

Chemring Group PLC

Introduction to Chemring

February 2009

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Chemring Group PLC

- Chemring is a leading manufacturer of high value specialist products for the defence sector through its 2 core business segments:

Energetics



Countermeasures

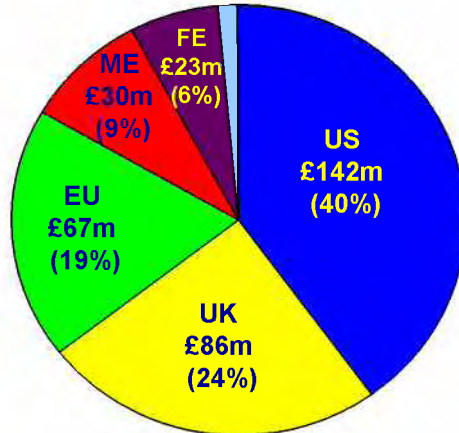


Global Market	£1bn	£2bn	£10bn	£0.5bn
Market Share	7.5%	c.1%	c.1%	55%

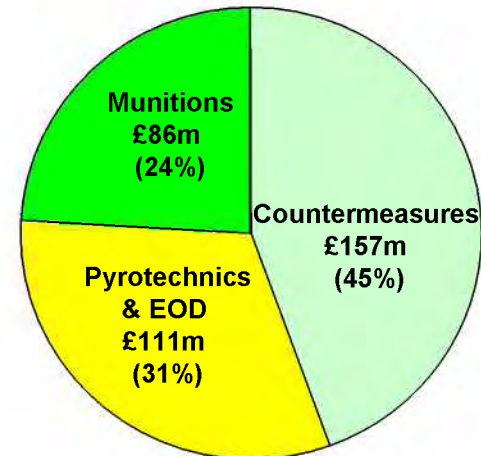
- High volume manufacturer
- Strong investment in products, facilities & safety
- Acquisitive – 12 companies in last 3 years
- Global – wide customer base in 80 countries
– 21 sites in US & Europe

Global Customer Base

Sales by Destination



Sales by Segment

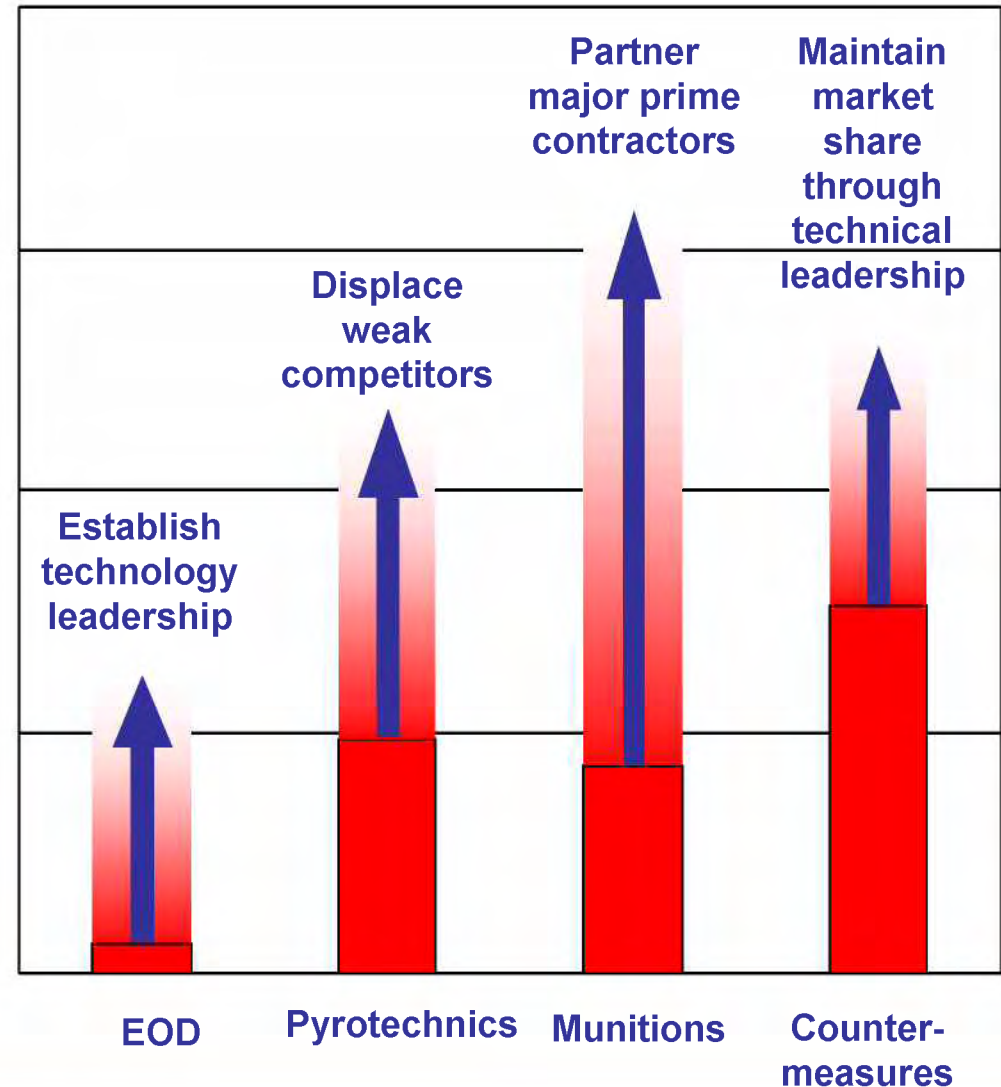


- US DoD is Chemring's largest single customer; US Air Force is largest component
- Chemring is the principal supplier of flares to US DoD and UK MoD
- Chemring has extensive relationships with prime contractors
 - *BAE Systems*
 - *ATK*
 - *Saab Dynamics*
 - *Raytheon*
 - *General Dynamics*
 - *Martin Baker*
 - *Boeing*
 - *Lockheed Martin*

