



CHEMRING GROUP PLC

Chemring Group PLC

Introduction to Chemring

January 2010

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Chemring Group PLC



Global Market

Chemring Market Share

£1.2bn

15%

£2bn

c.3%

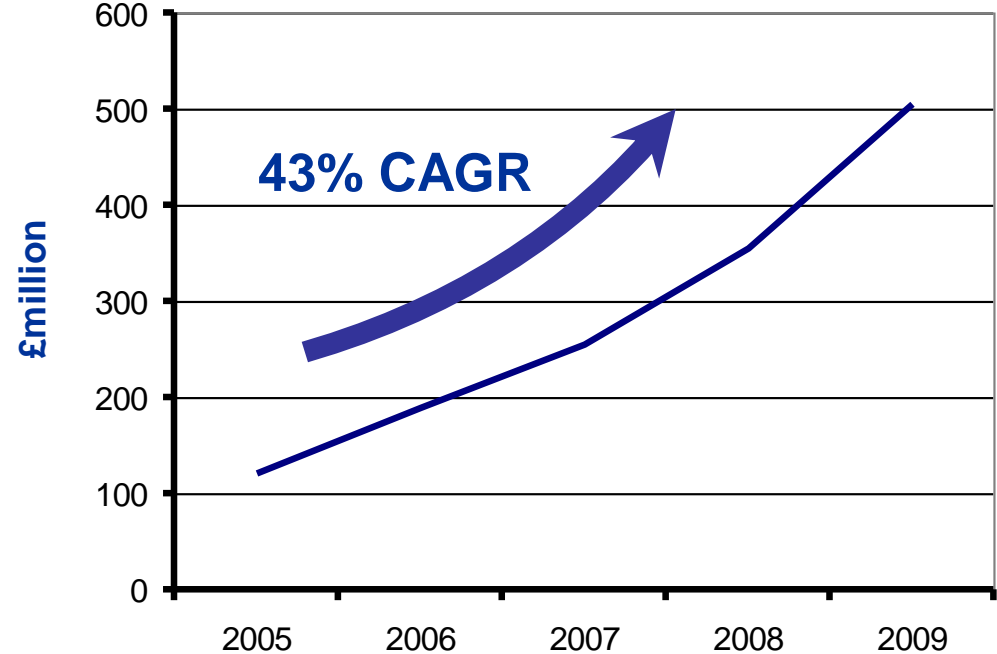
£10bn

c.1%

£350m

52%

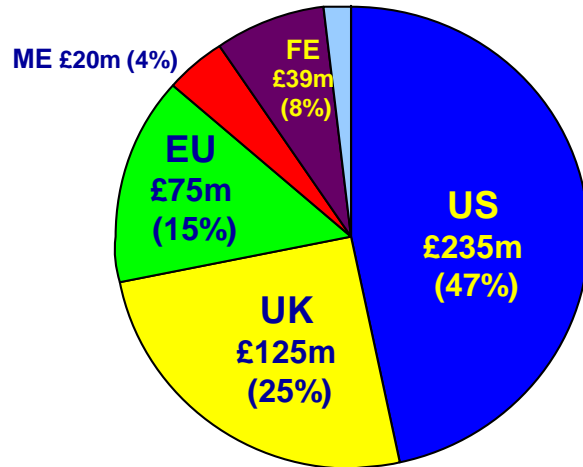
Revenue Growth 2005 – 2009



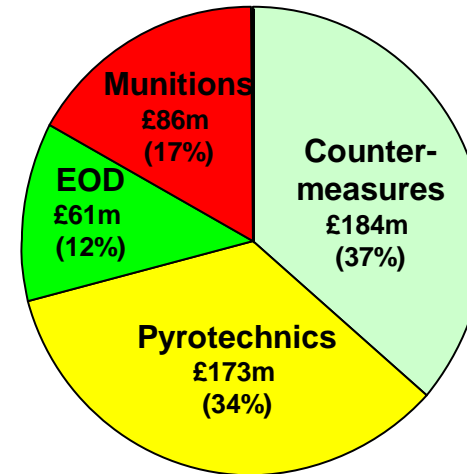
- **2009 Revenues: £504m**
- **2009 underlying PBT: £103m**
- **3,500 employees**
- **High margin, niche growth**
- **Sales to 80 countries around the world**
- **21 facilities in 8 countries**

