



Chemring Group PLC

Full Year Results to 31 October 2009

© 2010 Chemring Group plc

The information in this document is the property of Chemring Group plc and may not be copied or communicated to a third party or used for any purpose other than that for which it is supplied without the express written consent of Chemring Group plc.

This information is given in good faith based upon the latest information available to Chemring Group plc, no warranty or representation is given concerning such information, which must not be taken as establishing any contractual or other commitment binding upon Chemring Group plc or any of its subsidiary or associated companies.



Ken Scobie

Chairman

© 2010 Chemring Group plc

The information in this document is the property of Chemring Group plc and may not be copied or communicated to a third party or used for any purpose other than that for which it is supplied without the express written consent of Chemring Group plc.

This information is given in good faith based upon the latest information available to Chemring Group plc, no warranty or representation is given concerning such information, which must not be taken as establishing any contractual or other commitment binding upon Chemring Group plc or any of its subsidiary or associated companies.

Financial Highlights

<u>£m</u>	<u>2009</u>	<u>2008</u>	<u>Increase</u>
Order Book	559	409	37%
Revenue	504	354	42%
Operating Profit	115	85	35%
Operating Cashflow	107	84	27%
Profit Before Tax	103	74	38%
EPS	213p	160p	33%
Dividend per share	50p	35p	43%

All numbers are underlying measures



David Price

Chief Executive

© 2010 Chemring Group plc

The information in this document is the property of Chemring Group plc and may not be copied or communicated to a third party or used for any purpose other than that for which it is supplied without the express written consent of Chemring Group plc.

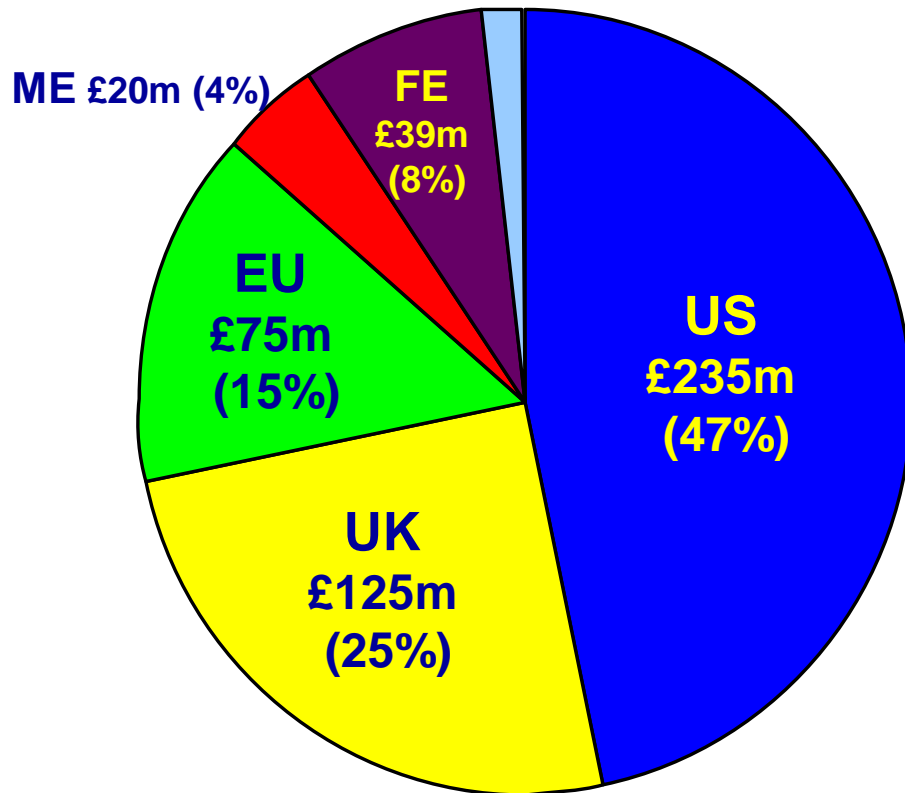
This information is given in good faith based upon the latest information available to Chemring Group plc, no warranty or representation is given concerning such information, which must not be taken as establishing any contractual or other commitment binding upon Chemring Group plc or any of its subsidiary or associated companies.

Headlines

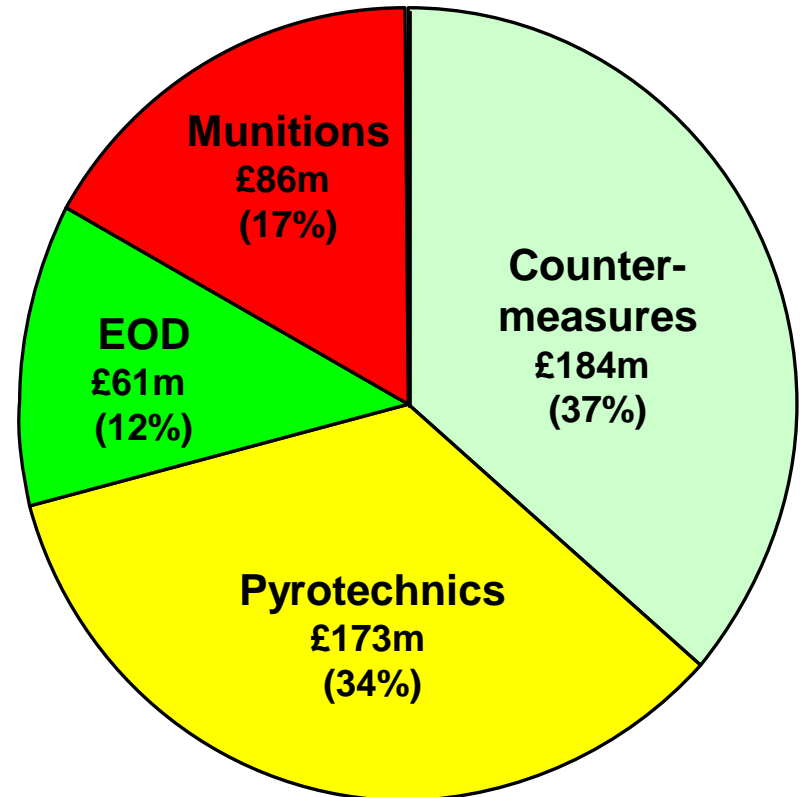
- ***Another strong year of growth in revenue & profits***
 - *Revenue increased 42% to £504m.*
 - *Profit before tax increased 38% to £103m.*
- ***Energetics revenue increased 63%***
 - *Pyrotechnics grew 81% - strong growth at Simmel.*
 - *EOD grew 304% with strong growth from Niitek.*
- ***Good second half cashflow***
 - *£107m operating cashflow – 93% conversion.*
- ***Record year-end order book of £559m***
 - *Up 37% on previous year.*

