

Half Year Results to 30 April 2010



© 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



Financial Highlights

£m	<u>Interim</u> <u>2010</u>	<u>Interim</u> <u>2009</u>	<u>Increase</u> <u>%</u>	<u>Final</u> <u>2009</u>
Order Book	651	574	13	559
Revenue	256	234	10	504
Operating Profit	52	46	13	115
Profit Before Tax	42	40	7	103
Earnings Per Share	89p	81p	10	213p
Dividend Per share	17p	14p	21	50p

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

David Price Chief Executive



Interim Headlines

■ Steady growth in profit & revenue

- *Revenue up 10% despite bad weather and UK April incident*
- *Operating profit up 13% with small improvement in margins*

■ Variations in segmental performance

- *EOD grew by 92% with strong demand for Ground Penetrating Radar for counter-IED operations*
- *Countermeasures returned to growth – up 10% on constant currency*
- *Pyrotechnics & Munitions affected by delays in order intake*

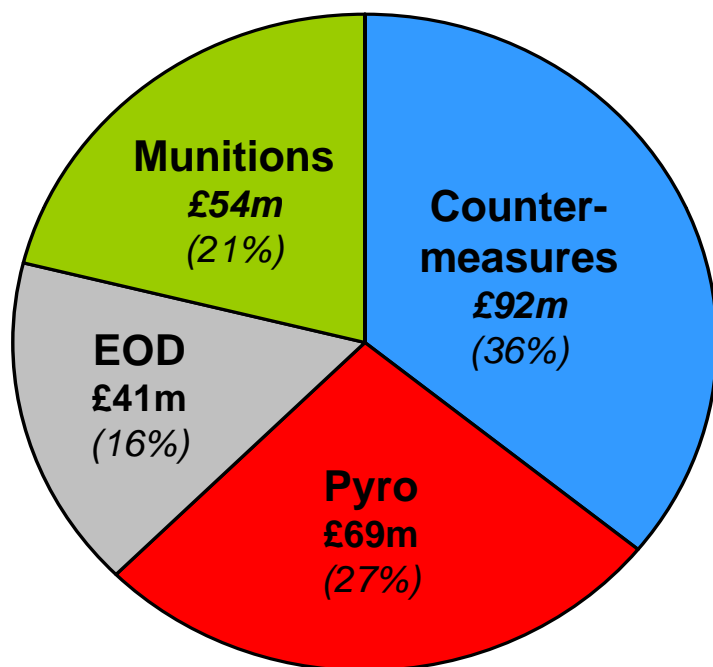
■ Variations in regional performance

- *US returned to growth – revenue up 33%*
- *UK & Europe adversely affected by order delays – circa 3 months*