Global Customer Base

Revenue by Destination



Revenue by Segment

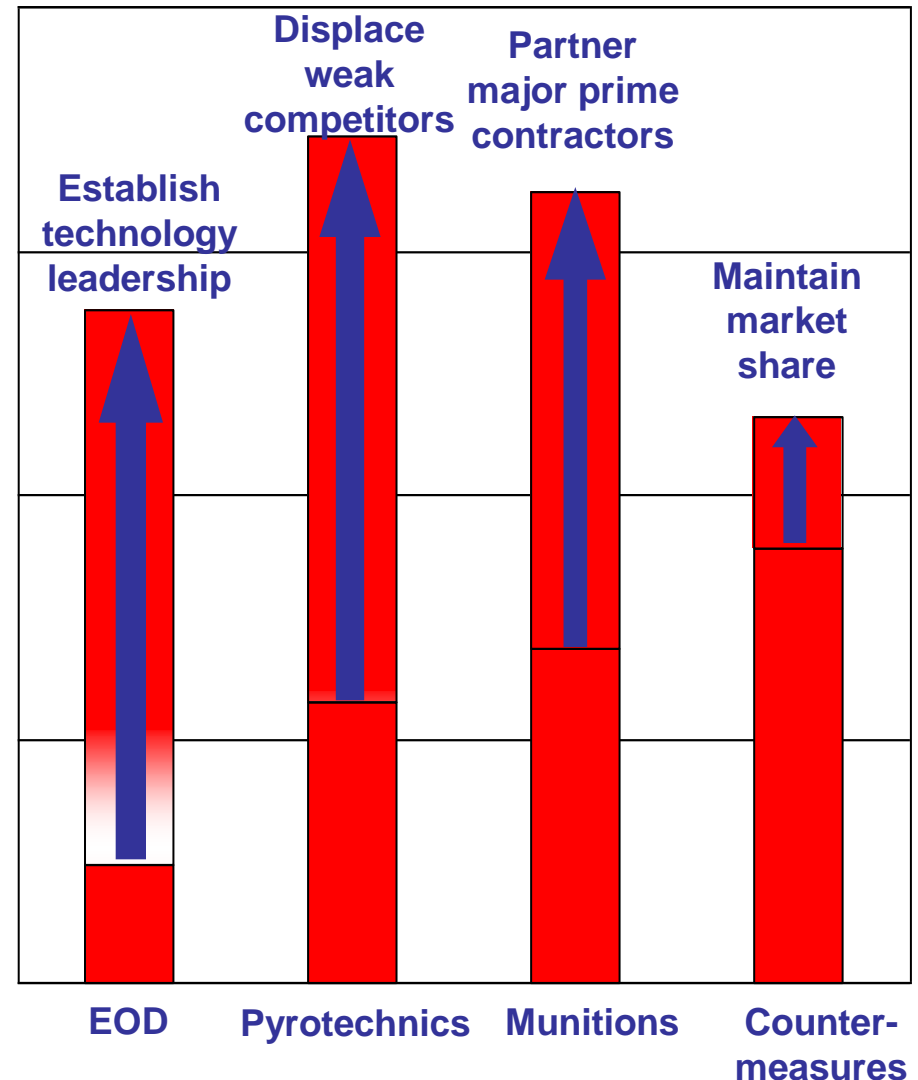


- US DoD is Chemring's largest single customer; US Air Force is largest component
- Chemring is the principal supplier of flares to US DoD and UK MoD
- Chemring has extensive relationships with prime contractors
 - BAE Systems
 - ATK
 - Saab Dynamics
 - Raytheon
 - General Dynamics
 - Martin Baker
 -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