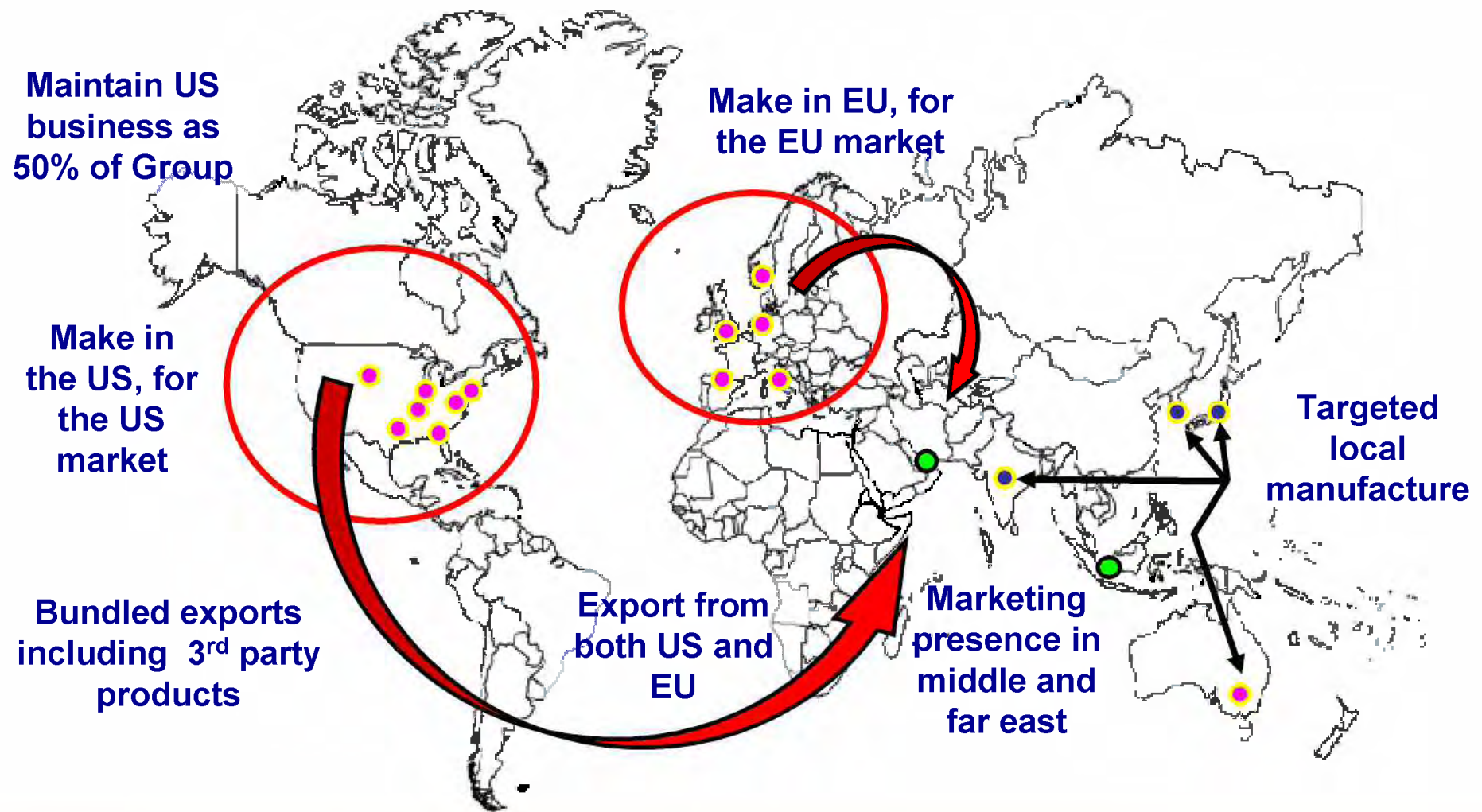
Core Strategy

Strategic Intent:

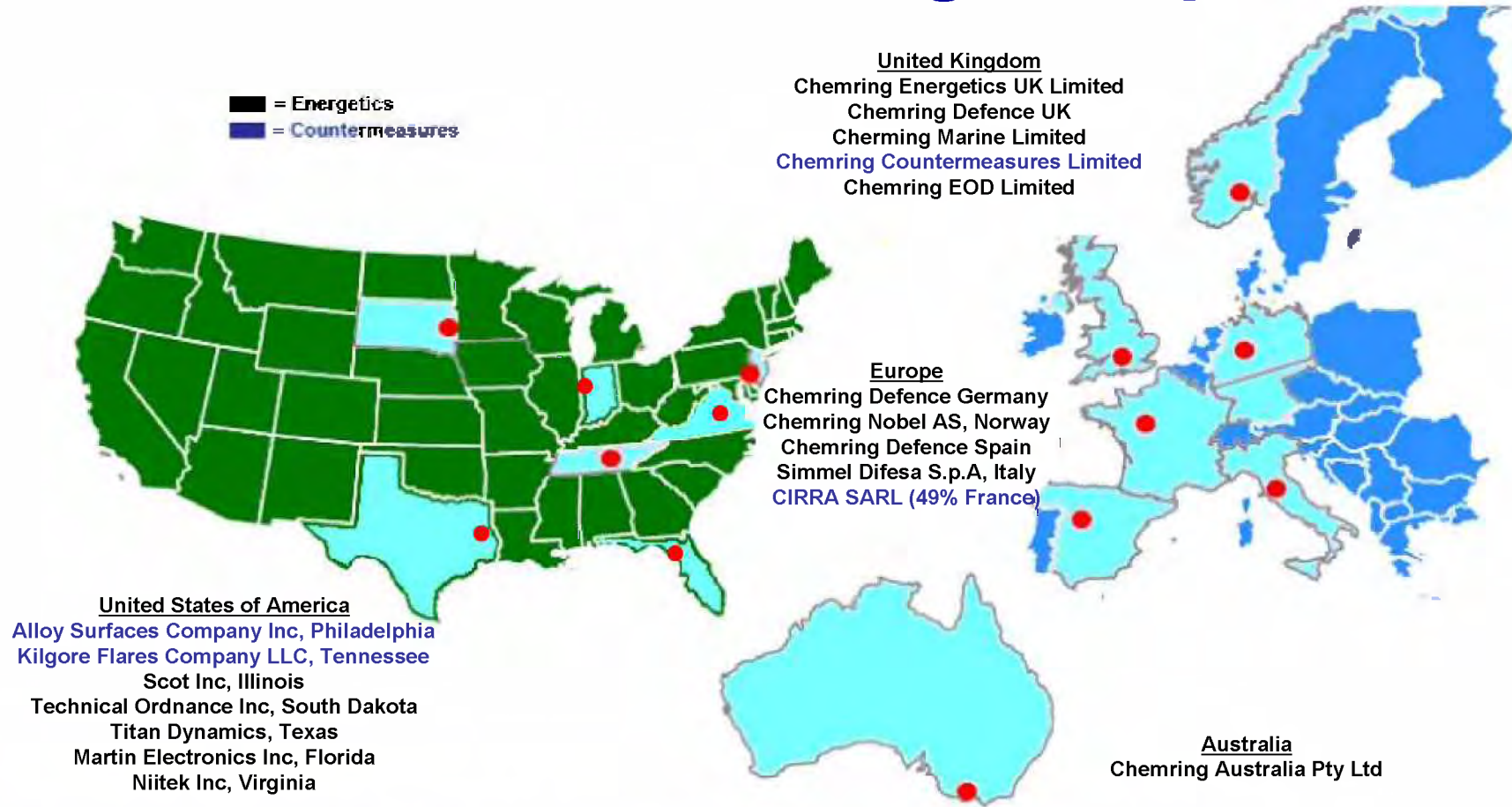
- **Excellence in core competences**
 - *Energetic materials*
 - *High volume manufacturing*
 - *Global defence markets*
- **Maintain US/Europe Balance**
- **Expand Pyrotechnics**
 - *...become undisputed World Leader*
 - *...develop products to displace incumbents*
- **Explosive Ordnance Disposal**
 - *... be World Leader in Demolition Stores*
 - *...be a World Leader in EOD capability*
- **Develop strong Munitions business**
 - *...be a strategic partner for Munition Primes*
 - *...be a niche Prime Contractor*
- **Expand countermeasures**
 - *Maintain position as World Leader*
 - *Exploit lead in SMD, spectral & thrusted flares*
 - *Maintain lead position on all new platforms*
- **Consolidation for synergy & critical mass**