■ Order book grows to £651m – up 16% on October 2009

Revenue Analysis

H1 Revenue - £256m

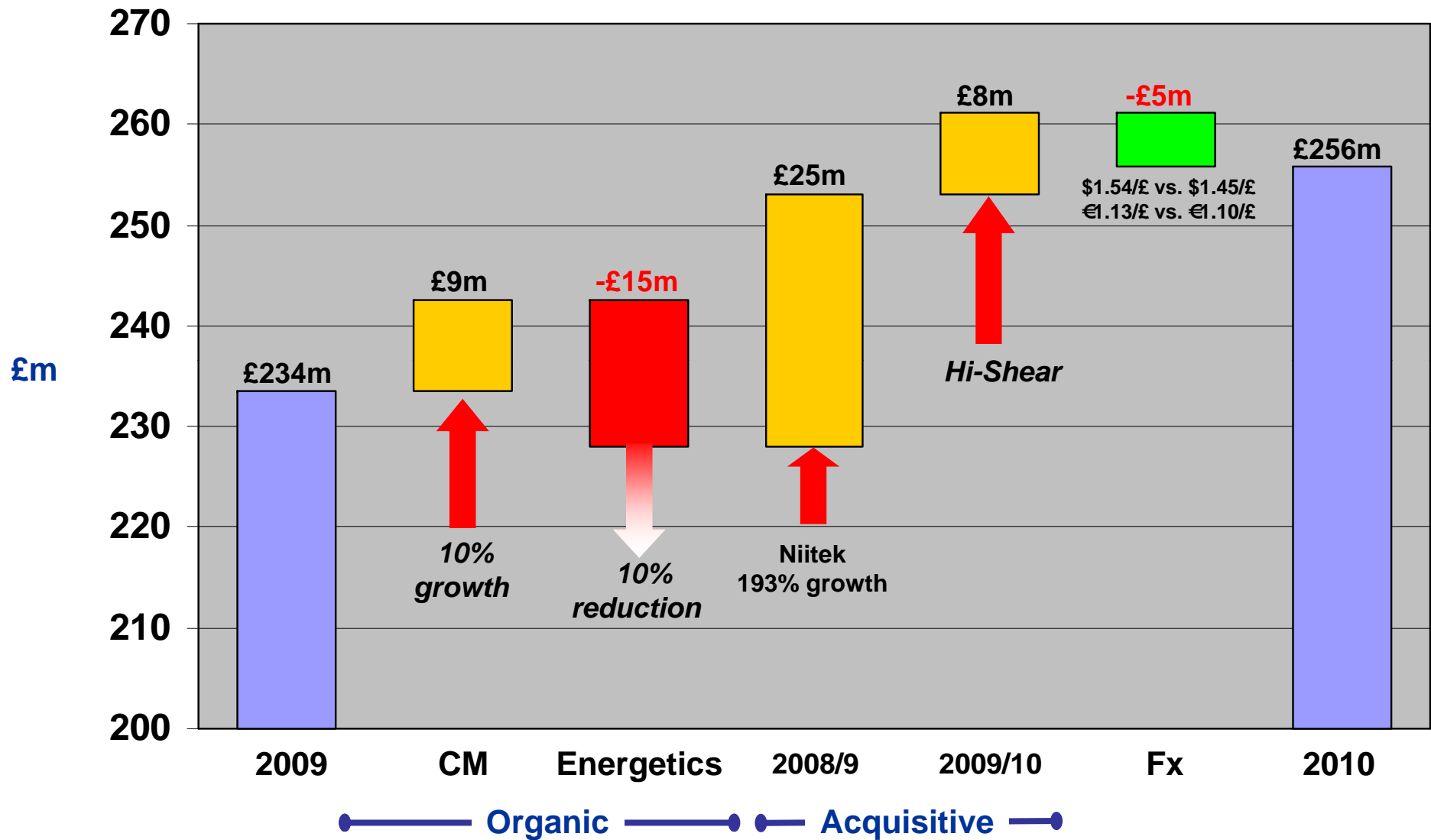


Revenue	Interim 2010	Interim 2009	Growth
Countermeasures	£92m	£86m	+7%
Pyrotechnics	£69m	£69m	0%
EOD	£41m	£22m	+92%
Munitions	£54m	£57m	-5%
<i>Total</i>	<i>£256m</i>	<i>£234m</i>	<i>+10%</i>

Order Book	Interim 2010	Final 2009	Growth
Countermeasures	£279m	£232m	+20%
Pyrotechnics	£204m	£172m	+19%
EOD*	£26m	£37m	-30%
Munitions	£142m	£118m	+20%
<i>Total</i>	<i>£651m</i>	<i>£559m</i>	<i>+16%</i>

*EOD order book now £98m – up 165% on year-end 2009

Group Revenue Progression



Countermeasures - Headlines

■ Alloy Surfaces

- *Production of decoys increased by 20% to new record*
- *MJU-50 production for USAF increases 75%*
- *MJU-49 production for US Navy increases by 100%*
- *BOL/IR production for RAF halves*

■ Kilgore Flares

- *Revenue at Kilgore up 23%*
- *Kilgore order book up 121% to new record*
- *F-22 flare production for USAF increased by 54%*
- *Two 36mm flares start up production in H1*

■ UK Countermeasures

- *Flare production down 20% - bad weather & April incident*
- *Timing of UK/EU orders imply higher H2 weighting*
- *Steady production of naval countermeasures*
- UK, Australia & Turkey



Pyrotechnics - Headlines

■ Signals & Illumination

- £40m UK MOD multi-year order underpins UK volumes
- Production of M585 white star 40mm rounds up 87%
- FAT on M661 green star & M992 black light 40mm rounds
- Simmel production 81mm illumination rounds down 25%
- now matched to revised UK long-term requirement

■ Simulation & Training

- Transfer of Battlefield Effects Simulator (BES) business from Texas to Florida & Illinois
- Upgrade to M228 training grenade production line in H1
- \$74m Multi-year contract awarded for BES cartridges

■ Pyromechanisms

- UK production of impulse cartridges & canopy cutters up 20%
- Hi-Shear performing well in both space & aerospace markets



Explosive Ordnance Disposal - Headlines

■ Neutralisation

- *Qualification of new insensitive demolition stores underway*
 - flexible shaped charge, sheet explosive & obstacle removal
- *New plastic explosive facility under construction in Scotland*
 - production will start in H2

■ IED Detection

- *US Army contract for delivery of another 76 Husky Mine Detection Systems (HMDS) by May 2011*
 - contract for systems, spares & support is worth up to \$217m
 - next generation (Mk3) enters production in October
- *US Marines looking to purchase 30+ systems in H2*
- *Production now reached 10 HMDS systems per month*
- *28 support staff deployed on operations*
 - will grow to 70 over next 12 months



Munitions - Headlines

■ Prime Contract

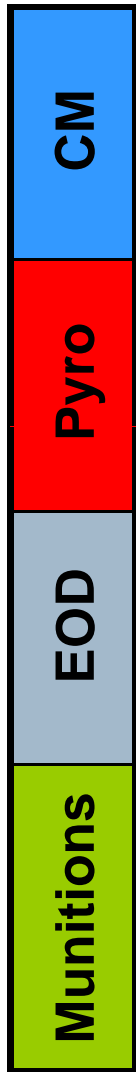
- *Major 76mm naval ammunition contract from Singapore*
- *150,000 40mm HEDP grenades delivered in H1 - up 100%*
- *First delivery of 125mm tank ammunition to Middle East*