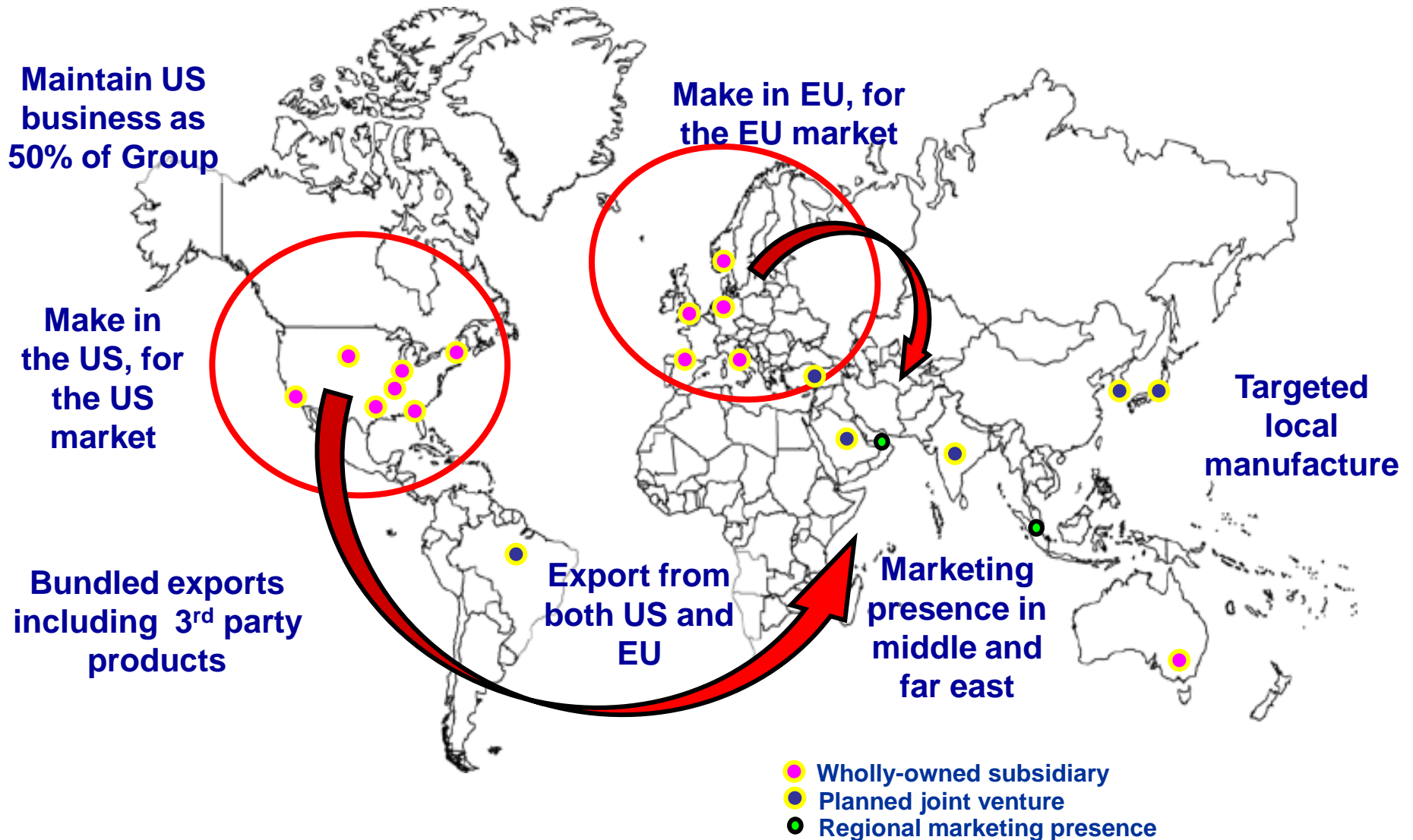
Core Strategy

Strategic Intent:

- **Excellence in core competences**
 - *Energetic materials*
 - *High product reliability and integrity*
 - *High volume manufacturing*
 - *Global defence markets*
- **Maintain US/Europe Balance**
- **Expand Pyrotechnics**
 - *...become undisputed World Leader*
 - *...technology insertion for new requirements*
- **Explosive Ordnance Disposal**
 - *... be a World Leader in detection & neutralisation*
 - *...develop demil and service offerings*
- **Develop strong Munitions business**
 - *...be a supplier of choice for Munition Primes*
 - *...be a niche Prime Contractor*
- **Maintain world lead in Countermeasures**
 - *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
- Focussed programme of capital investment

