



CHEMRING GROUP PLC

Chemring Group PLC

Full Year Results to 31 October 2008

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Ken Scobie

Chairman

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Financial Highlights

<u>£m</u>	<u>2008</u>	<u>2007</u>	<u>Increase</u>
Order Book	409	297	38%
Revenue	354	255	39%
Operating Profit	85	61	39%
Operating Cashflow	84	61	38%
Profit Before Tax	74	53	40%
EPS	160p	112p	43%
Dividend per share	35p	25p	40%

All numbers are underlying measures



CHEMRING GROUP PLC

David Price

Chief Executive

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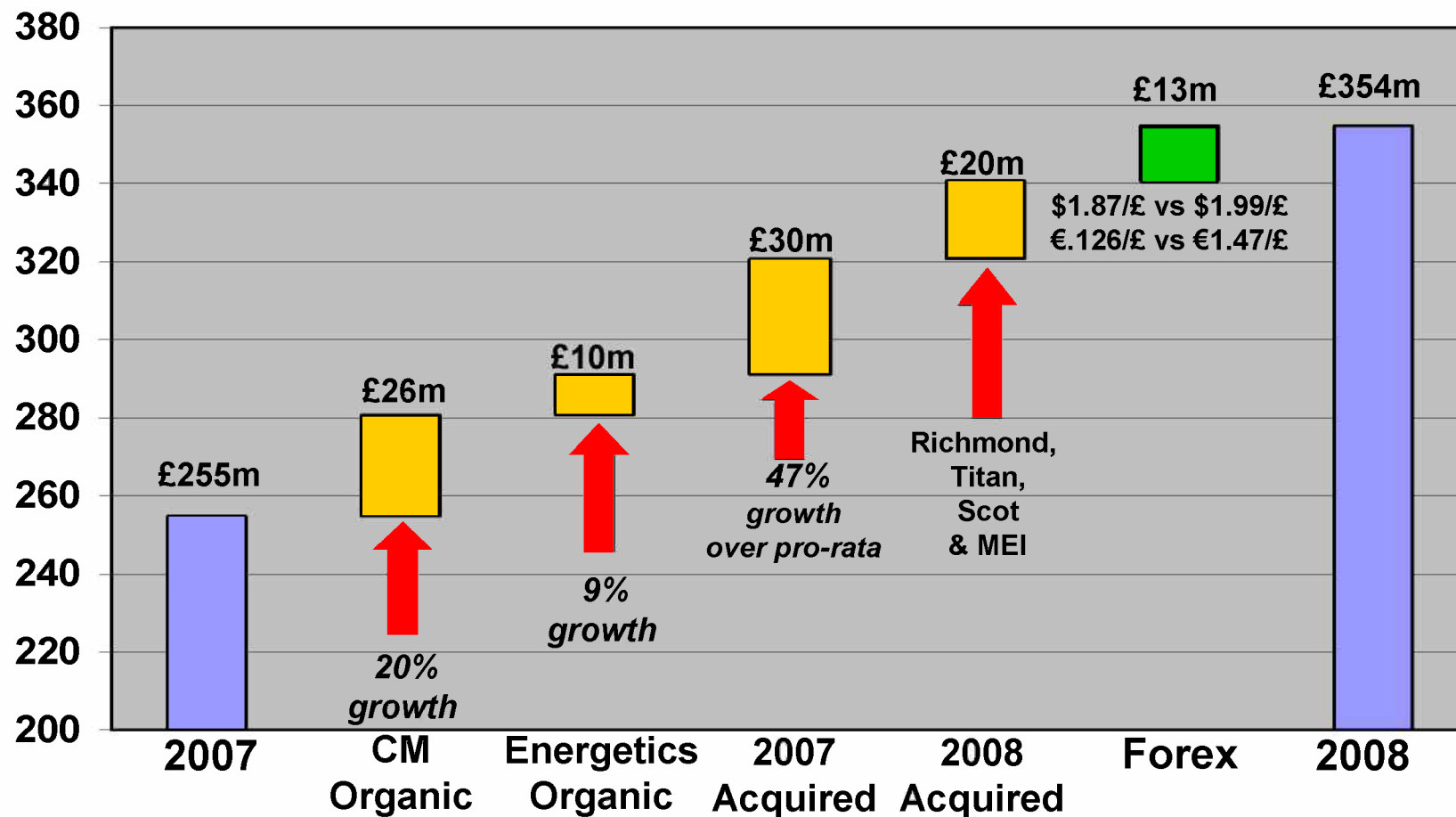


CHEMRING GROUP PLC

Headlines

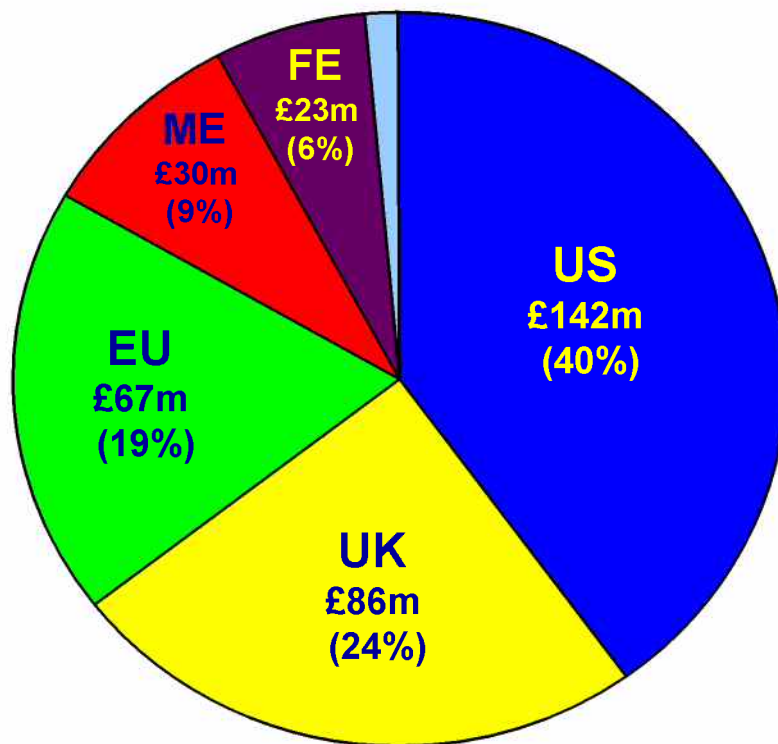
- **Strong growth in sales & profits**
 - Sales up 39% to £354m.
 - Operating Profit up 39% to £85m.
 - Operating margins maintained at 24%.
- **Record year-end orderbook of £409m**
 - Up 38% on previous year.
- **Excellent second half cashflow**
 - Operating cash inflow up 38% to £84m – a cash conversion of 99%.
- **54% growth in Energetics**
 - Simmel performs strongly during second half.
 - All recent acquisitions performing well.
- **25% growth in Countermeasures**
 - 48% growth at Kilgore & 37% growth at Chemring Countermeasures.
 - Record levels of decoy production at Alloy.

