Half Year Results to 30 April 2012

Peter Hickson – Chairman

David Price – Chief Executive

Paul Rayner – Finance Director

Counter-IED

Countermeasures

Munitions

Pyrotechnics

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Summary
Dr David Price – Chief Executive


Counter-IED


Countermeasures


Munitions


Pyrotechnics

Results Summary

- **Revenue up 4% to £333m**
  - ***Non-NATO revenue up 31% - now 30% of Group***
- **NIITEK revenues heavily second-half weighted**
  - **First half operating margins significantly reduced**
- **Operating margins reduced to 15%**
  - **Second half margins recover with Niitek revenues**
- **Record order book of £1 billion**
  - ***14% up on October 2011***
  - ***94% cover for the financial year***
- **Dividend increased by 33% to 5.3p**
- **Full year expectations unchanged**

Chemring Group

Financial Review
Paul Rayner – Finance Director


Counter-IED


Countermeasures


Munitions

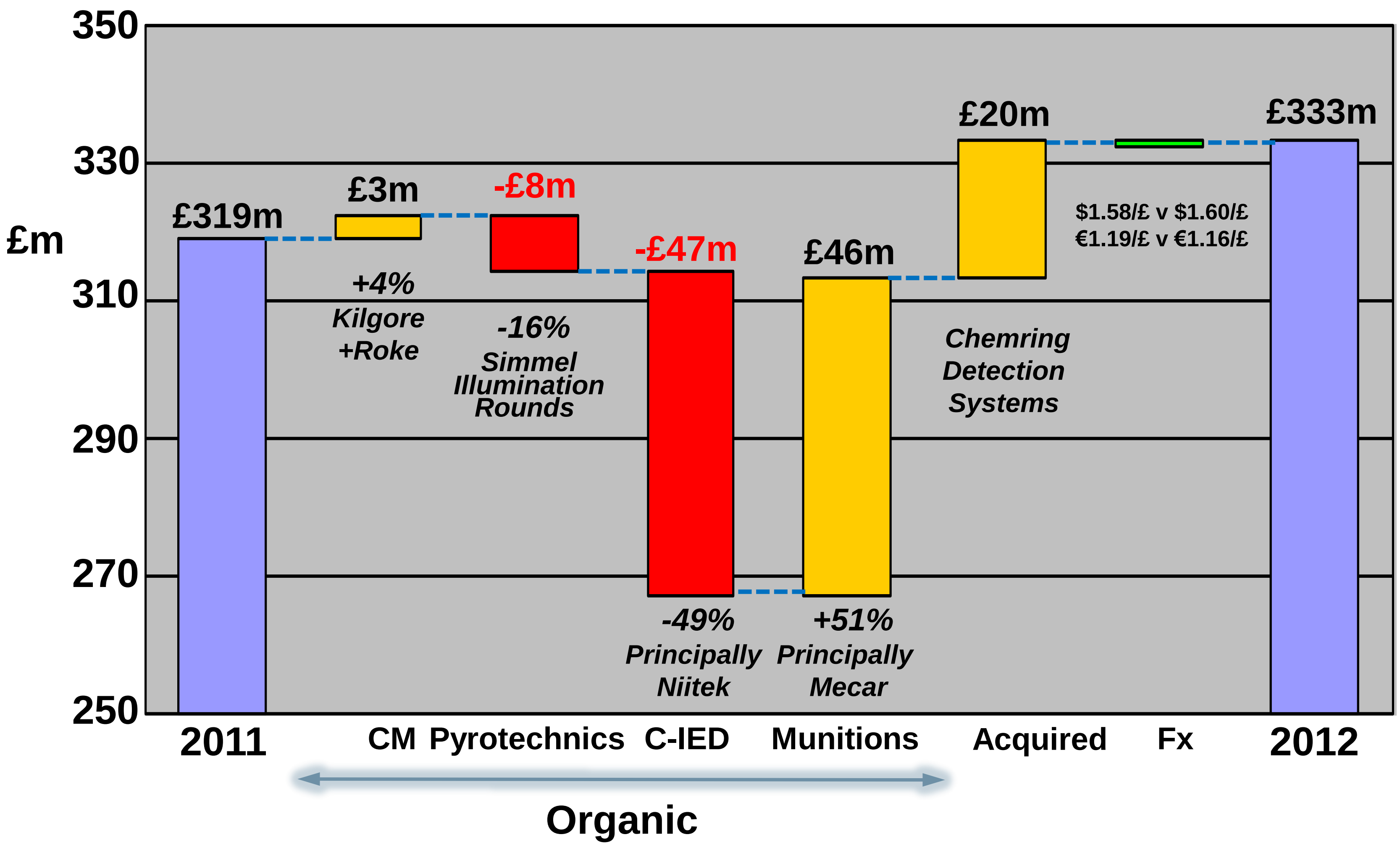

Pyrotechnics

Interim Results 2012

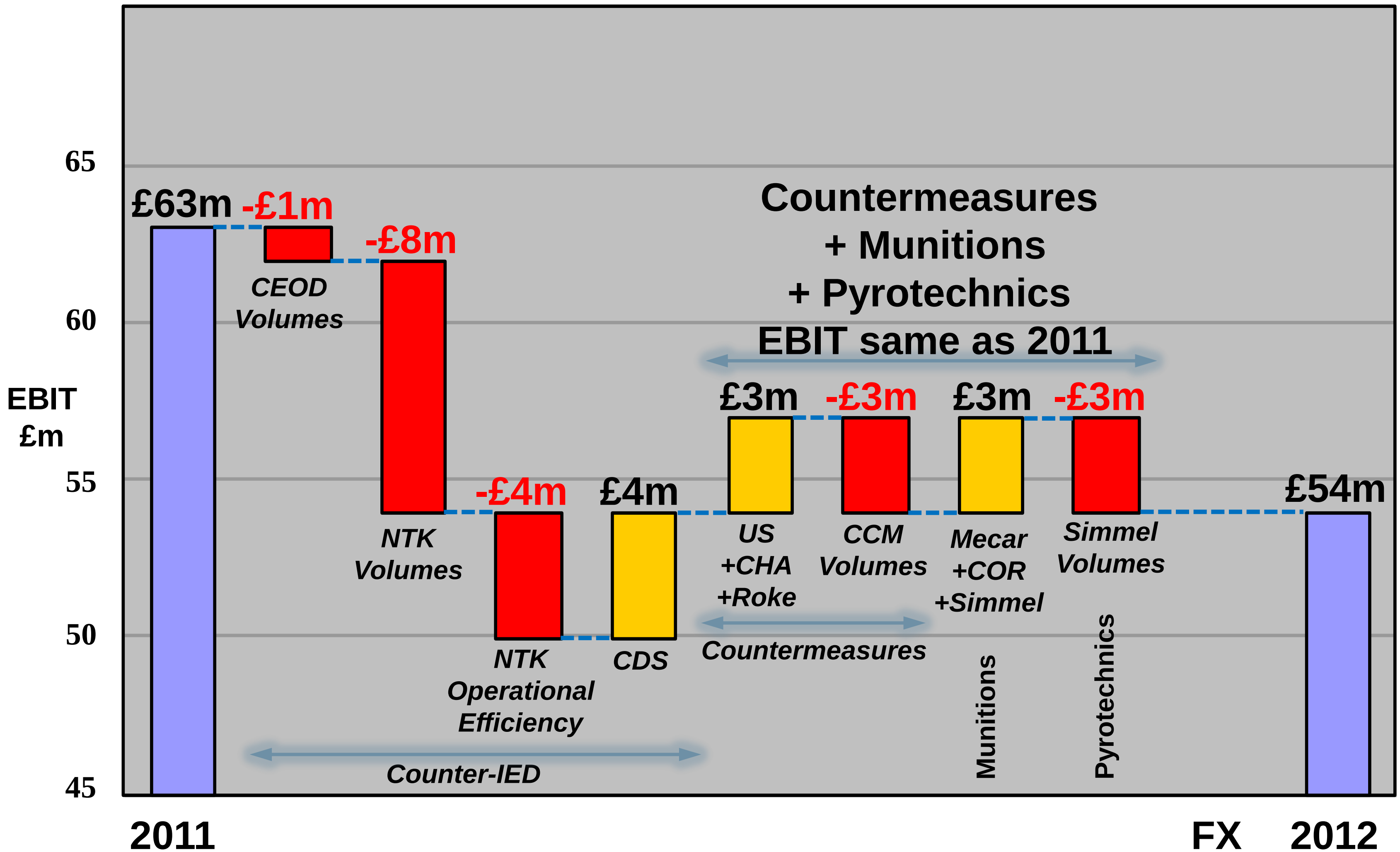
£m	HY2012	HY2011	Change	FY2011
Revenue	**333**	319	**+4%**	**724**
Operating profit	**49**	58	**-16%**	**136**