Geographic Strategy



Global Manufacturing Footprint

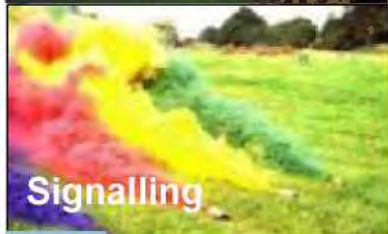


- *Manufacturing operations in eight strong defence-spending countries*
- *Global manufacturing footprint provides flexibility to match customer orders*
- *Focused programme of capital investment*

Pyrotechnics Market – Global Market c.£1bn



Screening



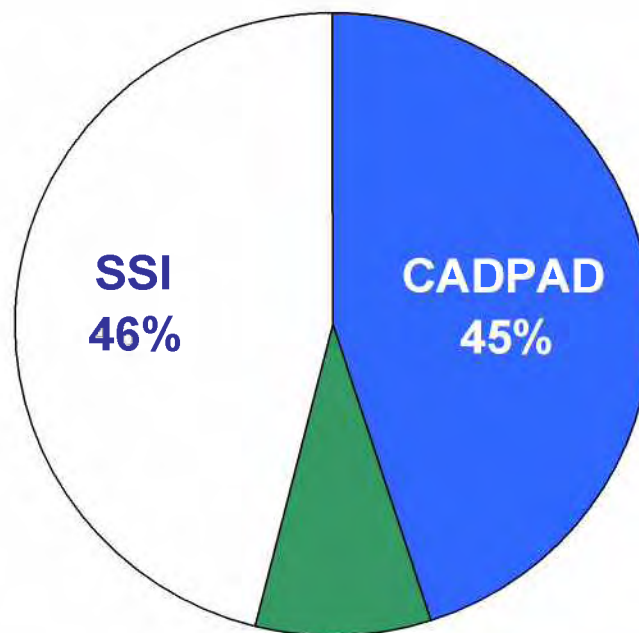
Signalling



Illumination



Marine Distress



Battlefield Simulation 9%



Missile Simulator

IED Simulator



Aircrew Egress



Cartridges & Initiators

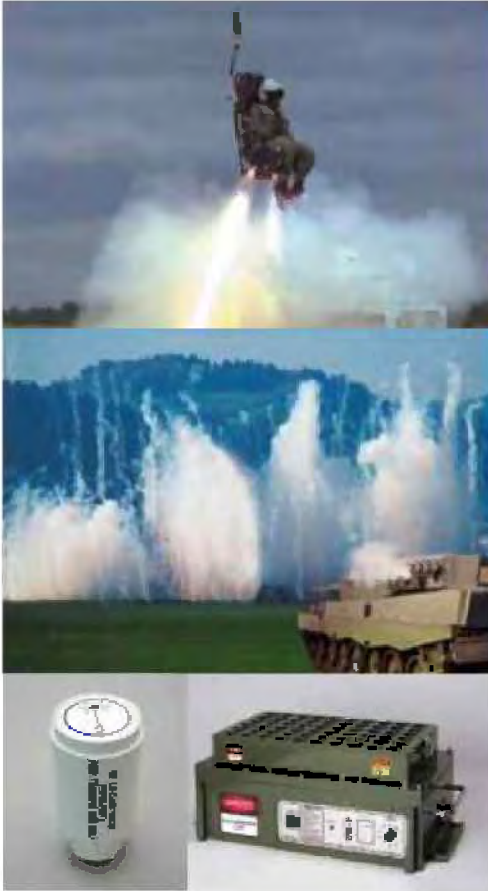


Missiles



Space

Pyrotechnics Strategy



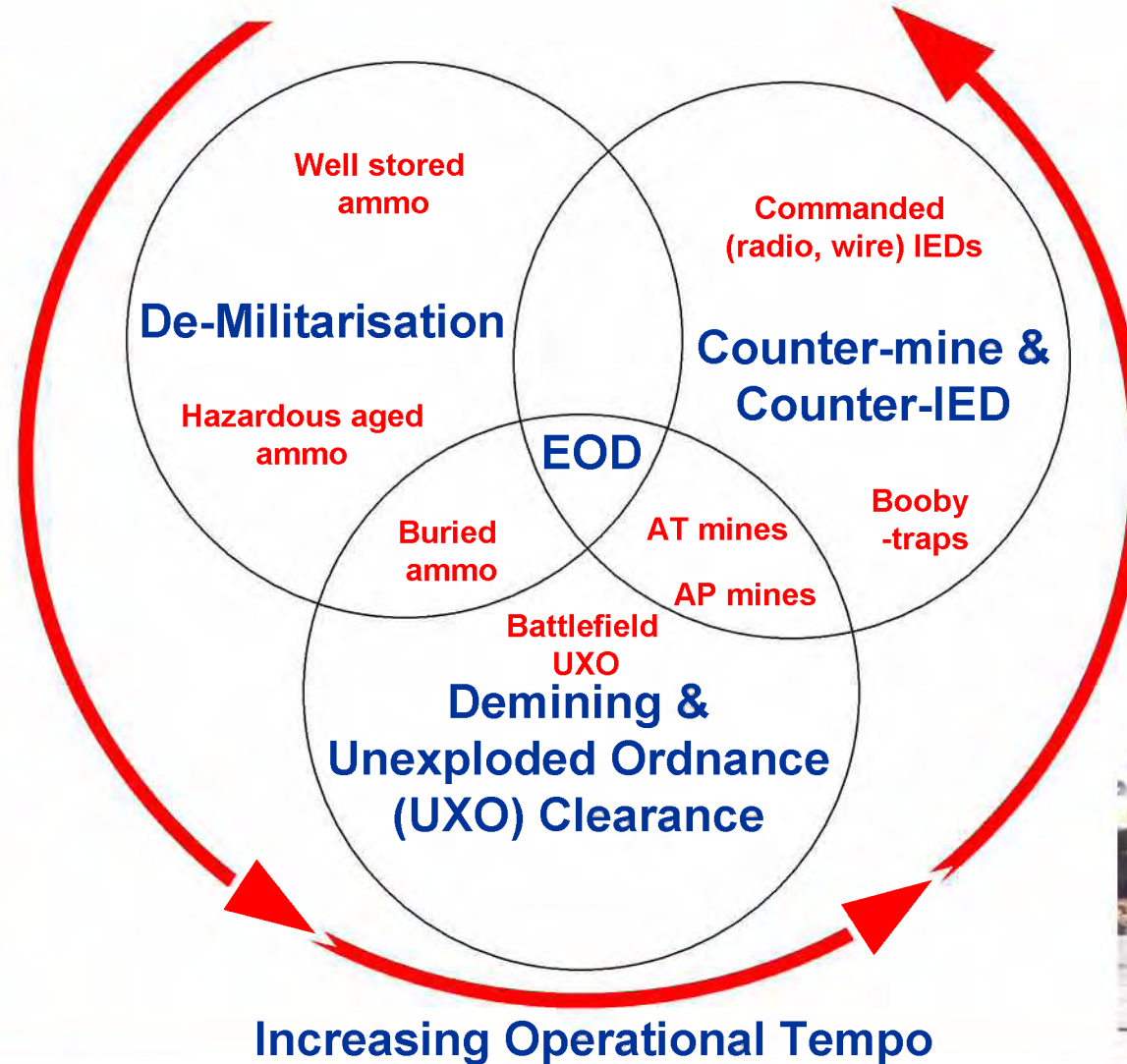
Pyrotechnics is a highly fragmented market

