


Half Year Results to 30 April 2011

David Price – Chief Executive
Paul Rayner – Finance Director







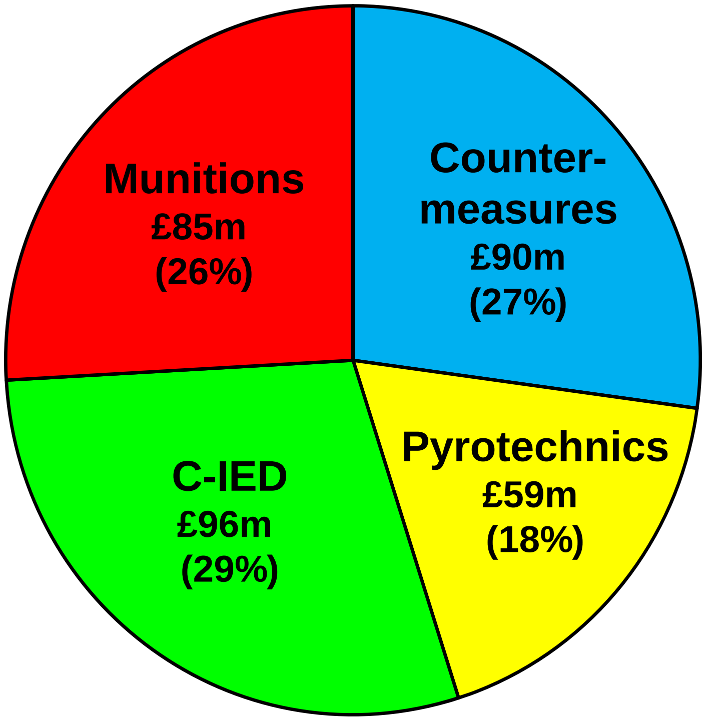
CHEMRING GROUP PLC


Headlines

- **Strong first half growth despite market instability.**
  - ***Revenue increased 29% to £330m.***
  - ***Profit before tax increased 17% to £50m.***
- **Excellent organic growth in revenues of 18%**
  - ***Counter-IED grew 132% with deliveries of HMDS spares up 280%.***
  - ***Non-NATO business expands to 25% of Group revenues.***
  - ***Despite no F-16 decoy production at Kilgore.***
- **Operating cash inflow increased 64% to £47m.**
  - ***81% conversion from EBIT.***
- **Further growth in order book to £937m.**
  - ***Up 17% on October 2010.***
  - ***Up 44% on previous year.***

Segmental Analysis

Revenue



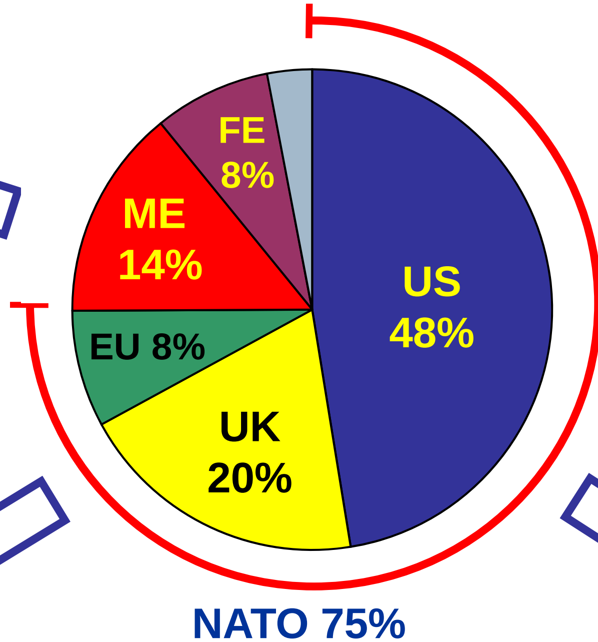
H1 2011 Revenues - £330m

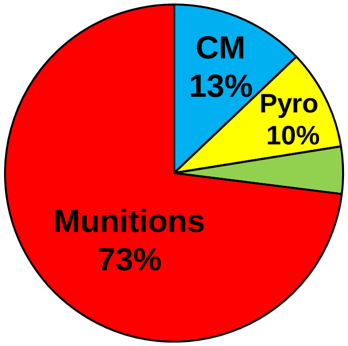
Revenues	H1 2011	H1 2010	Growth
Counter-IED	£96m	£41m	132%
Countermeasures	£90m	£92m	-2%
Munitions	£85m	£54m	57%
Pyrotechnics	£59m	£69m	-14%
Total	**£330m**	**£256m**	**29%**