■ Components & Sub-systems

- *New naval microwave fuze completes development*
- *Hi-Shear awarded \$10m contract for Patriot*
- *Deliveries to US Primes up by 50%*
- *New US primary explosives facility completed*
 - *Used to screen DoD-sourced Lead Azide in H1*
 - *Allowed production of 2.8 million detonators*
 - *Lead Azide variants manufactured and undergoing age certification*



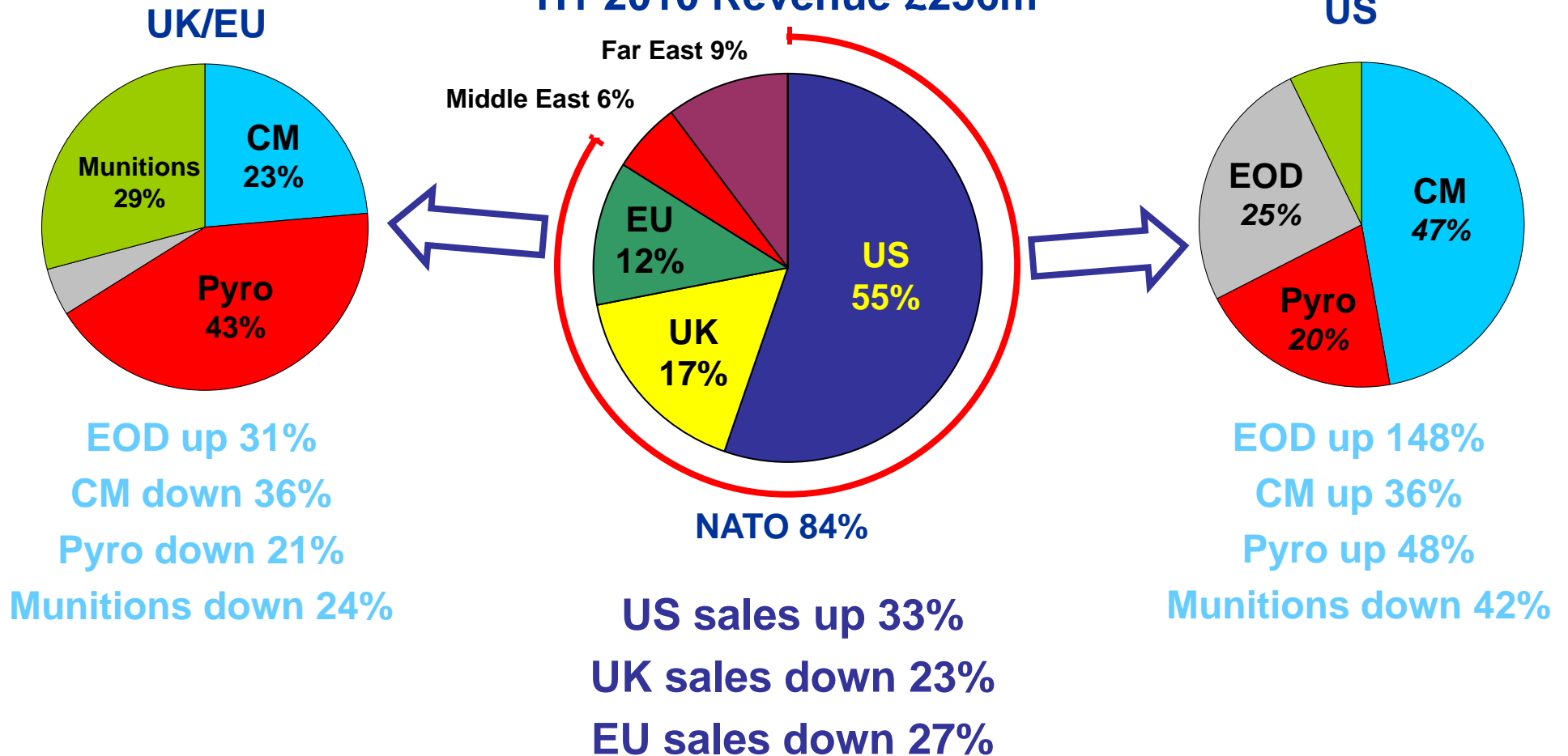
Prospects for H2



- UK order profile several months later than expected for flares & naval rounds
- Spectral production will re-start early Q4
- US M212 & M206 helicopter flares will start production
- B-52 & F-22 production profile constrained by delay in contract award
- UK & Far East orders arriving several months later than expected
- Production of BES launchers & cartridges re-starts after relocation
- Production of M228 training grenades re-starts after upgrade
- Production of marine location markers re-starts after upgrade
- HMDS production increase with new US Army order
- Demolition stores start production after qualification finishes
- Patriot ESAF production increased with new \$10m Hi-Shear contract
- Deliveries to Middle East customer on new multi-year contracts start in H2