- Chemring has a 7.5% market share
- Large number of small competitors
- Not considered a priority market by most companies
- Many national champions with limited international access
- Often small or family-run businesses with:
 - *Manual manufacture and assembly*
 - *Low product investment*
 - *Aging technology*

Chemring strategy

- *Rapidly develop new products*
- *Displace current incumbents*
- *Establish position as cost-competitive second source*
- *Become world leader in pyrotechnics*

Explosive Ordnance Disposal – Global Market c.£2bn



EOD Strategy



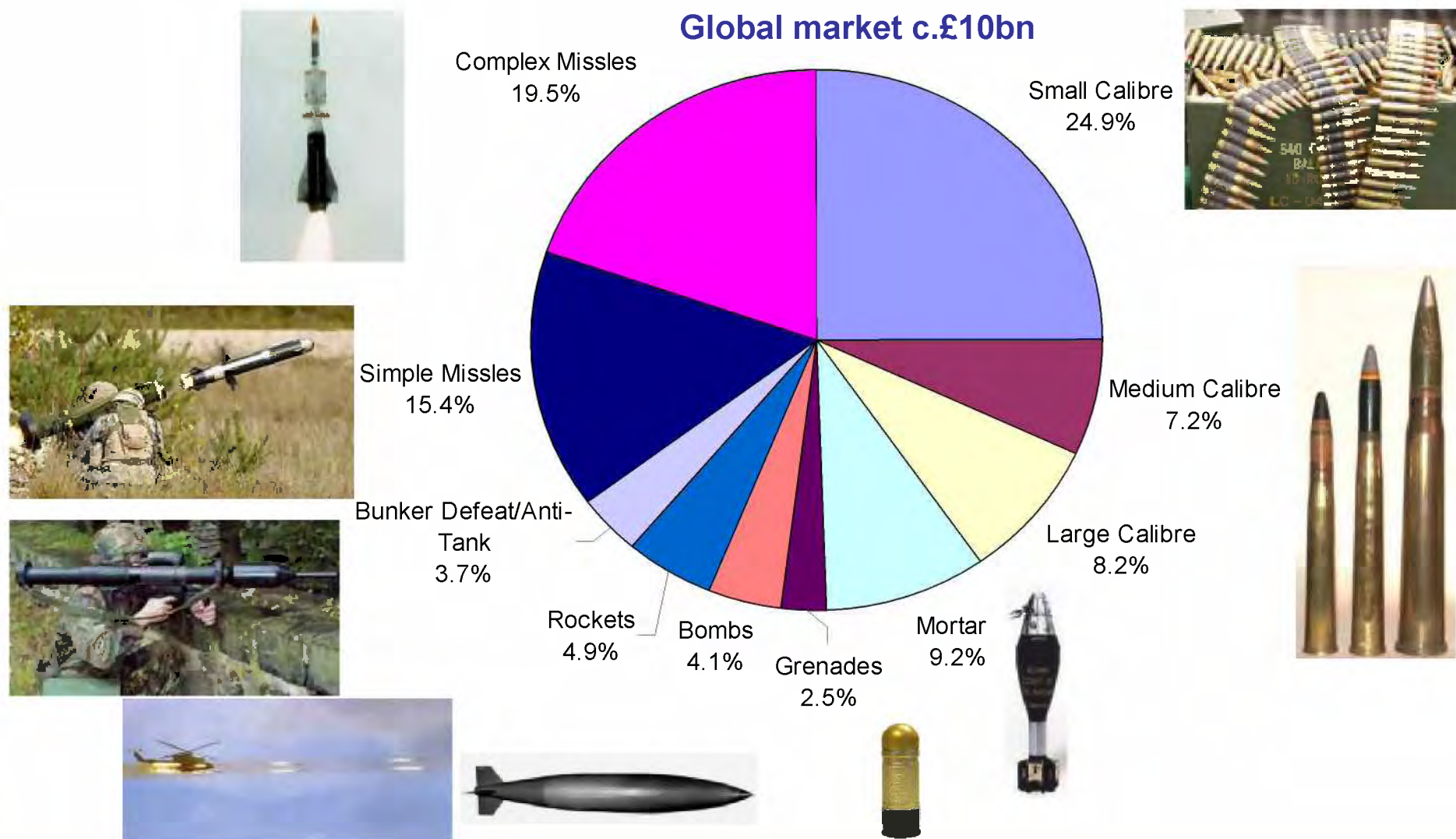
Highly fragmented market

- Large number of small players
- Users have a strong explosives background
- Fast technology cycle
 - *Rapidly evolving threat*
 - *Users need rapid prototyping*
- Constraints on sensitive technologies
- Electronics are a significant part of the market

Chemring strategy

- *Maintain world lead in:*
 - *Disrupter technology*
 - *Weapon carriers*
 - *Demolition stores*
- *Expand detection & jamming*

Munitions Market – Global Market c.£10bn



Munitions Subsystems Strategy



- **Propellants and rocket motors**
 - *Complete qualification of 155mm Modular Charge System*
 - *Build on NLAW position and expand relationships with missile primes*
 - *Expand position on 70mm & 81mm rockets*
- **Fuzing**
 - *40mm grenades – develop self-destruct fuze technology*
 - *Mortars – complete development of cost competitive fuze products*
 - *Medium calibre – establish position on US programmes*
- **Warheads**
 - *Expand position on European missile programmes – start PAAMS production*
 - *Complete work with Nexter on NTO IM technology*
 - *Penetrate US and European markets with range of IM products (DPX series)*
- **Pellets & Primers**
 - *Grow partnerships with leading prime contractors in US and Europe*