Order Book	H1 2011	H1 2010	Growth
Counter-IED	£56m	£26m	115%
Countermeasures	£243m	£279m	-13%
Munitions	£488m	£150m	225%
Pyrotechnics	£150m	£196m	-23%
Total	£937m	£651m	44%

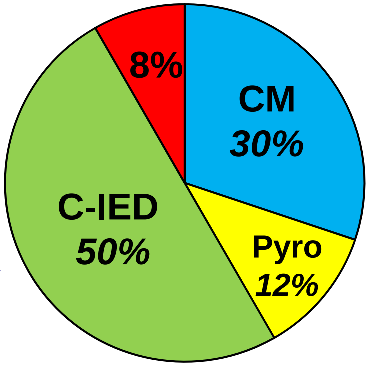
Regional Analysis

H1 2011 Revenue £330m

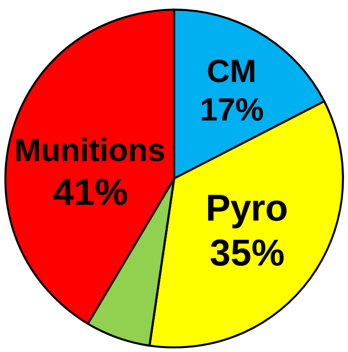




ME/FE – up 89%
CM – up 24%
Munitions – up 130%
Pyro - flat

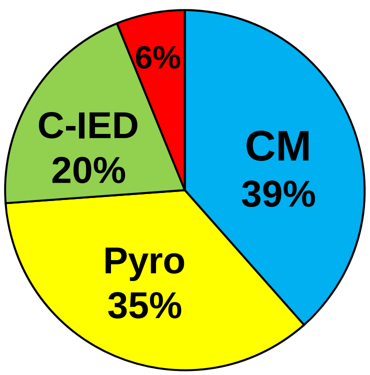


US – up 10%
C-IED – up 118%
CM – down 30%
Pyro - down 36%



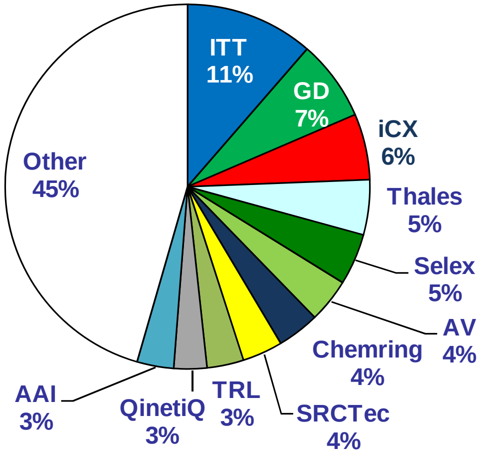
EU – down 15%
CM – down 4%
Munitions – down 38%
Pyro - up 27%

UK – up 52%
C-IED – up 477%
CM – up 104%
Pyro - down 4%



H1 2011 Counter-IED

Counter-IED Market



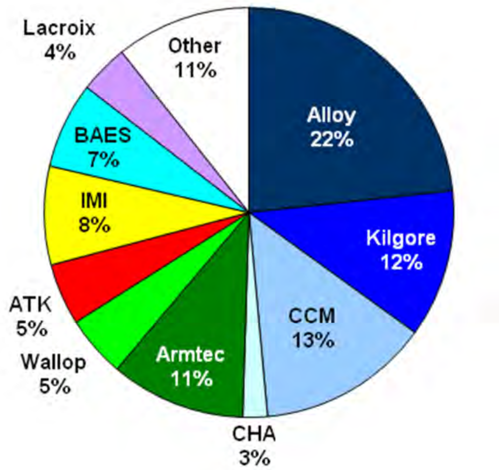
Total Market: £3bn

Chemring Revenue	H1 2011	H1 2010	Growth
Detect	£79m	£36m	**119%**
Defeat	£5m	£5m	**0%**
Disable	£12m	-	**-**