Revenue Analysis

Revenue by Destination



Revenue by Segment

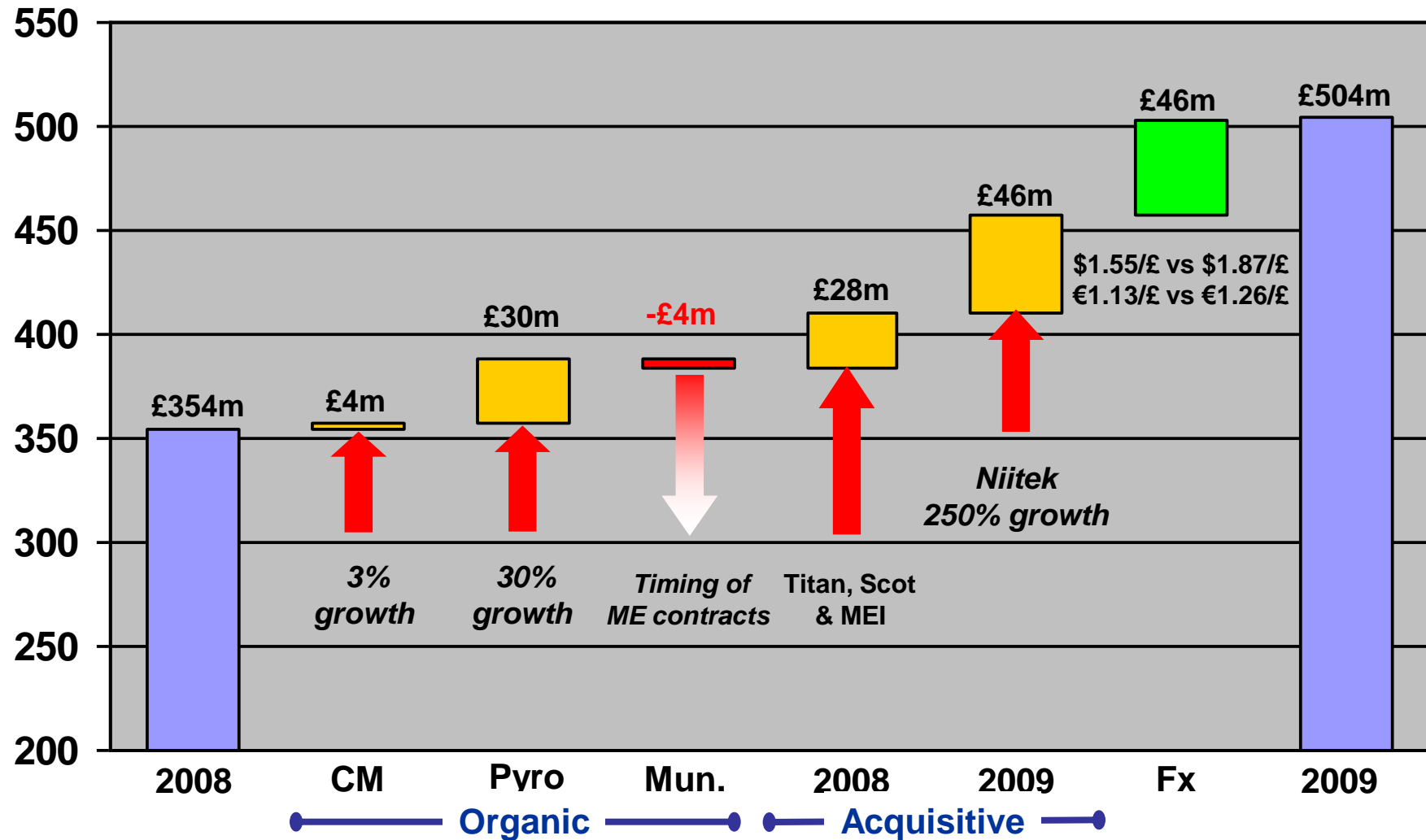


Segmental Growth

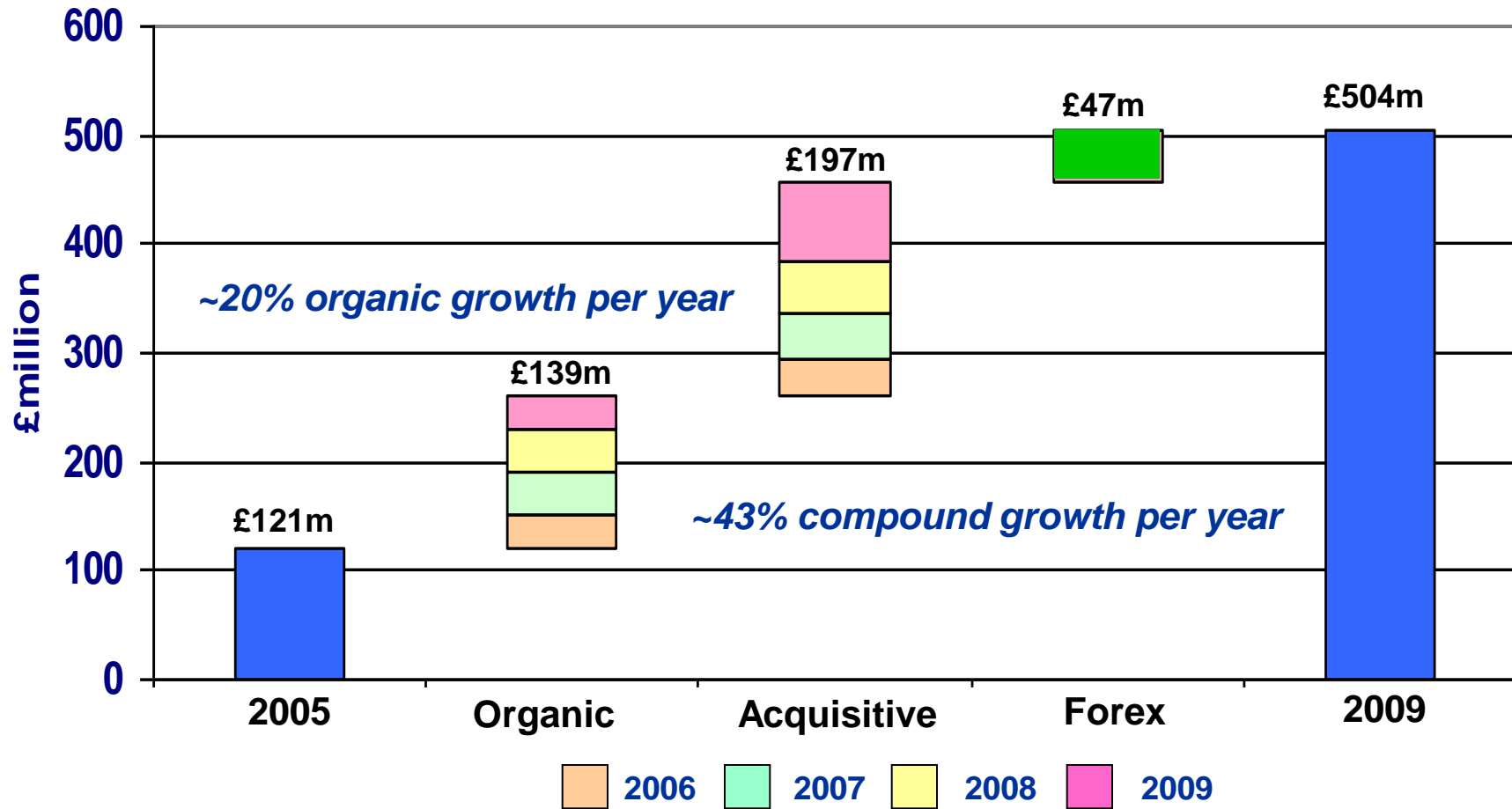
<i>Revenue (£m)</i>	<i>2009</i>	<i>2008</i>	<i>Growth</i>
<i>Countermeasures</i>	<i>184</i>	<i>157</i>	<i>17%</i>
<i>Pyrotechnics</i>	<i>173</i>	<i>96</i>	<i>81%</i>
<i>Explosive Ordnance Disposal</i>	<i>61</i>	<i>15</i>	<i>304%</i>
<i>Munitions</i>	<i>86</i>	<i>86</i>	<i>0%</i>
<i>Total</i>	<i>504</i>	<i>354</i>	<i>42%</i>

<i>Order Book (£m)</i>	<i>2009</i>	<i>2008</i>	<i>Growth</i>
<i>Countermeasures</i>	<i>232</i>	<i>128</i>	<i>81%</i>
<i>Pyrotechnics</i>	<i>172</i>	<i>187</i>	<i>-8%</i>
<i>Explosive Ordnance Disposal</i>	<i>37</i>	<i>10</i>	<i>270%</i>
<i>Munitions</i>	<i>118</i>	<i>84</i>	<i>40%</i>