Group Sales Progression

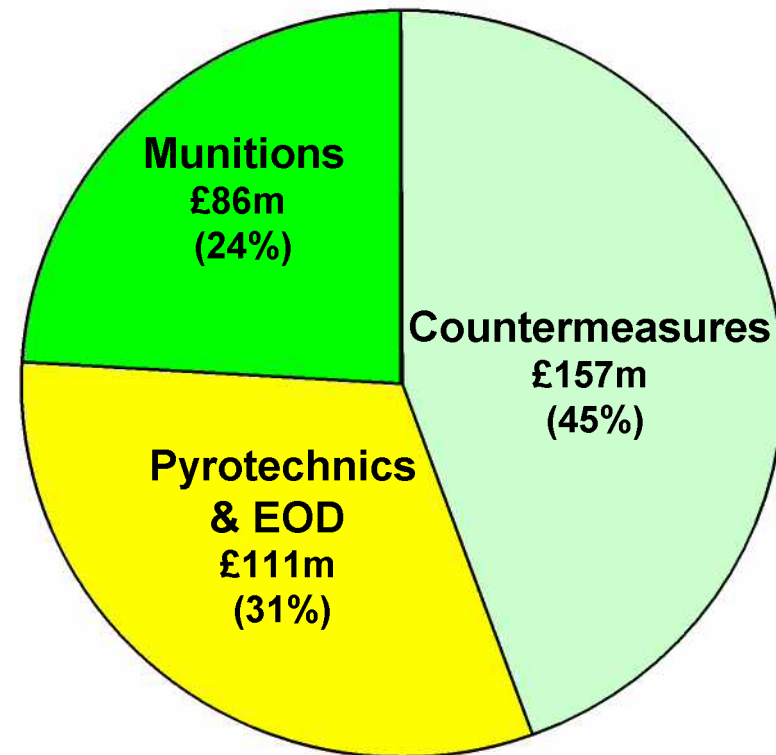


Sales Analysis

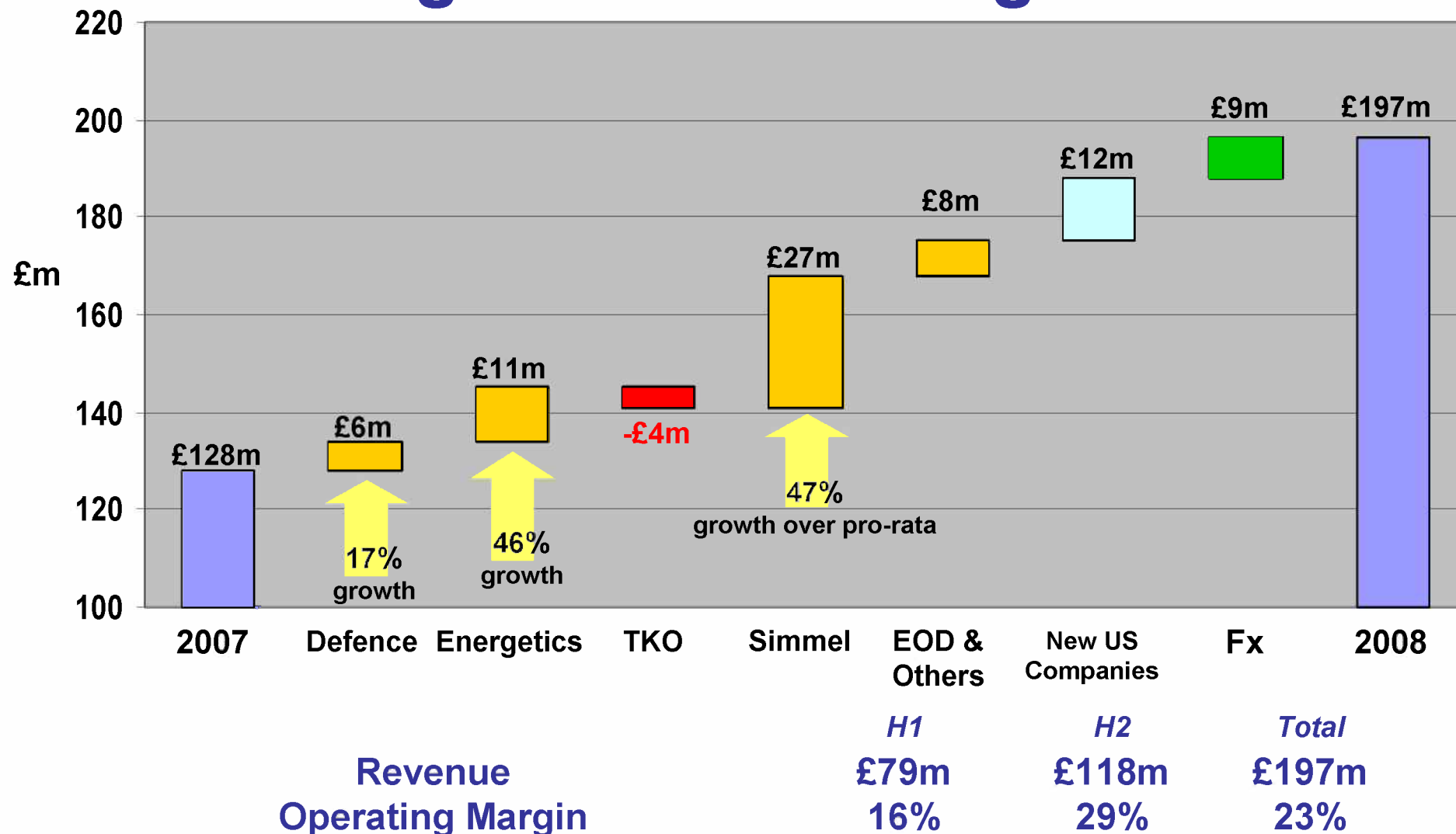
Sales by Destination



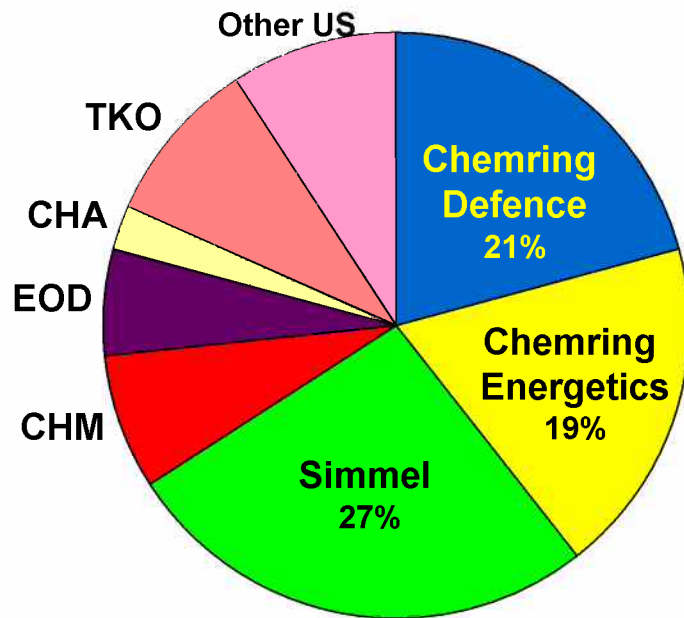
Sales by Segment



Energetics Sales Progression



Energetics Sales Analysis

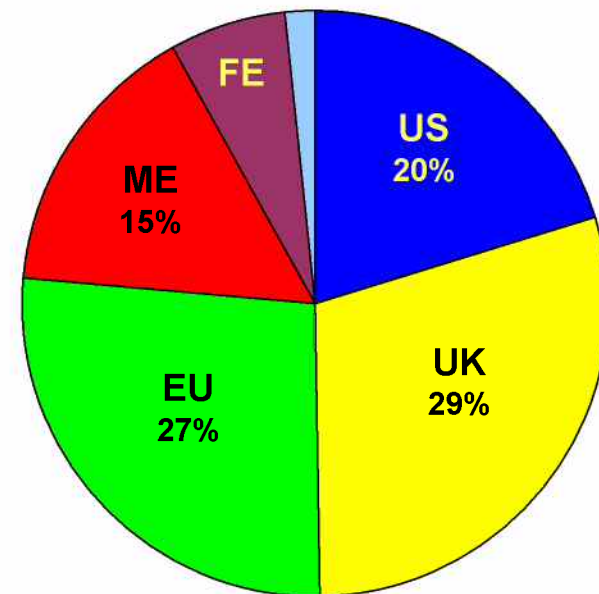


Sales by Company

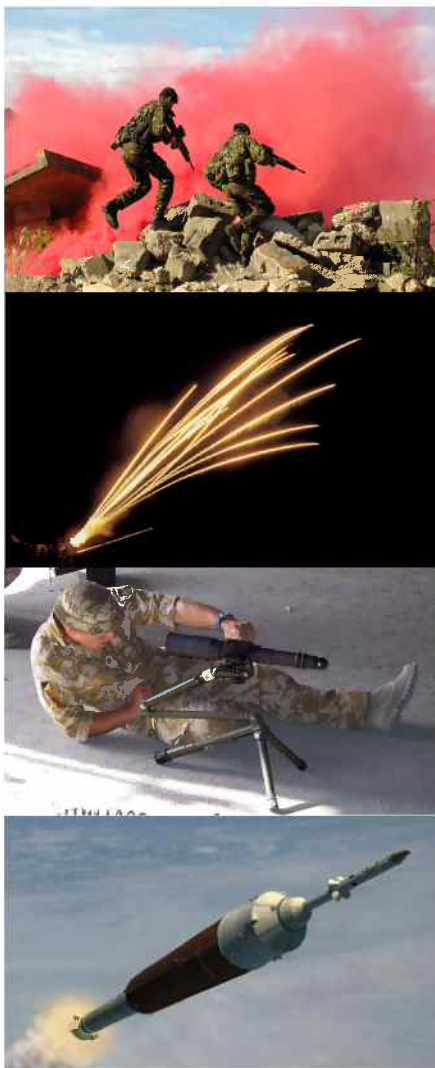
- Simmel Difesa now largest company.
- US currently only generates 19% of sales.
- Civil business now only 7% of sales.

Sales by Destination

- European customers are 55% of sales
- US grows to 20% of sales.
- Middle East sales grow 25%.



Pyrotechnics/EOD



- **Major success in Signals, Screening & Illumination**
 - Simmel deliver 60,000 illumination mortar rounds.
 - UK orders 140,000 white-light & 50,000 black-light mortar rounds.
 - Smoke grenade production increases 20% to 800,000 units pa.
 - L96/L97 VDGs qualified & first batches delivered to US Army.
- **Strong position maintained in battlefield training market**
 - MECS production now in excess of 1.5 million units per year.
 - \$5m IED Simulator contract awarded by UNITECH.
- **Continued progress in Explosive Ordnance Disposal**
 - Demolition stores sales up 20%.
 - Major EOD contracts won in UK, Italy, Eastern Europe & Far East.
- **Contract delays impact Technical Ordnance**
 - Delays in impulse cartridge orders reduces deliveries in year by 30%.
 - Introduction of new high volume products also delayed.
- **New US acquisitions performing well**
 - Titan increased production of BES cartridges to 65,000 per month.
 - Scot wins contract for aft & forward thrusters on Atlas V.
 - Scot wins contracts for Orion Crew Expeditionary Vehicle .