- **Detect**
  - ***Over 150 HMDS systems in theatre – over 60 staff providing operational support.***
  - ***280% increase in HMDS spares – 4,000th radar panel delivered.***
  - ***Production of 64 HMDS, ordered in January, starts in July – includes update to radar front-end.***
  - ***$5m US contract for integration of GPR onto Talon.***
  - ***Hand-held detectors undergoing trials in US & UK.***
- **Defeat**
  - ***Qualification of full range of demolition stores still underway with UK MoD.***
- **Disable**
  - ***Growth in Revenues from Roke acquisition.***

H1 2011 Countermeasures

Countermeasures Market



Total Market: £390m

Chemring Revenue	H1 2011	H1 2010	Growth
Fast Jet	£50m	£47m	**6%**
Helicopter/ Transport	£25m	£43m	-42%
Naval	£3m	£2m	**33%**
Land/EW	£12m	-	-

UK Countermeasures

- *23% growth in fast jet volumes driven by operations.*
- *33% growth in Naval revenues driven by funded development of new products.*
- *Typhoon volumes delayed by dispenser issues.*
- *Substantial volumes of man-portable electronic countermeasures delivered to UK Army.*

Kilgore Flares

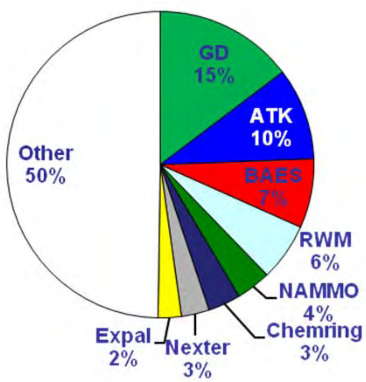
- *No production of F-16 decoy - £7m of revenues.*
- *200% growth in revenues from B-52 program.*
- *M212 flare production has started satisfactorily.*

Alloy Surfaces

- *Reduced demand for helicopter/transport decoys.*
- *US Budget delays push $35m+ of orders into H2.*
- *Consolidation into 2 facilities now underway.*

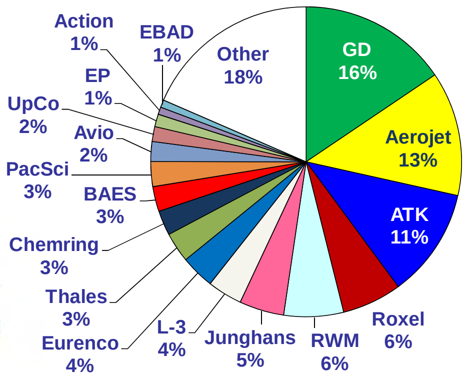
H1 2011 Munitions

Ammunition Market



Total Market: £4bn

Munition Components Market



Total Market: £2bn

Chemring Revenue	H1 2011	H1 2010	Growth
Naval	£5m	£2m	**150%**
Land	£52m	£28m	**86%**
Components	£28m	£24m	**17%**

Naval Ammunition

- *Increased deliveries to India, South America and Far East customers.*

Land Forces Ammunition

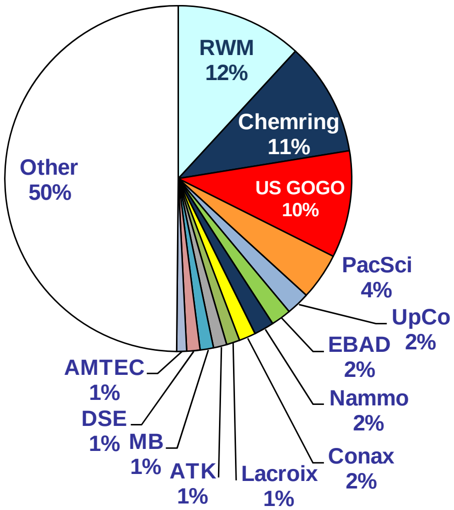
- *Deliveries to Middle East grew 300%.*
- *Strong demand for 40mm grenades, 90mm direct fire and 120mm indirect fire products.*
- *September incident stopped production at Mecar for first 4 months - only partial recovery by year end.*
- *Recent events in Middle East have created some market instability - mainly timing of orders.*

Components

- *Deliveries to UK prime contractors grew by 60%.*
- *Demand from US prime contractors remains steady.*
- *Increasing deliveries of fuze sub-systems to India.*