<i>Total</i>	<i>559</i>	<i>409</i>	<i>37%</i>

Group Revenue Progression

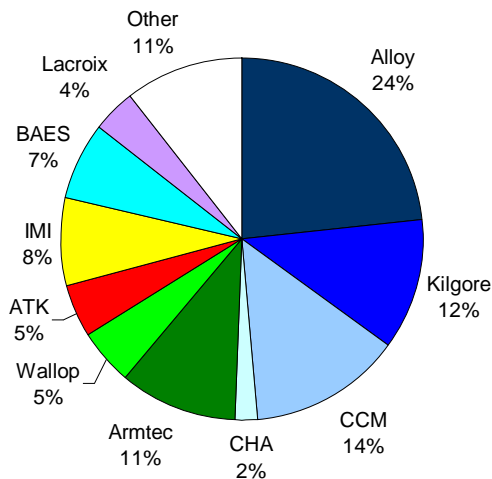


Components of Growth



2009 Countermeasures

Countermeasures Market



Total Market: £355m

Chemring market share

2009 : 52%

2008 : 53%

UK Countermeasures

- Revenue increased by 17% to new record – driven by NATO demand.
- Typhoon flares production volumes increased by 200%.
- Naval countermeasures up 24% – sales to Spain, Romania & Turkey.

Alloy Surfaces

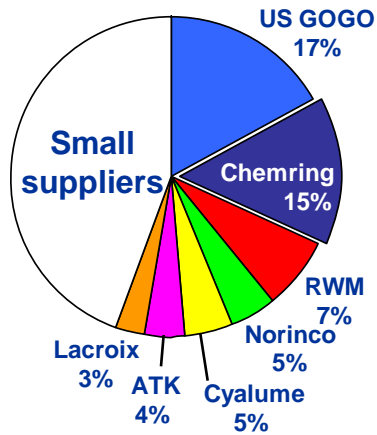
- Decoy production increased to record 2 million but sales remain flat.
- Flares for USAF transport aircraft grew to over 60,000 units/month.
- Production of helicopter flares now just over 40,000 units/month.
- \$125m of multi-year contracts for transport/combat aircraft decoys.