Munitions



- **Maintained global leadership in Naval Ammunition**
 - €14m supplied to Italian, Middle East & Far East customers.
 - €11m new orders secured from India & Middle East.
 - First qualification contract for French Navy received.
- **Strong progress made in tank ammunition**
 - First deliveries of 120mm ammunition made to NATO customer.
 - \$28m contract awarded by Middle East country.
- **Component & sub-system activity remains strong**
 - NLAW launch & flight motors in volume production.
 - Explosive & tracer pellet supply to US Primes up 24%.
 - Major contract from Nexter for insensitive explosive in 155mm ammunition for French Army.
- **US Opportunities starting to grow**
 - MEI performing well - \$22m new orders on M228 practice grenade fuzes & \$17m of 40mm rounds received.
 - Joint bid with General Dynamics for multi-year supply of 40mm ammunition on C130 SPECTRE gunships.

Acquisition & Integration

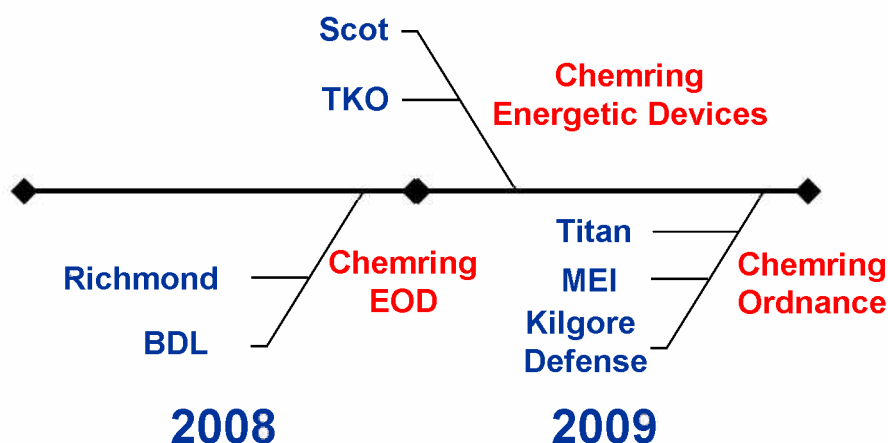


Acquisition of NIITEK

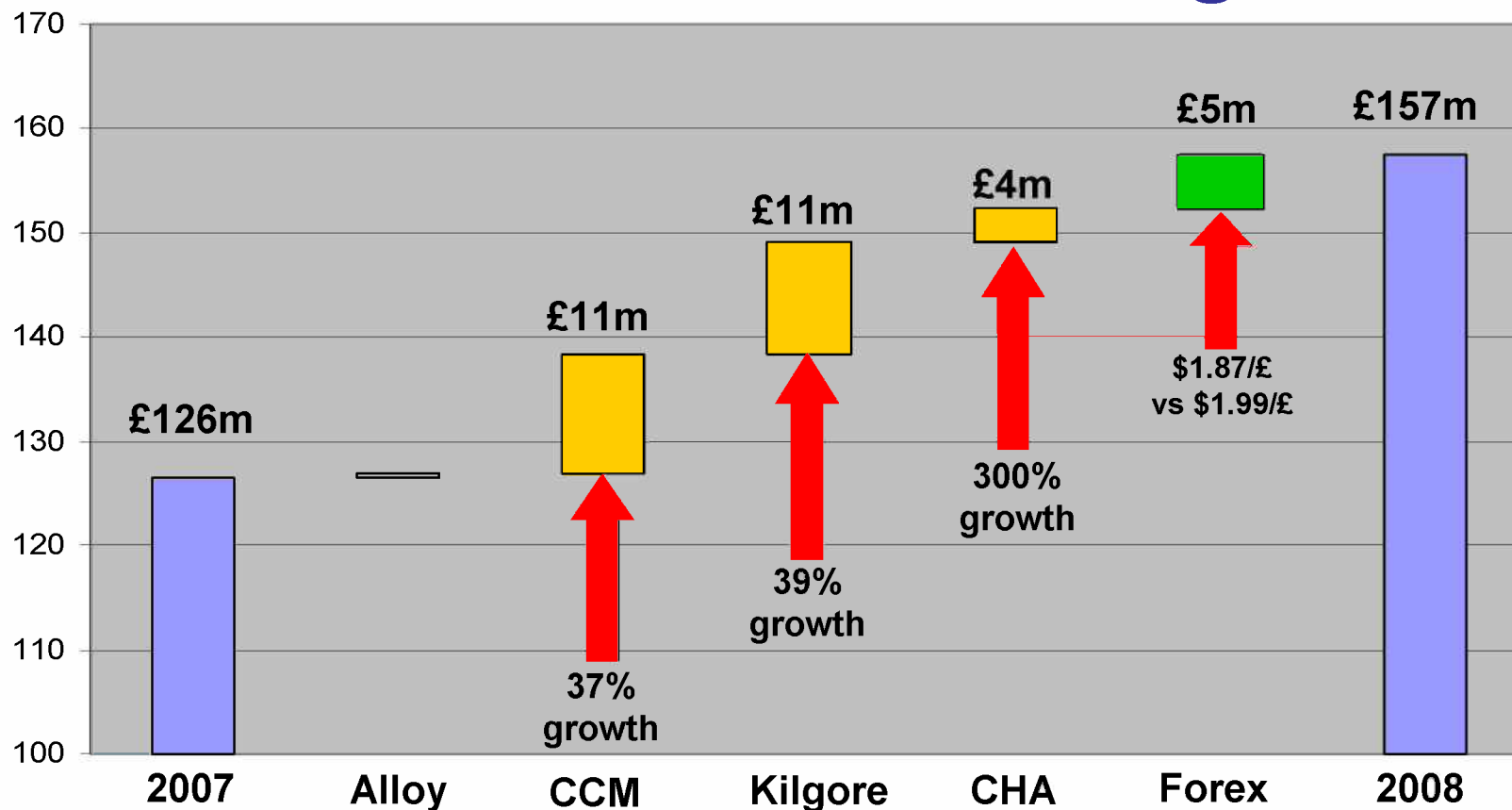
- Leading developer of mine detection systems
 - Vehicle and robot-mounted systems
 - Advanced Ground Penetrating Radar (GPR) and metal detection sensors
- Platform to access £500m mine detection market
- Production contract award for 30 Husky Mounted Detection Systems worth \$33.8m
- Acquisition completed 15th December 2008
- \$30m consideration plus up to \$10m deferred