Margin%	**15**	18	**(3pts)**	**19**
Underlying PBT	**39**	50	**-21%**	**120**
Underlying EPS(p)	**16**	21	**-23%**	**50**
Dividend (pps)	**5.3p**	4.0p	**+33%**	**14.8p**

Note - excludes results of Marine interests

Revenue Bridge



Divisional EBIT Bridge



Counter-IED

Revenue

⇩ (27)% **£70m**

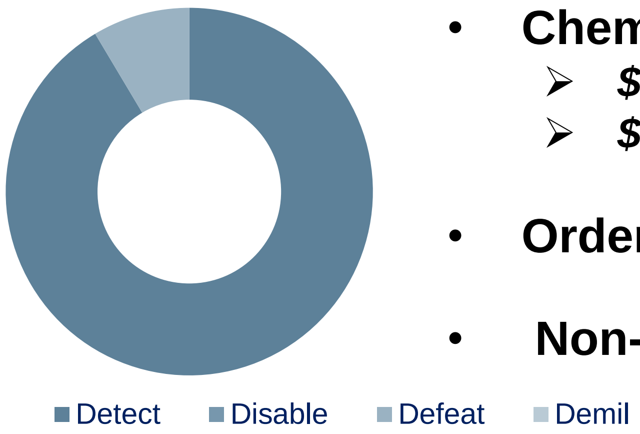
Operating Profit

⇩ (44)% **£11m**

Operating Margin

⇩ 5pts **16%**

Revenue Breakdown



- **NIITEK revenues fell 45% due to delay in multi-year, HMDS support contract**
  - ***$579m multi-year, IDIQ contract awarded 30th April***
  - ***$161m initial order provides full coverage for year***
  - ***Higher second-half revenues – similar to H1 2011***
- **NIITEK H1 margins low due to reduced volumes/ efficiency**
  - **Second half weighting improves operational gearing**
  - **Reduction of 44 staff in Q1 – H2 costs down $1m**
- **Chemring Detection Systems trading ahead of budget**
  - ***$49m order for JBPDS systems awarded in Q2***
  - ***$29m order for JSLSCAD systems awarded in Q2***
- **Order book at £249m up 343% on April 2011**
- **Non-NATO revenues of demolition stores up 55%**