Kilgore Flares

- Delays in USAF orders reduced flare volumes to 1.1million with breaks in production on flares for F-22 and B-52 aircraft in H2.
- Development of updated M212 spectral flare completed.
- 5-year IDIQ contract for high volume flares awarded with maximum value of \$804m - \$42m order for 2010 production.
- Year-end order book increased by 95% on 2008.

2009 Pyrotechnics

Signals, Illumination, & Training



Total £700m

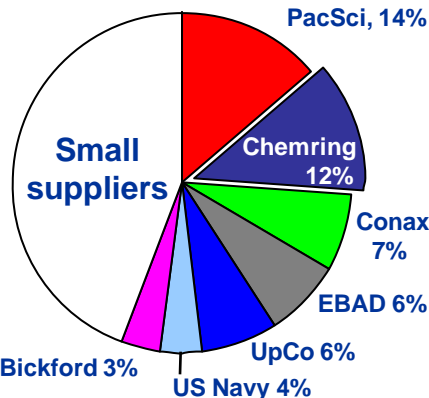
■ Signals & Illumination

- *70% growth in 81mm illumination mortar rounds at Simmel.*
- *Nearly 400,000 40mm pyrotechnic rounds for US Army.*
- *58% growth in screening smoke grenades and 40% growth in flares to UK & NATO forces.*

■ Simulation & Training

- *130% growth in BES ammunition for gunfire and target hit to US Army.*
- *Over 4 million training grenade fuzes supplied to US Army.*

Pyromechanisms



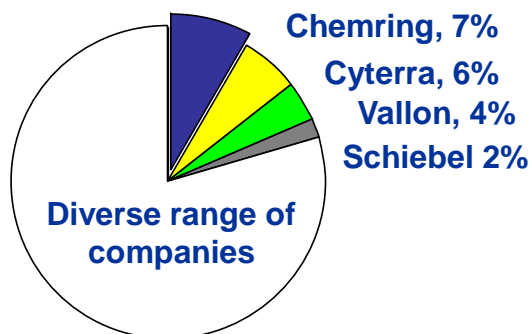
Total £500m

■ Pyromechanisms

- *100% growth in components for aircraft egress systems.*
- *30% growth in metron actuators for fire suppression.*

2009 Explosive Ordnance Disposal

IED Detection



Total £500m

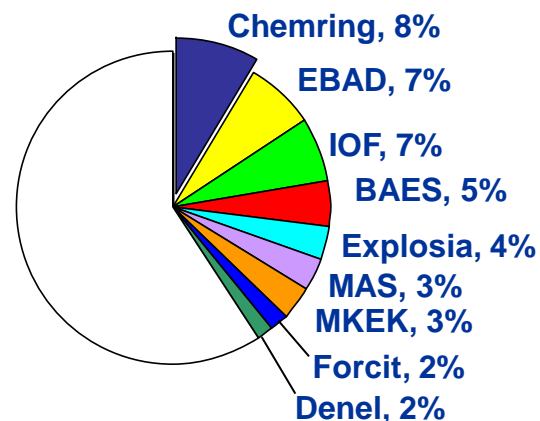
■ IED Detection

- *\$125m of contracts for production and support of 80 Husky Mounted Detection Systems (HMDS) from US Army.*
- *30+ Systems delivered to theatre and used successfully for route clearance operations.*
- *First export order for 21 systems placed by Canada.*

■ Initiation

- *Growing demand for secure remote initiation from US police forces.*
- *Secure remote initiation being developed for US & European robots.*

Demolition & initiation



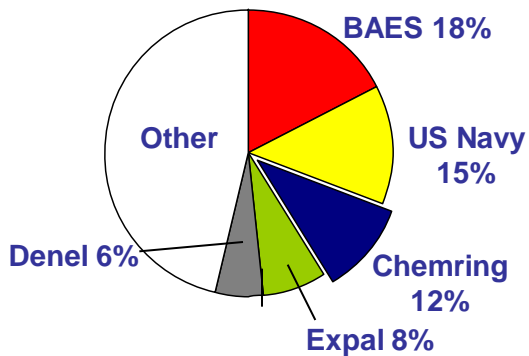
Total £300m

■ Demolition Stores

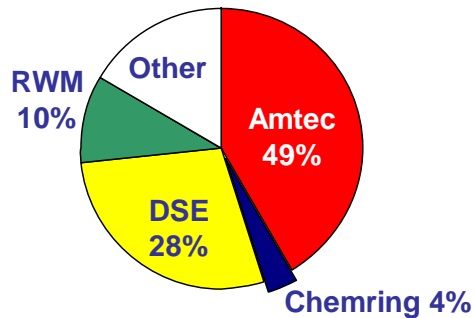
- *Insensitive explosive Flexible Linear Cutting Charge (SABRE) under development for UK MOD.*