Integration

- Completion of European Energetics integration
 - Chemring Marine, ...Defence, ...Energetics
- Creation of Chemring EOD in 2008
 - Integration of Richmond EEI and BDL Systems
- Integration of US acquisitions in 2009
 - Chemring Energetic Devices
 - Chemring Ordnance



Countermeasures Sales Progression



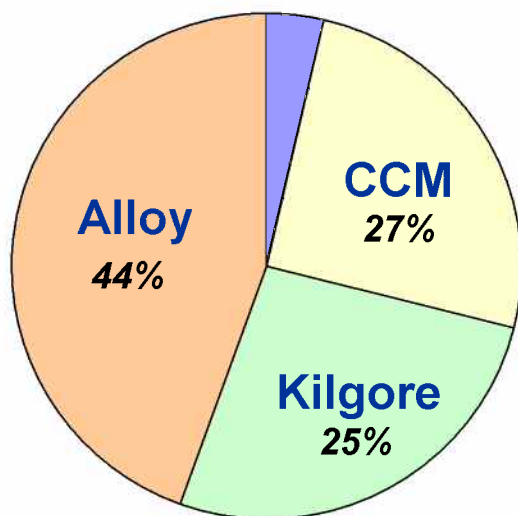
Revenue
Operating Margin

H1
£71m
27%

H2
£86m
30%

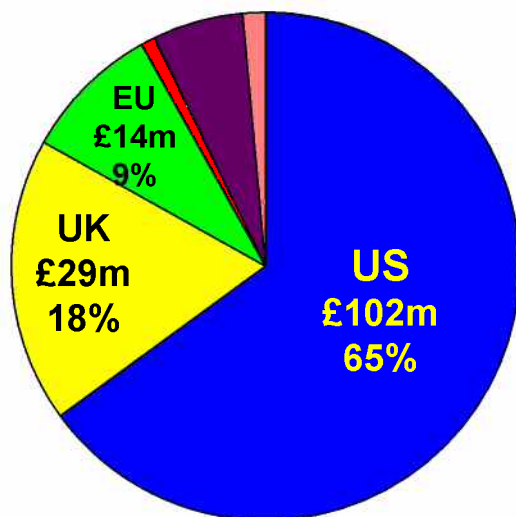
Total
£157m
29%

Countermeasures Sales Analysis



Sales by Company

- Strong growth in CCM & Kilgore.
- Alloy now below 50% of turnover.
- US reduces to only 69% of division.



Sales by Destination

- US sales grow 19% year-on-year.
- UK sales grow 16% year-on-year.
- EU sales grow 56% year-on-year.
- 93% of sales at Alloy & Kilgore were to US.

UK Countermeasures



- **Record levels of sales & production volumes**
 - 350,000 MTV & 280,000 spectral flares manufactured.
 - Typhoon flares production quadruples year-on-year.
- **Spectral flare production generating growth**
 - Steady production volumes for UK helicopter protection.
 - Growing production volumes for fixed-wing variants.
 - Export requirements starting to grow.
- **Sales in Naval countermeasures grown to £5m**
 - Deliveries to Spain, Norway, Chile & Denmark completed.
 - New orders from Denmark, Turkey & Australia awarded.
 - Major Opportunities in Canada & US.
- **New automated facilities underway**
 - Planning permission just approved.
 - New MTV & Spectral production facilities - £18m capital spend.
 - 100% increase in capacity.

Kilgore



- **Record sales levels achieved – up 48%**
 - High volume flare production ran well.
 - 1.6 million flares manufactured.
- **F-22 flares production increased successfully**
 - Production increased to 700 sets per month.
 - Automated facility commissioned & FAT achieved.
 - Sustainment funding starting in FY2010.
- **New flare programs making progress**
 - C-17 flare passes FAT & enters volume production.
 - B-52 flares successfully completed high altitude test.
 - Stop work order on F-18 advanced flare contract lifted.
- **Strong competitive success in 2008**
 - 5-year contract for M212 flare won in March 2008.
 - Maximum contract value of \$382 million.
 - Initial delivery order for 200,000 scheduled for 2009.
 - Design improvements incorporated – so FAT late H2.

Alloy Surfaces



- **Record levels of special material decoy production**
 - Decoy production increased 20% to 1.7 million flares.
 - Product mix and pricing pressures impact total sales.
- **5-year contract for M211 decoys awarded by US Army**
 - Maximum contract value of \$347 million.
 - M211 production stable 700,000 in 2008.
 - 2009 production levels expected to fall to 150,000.
- **Next-generation helicopter flares under development**
 - All-SMD technology continues to perform well in US Army trials.
 - Still strong competition from US & Israeli competitors.
- **USAF decoy requirements starting to grow**
 - MJU-50 production grows to 35,000 per month.
 - Production expected to grow in 2009 to 60,000 per month.
- **Demand for BOL/IR decoys continues to be high**
 - UK MOD increase demand to support Tornado.
 - Major opportunities for BOL system on Typhoon.