Countermeasures

Revenue

⇧ 4% **£94m**

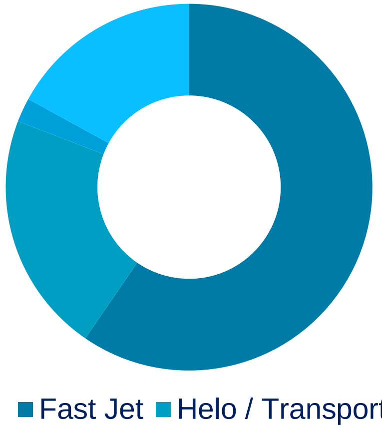
Operating Profit

⇧ 1% **£21m**

Operating Margin

⇩ 1pt **22%**

Revenue Breakdown



- **Revenue growth from combat aircraft flares offset by expected reduction in helicopter and transport aircraft production**
- **Kilgore production at record levels, driven by decoys for B-52 & F-22 aircraft**
- **Next low rate production contract for F-35 Joint Strike Fighter received**
- **Roke revenues up 10%**
- **Operating margin slightly lower as further restructuring takes place**
  - ***Reduction of 70 staff at CCM***
  - ***Reduction of 59 staff at Alloy***
  - ***£1.75m cost benefit in second half***

Munitions

Revenue

⇧ 51% **£129m**

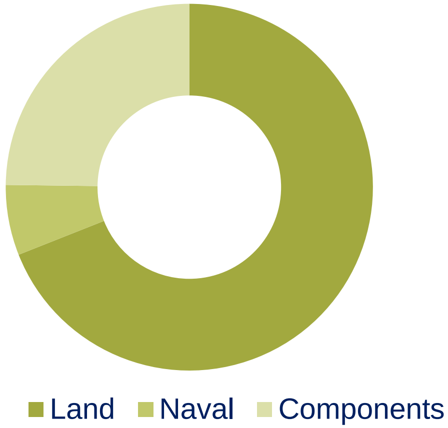
Operating Profit

⇧ 27% **£17m**

Operating Margin

⇩ 3pts **13%**

Revenue Breakdown



- **Strong growth at Mecar, Simmel & Chemring Ordnance**
  - ***Mecar revenue £62m (2011: £12m)***
- **Strong growth in 25mm, 90mm, 105mm & 120mm ammunition with revenues up 72% to £89.6m**
- **Naval Ammunition sales up 48%, principally driven by sales of 76mm naval rounds**
- **Revenues from components & sub-systems grew 14%**
- **45% growth in non-NATO revenue**
- **Margin down due to full half impact of lower margin Mecar business**

Pyrotechnics

Revenue

⇩ (16)% **£41m**

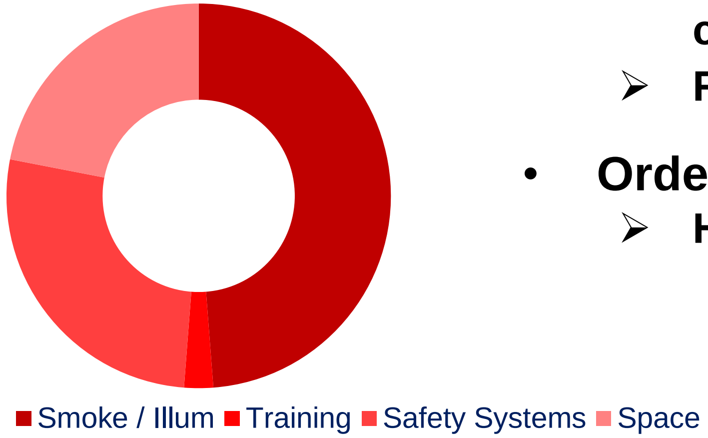
Operating Profit

⇩ (42)% **£5m**

Operating Margin

⇩ 5pts **13%**

Revenue Breakdown



- **Hi-Shear revenues grew 59% with increased deliveries of igniters, ESAF & separation systems**
- **Competition for multi-year supply of battlefield effects training systems so revenues down on previous year**
- **Fuze supply chain problem limits deliveries of 81mm illumination mortar rounds in H1**
  - **Erosion of margin through volume & efficiency changes**
  - **Recovery in H2 with new production batches**
- **Order book up 23% on April 2011**
  - **H2 revenues expected to be higher than H1**

Cash Flow

£m	H1 2012	H1 2011	Final 2011
Operating Cash Flow	**18**	**50**	**125**
Tax	(4)	(4)	(17)
Capital spend	(22)	(24)	(62)
Interest	(10)	(9)	(18)
Free cashflow	**(18)**	**13**	**28**
Dividends	(21)	(15)	(23)
Net acquisitions spend	-	-	(58)
Purchase of own shares	(5)	-	(2)

- Operating cash down on 2011
  - £15m Niitek cash outflow
  - £28m receipts into Q3
- Cash conversion expected to be >100%
  - 5 year average 93%
- Capital spend reduced to £22m (2011:£24m)
  - Guidance for FY2012 c. £40m (2011: £62m)
- Dividend increase on 2011
- Purchase of 1.2m of treasury shares

Balance Sheet

£m	H1 2012	H1 2011	Final 2011
Goodwill	**237**	223	240
Acquired Intangibles	**179**	167	192
Tangible Assets	**235**	207	230
Working Capital	**188**	132	150
Marine Asset held for Sale	**17**	17	16
Tax and other provisions	**(63)**	(77)	(65)
Pension Deficit	**(27)**	(22)	(25)
Gross Debt	**(351)**	(378)	(355)
Cash	**40**	180	92
Net Debt	**(311)**	(198)	(263)
Shareholders' Funds	**455**	449	475

- No acquisitions in the period
- Depreciation and amortisation £12m (2011: £10m)
  - ➢ Guidance for FY12 c£24m (2011: £20m)
- Working capital outflow
- Marine asset held for sale
- Net debt 2 times EBITDA at April
  - ➢ Significant reduction anticipated in H2

Working Capital

Working Capital	H1 2012 £m	FY 2011 £m	Change £m
Inventory	113	142	(29)
Trade receivables	191	161	30
Trade payables	(75)	(104)	29
Advance payments	(41)	(49)	8
Net Working Capital	**188**	**150**	**38**
LTM Revenue	738	724	
Working Capital Days	**93**	**76**	**17**

