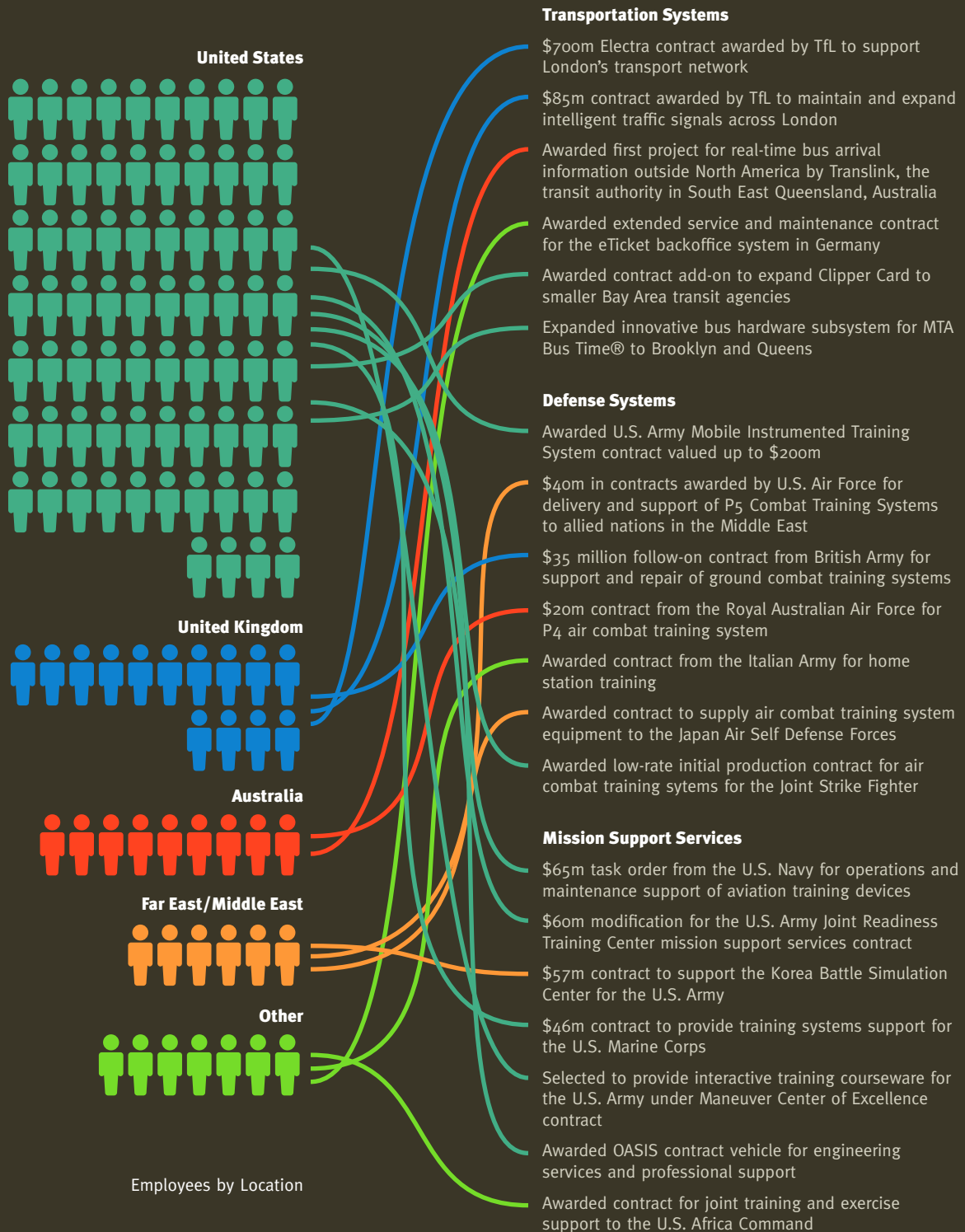
We recently launched Urban Insights, our transportation analytics consulting business. It has the potential to add meaningful value for transportation operators across our

entire customer base. Urban Insights uses data science to provide customers with a comprehensive understanding of how the regional transportation network is actually used and how it can be optimized—without additional infrastructure.

**CUBIC DEFENSE SYSTEMS /** In a defense environment that faces the challenges of increasing threats around the world coupled with constrained budgets, our focus is on offering our customers best-value solutions. A notable win for us in 2014 was the U.S. Army Mobile Instrumented Training System contract. It defines the next generation of instrumented training with a robust communications architecture that improves speed, scalability and improved reliability with many user-friendly features for training participants.