H1 2011 Pyrotechnics

Pyrotechnics Market



Total Market: £1.6bn

Chemring Revenue	H1 2011	H1 2010	Growth
Smoke/ Illumination	£39m	£45m	-13%
Training	£5m	£4m	**25%**
Safety Systems	£12m	£12m	-
Space	£3m	£8m	-62%

Smoke/Illumination

- *Deliveries of US 40mm pyrotechnic rounds are all H2 weighted - timing of new 5-year prime contracts.*
- *Demand for "black light" mortar rounds falling – new 105mm round starting to grow.*
- *Signal grenades up 140% and smoke grenades up 300% on delayed orders from last year.*

Training

- *M228 training grenade restarts production & hits production target of 20 units per minute.*
- *BES training cartridge production restarts in Florida.*

Safety Systems

- *Strong growth in US demand for impulse cartridges.*
- *US budget constraints delay usual CAD/PAD orders.*
- *First deliveries of JCAST test system to F-22 program.*

Space

- *Supply Chain issue at Hi-Shear delays deliveries to H2.*

Financial Highlights

£m	Interim 2011	Interim 2010	Increase	Final 2010
Order Book	937	651	44%	803
Revenue	330	256	29%	597
Operating Profit	58	52	10%	136
Interest	(8)	(10)	-	(19)
Profit Before Tax	50	42	17%	117
Earnings Per Share	20.8p	17.7p	18%	49.2p
Dividend Per share	4.0p	3.4p	18%	11.8p
Operating Cashflow	47	28	64%	126
Net Debt	198	260	-	308

All numbers are underlying measures, rounded to nearest £500K

- Continued strong growth
  - *PBT up 17% driven by 10% increase in EBIT and 20% decrease in funding costs*
- Lower funding costs
  - *Margins post refinancing*
  - *$ based interest*
  - *Interest cover 7x (2010: 5x)*
- Tax 26% (2010: 26%)
- Both EPS and DPS up 18%
- Operating cashflow up 64%
  - *81% converted from EBIT*
- Net debt 36% lower than year end
  - *Strong cashflow*
  - *Equity issue April 2011*