Pyrotechnics Market – Global Market c.£1.2bn



Screening



Signals

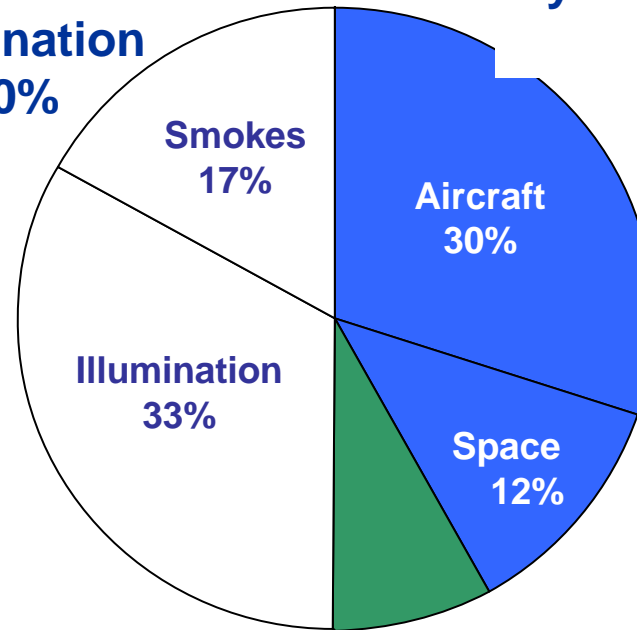


Illumination



Marine Distress

Signals & Illumination
50%



Battlefield Simulation
8%



Missile Simulator



IED Simulator



Aircrew Egress



Aircraft Emergency



Impulse Cartridges



Space

Pyrotechnics Strategy



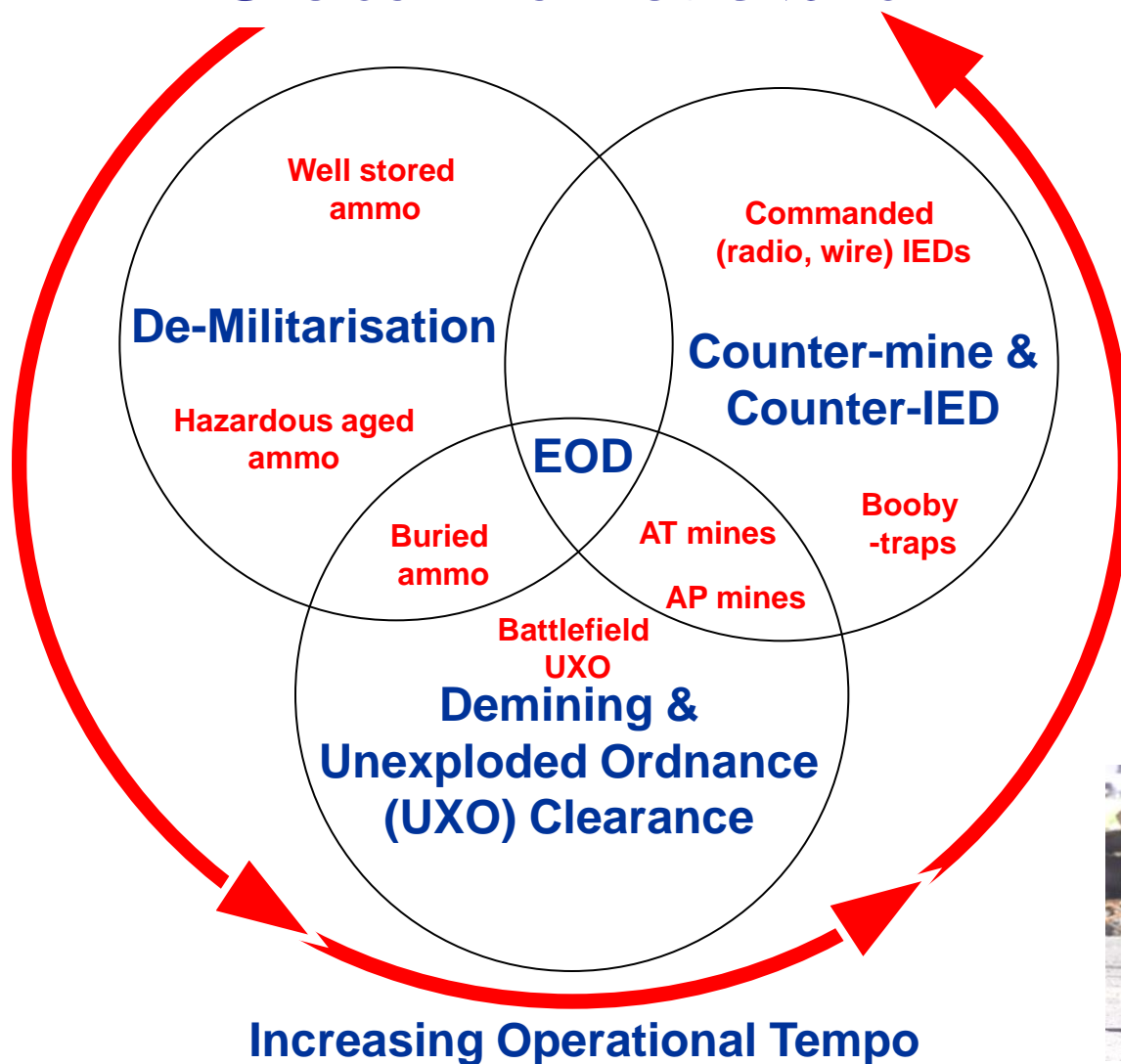
Pyrotechnics is a highly fragmented market

- Chemring has a 15% market share
- Large number of small competitors
- Not considered a priority market by large companies
- Many national champions with limited international access
- Often small or family-run businesses with:
 - *Manual manufacture and assembly*
 - *Low product investment*
 - *Aging technology*