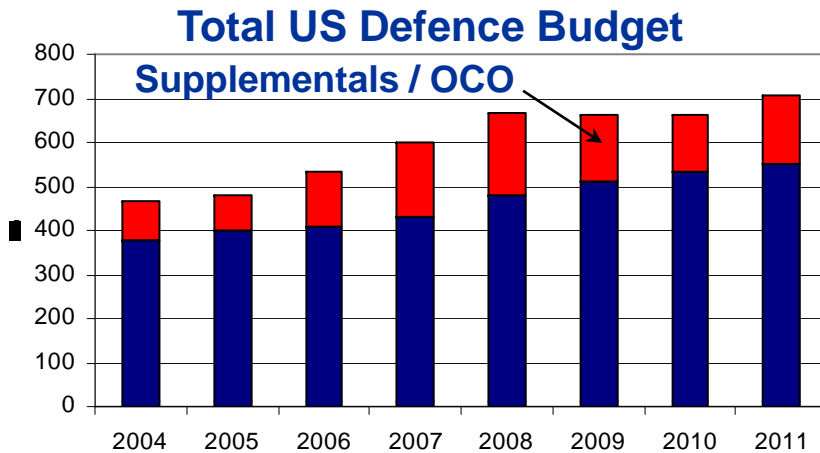
Regional Analysis

H1 2010 Revenue £256m



Market Conditions

US



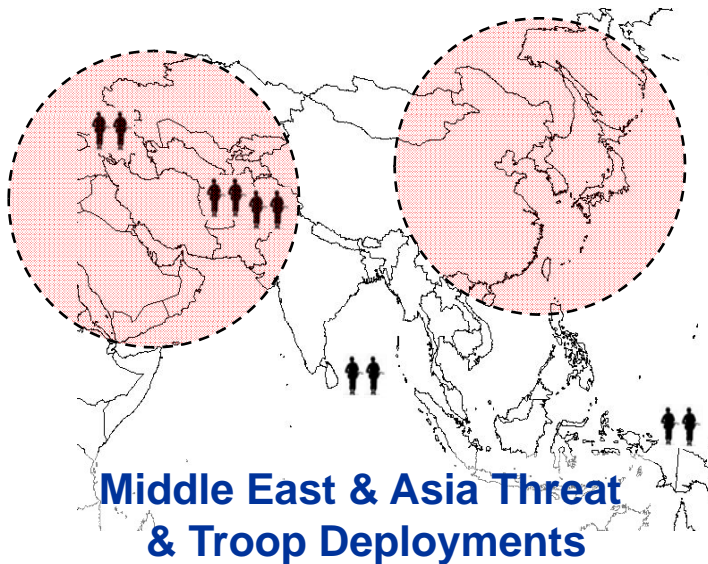
- FY 2011 Budget Request increases baseline and OCO
- Order placement schedule now improving
- Defense Secretary Gates recent speeches
 - *US overmatch – need to rebalance the force*
 - *Need to look after the people*
 - *Reform budgeting and procurement processes*
 - *Bureaucracy down \$7bn in 2012 & \$37bn in 2016*

UK and Europe

- Widespread budget constraints
 - *Germany €80bn & France €100bn of cuts in next 3 yrs*
- UK Strategic Defence & Security Review
- UK MoD running costs to be cut by 25%
- Widespread delays in order placement