- Active reduction in inventory despite build up of long lead items for NIITEK contract
- £28m increase in receivables relating to Middle East and naval customers
- Unwinding of trade creditors which supported 2011 high Q4
- Targeting no more than 70 days at full year

Chemring Group

Full Year Review
David Price – Chief Executive Officer


Counter-IED


Countermeasures


Munitions


Pyrotechnics

Revenue and Order Dynamics

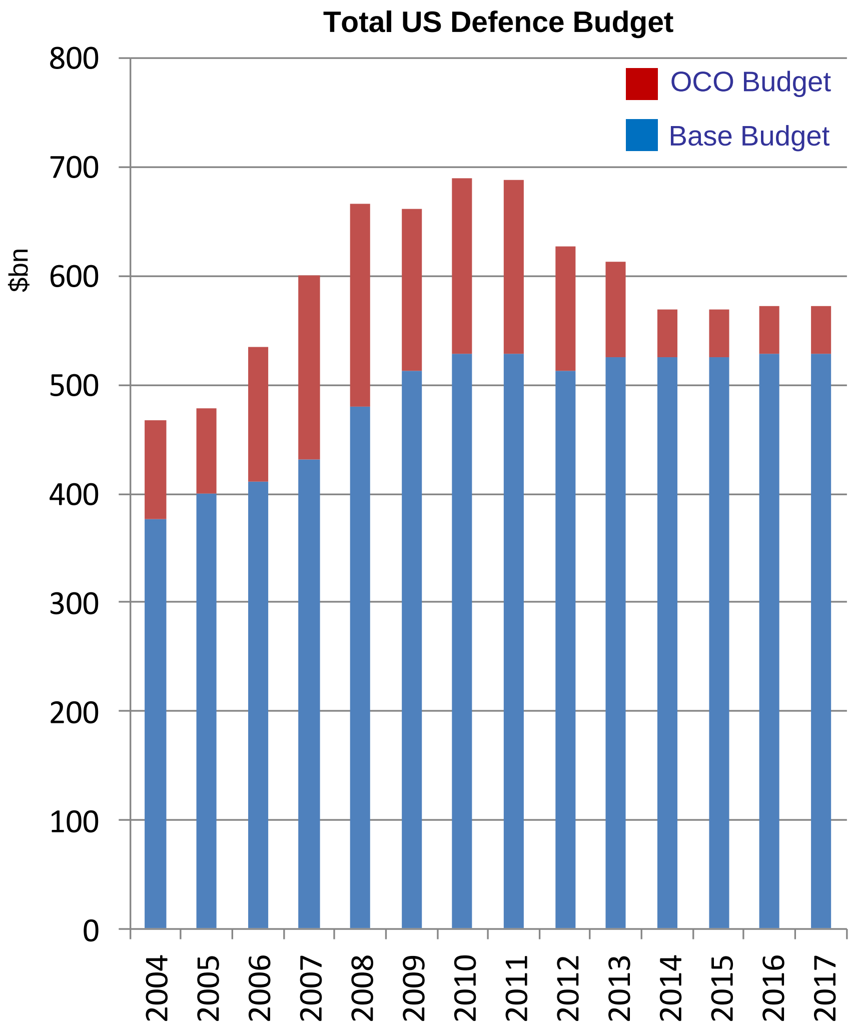
	Revenue £m			Order Book £m		
	H1 2012	H1 2011	Growth %	H1 2012	H1 2011	Growth %
Countermeasures	93.6	89.6	+4.4	227.8	242.5	-6.1
Counter-IED	69.9	95.7	-27.0	248.7	56.2	+342.5
Munitions	129.1	85.4	+51.2	341.2	488.2	-30.1
Pyrotechnics	40.7	48.6	-16.3	182.9	148.6	+23.1
Total	£333.3m	£319.3m	+4.4%	£1,000.6m	£935.5m	+7.0%

- Each segment is demonstrating volatility due to timing of orders
- The different segments have their own market dynamics:
  - Countermeasures: growth in combat aircraft flares slowing & reduction in flares for helicopter/transport aircraft starting to bottom out
  - Counter-IED: US orders, particularly Niitek ones, delayed to end of H1 but HMDS contract award boosts growth over next 6 to 12 month period
  - Munitions: Growth driven by non-NATO market with variability of order timing and “lumpy” characteristics
  - Pyrotechnics: revenues have bottomed out and will grow in H2

H2 Performance

- **NIITEK will generate much higher revenues & margins**
  - **Firm order cover for second half revenues in excess of those achieved in the first half of 2011**
  - **Increased operational gearing from increased volumes and £0.8 million of cost savings from the first half reduction in staff should generate a higher full year operating margin than 2011**
- **CCM will generate higher revenues & margins**
  - **Production of spectral flares has restarted and naval round production will restart shortly**
  - **Increased operational gearing from increased volumes and £1 million of cost savings from the first half reduction in staff should generate higher operating margin in H2**
- **Simmel will generate higher revenues & margins**
  - **Replacement batches of fuze sub-systems will be delivered shortly and production of pyrotechnic rounds will commence in H2**
  - **18% growth in the order book for naval ammunition will increase production of 76mm rounds and substantially increase second half revenues**
- **Strong focus on improved cash flow and working capital in Q3**
  - **>100% operating cash conversion in full year**
- **The Group's order book is £1 billion, with 94% coverage for full year**
- **Trading in May was over 50% higher than last year**