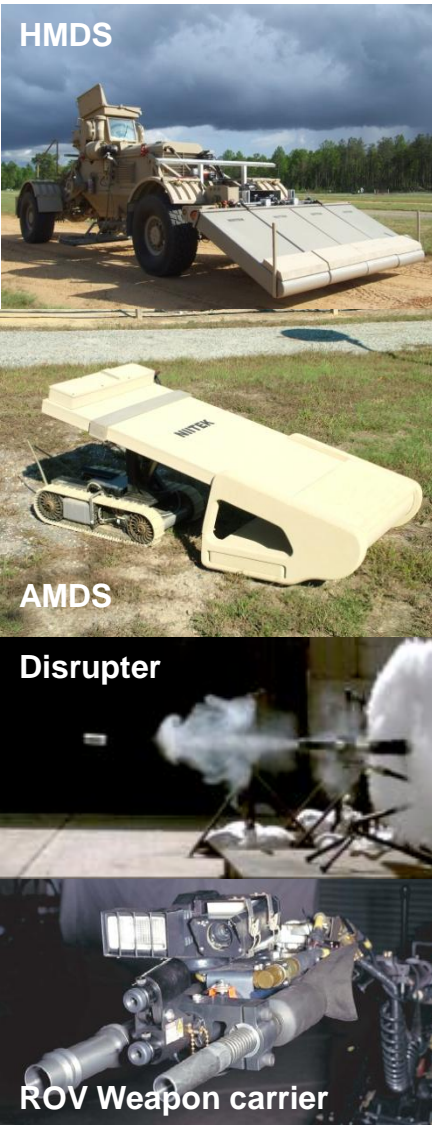
Chemring strategy

- *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

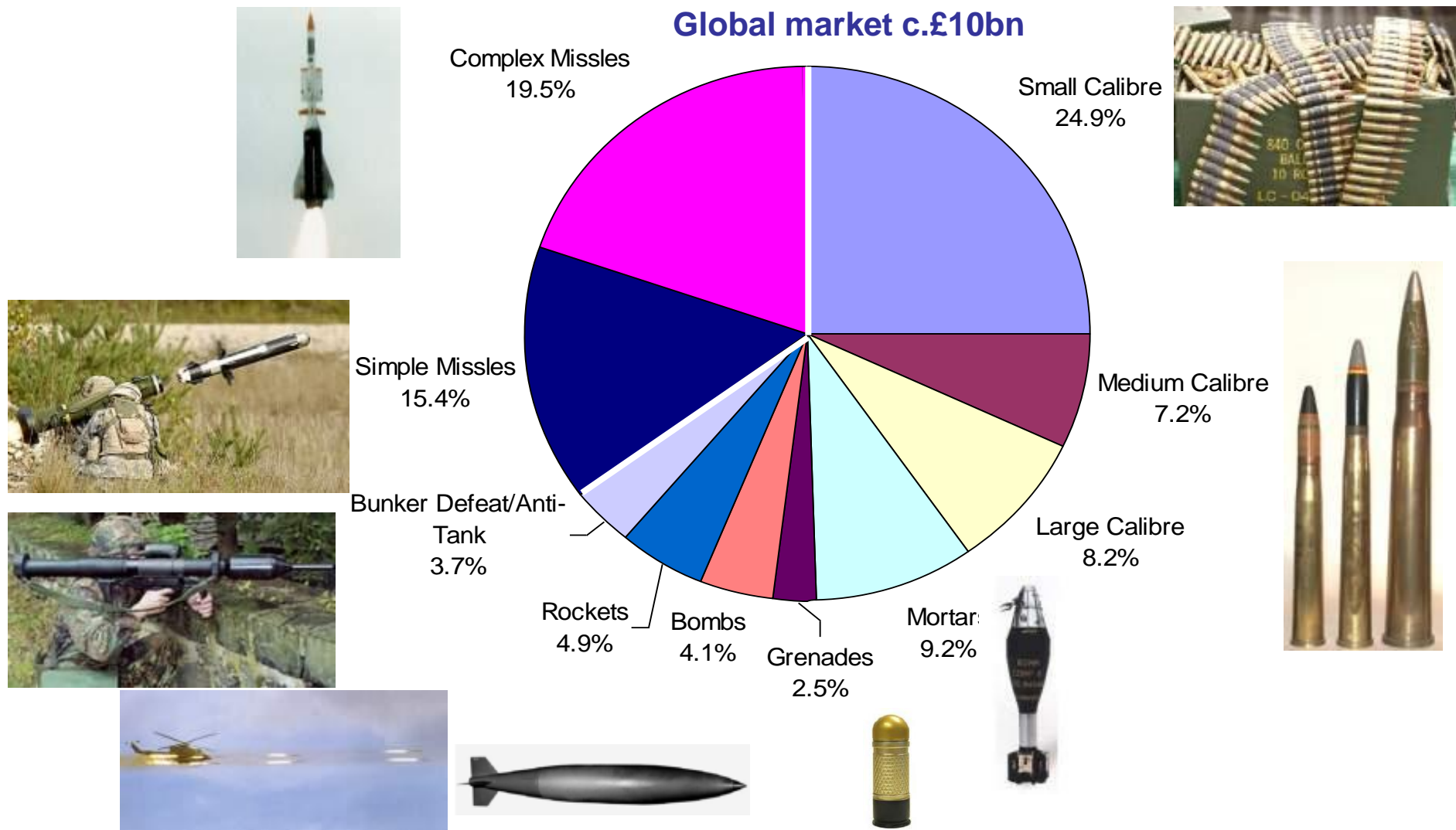
- Large number of small players
- Users have a strong explosives background
- Fast technology cycle
 - *Rapidly evolving threat*
 - *Users need rapid prototyping*
- Constraints on sensitive technologies
- Electronics are a significant part of the market

Chemring strategy

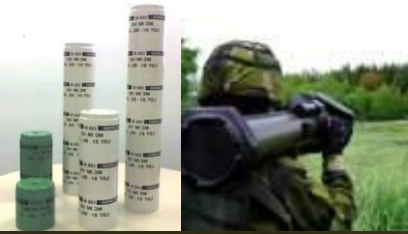
- *Maintain world lead in:*
 - *Disrupter technology*
 - *Weapon carriers*
 - *Demolition stores*
- *Expand detection & jamming*