Munitions Strategy



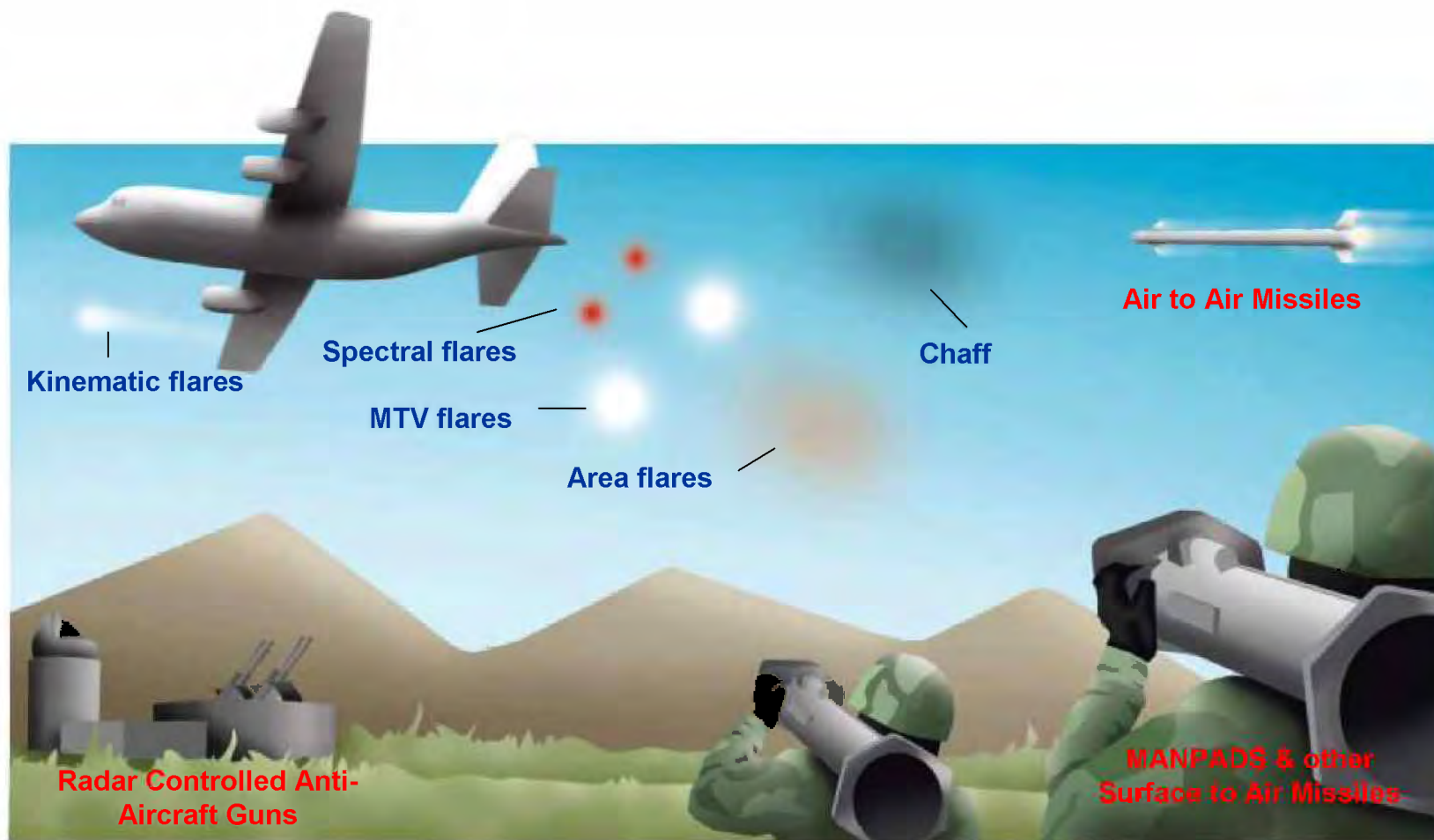
- **40mm Grenades**
 - *Develop complete family of ammunition including pyrotechnic rounds*
 - *Grow strategic supplier relationships with US prime contractors*
 - *Introduce medium velocity technology to US and Europe*
 - *Build position as major exporter*

- **Mortars – 60mm, 81mm, 120mm calibres**
 - *Maintain BAE Systems partnership*
 - *Develop GD relationship on lightweight mortar*
 - *Develop pyrotechnic payloads for US market*

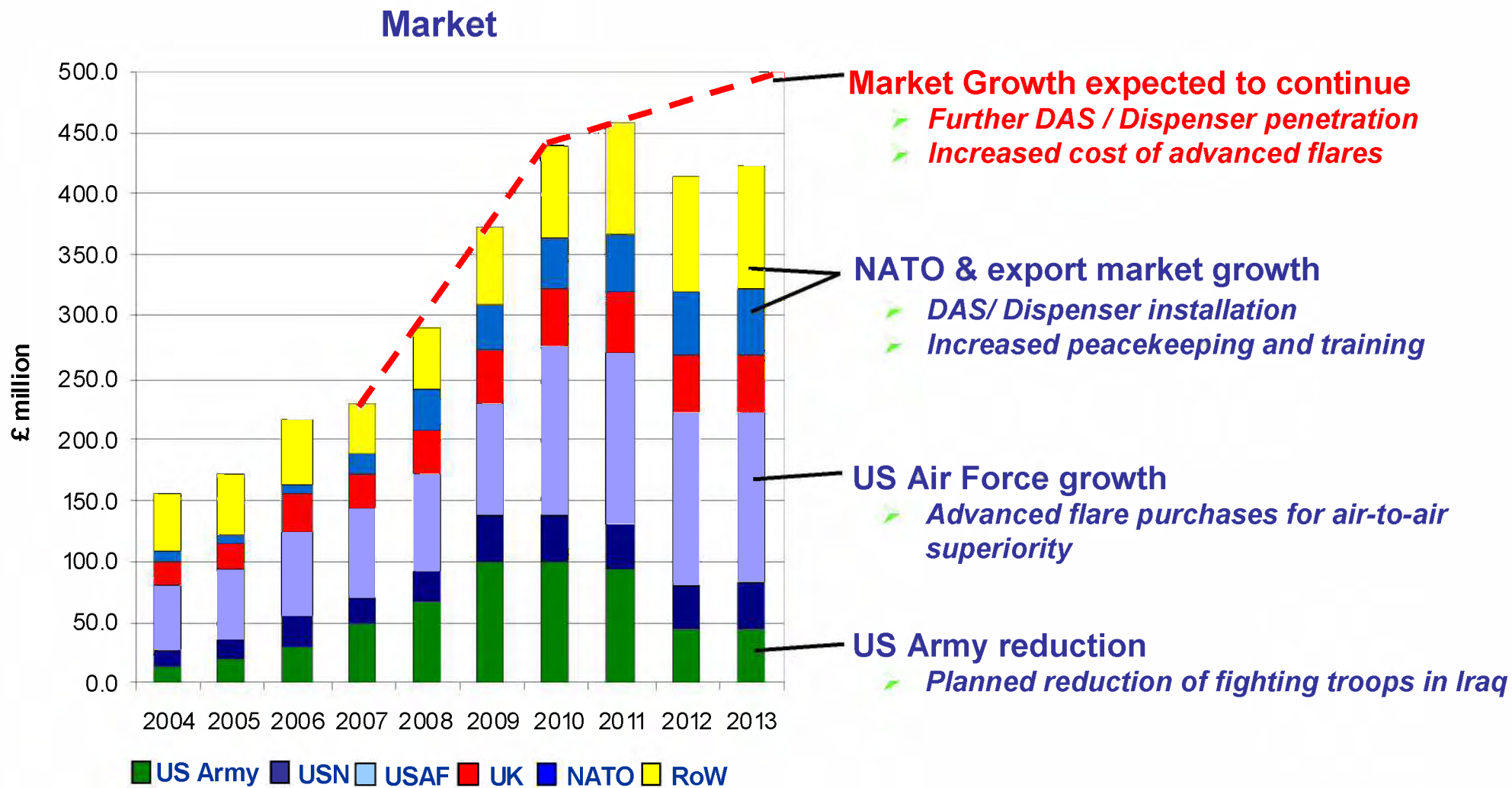
- **Naval ammunition**
 - *40mm L60 & L70 – expand export market position, including US Air force*
 - *76mm L62 – maintain position with key customers (NATO, Middle East, India)*
 - *127mm L54 – complete development of IM, microwave fuze and PFF variants*

- **Tank ammunition**
 - *Maintain niche prime contractor position on 120mm and 125mm calibres*