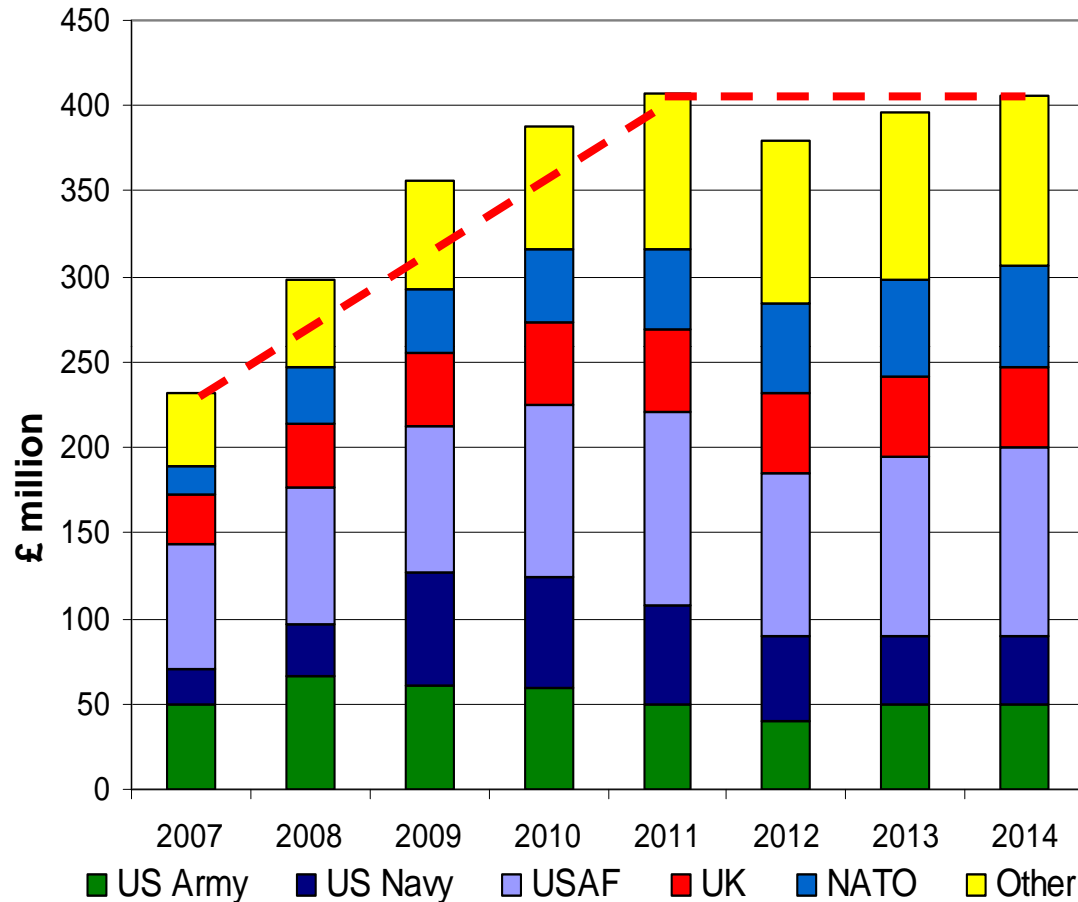
RoW

- Significant threats remain in Middle East & Asia
- Some defence spending increases
 - *India announced 35% growth*



Countermeasures Outlook

Market



Market plateaus from 2011

- 2012 dip due to 2011 US budget squeeze
- but further DAS / Dispenser penetration
- and increased cost of advanced flares

NATO & export market growth

- Increased peacekeeping and training
- Typhoon delivery profile to EU & ME
- Growing demand for naval countermeasures
- UK, Australia, India, Turkey & South America

US Air Force growth

- Advanced flares for air-to-air superiority
- Record order book for F-22 & B-52
- Production of flares F-35s starts in 2011

US Navy reduction

- FY11 budget squeeze
- Growing interest in Bol/IR for F-18 & MV22

US Army reduction

- FY11 budget squeeze
- Withdrawal from Iraq
- 250 more helicopters in Afghanistan

Source: Internal estimates based on US program documentation to FY 2011 & export market knowledge

Pyrotechnics Outlook

Signals & Illumination

- Chemring Defence record order book – up 62%
 - UK MoD £40m five-year contract
- Growing demand from Middle East
 - Saudi Arabia, Kuwait & UAE
- US Army trials of WP payload replacement

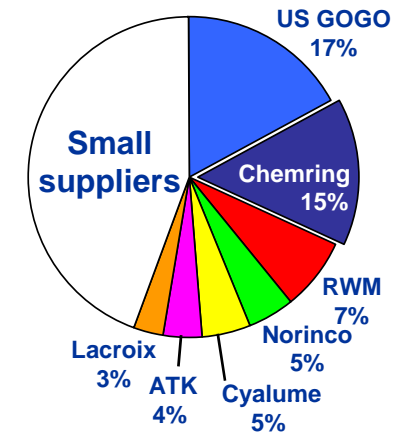
Simulation & Training

- Installed base of launchers will double in 3 years
- \$74m Multi-year contract for BES cartridges
- US Army development of 40mm training round
- Competition for mortar training rounds underway

Pyromechanisms

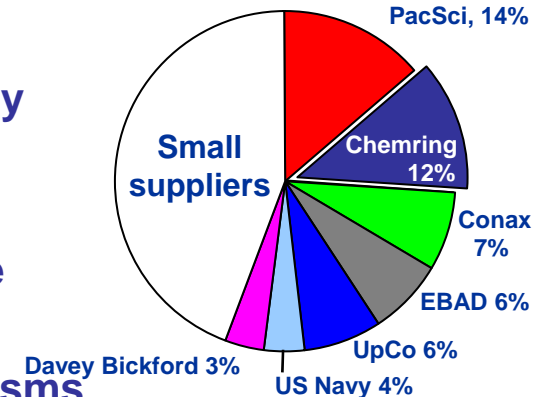
- Aircraft demand driven by 3-year component life
- Hi-Shear expanding product range for Space
 - Good opportunities in deployment mechanisms
- CED record order book – up 48%