2009 Munitions

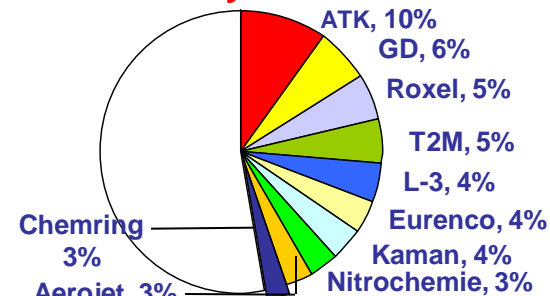
Naval - £100m



40mm Grenade - £300m



Subsystems



Total £2bn

■ Prime Contract

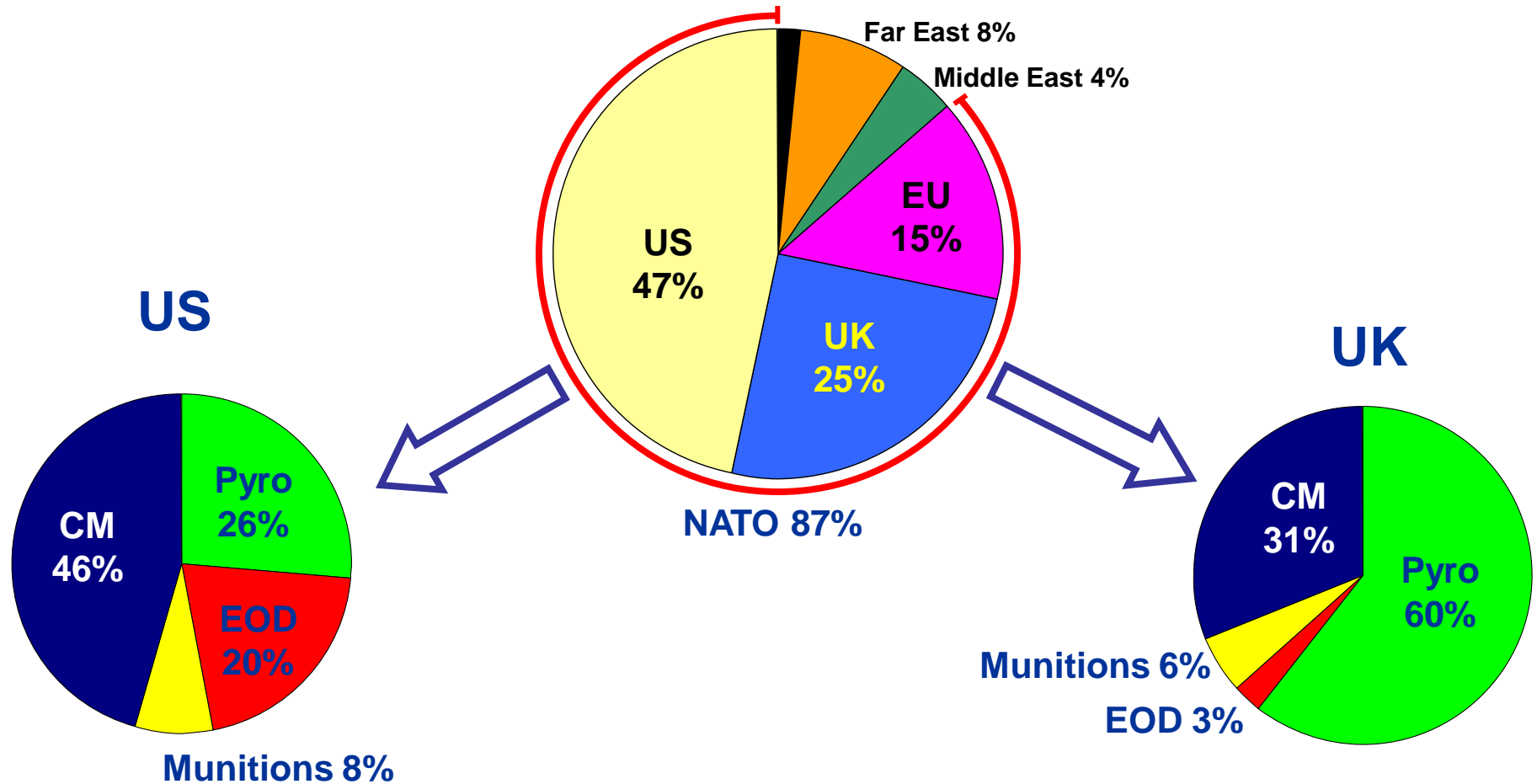
- *Maintained position in naval ammunition with €11m of sales to Italy, France, India, Singapore, & Colombia.*
- *Initial contract for 40mm HEDP grenades awarded by Australia.*
- *€10m of orders placed by Italian MOD for 25mm ammunition.*

■ Components & Sub-systems

- *15% growth in munition sub-system at Chemring Energetics*
 - 53% increase in revenue from rocket motors.
 - 13% increase in missile safety sub-systems.
- *Steady demand for munition components from US Primes*
 - 9% reduction in HE & tracer pellets.
 - 11% growth in fuze components.
- *71% increase in M55 detonator production despite H2 stoppage*
 - production halt caused lack of availability of primary explosive in US.
 - primary explosives facility now under construction to resolve issue.

US & UK Revenues

2009 Revenue £504m



Implications of US Defence Budget

FY10 Budget generally translates to FY11 revenues

FY11 draft budget published in February – current expectations is that it will be higher than FY10



Pyrotechnics

- Strong growth in one-shot devices
- Growth in pyrotechnic payloads
 - Air launched
 - Artillery – replacement of WP
- Sustained training requirement

26%



EOD

- Strong growth in IED detection
 - \$1.5b funding from OCO
 - HDMS to be fitted to 700+ vehicles
- Sustained neutralisation demand
 - demolition stores
 - disrupters
 - electronic initiation

20%



Munitions

- FY10 budget same as FY09
 - Growth in artillery & rockets
 - Growth in tactical missile budget
 - Reduction in medium calibre & tank ammunition
 - Reduction in mortars & grenades

8%



Countermeasures

- Army & Navy demand stable
- Air Force demand reduced
 - budget reduced by \$79m
 - but \$47m funding from OCO
- “Surge” of 30,000 extra troops & 250 helicopters for Afghanistan

46%

Implications of UK Defence Budget

Pyrotechnics

- Afghanistan & training drives use
 - Visible & IR Illumination
 - Screening
- Aircraft fleet drives continued pyrotechnics demand

60%

EOD

- High profile of asymmetric threat should sustain market in the face of budget pressures
- New £900m funding package to support activities in Afghanistan includes IED defeat equipment
- Growing interest in HMDS

3%

Munitions

- Infantry ammunition demand remains high
- Artillery and tank ammunition under threat
- Risk of delays and cut-backs to missile programmes