Countermeasures – Threat

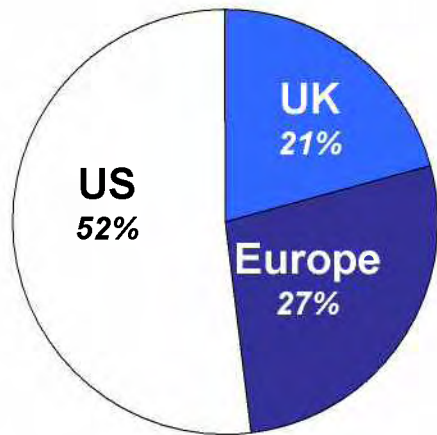


The Global Countermeasure Market

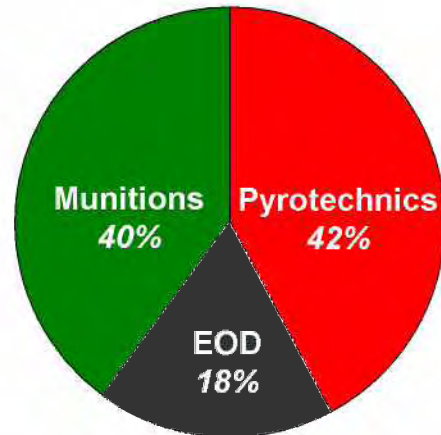


Source: Internal estimates based on US program documentation & export market knowledge