Signals, Illumination, & Training

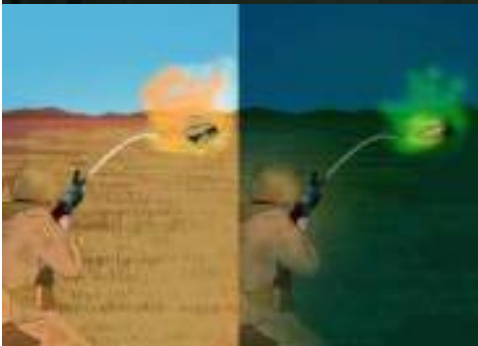
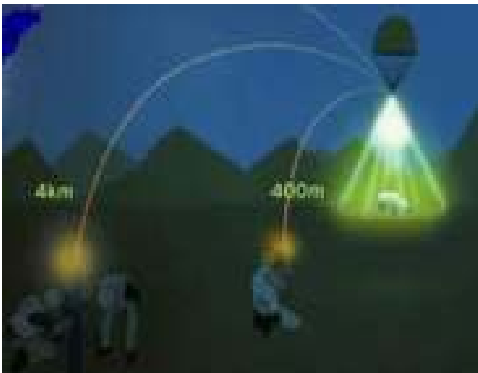


Total £700m

Pyromechanisms



Total £500m

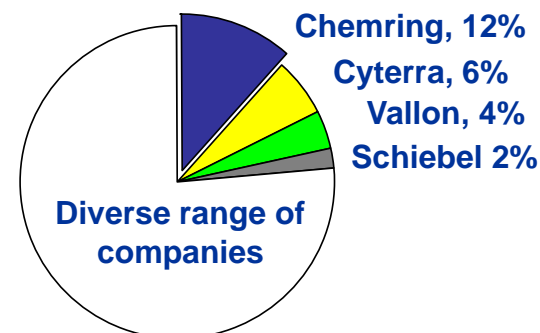


Explosives Ordnance Disposal Outlook

IED Detection

- **US Army orders another 76 HMDS radars**
 - *150+ systems in service by May 2011*
- **Growing interest beyond US Army**
 - *US Marines looking for 30+ systems*
 - *Considerable export customer interest*
- **Handheld systems undergoing initial trials**
- **Growing demand for CUVSS**
 - *Major event security – 2010 World Cup*
 - *Trials on NY subway still in progress*
 - *Military bases, Embassies etc*

IED Detection

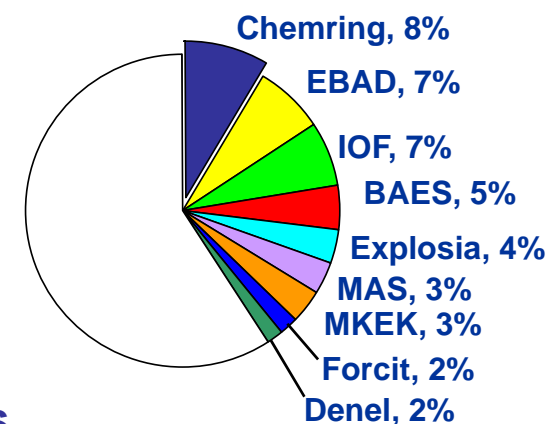


Total £500m

Neutralisation & Demolition

- **Development of buried IED neutraliser**
- **New IM shaped, sheet & flexible charges**
- **Significant underwater EOD opportunities**
 - *Mk 59 cartridge & acoustic initiators*

Neutralisation



Total £300m



Munitions Outlook

Subsystems

- Significant growth in BMD demand
 - Both Patriot & Standard Missile
- Microwave fuze for 76mm
 - Qualification for Italy & France in H2 2010
- Components for new XM25 infantry weapon

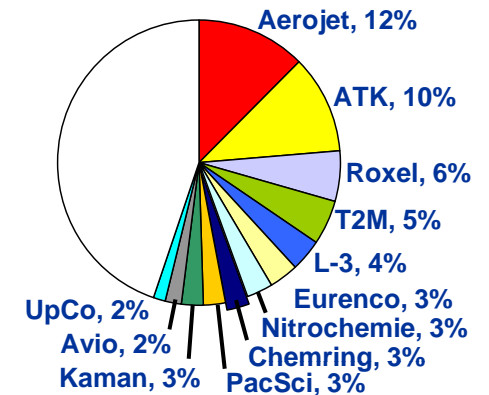
Naval

- Strong interest in all main calibres
 - Italy, France, Germany & Turkey
 - Middle East & Asia
 - South America

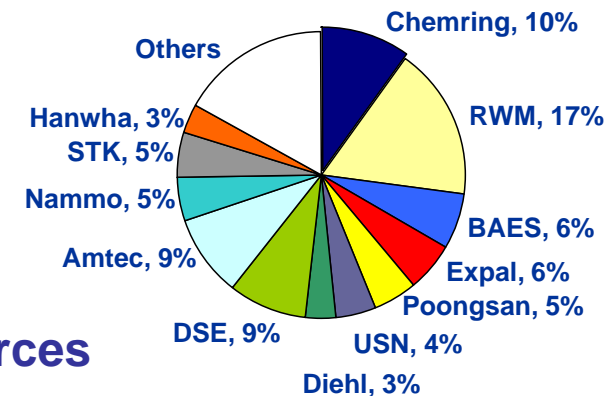
40mm Grenade

- Strong opportunities in Middle East
- MV rounds under test by US Special Forces
- Stand-off Breach Round also under test