US Market Conditions



2012

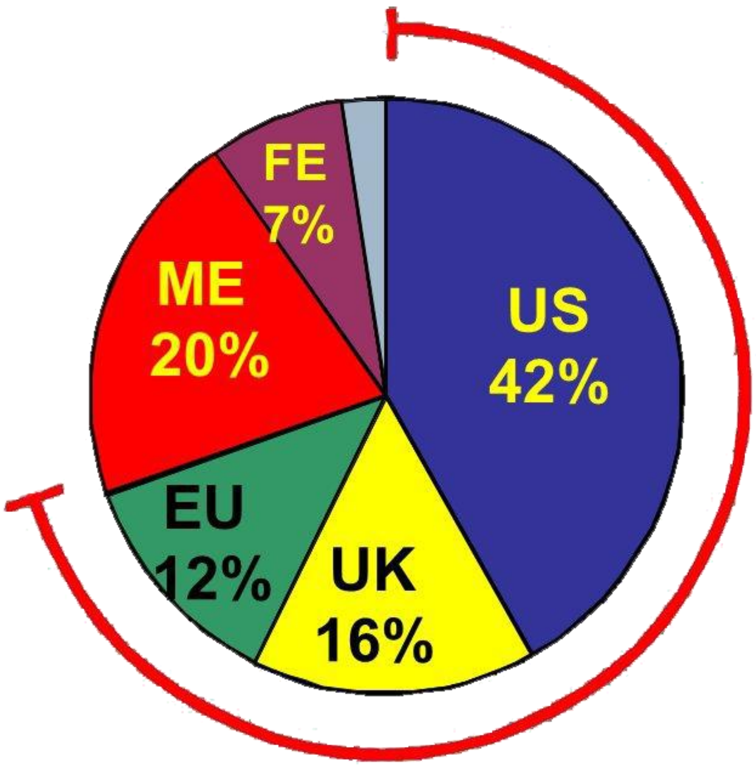
- Continuing Resolution disrupted procurement
- Orders now placed in Q2 and Q3
- Order book up 69% to £397m

2013

- FY 2013 likely to be $525bn plus $89bn OCO
- Six month CR assumed because of presidential election in November 2012
- Sequestration could reduce 2013 budget by more than $50bn – 10% "haircut"
- Sequestration now covers OCO with significant political consequences
- 90-day delay to sequestration would defer decision to new President

Non-NATO revenues – up 31% over last year

H1 2012 Revenue £333m



NATO 70%

Non-NATO Revenues up 31%
Middle East – up 47%
Far East – up 11%
Rest of World – up 1%

- **Middle East**
  - *JV agreement to be signed in Q3*
- **Far East**
  - *India services JV signed & located in Delhi*
  - *Manufacturing JV still awaits Indian government approvals*
- **South America**
  - *Strategic defence companies have 40% foreign investment limit*
  - *On target to sign JV in 2012*

Summary

- **Growth in revenues despite difficult US market**
- **Order book up 7% to record level**
- **Non-NATO revenues grew 31%, now 30% of Group**
- **Margins recover in H2**
- **Dividend up 33% to 5.3 pence**
- **Visibility of US market remains uncertain**
  - **US revenue growth for 2013 expected to be flat**

Full year expectations unchanged

Appendix

Counter-IED

Countermeasures

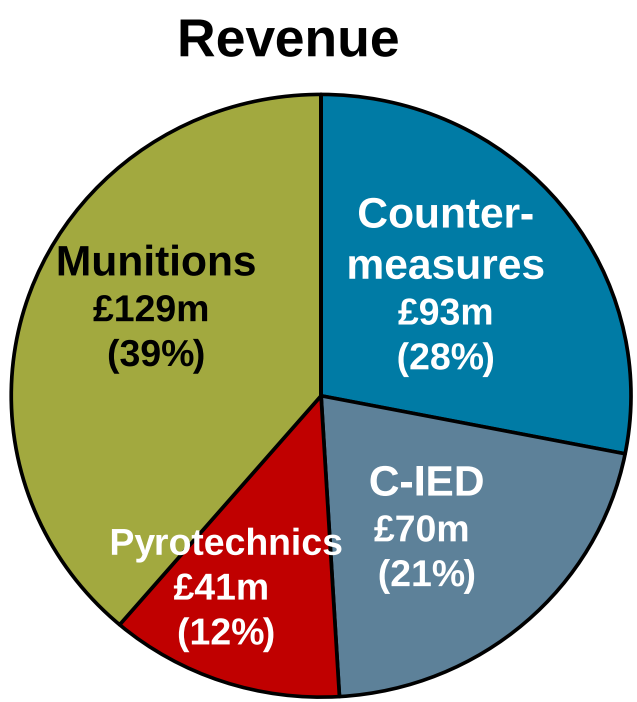
Munitions

Pyrotechnics

H1/H2 2011

	H1		H2	
	Revenue	EBIT	Revenue	EBIT
Countermeasures	£90m	23%	£111m	23%
Counter-IED	£96m	21%	£72m	17%
Munitions	£85m	16%	£152m	18%
Pyrotechnics	£49m	18%	£70m	25%
	£319m	20%	£405m	20%