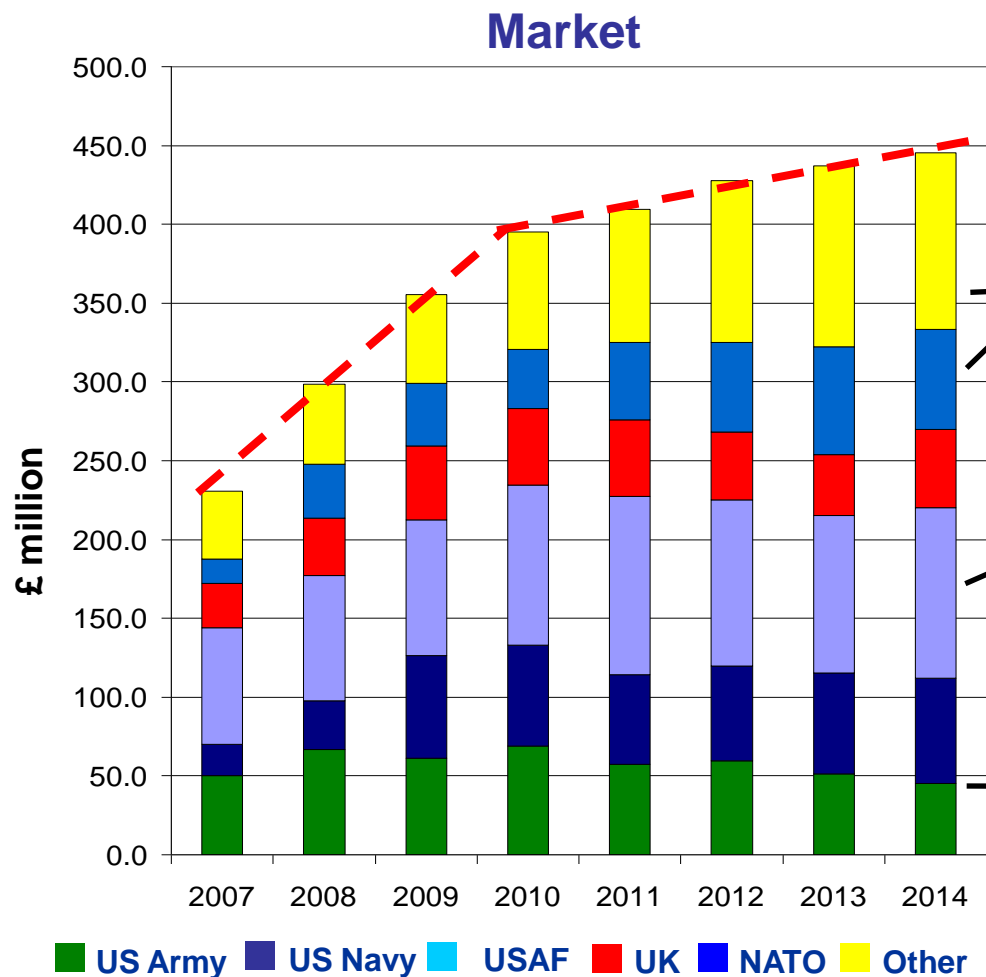
6%

Countermeasures

- Current operations in Afghanistan drive high levels of consumption.
 - Additional Merlin helicopters deployed.
 - 22 new Chinooks ordered.
- Growing demand for Typhoon family of flares
- Reductions in Harrier & Tornado fleets will impact demand in the longer term.

31%

Countermeasures Outlook



Market plateau in 2010

- But further DAS / Dispenser penetration.
- Increased cost of advanced flares.
- Growing requirement for JSF.
- Growth in Typhoon exports.

NATO & export market growth

- DAS/ Dispenser installation.
- Increased peacekeeping and training.
- Typhoon delivery profile.
- BOL/IR qualified on Typhoon.

US Air Force growth

- Advanced flares for air-to-air superiority.
- Budget squeeze in FY10.
- Flares for 512 F-35s by 2014.
- BOL/IR for F-15, F-18 & CV22.

US Army reduction

- Planned reduction of troops in Iraq.
- However, another 250 helicopters will deploy in Afghanistan.

Source: Internal estimates based on US program documentation to FY 2010 & export market knowledge

Pyrotechnics Outlook



Signals & Illumination

- Strong demand for “black light” & illumination technology
 - 60mm, 81mm & 120mm illumination mortar rounds.
 - helicopter & fixed wing munition payloads in development.
- Increased interest in replacing White Phosphorous for multi-spectral screening smokes.
- UK MOD looking to procure range of lightweight smokes.

Simulation & Training

- Growing installed base of BES & MECS launchers is increasing demand for gunfire & target-hit pyrotechnics.
- Major opportunity for Alloy technology in 40mm training rounds.

Pyromechanisms

- Aircraft demand driven by 3-year component life
 - Both civil & military.
- Growth in satellite launch activity.

Explosive Ordnance Disposal Outlook



Counter-IED Detection

- Growing demand for Husky Mine Detection Systems (HMDS) for route clearance during peacekeeping operations
 - US Army looking to order another 50+ systems in next 3 months.
 - Canada orders 21 systems & growing interest from NATO allies.
- Growing interest in Under-Vehicle Surveillance System (CUVSS)
 - Trials taking place for US subway & rail station applications.
 - Working with VOSA & Highways agency for vehicle inspection.

Neutralisation

- Evolving IED threat continues to drive rapid product evolution.
- Growing demand for all demolition stores to be to an “insensitive munitions” standard.
- Strong global interest in new SABRE Flexible Linear Cutting Charge.

Demilitarisation

- Growth in demand from recent cluster-munition ban.
- Simmel facility will start operation in 2010.

Munitions Outlook

Prime Contract

- 76mm & 127mm naval ammunition opportunities growing
 - Major US opportunity on 5" naval rounds.
- Demand for 40mm grenades continues to be strong
 - Medium Velocity rounds demonstrated to US, UK & Dutch customers.
 - LAP opportunities for US production.