# Worldwide Contracts



“ We are focused on improving execution and driving the growth of the company. Our vision is to be the global market leader by *winning the customer* to accelerate our growth.”

**Bradley H. Feldmann**  
President & CEO



International business is a key differentiator for us in the training systems marketplace. Approximately 46 percent of our fiscal year 2014 sales were from outside the U.S.—mostly from our air and ground combat training product lines. A mix of U.S. and foreign business reduces our dependence on any one customer and provides us opportunities to expand into new markets.

In our Secure Communications segment, we are focused on developing capabilities in data links and the command, control, communications, computers, intelligence, surveillance and reconnaissance (C4ISR) market, which we believe has the potential to improve our long-term profitability for this product line and for defense systems segment as a whole.

After our fiscal year close, we increased our commitment to this important market with the acquisition of DTECH Labs. DTECH specializes in advanced communications solutions for the U.S. military government and first responders. Their solutions range from wireless networking to tactical satellite communications. This acquisition adds networking capability to our Secure Communications business and is a big step in our strategy to build a specialized C4ISR business with \$200 million in annual sales and mid-teen earnings before interest, taxes, depreciation, and amortization (EBITDA) margins.

Game-based immersive training is the future of cost-effective training. Cubic is leading the development of immersive game-based courseware and virtual mission bay trainers under multiple contracts with the U.S. Navy. This year we delivered the first component of a virtual training simulator for the Littoral Combat Ship's mission bay systems.

Our expertise in virtual reality courseware was validated at the 2014 Inter-service/Industry Training, Simulation and Education Conference, the world's largest modeling, simulation and training conference. We are very proud of our team for earning the Best Tutorial award for "Bridging the Gap: How to Build Effective Game-based Training."

Intific, a company we acquired in March 2014, is advancing game-based training. Their new product is NeuroBridge™. This neuroscience-based software measures how the brain performs during training exercises such as marksmanship training, and provides assessments for improvement. Intific is broadening our modeling and simulation capabilities and expanding our reach into game-based learning and the cyber domain.

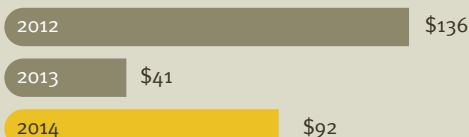
**MISSION SUPPORT SERVICES** / I'm extremely proud of the extraordinary efforts our people in this segment have made during a very tough period of U.S. government spending delays, sequestration, continuing resolutions,

#### CONSOLIDATED SALES (in millions)



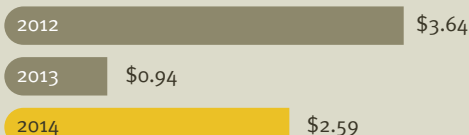
Sales in fiscal year 2014 increased 3% from last year.

#### OPERATING INCOME (in millions)



Operating income increased 127%. In fiscal year 2013, we incurred a goodwill impairment charge of \$50.9 million, restructuring charges of \$7.8 million and \$2.8 million write-down of inventory.

#### EARNINGS PER SHARE



The increase in net income was primarily due to the increase in operating income and a decrease in the effective income tax rate.

#### ADJUSTED EBITDA (in millions)



Adjusted EBITDA was 8.7% of sales this year versus 8.6% of sales last year.

#### Adjusted EBITDA

To supplement our consolidated financial statements presented in accordance with US generally accepted accounting principles (GAAP), we use Adjusted EBITDA which represents net income attributable to Cubic before interest, taxes, non-operating income, depreciation, amortization, and goodwill impairment charges. We believe that the presentation of Adjusted EBITDA provides useful information to investors with which to analyze our operating trends and performance and ability to service and incur debt. Also, Adjusted EBITDA is a factor we use in measuring our performance and compensating certain of our executives. Further, we believe Adjusted EBITDA facilitates company-to-company operating performance comparisons by backing out potential differences caused by variations in capital structures (affecting net interest expense), taxation and the age and book depreciation of property, plant and equipment (affecting relative depreciation expense), and non-operating expenses which may vary for different companies for reasons unrelated to operating performance. In addition, we believe that Adjusted EBITDA is frequently used by securities analysts, investors and other interested parties in their evaluation of companies, many of which present an Adjusted EBITDA measure when reporting their results. Adjusted EBITDA is not a measurement of financial performance under GAAP and should not be considered as an alternative to net income as a measure of performance. In addition, other companies may define Adjusted EBITDA differently and, as a result, our measure of Adjusted EBITDA may not be directly comparable to Adjusted EBITDA of other companies. Furthermore, Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Please refer to the company's proxy statement for a reconciliation of Adjusted EBITDA to Net Income.