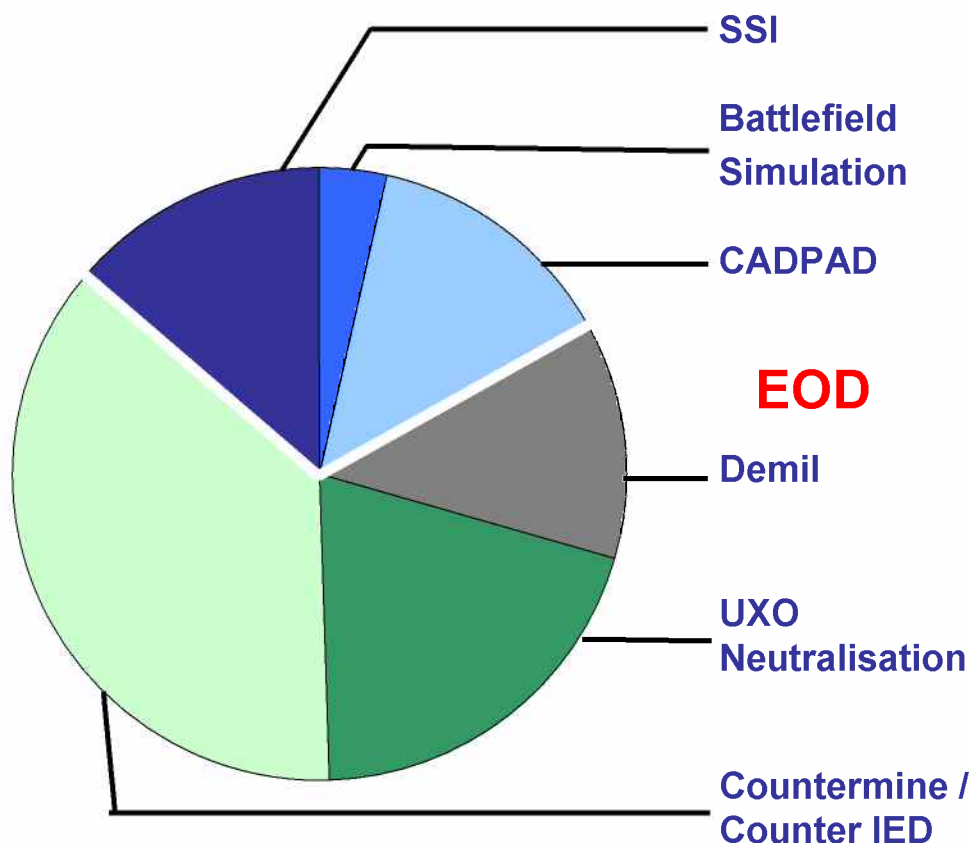
Pyro / EOD Outlook

Pyro / EOD Market c.£3bn

Pyro

Chemring
Market
Share

Market
Growth
Rate

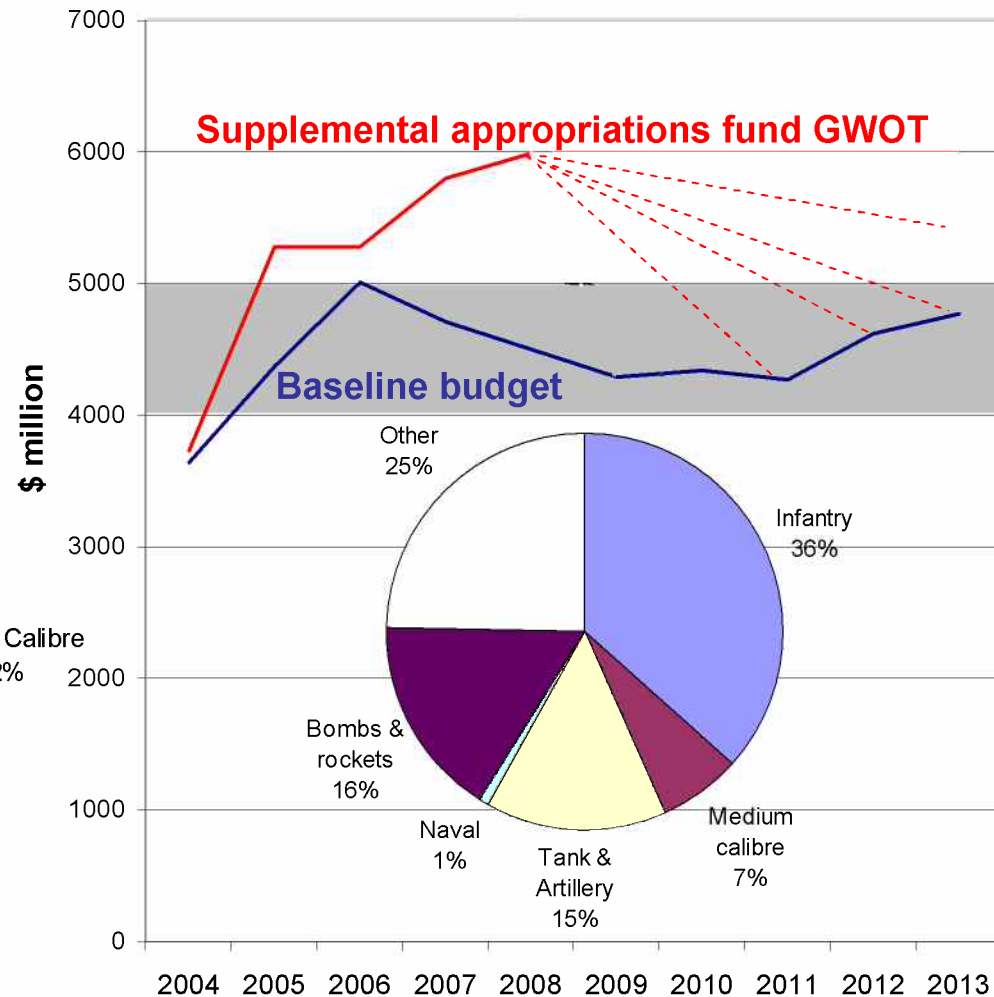
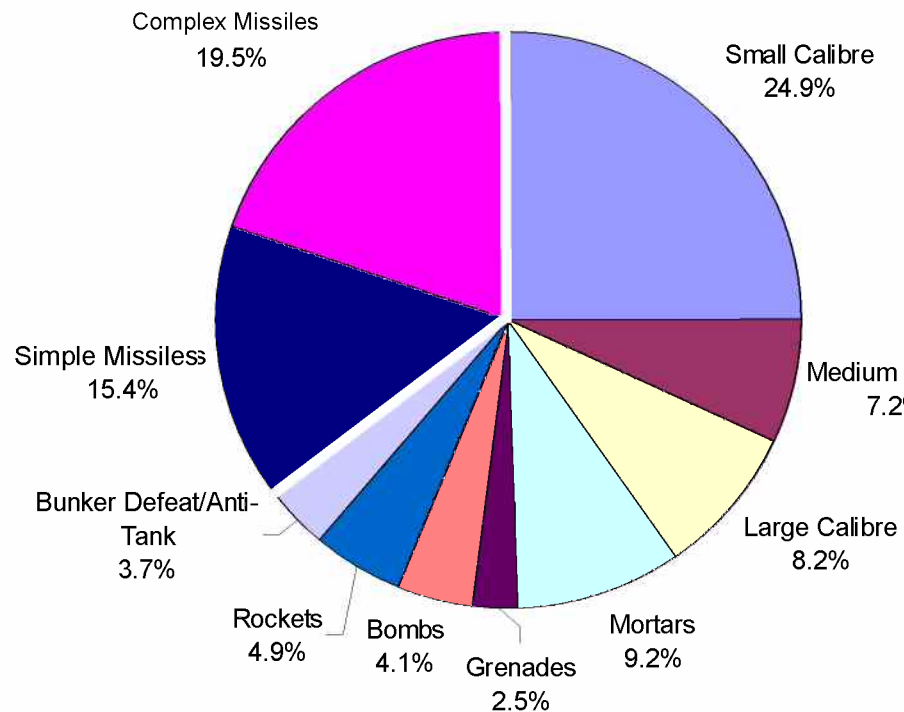