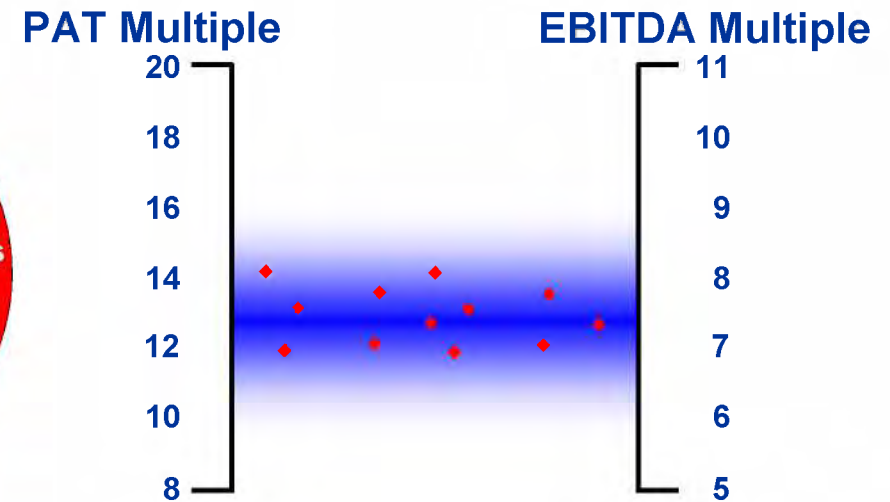
Acquisitions



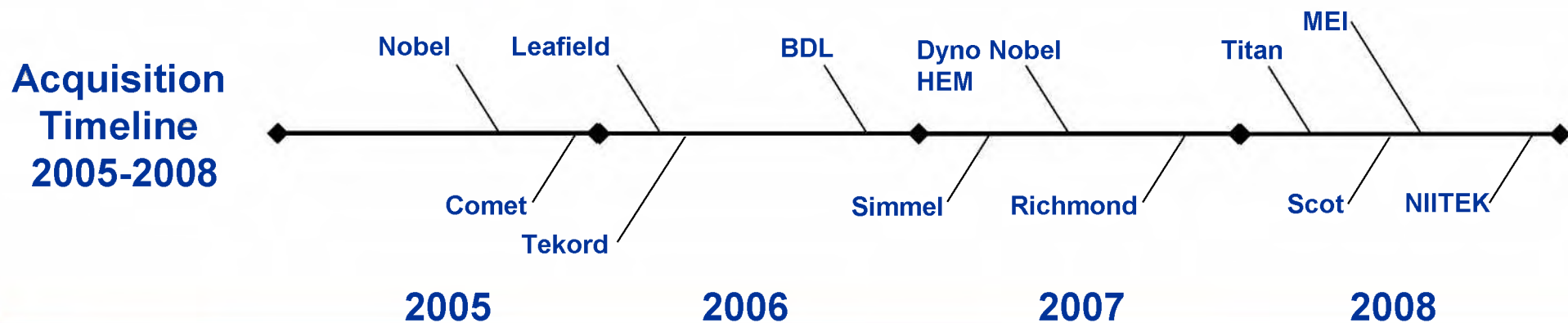
Geographic Balance



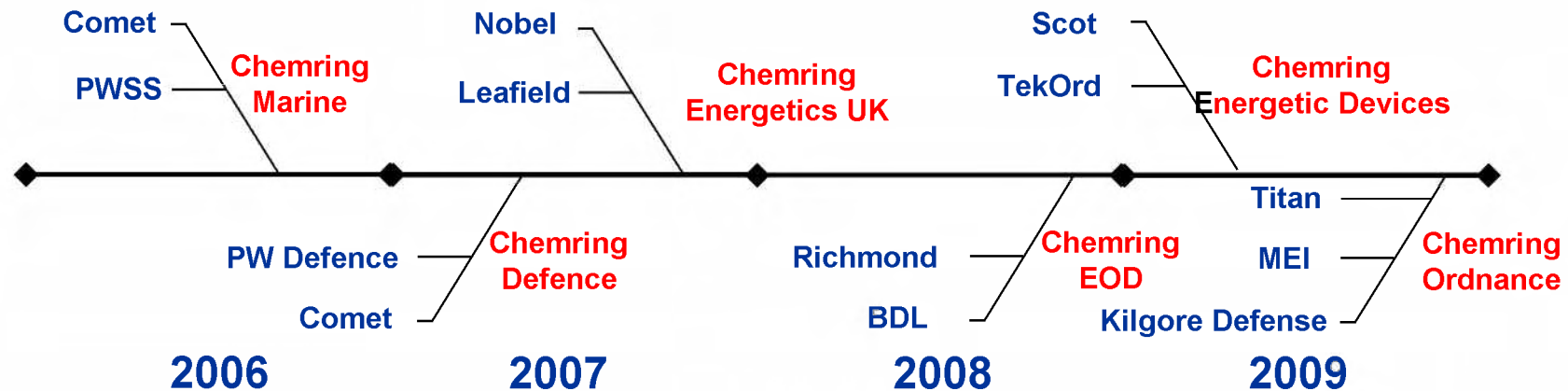
Split by Segment



Total investment on acquisitions from 2005 – 2008 c.£230m



Acquisition Integration

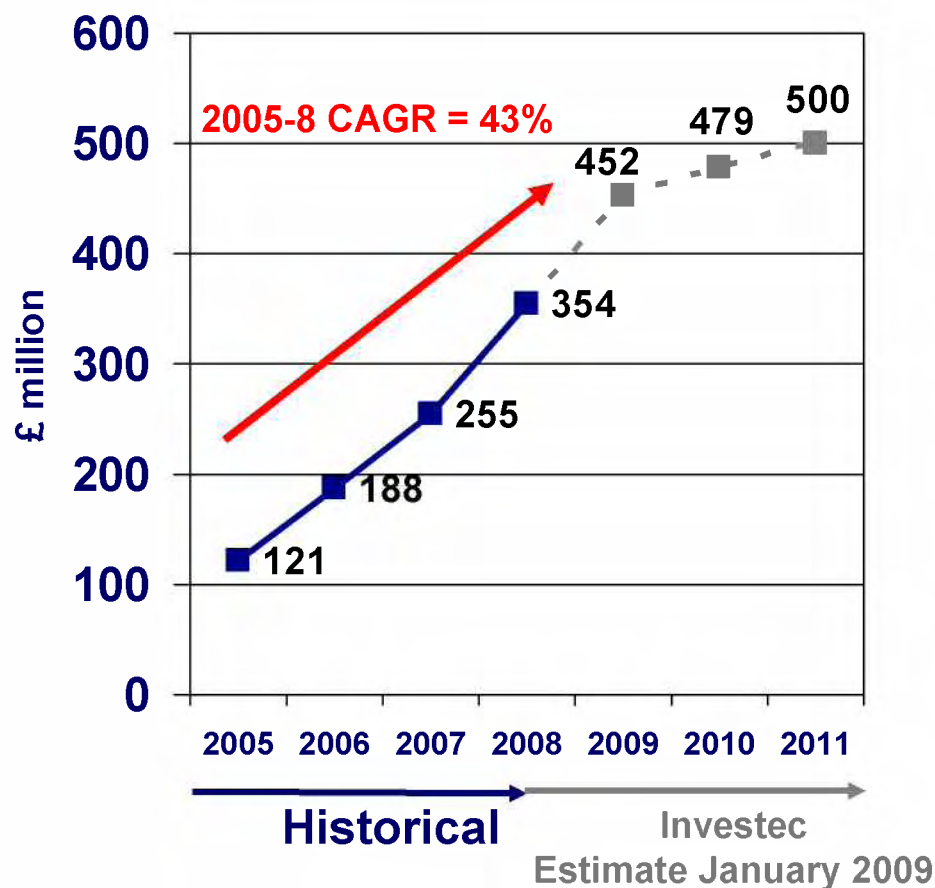


Integration strategy

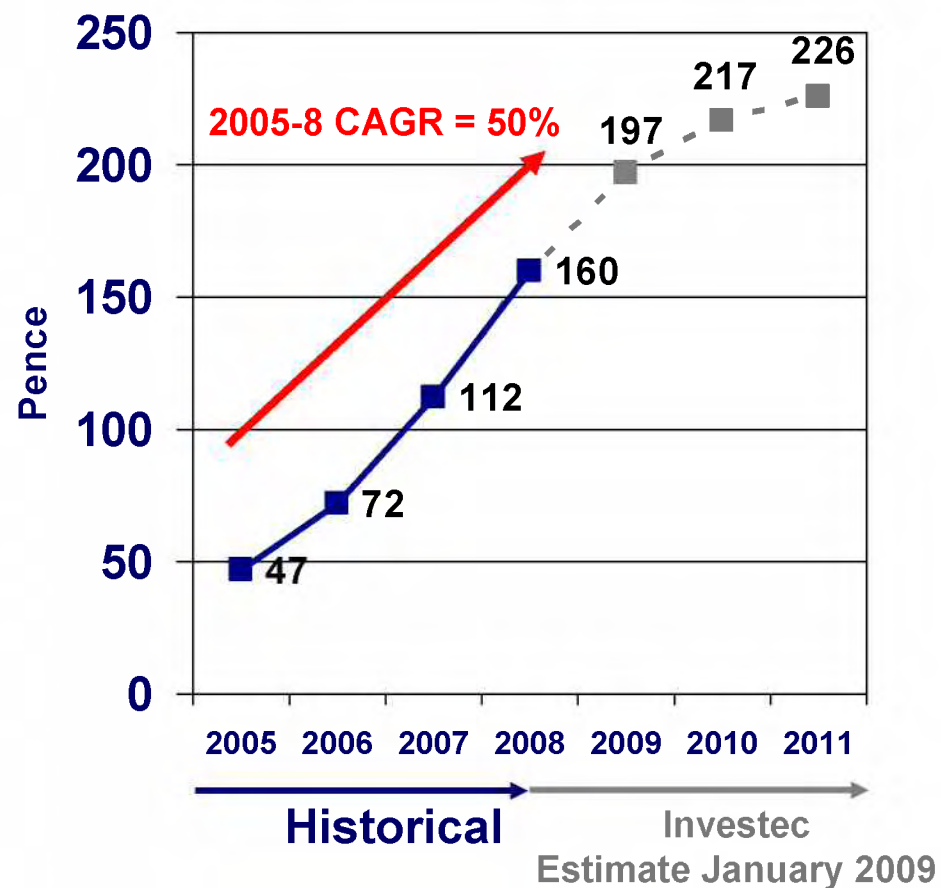
- Establish product Centre of Excellence
- Start improved product investment
- Take products to global market – access to 80 countries
- Significantly increase production volumes
- Introduce automated manufacture
- Substantial investment in safety

Financial Review

Sales



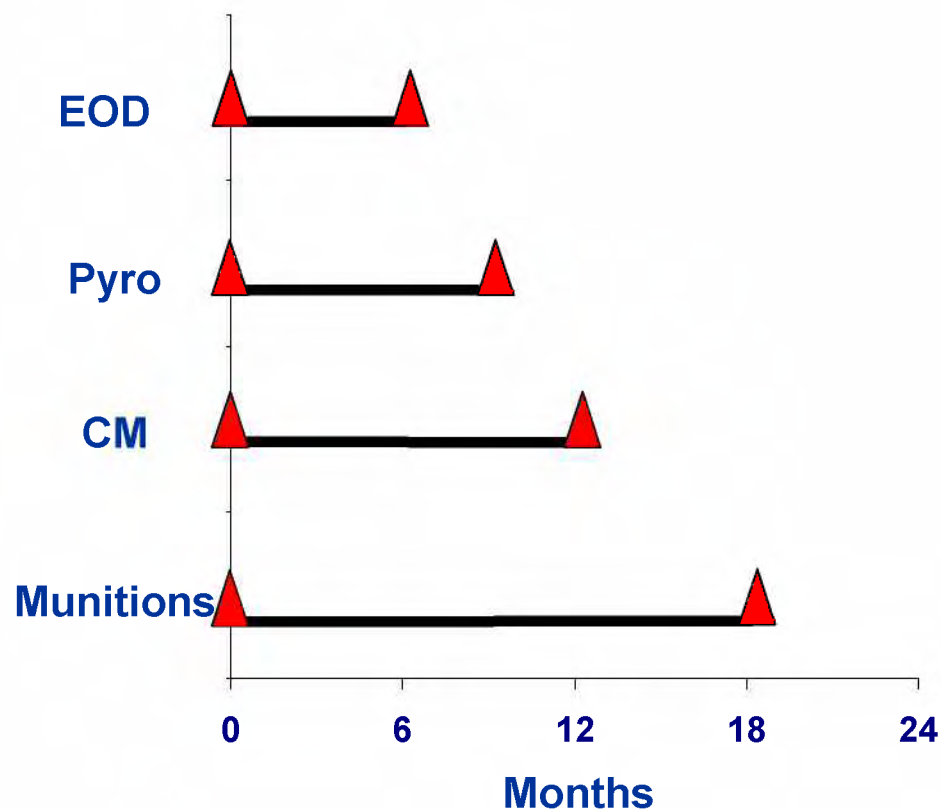
Earnings per Share



Nothing in this presentation should be construed as a profit forecast or be interpreted to mean that the future earnings per share or profits of Chemring will necessarily be greater than the historic published earnings per share.