Subsystems £2bn

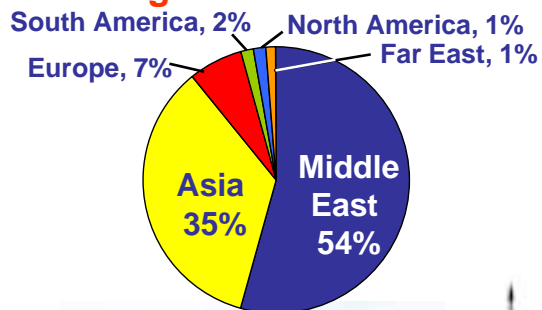


Naval/40mm - £300m



Update on Acquisition of Allied Defense

Regional Revenues



- Allied Defense Group is a niche ammunition supplier
 - *2009 revenues circa \$140m*
- Two operating subsidiaries
- Complementary markets, products & technologies
 - *Focus on air transportable, Light Armoured Vehicles*
 - *Sole supplier of 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*
- US Department of Justice investigation
 - *Employee indicted in January for alleged corrupt practices*
 - *Investigation widened as part of industry-wide probe*
- Acquisition being re-structured to minimise successor liability

Summary

- **Steady growth in revenue & profits**
 - *Revenue up 10% and Operating Profit up 13%*
- **Niitek delivers outstanding performance**
 - *US Army demand for HMDS still growing – up 193% on last year*
 - *New \$217m contract will take installed base to over 150 systems*
- **Countermeasures continues to grow**
 - *US revenues up 25%*
 - *Kilgore order book up 121%*
- **Pyrotechnics & Munitions deliver steady performance**
- **Current order book at new record of £751m**
 - *25% increase on previous year*
- **Stronger second-half bias than last year**
- **Full-year continues to be in line with expectations**

Paul Rayner

Finance Director



Profit & Loss

	Interim 2010	Interim 2009	<u>Increase</u> %
Revenue	256	234	10
Operating profit	52	46	13
Interest	(10)	(6)	
Profit Before Tax	42	40	7
Tax	(11)	(11)	
Profit After Tax	31	29	
EPS	89p	81p	10
DPS	17p	14p	21

- **Continued growth in operations**
 - *Countermeasures +7%*
 - *NIITEK strong growth*
- **Good contribution from recent acquisitions**
 - *Hi-Shear £8m of sales*
- **Increased funding costs**
 - *Debt-funding of Hi-Shear*
 - *Interest cover 5x (2009: 8x)*
- **Tax 26% (2009: 28%)**
- **EPS and DPS up 10% and 21% respectively**
 - *DPS 5.3x covered*

Segmental Results

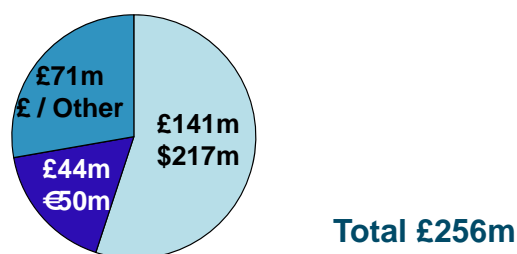
		Interim 2010	Interim 2009
Countermeasures	Revenue	92	86
	Operating Profit *	24	24
	Operating Margin %	27	28
Pyrotechnics	Revenue	69	69
	Operating Profit *	13	15
	Operating Margin %	19	22
EOD	Revenue	41	22
	Operating Profit *	10	5
	Operating Margin %	24	23
Munitions	Revenue	54	57
	Operating Profit *	11	9
	Operating Margin %	20	16
Divisional Underlying Profit		58	53
Unallocated Central Costs		<u>(6)</u>	<u>(7)</u>
Underlying Operating Profit		<u>52</u>	<u>46</u>

*before unallocated central costs

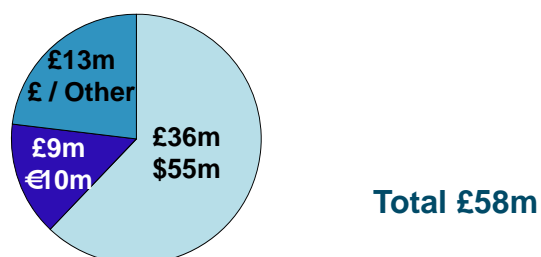
- **Countermeasures**
 - Revenue up 7%, 10% at constant \$
 - Impact of adverse weather and April incident reduced margin slightly
- **Pyrotechnics**
 - Revenue in line with 09
 - Operational gearing at Simmel
 - Upgrade costs in COR
- **EOD**
 - Revenue up 92%
 - NIITEK driving growth in sector
- **Munitions**
 - Operating profit up 27%
 - Operating margins returned to normal levels
- **Unallocated central costs £6m (2009: £7m)**
 - LTIP £1.4m (2009: £1.1m)
 - Restructuring £nil (2009: £1.7m)
 - Head office £4.3m (2009: £3.6m)
- **Underlying Margins**
 - Divisional 23% (2009: 23%)
 - Group 20% (2009: 20%)