Segmental Analysis

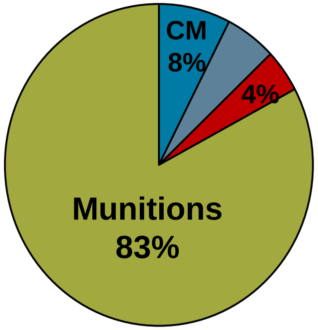


H1 2012 Revenues - £333m

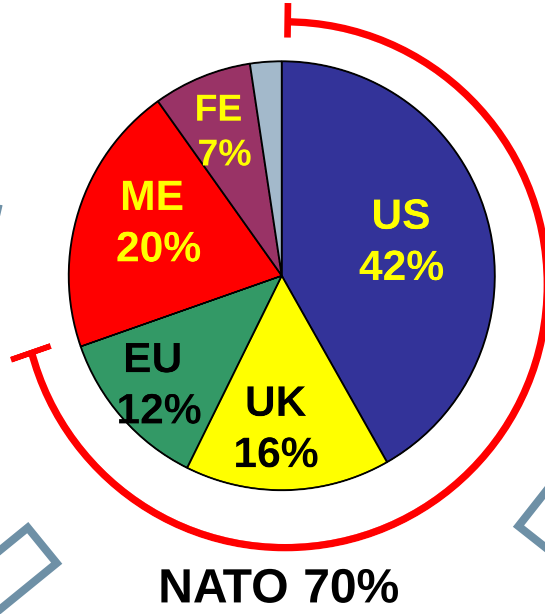
Revenues	H1 2012	H1 2011	Growth
Counter-IED	£70m	£96m	-27%
Countermeasures	£93m	£89m	+4%
Munitions	£129m	£85m	+51%
Pyrotechnics	£41m	£49m	-16%
Total	£333m	£319m	+4%

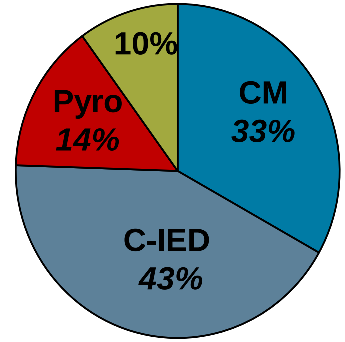
Order Book	H1 2012	H1 2011	Growth
Counter-IED	**£249m**	**£56m**	**+343%**
Countermeasures	**£228m**	**£243m**	**-6%**
Munitions	**£341m**	**£488m**	**-30%**
Pyrotechnics	**£183m**	**£149m**	**+23%**
Total	**£1,001m**	**£936m**	**+7%**

Regional Analysis



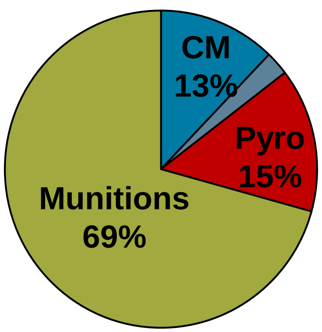
H1 2012 Revenue £333m





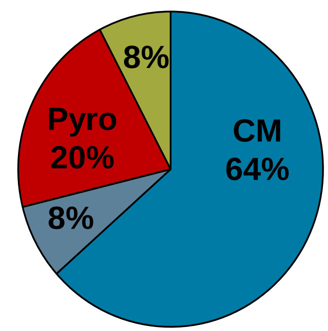
ME/FE – up 35%
Pyro – up 60%
Munitions – up 43%
CM – down 22%

US – down 11%
Pyro - up 13%
CM – down 1%
C-IED – down 24%



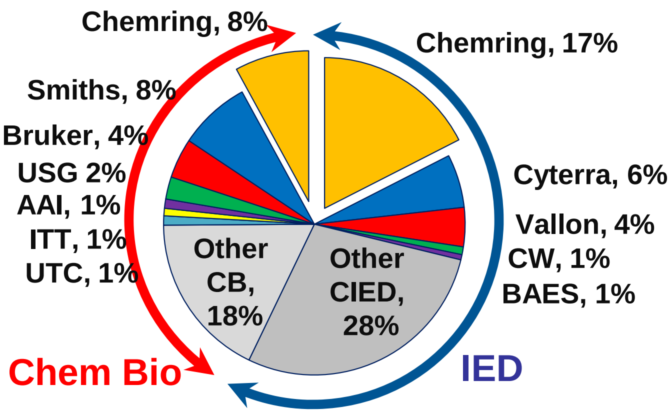
EU – up 83%
Munitions – up 164%
CM – up 16%
Pyro – up 11%