Because of these limitations, Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our GAAP results and using Adjusted EBITDA only supplementally. You are cautioned not to place undue reliance on Adjusted EBITDA.

and increased competition. While we expect market conditions to remain challenging in 2015, we believe the market pressures may have hit bottom.



Despite these challenges, we won all of our major recompetes in fiscal year 2014, including key programs such as support for the U.S. Africa Command and U.S. Forces Korea at the Korea Battle Simulation Center. We also expanded our work for the U.S. Navy, including operations and maintenance support of their aviation trainers and simulator and academic instruction for helicopters. We also won several multiple-award indefinite delivery/indefinite quantity contracts, which provide opportunities for us to compete for work.

Our services work is essential to maintain the readiness of U.S. and allied forces. We are winning our customers by providing them with the highest quality people and services at competitive prices.

**ONECUBIC INITIATIVES** / Cubic Corporation has been managed as a holding company for many years. Going forward, we intend to share common processes and systems among our businesses. We call this initiative *OneCubic*. To accelerate our progress down this path, we are implementing the following initiatives to improve operations that can translate into higher profitability.

Adopting a global business services model will fundamentally change the way we operate by running key operations from centers of excellence. This model will enable us to share people, technologies, innovations, strategies, global presence, and common processes and systems to create value for our customers, employees, and shareholders. In 2015 we will be implementing changes that in the long run will reduce the cost of our general and administrative and manufacturing operations.

We are in the process of evaluating and implementing a new enterprise resource planning system. This is a multiyear initiative to merge our separate financial, human resources, information technology, procurement, and manufacturing systems into one business management system for all of Cubic's businesses. Over time, we will realize greater operational efficiency by having a common system across our enterprise.

We are stepping up the pace of innovation across all of our businesses. This includes both incremental and revolutionary advances in our services and systems

## Our Three Points of Focus

<b>Market Leadership</b>	Improve our ability to innovate and differentiate our offerings.
<b>Operational Performance</b>	Improve execution and maintain accountability in all parts of the company. Employ the right metrics that align our goals and incentives with shareholder objectives.
<b>Strategic Investment</b>	Invest and allocate our resources to generate long-term returns that exceed the industry average.

to satisfy the needs of our customers. This year we launched an internal website, *IdeaSpark*, to solicit and share ideas across the company. Next year we are increasing our research efforts to further strengthen our market leadership.

Last year we had a number of leadership transitions. In July, William Boyle announced his retirement from his position as CEO. I'd like to thank Bill for more than 30 years of service and dedication to Cubic. During Bill's tenure, he helped the company flourish and become a billion dollar global enterprise.

I'd also like to extend my appreciation to Jim Balentine who transitioned from his position as corporate executive vice president and president of Mission Support Services to serve as an advisor to this segment. Jim has served the company for nearly 20 years. During that time, he helped grow Mission Support Services from \$25 million in annual sales when Cubic first acquired Titan Applications, to nearly \$400 million. I am appreciative of Jim's meaningful contributions to Cubic and his continuing support.

I am fortunate that Jay Thomas, our executive vice president and CFO, is a key member of my team as we enter the next phase of Cubic's growth. Jay has been instrumental to the company's growth for more than 30 years and is a solid partner with deep knowledge of Cubic's strategic focus, business operations and competitive landscape.

**LOOKING AHEAD /** We are starting fiscal year 2015 with record total backlog, which gives us confidence in our future. The guidance we provided on our year-end earnings call reflected sales growth due to the year-over-year increase in our total backlog. With the addition of DTECH Labs, which we acquired after our year end, we will have upsides to our initial sales guidance.

We are making investments this year in our *OneCubic* initiatives and plan to increase spending for innovation. In the short term, we expect these investments will lower our profits, but in the long term we anticipate these investments will translate into higher profits and greater returns for our shareholders.

I am proud to lead the Cubic team of more than 7,900 employees. With the executive management team, our global workforce, market leadership, and a strategic vision supported by our strong capital position, we have many elements in place to drive long-term growth and create value for our shareholders and employees. I am deeply grateful to our board of directors for their continued support.

We appreciate your trust in Cubic and we are focused on making further progress in 2015 and beyond.



**Bradley H. Feldmann**

President and CEO, Cubic Corporation  
December 22, 2014