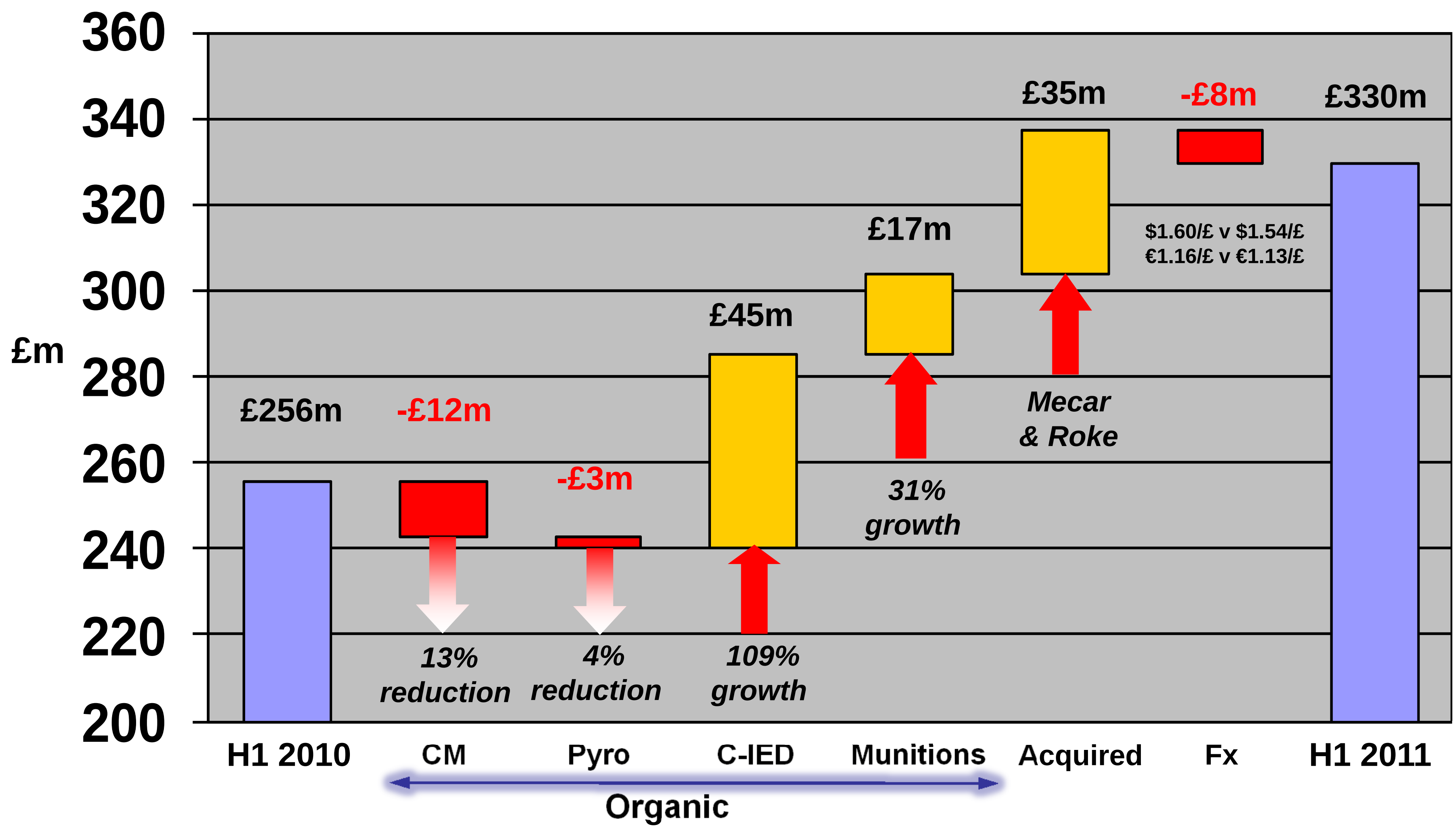
Revenue and Profit Analysis

£m	Interim 2011	Interim 2010	Increase
Revenue			
Organic	303	256	18%
Roke	24	-	-
Mecar	11	-	-
FX	(8)	-	-
Total	330	256	29%
Underlying Operating Profit			
Organic	67	58	16%
Roke	2	-	
Mecar	(1)	-	
FX	(2)	-	
Unallocated head office	(8)	(6)	
Total	58	52	10%

All numbers are underlying measures, rounded to nearest £500K

- Organic growth in revenue of 18%
- Organic growth in profit of 16%
  - *Slightly lower than revenue growth due to mix*
- Roke first half on track
- Mecar restarted slowly, small loss
- Unallocated central costs £8m (2010: £6m)
  - *LTIP £1.0m (2010: £1.4m)*
  - *Non-recurring costs*
    - £1.1m Alloy Plant 3 Closure
    - £1.8m Mecar restart costs
  - *Head office £4.5m (2010: £4.3m)*

Organic Growth of 18%



H1/H2 Weighting

Over last 6 years	H1	H2
2010 Revenue	43%	57%
2010 EBIT	39%	61%
Average Revenue	43%	57%
Average EBIT	38%	62%

- **2011 revenue expected to be more second half weighted**
  - ***FX headwinds in H1***
  - ***Restarts at Mecar & KFL***
  - ***Revenue from GD Detection Systems***
  - ***Operational gearing***

Margin Analysis

Countermeasures	H1 2011	H1 2010
Operating Profit	*21*	*24*
Operating Margin	*23%*	*27%*
Organic Operating Profit	**20**	**24**
Organic Operating Margin	**26%**	**27%**

- ***ASC revenue decline reduces margin***
- ***Full year guidance without Roke remains 27-30%***

Pyrotechnics	H1 2011	H1 2010
Operating Profit	**12**	**13**
Operating Margin	**20%**	**19%**

- ***Small change in margin due to product mix***
- ***Full year guidance remains 22-24%***

Counter IED	H1 2011	H1 2010
Operating Profit	*20*	*10*
Operating Margin	*21%*	*24%*
Organic Operating Profit	**19**	**10**
Organic Operating Margin	**23%**	**24%**