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*



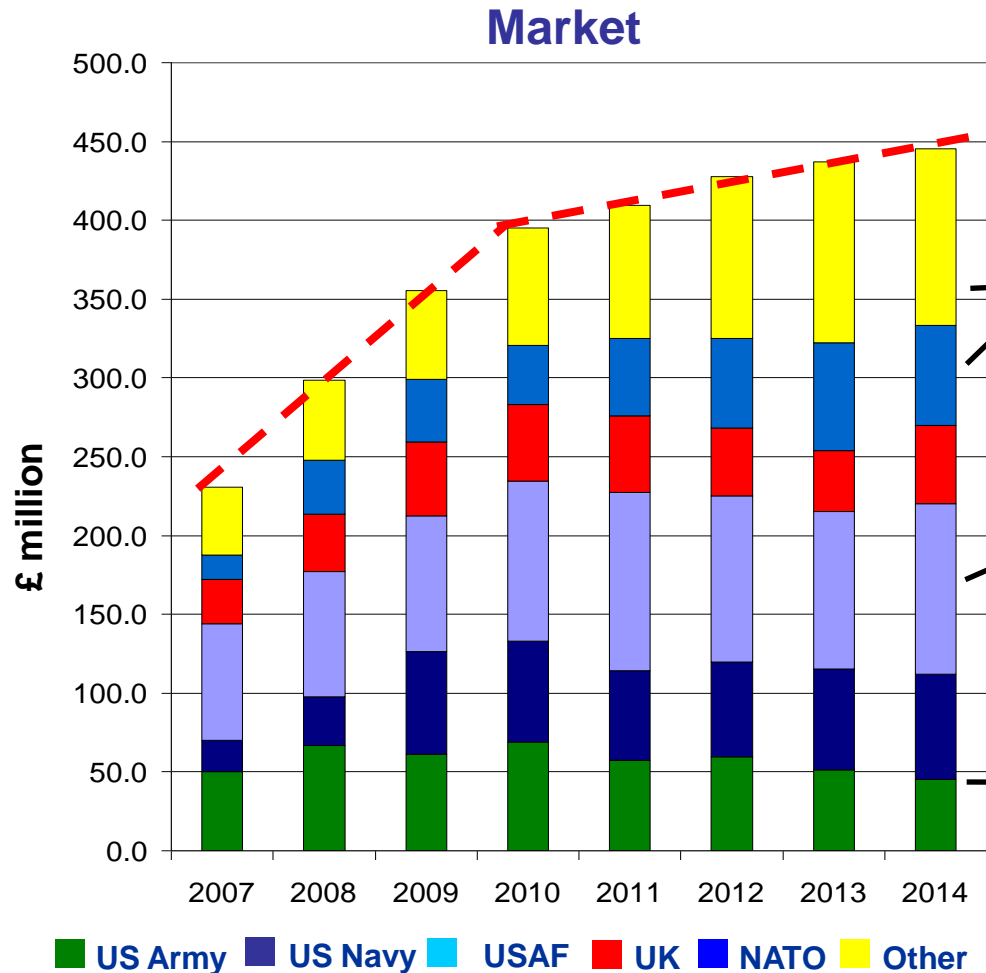
■ Tank ammunition

- *Maintain niche prime contractor position*

Countermeasures – Threat



The Global Countermeasure Market



Market plateau in 2010

- But further DAS / Dispenser penetration.
- Increased cost of advanced flares.
- Growing requirement for JSF.
- Growth in Typhoon exports.

NATO & export market growth

- DAS/ Dispenser installation.
- Increased peacekeeping and training.
- Typhoon delivery profile.
- BOL/IR qualified on Typhoon.

US Air Force growth

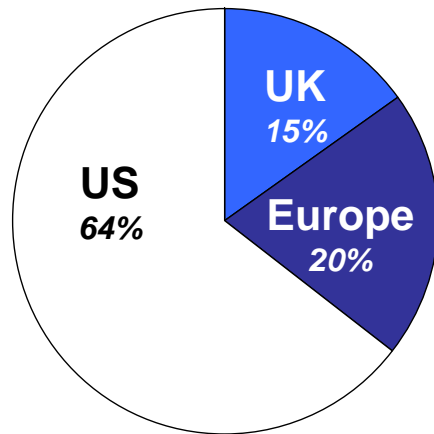
- Advanced flares for air-to-air superiority.
- Budget squeeze in FY10.
- Flares for 512 F-35s by 2014.
- BOL/IR for F-15, F-18 & CV22.

US Army reduction

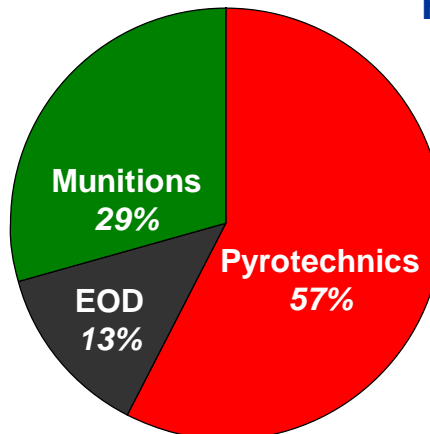
- Planned reduction of troops in Iraq.
- However, another 250 helicopters will deploy in Afghanistan.

Source: Internal estimates based on US program documentation to FY 2010 & export market knowledge