UK – down 18%
CM – up 32%
Pyro – down 52%
C-IED – down 67%

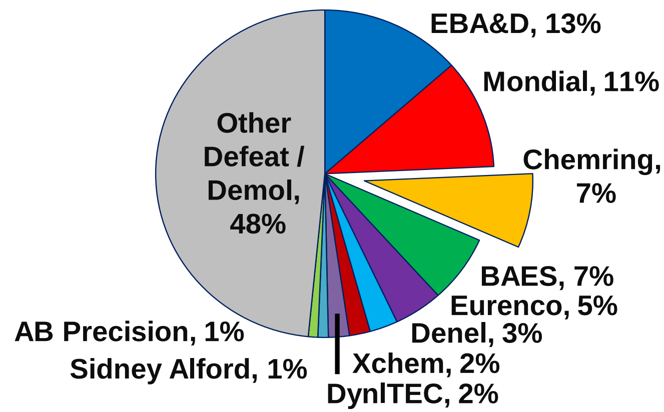


Counter-IED Market

Detect – £700m

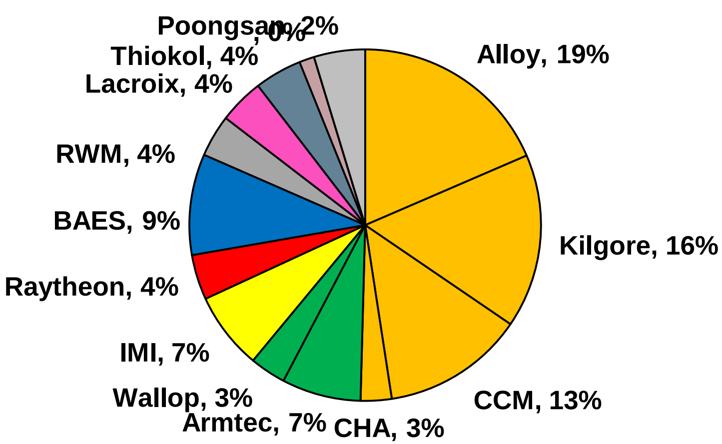


Defeat £300m

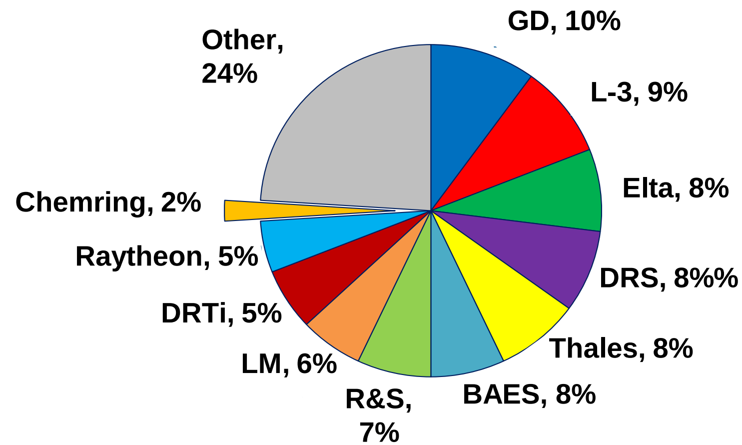


Countermeasures Market

Expendables – £360m

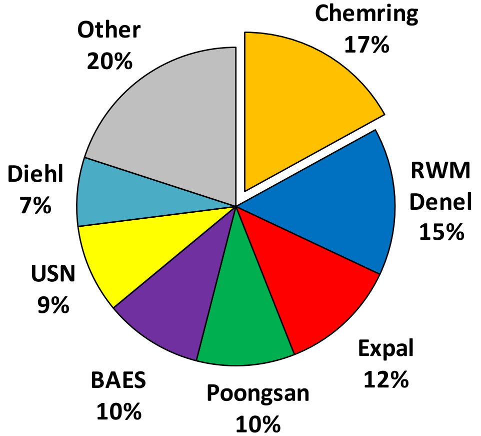


Land EW – £280m

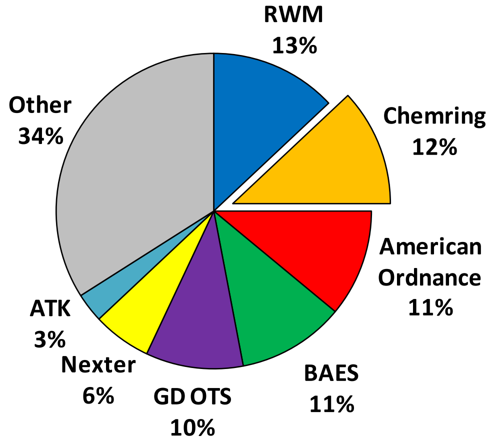


Munitions Market

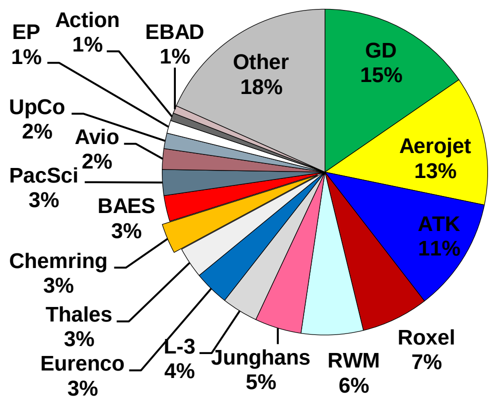
Naval Ammunition – £150m



LAV Ammunition – £300m

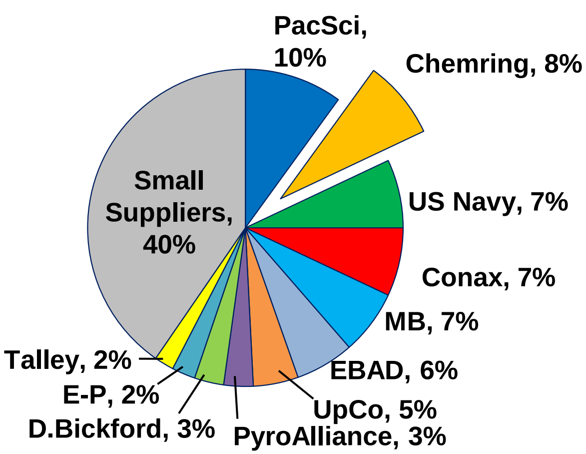


Components – £2bn

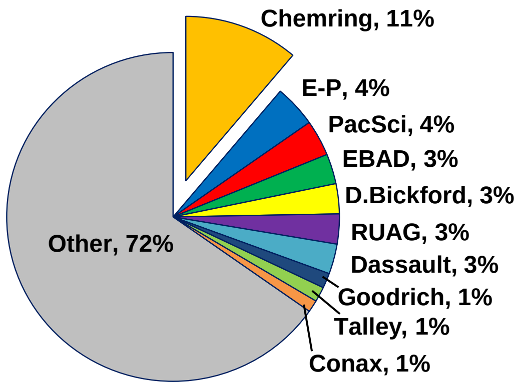


Pyrotechnics Market

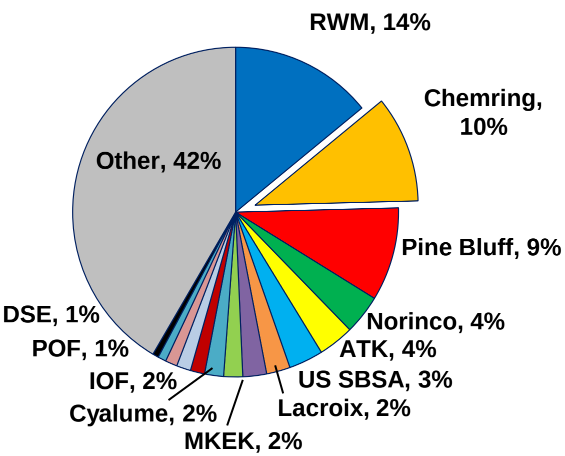
Safety Systems – £290m



Space – £180m



Smoke & Illum – £850m



Sale of Marine Interests

£m	H1 2012	H1 2011	Final 2011
Revenue	**10.8**	10.5	**21.2**
Operating Profit	**2.6**	2.9	**6.0**
EPS	**0.8**	1.1	**2.1**