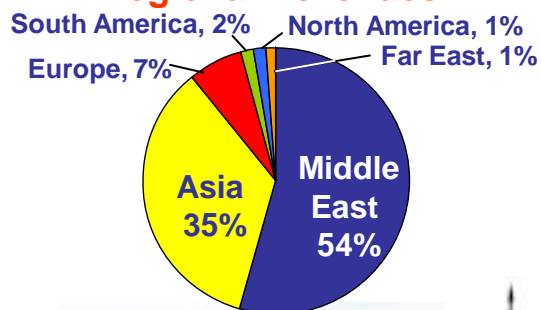
Sub-Systems

- Increasing opportunities for rocket motor supply.
- New microwave fuze and IM warhead finishing qualification for 76mm naval ammunition application.
- Ballistic missile threat from Iran & North Korea
 - Opportunities for patriot sales to Japan, Korea, Taiwan, India, Kuwait, UAE, Saudi Arabia, Germany, Italy & Turkey.
 - Strong growth likely in Hi-Shear revenues from Electronic Safety & Arming Units for Patriot missile.



Acquisition of Allied Defense Group, Inc.

Regional Revenues



- **Allied Defense Group is a niche ammunition supplier**
 - *2008 Revenues \$144m*
- **Two operating subsidiaries**
 - *Mecar SA, Waterloo, Belgium*
 - *Mecar USA, Marshall, Texas, USA*
- **Complementary ammunition markets**
 - *Focus on air transportable, Light Armoured Vehicles*
 - *Geographic focus on Middle East and Asia*
- **Complementary products**
 - *Only qualified ammunition for CMI 90mm Mk8 gun*
 - *Sole supplier of ammunition for NEMO 120mm mortar*
 - *Full range of 105mm ammunition including HEP*
 - *Medium calibre armour piercing ammunition*
- **Complementary technologies**
 - *Mecar manufactures metal parts*
 - *Chemring manufactures explosives, propellants & fuzes*

Summary

- **Energetics continues to grow rapidly**
 - *Pyrotechnics & EOD driving this growth.*
 - *Niitek performing well with production up to 7 HMDS per month. and sales 250% higher than pre-acquisition.*
- **Countermeasures business performing well**
 - *Good growth in UK but US constrained by timing of new orders.*
- **Strong year-end Balance Sheet**
 - *93% cash conversion.*
 - *Gearing reduced to 45%.*
- **Outlook for future continues to be good**
 - *Countermeasures Order Book up 81%.*
 - *HMDS opportunity remains strong.*
 - *Pyrotechnics & EOD markets continue to look robust.*



Paul Rayner

Finance Director

© 2010 Chemring Group plc

The information in this document is the property of Chemring Group plc and may not be copied or communicated to a third party or used for any purpose other than that for which it is supplied without the express written consent of Chemring Group plc.

This information is given in good faith based upon the latest information available to Chemring Group plc, no warranty or representation is given concerning such information, which must not be taken as establishing any contractual or other commitment binding upon Chemring Group plc or any of its subsidiary or associated companies.

Profit & Loss

<u>£m Continuing Operations</u>	<u>Final 2009</u>	<u>Final 2008</u>	<u>Growth</u>
Revenue	504	354	42%
Operating profit	115	85	35%
Interest	(12)	(11)	9%
Profit Before Tax	103	74	38%
Tax	(28)	(21)	33%
Profit After Tax	75	53	41%
EPS	213p	160p	33%
DPS	50p	35p	43%

All numbers are underlying measures

- **Strong EBIT growth**
 - Energetics up 59%.
 - Countermeasures up 18%.
- **Interest Cover: x10 (2008: x8)**
 - £1.4m “pension fund” interest.
- **PBT after £2.9m of non-recurring restructuring costs.**
- **Tax 27% (2008: 28%).**
- **EPS up 33%.**
- **Dividend up 43%**
 - 4.3 times covered (2008: 4.6).

Segmental Results

£m		Final 2009	Final 2008
Energetics	Revenue	320	197
	Operating Profit *	73	46
	Operating Margin	23%	23%
Countermeasures	Revenue	184	157
	Operating Profit *	54	45
	Operating Margin	29%	29%
Total Group	Revenue	504	354
	Operating Profit	115	85
	Operating Margin	23%	24%

* Before unallocated central costs

Unallocated costs:

LTIP charges £2.1m (2008:£1.7m), Head office £6.6m (2008: £4.6m)

Restructuring costs £2.9m (2008: £Nil) - Salisbury (£1.7m); Titan (£1.2m)

■ Energetics

- Consistent 23% margin.
- Pyrotechnics 25% (2008: 24%).
- EOD 25% (2008: 27%).
- Munitions 16% (2008: 22%)
 - ❖ Reduced ME exports.
 - ❖ Lead azide impact on margins.

■ Countermeasures

- Consistent 29% margin.

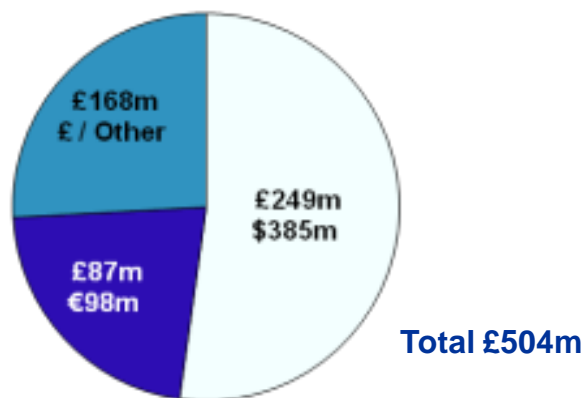
Segmental Results

		H1	H2	Final 2009	H1	H2	Final 2008
Counter-measures	Revenue	86	98	184	71	86	157
	Operating Profit*	24	30	54	19	26	45
	Operating Margin	28%	30%	29%	27%	30%	29%
Pyrotechnics	Revenue	69	104	173	33	63	96
	Operating Profit*	16	28	44	6	17	23
	Operating Margin	22%	27%	25%	18%	27%	24%
EOD	Revenue	21	40	61	6	9	15
	Operating Profit*	5	11	16	1	3	4
	Operating Margin	23%	27%	25%	18%	33%	27%
Munitions	Revenue	57	29	86	40	46	86
	Operating Profit*	8	5	13	5	14	19
	Operating Margin	15%	17%	16%	14%	30%	22%