EOD

Munitions Outlook

US Ammunition Trend 2004 – 2013

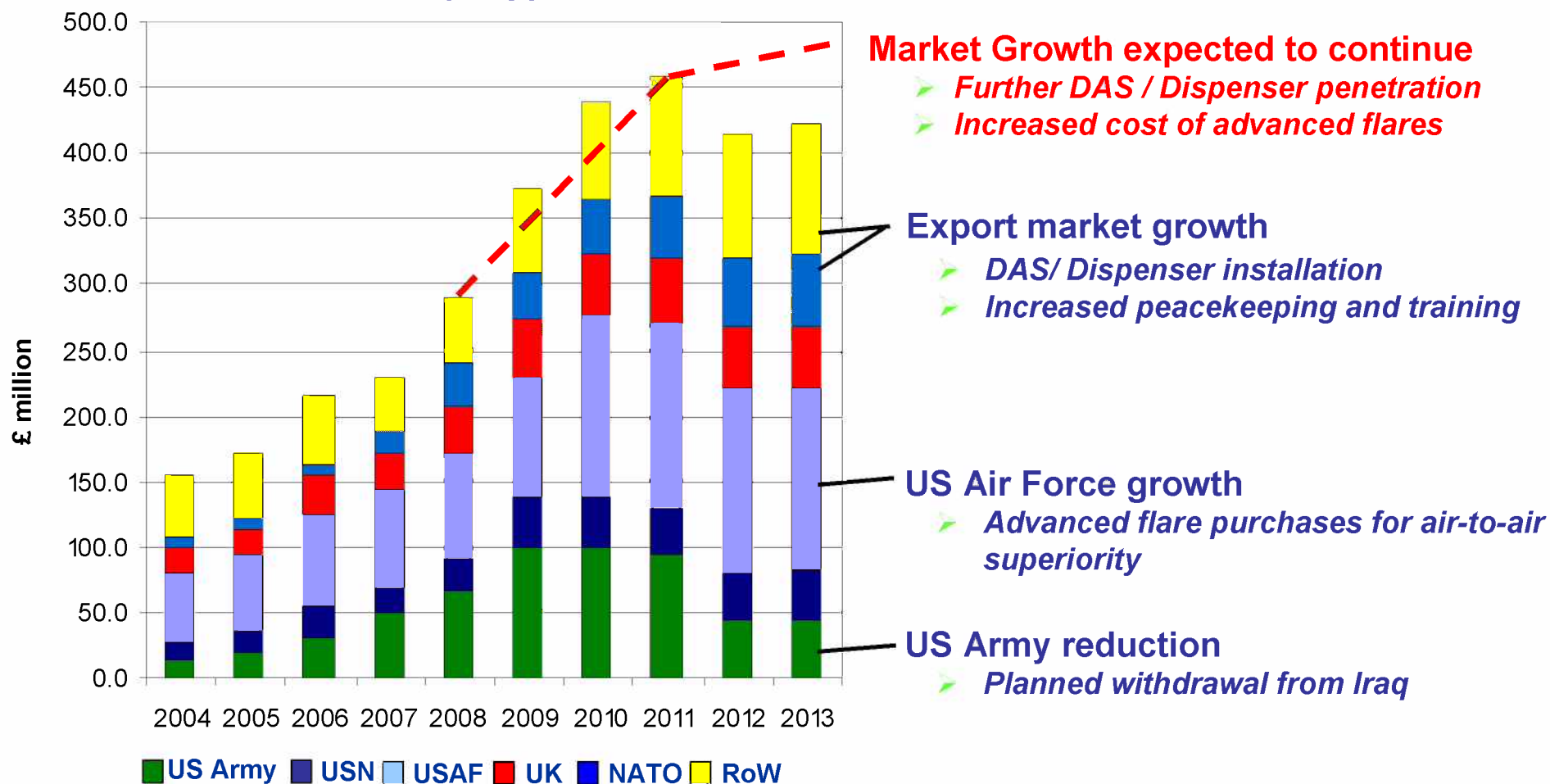
Global Munitions Market c.£10bn



Source: US DOD FY09 budget documentation

Countermeasures Outlook

Market



*All figures based on DoD program funding plans & estimates of key export markets

Summary

- Another year of strong growth.
- Energetics continues to grow rapidly.
- Countermeasures in line with market.
- New acquisitions performing well.
- Cashflow in line with operating profit.
 - *Year-end gearing reduced to 51%*
- Current orderbook at new record of £585m.



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Paul Rayner

Finance Director

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Profit & Loss

<u>£m Continuing Operations</u>	<u>Final 2008</u>	<u>Final 2007</u>	<u>Growth %</u>
Revenue	354	255	39
Operating profit	85	61	39
Interest	(11)	(8)	
Profit Before Tax	74	53	40
Tax	(21)	(17)	
Profit After Tax	53	36	47
EPS	160p	112p	43
DPS	35p	25p	40

All numbers are underlying measures

Profit & Loss

- **Strong revenue growth in the year**
 - **Energetics £69m, up 54%**
 - ❖ £20m 2008 acquisitions
 - **Countermeasures £31m, up 25%**
- **Strong EBIT growth in line with revenue growth**
 - **Energetics now largest division by profit**
 - **Energetics £46m, up 64%**
 - ❖ £5.3m 2008 acquisitions
 - **Countermeasures £7m, up 18%**
- **Operating Margins 24% (2007: 24%)**
 - **Energetics 23% (2007: 22%)**
 - **Countermeasures 29% (2007: 30%)**
 - **£5m additional EBIT due to favourable FX**
- **Interest £11m (2007: £8m)**
 - **Cover 8 times (2007: 8 times)**
 - **£0.7m (2007: £0.6m) “pension fund” interest**
 - **£1m additional interest due to \$/€ loans**
- **Profit Before Tax £74m (2007: £53m), up 40%**