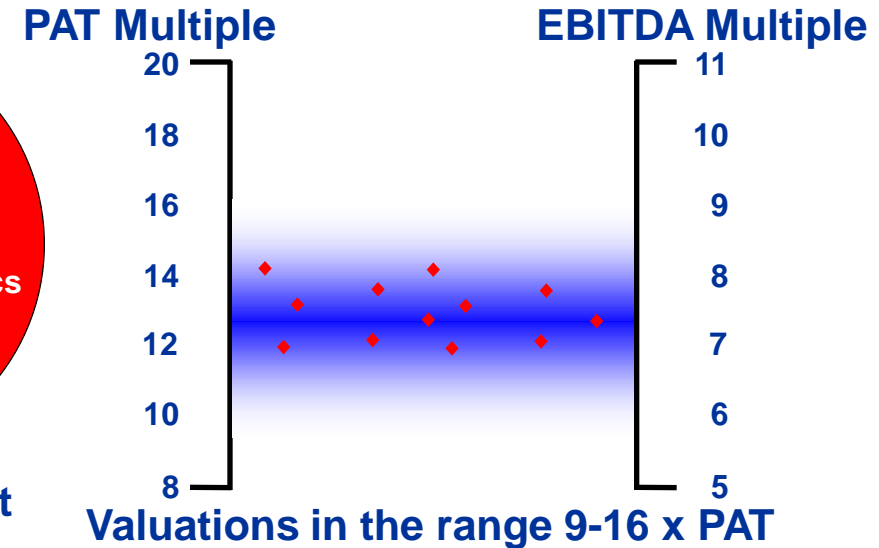
Acquisitions



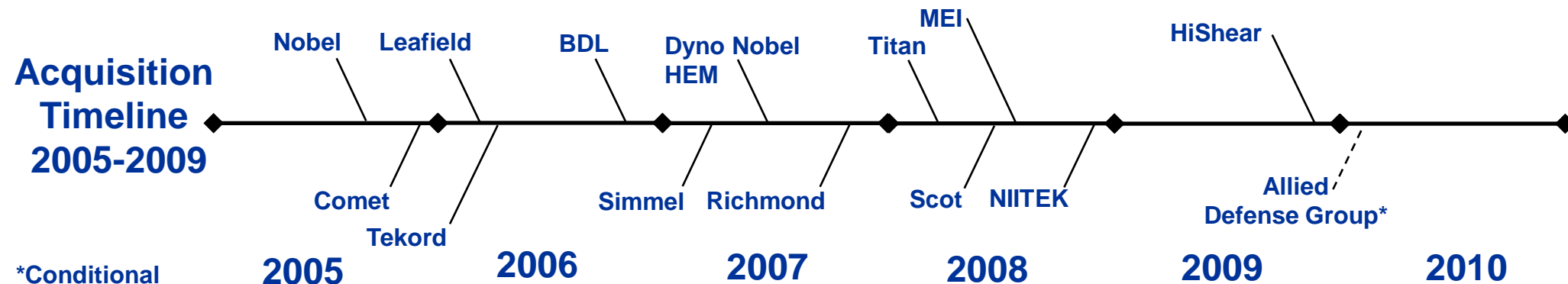
Geographic Balance



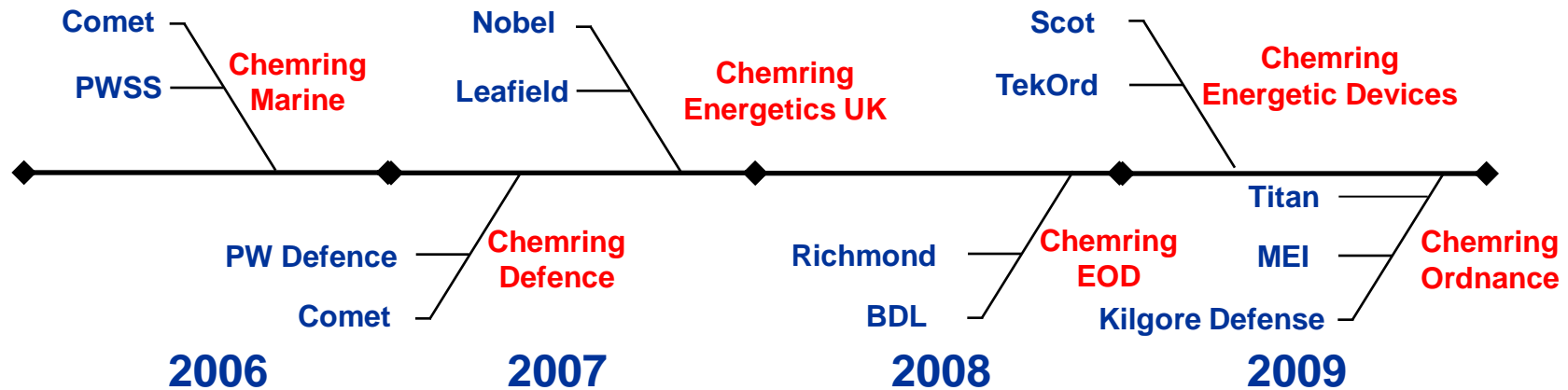
Split by Segment



Total investment on acquisitions from 2005 – 2009 c.£310m



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



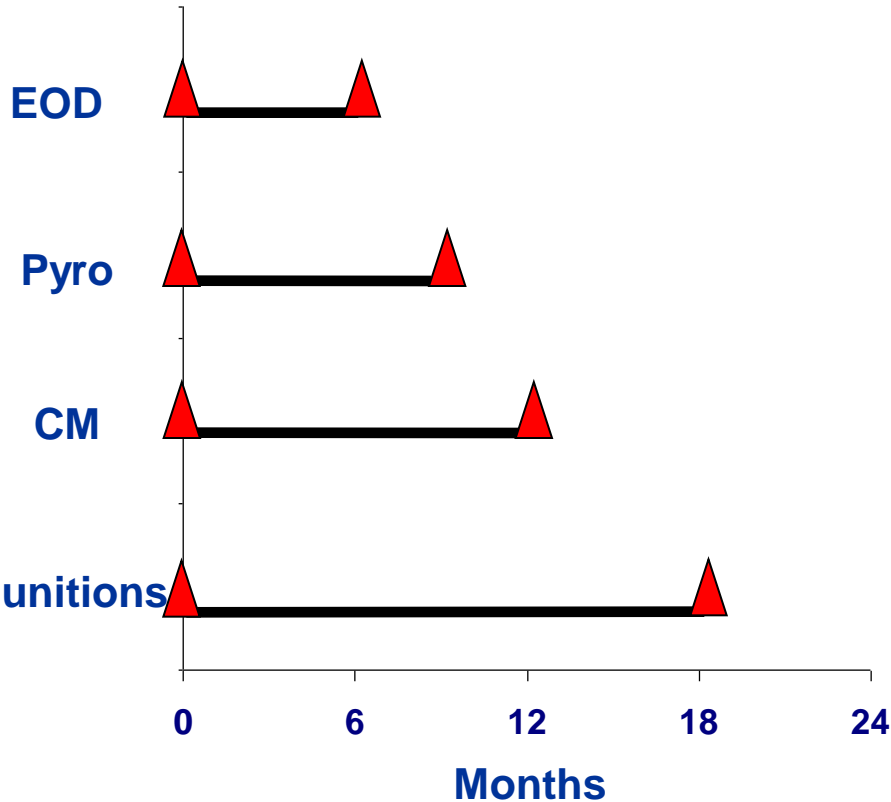
Earnings per Share



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



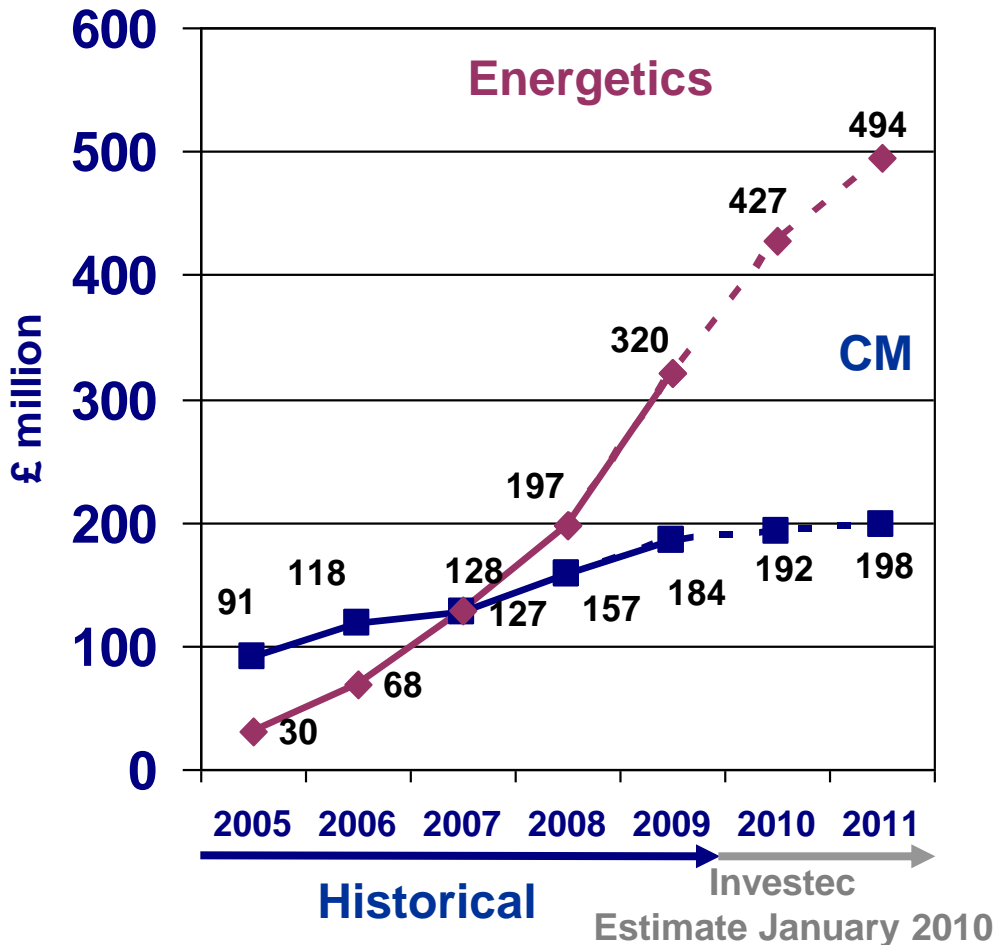
Order Book & Sales



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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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Financial Review

	2009	2008
Balance Sheet	£m	£m
Assets	397	348
Net Debt	(123)	(117)
Shareholders Funds	274	231
Gearing	45%	51%

- Strong operating cash conversion
 - 100% conversion of profit to cash over 4 years
- Strong balance sheet
 - For acquisition & capital investment
 - Available bank facilities of £107m

	2006 (£m)	2007 (£m)	2008 (£m)	2009 (£m)	4 yr Avg
EBIT	38	61	85	115	75
Operating cash	46	61	84	107	75
Cash conversion	118%	100%	99%	93%	100%