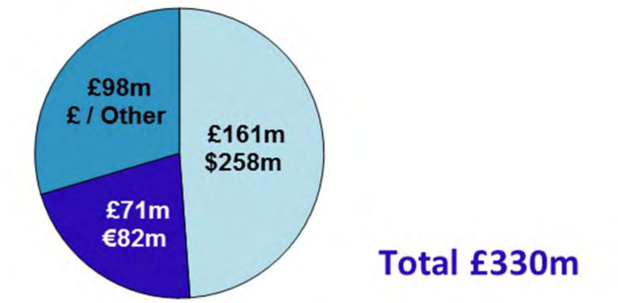
- ***Pricing pressure on Niitek***
- ***Full year cost savings at CEOD will be £1.5m***
- ***Full Year guidance without Roke 22-24%***

Munitions	H1 2011	H1 2010
Operating Profit	*13*	*11*
Operating Margin	*16%*	*20%*
Organic Operating Profit	**14**	**11**
Organic Operating Margin	**19%**	**20%**

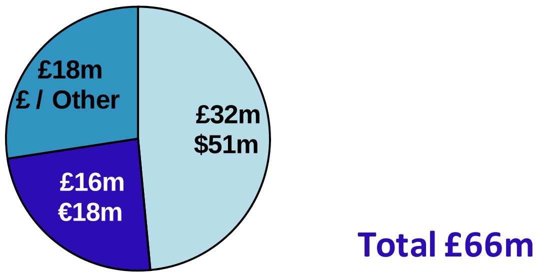
- ***Mix of prime vs subsystems/components***
- ***Mecar expected to return to profitability in H2***
- ***Full year guidance without Mecar remains 18-20%***

Foreign Currency – Translation Headwind in H1

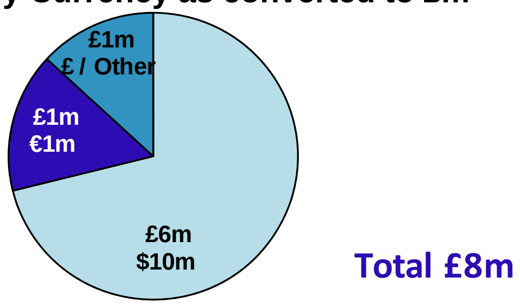
Revenue by Currency as converted to £m



Divisional EBIT by Currency as converted to £m



Interest by Currency as converted to £m



- **Headwind in $ and € in H1**
  - ***$ rate depreciation 4% 2011: 1.60 (2010: 1.54)***
  - ***€ rate depreciation 3% 2011: 1.16 (2010: 1.13)***
    - ***£8m reduction in revenue***
    - ***£2m reduction in EBIT***
    - ***1p reduction in EPS***
- **Interest 75% US$ denominated**
- **Weak $ does benefit debt - £8m reduction at April 2011**
- **Continued $ weakness in H2 will adversely impact revenue & EBIT**

Balance Sheet

£m	Interim 2011	Interim 2010
Goodwill	227	208
Acquired Intangibles	167	131
Tangible Assets	208	154
Other Net Assets	117	107
Tax	(50)	(26)
Pension Deficit	(22)	(30)
Gross Debt	(378)	(332)
Cash	180	72
Net Debt	(198)	(260)
Shareholders' Funds	449	284
Gearing	44%	92%

- **Goodwill and intangible increases**
  - *Roke and Mecar acquisitions H2 2010*
- **£20m tangible asset spend in H1 2011**
  - *UK & Australia CM production facilities*
    - *commissioning Q3 & Q4*
    - *production in Q1 2012*
  - *2011 capital estimate £40m (2010: £41m)*
- **Cash increased due to strong operating cashflow and equity issuance April 2011**
  - *9.8% issuance raised £112m*
  - *Average issued shares*
    - *2011 - 186m*
    - *2012 - 194m*

Cash Flow

£m	Interim 2011	Interim 2010
Operating Cash Flow	47	28
Operating Cash conversion from EBIT	81 %	54 %
Tax	(4)	(12)
Capital spend	(24)	(22)
Cash Flow from Operating Activities	19	(6)
Interest	(9)	(6)
Dividends	(15)	(13)
Net acquisitions spend	-	(92)
Purchase of own shares	-	(2)

- **Operating cash flow up 64%**
  - ***Strong H1 operating cash conversion 81%***
  - ***Full year target 90%+ conversion from EBIT***
- **Positive cashflow from operating activities**
  - ***Tax low due to timing of payments on account***
  - ***Continued focus on investing for the future***
    - ***2 major capital projects continuing and expected to complete by year end***