- Sold post period to Drew Marine
  - *Consideration £32m- completion expected end of July 2012*
  - *Proceeds to reduce pension deficit, reduce net debt and initiate share buyback*
  - *Prior to sale restructuring required in four jurisdictions to make available for sale*

Non Underlying Items

£m	H1 2012	H1 2011	Final 2011
Acquisition related costs	2.7	1.6	5.7
Restructuring and incident costs	4.9	2.9	7.2
Intangible amortisation arising on business combinations	10.2	11.5	24.3
Loss/(gain) on fair value movements on derivatives	1.7	(5.2)	(2.4)
Total non underlying	**19.5**	**10.8**	**34.8**

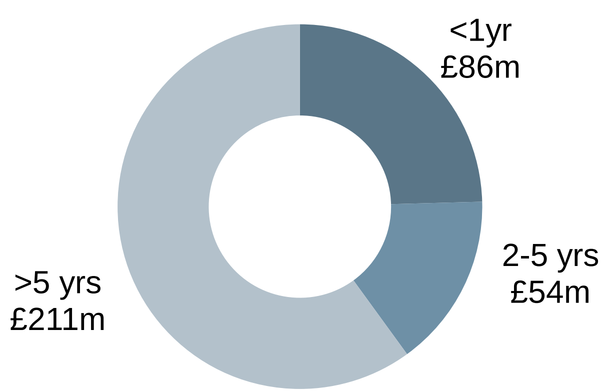
- Acquisition related costs in 2012 largely relate to costs of establishing JV's in India, Brazil and Saudi Arabia – expensed to income statement – IFRS3. Previously would have been capitalised as part of investment
- Restructuring in 2012 relates to closure of plants at Alloy, NIITEK, Chemring Energetics (Corsham)
- Intangible amortisation is treated as non-underlying in line with our peer group, with the amortisation being required as a result of IFRS3
- Loss/(gain) on fair value movements on derivatives is removed from underlying due to FX volatility, which is consistent with our peers

Cash & Debt

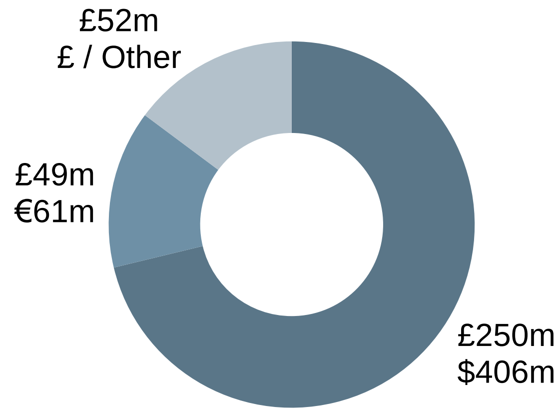
	Covenant	Actual
Interest cover to EBITDA	Minimum 4x	9.3x
Debt / EBITDA	Maximum 3x	2.0x

- Strong covenant compliance
- £230m working capital facility to April 2015
  - Headroom at April 30 of £103m
- 60% debt due after more than 5 years
  - 1 year debt – partial drawdown of revolving facility

Gross Debt Profile £351m



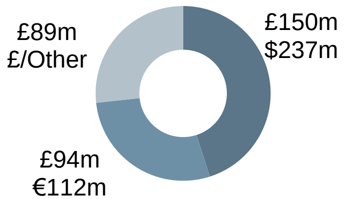
Analysis of Debt in Local Currency



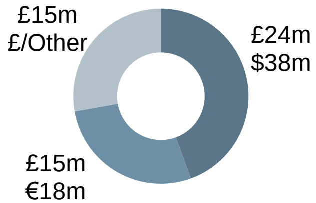
Foreign Currency

by Currency as converted to £m

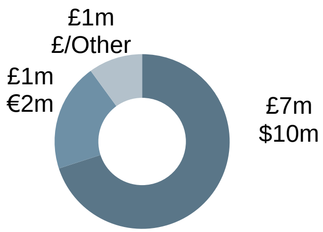
Revenue



Divisional EBIT



Interest



- Foreign currency rates
  - *$ rate appreciation 1% H1 2012: 1.58 (H1 2011: 1.60)*
  - *€ rate depreciation 3% H1 2012: 1.19 (H1 2011: 1.16)*
- Debt denomination continues to be geared in line with group profile
- Interest 75% US$ denominated
- 10¢ move in $
  - *c. £10m in revenue*
  - *c. £3m in EBIT*
  - *c. £16m change in debt*
- 10¢ move in €
  - *c. £9m in revenue*
  - *c. £2m in EBIT*
  - *c. £5m change in debt*

Glossary of Terminology

- APOBS Anti Personnel Obstacle Breaching System
- CDS Chemring Detection Systems
- C- IED Counter Improvised Explosive Device
- CM Countermeasure
- FMS Foreign Military Sales
- GPR Ground Penetrating Radar
- HMDS Husky Mounted Detection System
- IAWS Individual Airburst Weapon System
- IDIQ Indefinite Delivery Indefinite Quantity
- JBPDS Joint Biological Point Detection System
- JCAST Joint Combined Air Systems Tester
- JSLSCAD Joint Services Lightweight Stand-Off Chemical Agent Detector
- LAV Light Armoured Vehicle
- MJU Multi-Jetison Unit
- OCO Overseas Contingency Operations
- PAC-3 Patriot Advanced Capability 3
- RF Radio Frequency