Financial Review

Business Model – Order to Sales



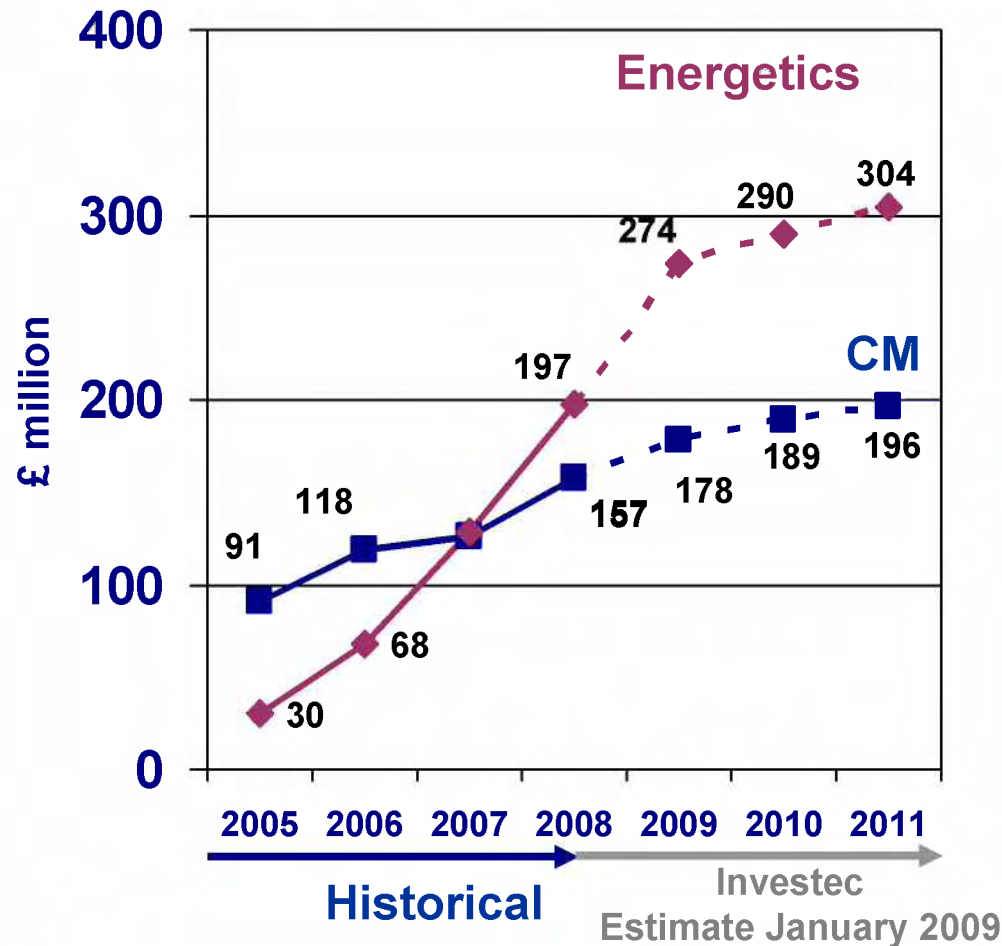
Order Book & Sales



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Financial Review

Segmental Analysis



Organic & acquisitive growth in Energetics

- Promote products to 80 countries
- Investment in new products
- Displace current incumbents
- Establish second source position
- Acquisitions may accelerate growth
 - Access to new markets
 - Access to new products

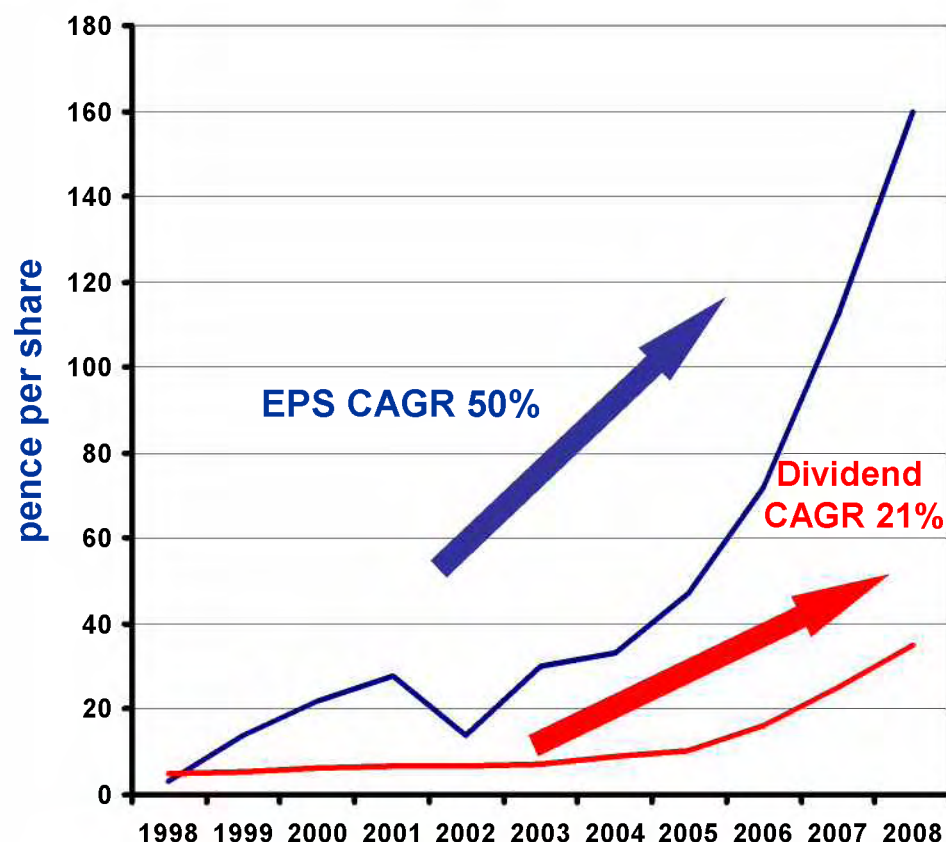
Organic growth in Countermeasures

- 55% global market share
- Technical leadership
- Investment in automation
- New joint ventures in key markets

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Sustained Growth

Chemring EPS & Dividends 10-Year History



■ 10-year Growth

➤ EPS: 50% CAGR

➤ Dividends: 21% CAGR

■ 2007 – 2008 Growth

➤ Operating cashflow £84m – up 38%

➤ PBT: £74m – up 40%

➤ PAT: £53m – up 47%

➤ EPS: 160p – up 43%

■ Gearing 51% (2007: 80%)

Financial Review

Balance Sheet	2008 £m	2007 £m
Assets	348	224
Net Debt	(117)	(100)
Shareholders Funds	231	124
Gearing	51%	81%

■ Strong operating cash conversion

- *100% conversion of profit to cash over 4 years*

■ Strong balance sheet

- *For acquisition & capital investment*
- *Committed bank facilities of £150m*

	2005 (£m)	2006 (£m)	2007 (£m)	2008 (£m)	4 yr Avg
EBIT	23	38	61	85	52
Operating cash	21	46	61	84	53
Cash conversion	92%	118%	100%	99%	102%