Foreign Currency

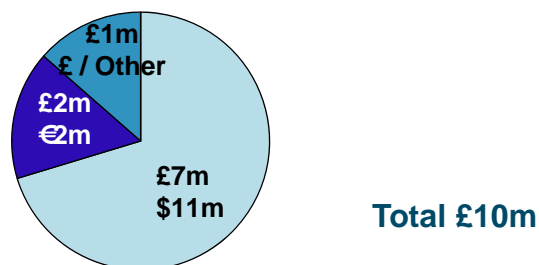
Revenue by Currency as converted to £m



EBIT by Currency as converted to £m



Interest by Currency as converted to £m



- **Average \$ rate 2010: 1.54 (2009: 1.45)**
 - **6% depreciation**
- **Average € rate 2010: 1.13 (2009: 1.10)**
 - **Minimal impact**
- **Interest 70% US\$ denominated**
- **PBT at constant FX £2m or 4p EPS**
- **FX impact increased assets £22m, debt £16m in H1**
- **Impact of 10 cents move in \$**
 - **£15m ± revenue**
 - **£30m ± assets**
 - **£20m ± debt**

Balance Sheet

<u>£m</u>	<u>Interim 2010</u>	<u>Interim 2009</u>
Goodwill	208	155
Acquired Intangibles	131	96
Tangible Assets	154	128
Other Net Assets	107	76
Tax	(26)	(20)
Pension Deficit	(30)	(17)
Gross Debt	(332)	(209)
Cash	72	42
Net Debt	(260)	(167)
Shareholders' Funds	284	251
Gearing	92%	66%

■ 2 acquisitions in period

- *Hi-Shear - £79m*
- *Chemring Fuze Technology - £10m*
- *Debt-funded*

■ £22m Capital spend

- *UK and Australia production facilities continuing*
- *Higher spend to deliver UK “surge” capacity*
- *2010 capital estimate £50m*

■ \$280m private placement in November 2009

- *Cost of fixed interest debt 5.5%*
- *Average funding period - 9 years*

Cash Flow

<u>£m</u>	<u>Interim 2010</u>	<u>Interim 2009</u>
Operating Cash Flow	28	31
Operating Cash conversion % from EBIT	54	67
Tax	(12)	(7)
Capital spend	(22)	(16)
Cash Flow from Operating Activities	(6)	8
Interest	(6)	(6)
Dividends	(13)	(9)
Net acquisitions spend	(94)	(27)
Purchase of own shares	(2)	(1)

- **Operating cash flow down 10%**
 - *Growth in working capital to support higher H2*
 - *Full year target 90%+ conversion from EBIT*

- **Continued focus on investing for the future**
 - *2 major capital projects continuing*

- **Acquisition debt-funded**

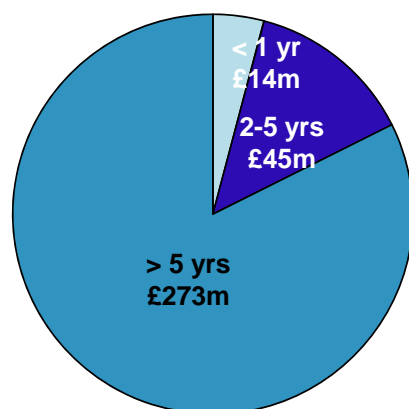
Cash & Debt

COVENANTS	Minimum	Actual	Headroom
Interest cover to EBITDA*	4	9	£90m
Debt: EBITDA	3	2	£150m

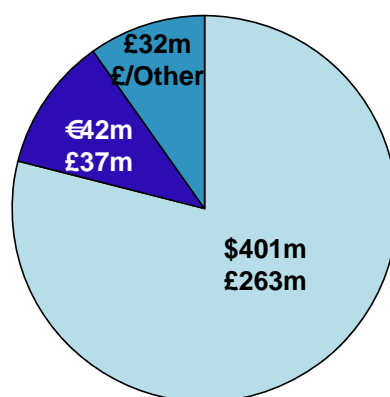
* Covenants tested on historic rolling 12 months

- Strong covenant compliance continues
- Headroom on core facilities
➤ £100m+
- \$700m of gross assets hedged by \$400m debt
- Average debt profile 7 years
- Average cost of debt 6%

Gross Debt Profile £332m



Analysis of Debt in Local Currency



DEBT SUMMARY	£m
Gross Debt	332
Cash	72
Net Debt	260
Gearing	92%

Half Year Results to 30 April 2010