Segmental Results

<i>£m</i>		<i>H1</i>	<i>H2</i>	<i>Final 2008</i>	<i>Final 2007</i>
Energetics	Revenue	79	118	197	128
	Operating Profit *	12	34	46	28
	Operating Margin	16%	29%	23%	22%
Countermeasures	Revenue	71	86	157	126
	Operating Profit *	19	26	45	38
	Operating Margin	27%	30%	29%	30%
Total Group	Revenue	150	204	354	255
	Operating Profit	28	57	85	61
	Operating Margin	19%	28%	24%	24%

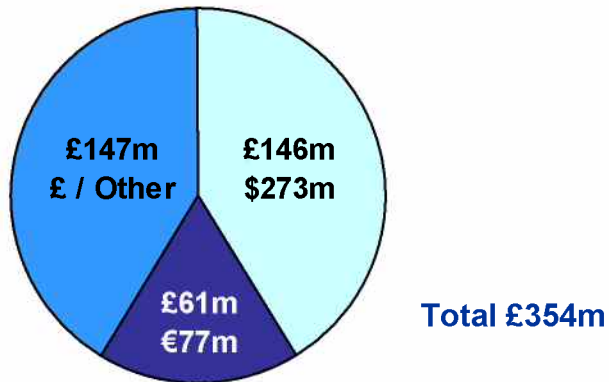
* Before unallocated central costs

Segmental Results

- **Energetics**
 - Significant H2 growth
 - Simmel high output at strong margin
 - Impact of H2 acquisitions
- **Countermeasures**
 - Margin recovery in H2 – no naval rounds
 - Strong Salisbury margin
- **Unallocated costs**
 - LTIP charges £1.7m (2007:£2.4m)
 - ❖ Phantom £nil (2007: £1.0m)
 - Head office £4.6m (2007: £2.9m)
 - ❖ Net Willis cost non-recurring £0.6m
- **Total operating margin 24% (2007: 24%)**
 - Consistent margin year on year

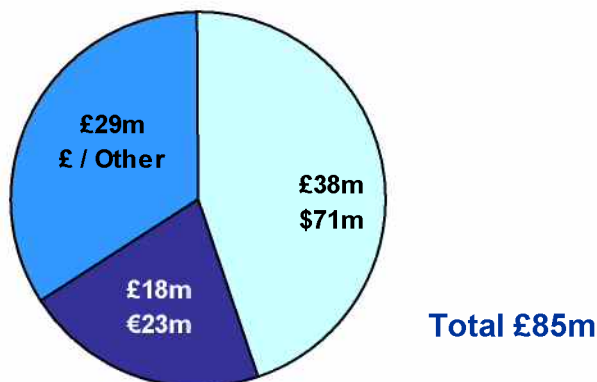
Foreign Currency

Revenue by Currency as converted to £m



- \$ rate 2008: 1.87 (2007: 1.98)
 - 6% appreciation of \$ to £
 - At constant \$ additional revenue and EBIT:
 - ❖ £7m revenue
 - ❖ £2m EBIT

EBIT by Currency as converted to £m



- € rate 2008: 1.26 (2007: 1.44)
 - 12% appreciation of € to £
 - At constant € additional revenue and EBIT:
 - ❖ £9m revenue
 - ❖ £3m EBIT

Cash Flow

<u>£m</u>	<u>H1</u>	<u>H2</u>	<u>Final 2008</u>	<u>Final 2007</u>
Operating Cash Flow	9	75	84	61
<i>Operating Cash conversion % from EBIT</i>	<i>32</i>	<i>132</i>	<i>99</i>	<i>100</i>
Tax	(2)	(11)	(13)	(12)
Capital spend	(18)	(16)	(34)	(16)
Cash Flow from Operating Activities	(11)	48	37	33
Interest and dividends	(8)	(10)	(18)	(13)
Net acquisitions spend	(11)	(57)	(68)	(43)
Share issue proceeds	-	59	59	-
Purchase of own shares	(2)	(1)	(3)	(3)

Cash Flow & Net Debt

- Operating cash flow significant H2
 - Overall 99% conversion
 - ❖ H2 cash more than 2007 total
 - ❖ H1 after £3m non-recurring phantom share payment
 - 38% higher than 2007 – in line with EBIT growth
- Capital spend higher than 2007
 - £7m acquisition of Simmel property
 - £5m facility spend at CEUK
 - £4m new F22 facility at Kilgore
- Acquisition spend majority funded by equity issue

Facilities and Covenants

	£m
Working Capital*	50
Medium term loans*	90
Private Placement	89

Covenants	Target	Actual	Headroom
Interest Cover to EBITDA	4.0	10.0	6.0
Cashflow	1.0	2.0	1.0
Debt: EBITDA	3.0	1.8	1.2

- Working capital renewal March 2012
 - Headroom £107m at year end
- Term loan repayable 4 yrs

2009	18
2010	19
2011	31
2012	<u>22</u>
	<u>90</u>
- Private placement Nov 2017
- Covenants healthy headroom

* Working Capital and Medium Term Loans for principal bank only

Balance Sheet

<u>£m</u>	<u>Final 2008</u>	<u>Final 2007</u>
Goodwill	129	95
Acquired Intangibles	80	35
Tangible Assets	110	70
Other Net Assets	57	43
Tax	(14)	(6)
Pension Deficit	(14)	(13)
Net Debt	(117)	(100)
Shareholders' Funds	231	124

Balance Sheet

- **Acquisitions**
 - 4 acquisitions in year cost £73m
 - ❖ £60m equity funded, balance debt
- **Tangible Assets**
 - Simmel property and new facilities £16m
 - 2009 authorised projects £25m – new facilities at Salisbury and Australia
- **Net Current Assets £102m (2007: £54m)**
- **Pension deficit**
 - Largely unchanged
- **Net Debt £117m (2007: £100m)**
 - Gearing 51% (2007: 80%)
- **Shareholders Funds £231m (2007: £124m)**
 - £60m equity raising in June 2008



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