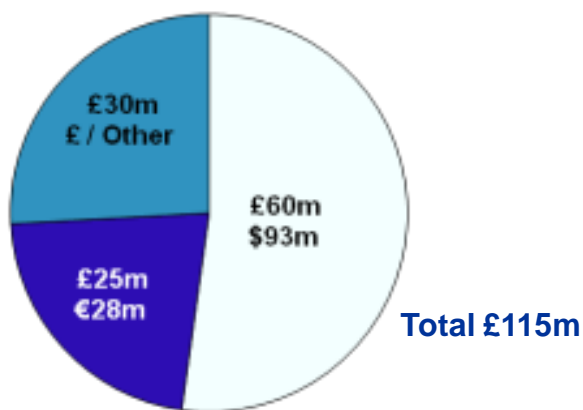
* Before unallocated central costs

Foreign Currency

Revenue by Currency as converted to £m



EBIT by Currency as converted to £m



- \$ rate 2009: 1.55 (2008: 1.87)
 - 17% appreciation of \$ to £.
 - At constant \$ additional revenue and EBIT:
 - ❖ £35m revenue.
 - ❖ £10m EBIT.
 - 10 cents move equates to approx £15m revenue

- € rate 2009: 1.13 (2008: 1.26)
 - 10% appreciation of € to £.
 - At constant € additional revenue and EBIT:
 - ❖ £9m revenue.
 - ❖ £3m EBIT.

Balance Sheet

<u>£m</u>	<u>Final 2009</u>	<u>Final 2008</u>
Goodwill	150	129
Acquired Intangibles	82	80
Tangible Assets	135	110
Other Net Assets	78	57
Tax	(20)	(14)
Pension Deficit	(28)	(14)
Net Debt	(123)	(117)
Shareholders' Funds	274	231
Gearing	45%	51%

■ Acquisitions

- Niitek acquired in December 2008 for £27m.

■ Tangible Assets

- £24m investment in Salisbury & Australia
 - ❖ £11m in 2009, balance in 2010.
- 2010 guidance £40m.

■ Pension deficit

- Doubled in the year.
- Triennial valuation ongoing.

■ Net Debt £123m (2008: £117m)

- Gearing 45% (2008: 51%).
- Post year end completed private placement.

Cash Flow

<u>£m</u>	<u>Final 2009</u>	<u>Final 2008</u>
Operating Cash Flow	107	84
<i>Operating Cash conversion % from EBIT</i>	93	99
Tax	(19)	(14)
Capital spend	(38)	(34)
Cash Flow from Operating Activities	50	36
Interest and dividends	(24)	(17)
Net acquisitions spend	(27)	(68)
Share issue proceeds	-	59
Purchase of own shares	(2)	(3)

■ **Strong operating cashflow**

- 93% converted.
- Significant inflow in H2.

■ **Capital spend > 2008**

- Salisbury & Australia £11m.
- Facilities at Ardeer & Simmel.

■ **Acquisition spend**

- Niitek £27m.

■ **Cash flow from operating entities**

- 43% converted from EBIT.

■ **Purchase of own shares**

- 270,000 held for LTIP.

Facilities and Covenants

Facilities	Pre PP £m	Post PP £m
Working Capital*	50	50
Medium term loans*	92	56
Private Placement (PP) 2007	87	87
Private Placement 2009	-	170

Covenants	Covenant	Actual	Headroom
Interest Cover to EBITDA	4.0	11.2	7.2
Debt: EBITDA	3.0	1.4	1.6

- Working capital renewal March 2012
 - Headroom £107m at year end

- Term loan repayable 3 years

	£	Repaid under PP	Balance £m
2010	33	(24)	9
2011	36	(12)	24
2012	<u>23</u>	<u>-</u>	<u>23</u>
	<u>92</u>	<u>(36)</u>	<u>56</u>

- Private placement 2007

- due Nov 2017

- Private placement 2009

- due Nov 2016 + 2019
 - 5.5% interest rate

- Covenants healthy headroom

* Working Capital and Medium Term Loans for principal bank only

Post Balance Sheet Events

■ Private Placement

- On 19 November 2009 completed £170m private placement
 - ❖ Acquisition of HiShear £80m.
 - ❖ Repayment of medium term loans £36m.
 - ❖ Balance general corporate purposes approximately £54m.

■ HiShear

- Signed agreement to acquire HiShear on 16 September 2009 for \$132m (£80m).
- Completed acquisition on 25 November 2009.
- Acquisition debt funded.

■ Allied Defense Group

- 2008 revenue \$144m, underlying EBIT \$10m.
- Consideration – total \$79m – funded from private placement proceeds
 - ❖ \$59m equity.
 - ❖ Head office closure costs \$5m.
 - ❖ Working capital investment \$15m.
- Anticipated closing end March 2010.



Chemring Group PLC

Full Year Results to 31 October 2009

© 2010 Chemring Group plc

The information in this document is the property of Chemring Group plc and may not be copied or communicated to a third party or used for any purpose other than that for which it is supplied without the express written consent of Chemring Group plc.

This information is given in good faith based upon the latest information available to Chemring Group plc, no warranty or representation is given concerning such information, which must not be taken as establishing any contractual or other commitment binding upon Chemring Group plc or any of its subsidiary or associated companies.