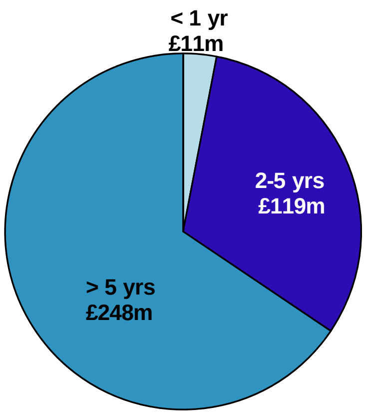
Cash & Debt

COVENANTS	Minimum	Actual
Interest cover to EBITDA*	4	9
Debt: EBITDA	3	1.3

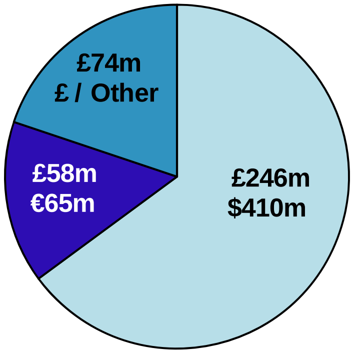
* Covenants tested on historic rolling 12 months

- Strong covenant compliance continues
- £200m+ Headroom on core facilities
  - *Re-finance in January 2011 provides bank facilities to April 2015*
  - *£112m equity issuance April 2011*
- Average debt profile 6 years
- Average cost of debt 5% (2010: 6%)

Gross Debt Profile £378m



Analysis of Debt in Local Currency



DEBT SUMMARY	£m
Gross Debt	378
Cash	(180)
Net Debt	198
Gearing	44%

Counter-IED Outlook

Chemring Order Book	H1 2011	H1 2010	Growth
US	£29m	£13m	**123%**
UK	£17m	£8m	**113%**
EU	£3m	-	**-**
ME	-	-	**-**
FE	£7m	£5m	**40%**
Total	**£56m**	**£26m**	**115%**

Chemring Order Book	H1 2011	H1 2010	Growth
Detect	£32m	£16m	**100%**
Defeat	£13m	£10m	**30%**
Disable	£11m	-	**-**
Total	**£56m**	**£26m**	**115%**

Detect

- *Good feedback from customers on HMDS performance and growing interest from NATO countries.*
- *New multi-year sustainment contract for all 200+ HMDS systems expected in early 2012.*
- *Next generation, multi-sensor system will be procured as multi-year competitive contract in late 2012.*
- *New ROV-based system expected to start operational evaluation in 2012.*
- *Growing demand for advanced hand-held detectors*
  - US FY2011 OCO budget allocates $75m of funding

Defeat

- *Global demand growing as qualification of IM products nears completion in H2.*
- *New contract for US Anti-Personnel Obstacle Breaching System (APOBS) worth over $150m over three years.*

Disable

- *Significant UK requirements expected in H2.*

GD Detection Systems

JBPDS

JSLSCAD

JBTDS

JUNO

- **Detection Systems brings strong capabilities in chemical, biological and stand-off explosives detection**
  - ***Strong incumbent position on JBPDS, JSLSCAD and JBTDS***
  - ***Exportable, hand-held Juno chemical detector***
  - ***Hyper-spectral imaging stand-off explosives and disturbed earth detection***
- **Detection Systems provides access to the broader US C-IED market**
  - ***It provides a platform to deliver Roke-developed jammer technology to the US , having delivered over $1bn worth of C-IED jammers in the past***
  - ***It provides a complementary route to the US customers and upgrade potential for Group products such as Vehiclescan and other detection technologies***
- **There is a strong opportunity for growth**
  - ***Current programmes (JBPDS, JSLSCAD and JBTDS) set to grow to $100m p.a.***
  - ***Lightguard Entry Control Point responds to a JUONS and adds $300m of opportunity***
  - ***Juno exports and homeland security sales***
  - ***Hyper-spectral imaging enhancement to HMDS***
- **Acquired for $90m (£55m) – equity financed**
  - ***FY2010 revenue $61m, EBIT $8m***
  - ***Order book $63m***

Countermeasures Outlook

Chemring Order Book	H1 2011	H1 2010	Growth
US	£126m	£163m	-23%
UK	£37m	£41m	-10%
EU	£7m	£5m	**40%**
ME	-	-	**-**
FE	£73m	£70m	**4%**
Total	**£243m**	**£279m**	-13%

Chemring Order Book	H1 2011	H1 2010	Growth
Fast Jet	£158m	£166m	-5%
Helicopter/ Transport	£65m	£110m	-41%
Naval	£9m	£3m	**200%**
Land/EW	£11m	-	**-**
Total	**£243m**	**279m**	-13%

UK Countermeasures

- ***Growing emphasis on fast jet countermeasures.***
- ***Centurion launcher now scheduled for sea trials on UK Type 45 destroyer in summer 2012.***
- ***Growing export interest in Resolve.***

Kilgore Flares

- ***Strong order book underwrites 2012.***
- ***F-16 decoy production restarts for FY2012.***
- ***JSF flares now in low rate initial production but strong growth predicted over next 5-year period.***
- ***Growing interest in naval countermeasures from US.***

Alloy Surfaces

- ***Helicopter & transport demand falling in line with phased withdrawal from Afghanistan over next 3 years.***

Munitions Outlook

Chemring Order BookTotal	H1 2011	H1 2010	Growth
US	£27m	£25m	**8%**
UK	£20m	£19m	**5%**
EU	£74m	£61m	**21%**
ME	£306m	£33m	**827%**
FE	£61m	£12m	**408%**
Total	**£488m**	**£150m**	**225%**

Chemring Order Book	H1 2011	H1 2010	Growth
Naval	£24m	£18m	**33%**
Land	£383m	£49m	**682%**
Components	£81m	£83m	**-2%**
Total	**£488m**	**£150m**	**225%**

Naval Ammunition

- ***Strong global demand for 76mm naval rounds.***
- ***French production contract for new IM 76mm round now expected in H2 2011.***

Land Forces Ammunition

- ***Huge growth in order book to Middle East.***
- ***Strong demand for 90mm Mk8 ammunition from Middle East & South America.***
- ***Growing demand for medium calibre ammunition from India, Turkey & Middle East.***

Components

- ***Full development of US 25mm Individual Airburst Weapon System awarded to Prime.***
- ***US & European Prime Contractors looking for reliable, high technology supply chain partners for propellants, rocket motors, warheads and fuzes.***

Pyrotechnics Outlook

Chemring Order Book	H1 2011	H1 2010	Growth
US	£53m	£65m	-18%
UK	£66m	£97m	-32%
EU	£8m	£11m	-27%
ME	£2m	£1m	100%
FE	£21m	£22m	-5%
Total	**£150m**	**£196m**	**-23%**

Chemring Order Book	H1 2011	H1 2010	Growth
Smoke/ Illumination	£106m	£152m	-30%
Training	£13m	£11m	18%
Safety Systems	£24m	£20m	20%
Space	£7m	£13m	-46%
Total	**£150m**	**£196m**	**-23%**

- **Smoke/Illumination**
  - *US 40mm pyrotechnic rounds orders scheduled for H2.*
  - *Demand for 81mm illumination rounds down 20% in anticipation of phased withdrawal from Afghanistan.*
  - *Development of air-launched "black light" products underway in UK & US.*
- **Training**
  - *Training grenade & BES production has resumed.*
  - *New MANPAD simulator under development for US.*
  - *New US 40mm training round competition in 2012.*
- **Safety Systems**
  - *US demand buoyant in spite of delays caused by recent budget deficit reduction issues.*
  - *Initial production order for F-22 thermal battery.*
- **Space**
  - *Orders delayed into H2.*

Summary

- **Good growth in revenue & profits**
  - ***Organic growth of 18% in revenue.***
  - ***17% increase in PBT.***
  - ***Interim dividend up 18% to 4.0p.***
- **Counter-IED now largest segment**
  - ***Tremendous performance from Niitek - up 122% on last year.***
  - ***Acquisition of GD Detection Systems will boost H2 and 2012.***
- **Non-NATO customers account for 25% of revenues**
  - ***Substantial growth from Middle East underway.***
  - ***India & Brazil poised for substantial growth in the future.***
  - ***Joint Venture with Hinduja Group announced.***
- **Countermeasures & Pyrotechnics subdued in H1**
  - ***Countermeasures expected to grow in full year.***
  - ***Pyrotechnics expected to be flat.***
- **Outlook for the future continues to look good**
  - ***Order book today a new record high of £988 million.***

Half Year Results to 30 April 2011












CHEMRING GROUP PLC