CHEMRING GROUP PLC

Half Year Results to 30 April 2009

CHEMRING GROUP PLC

David Price

Chief Executive

Financial Highlights

£m	Interim 2009	Interim 2008	*Increase*	*Final 2008*
Order Book	**574**	**408**	*+41%*	409
Revenue	**234**	**150**	*+55%*	354
Operating Profit	**46**	**28**	*+64%*	85
Profit Before Tax	**40**	**24**	*+67%*	74
Earnings Per Share	**81p**	**52p**	*+56%*	160p
Dividend Per share	**14p**	**10p**	*+40%*	35p

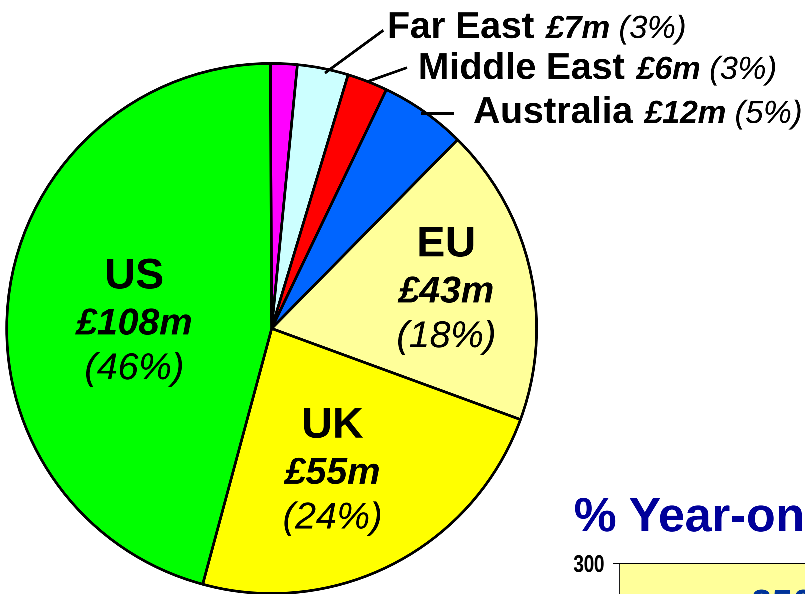
All numbers are underlying measures, rounded to nearest £500K

Interim Headlines

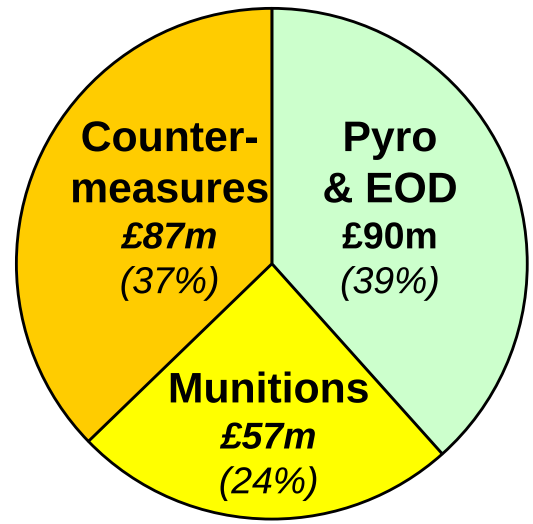
- **Strong growth in profits & revenue**
  - ***Revenue up 55% to new record***
  - ***Operating profit up 64%***
- **Energetics continues to drive growth**
  - ***Revenue up 86% to new record***
  - ***Operating margins increase to 20%***
  - ***Good mix of organic & acquisitive growth***
- **Orderbook grows to £574m – up 41% on last year**
- **Better first-half performance than 2008**
  - ***Simmel generates record sales volumes across full 6 months***
  - ***1% improvement in operating margin to 20%***
  - ***Operating cash conversion substantially improved to 67%***

Group Sales Analysis

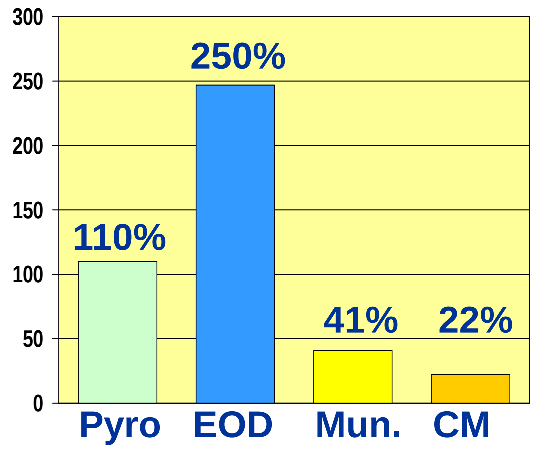
Destination



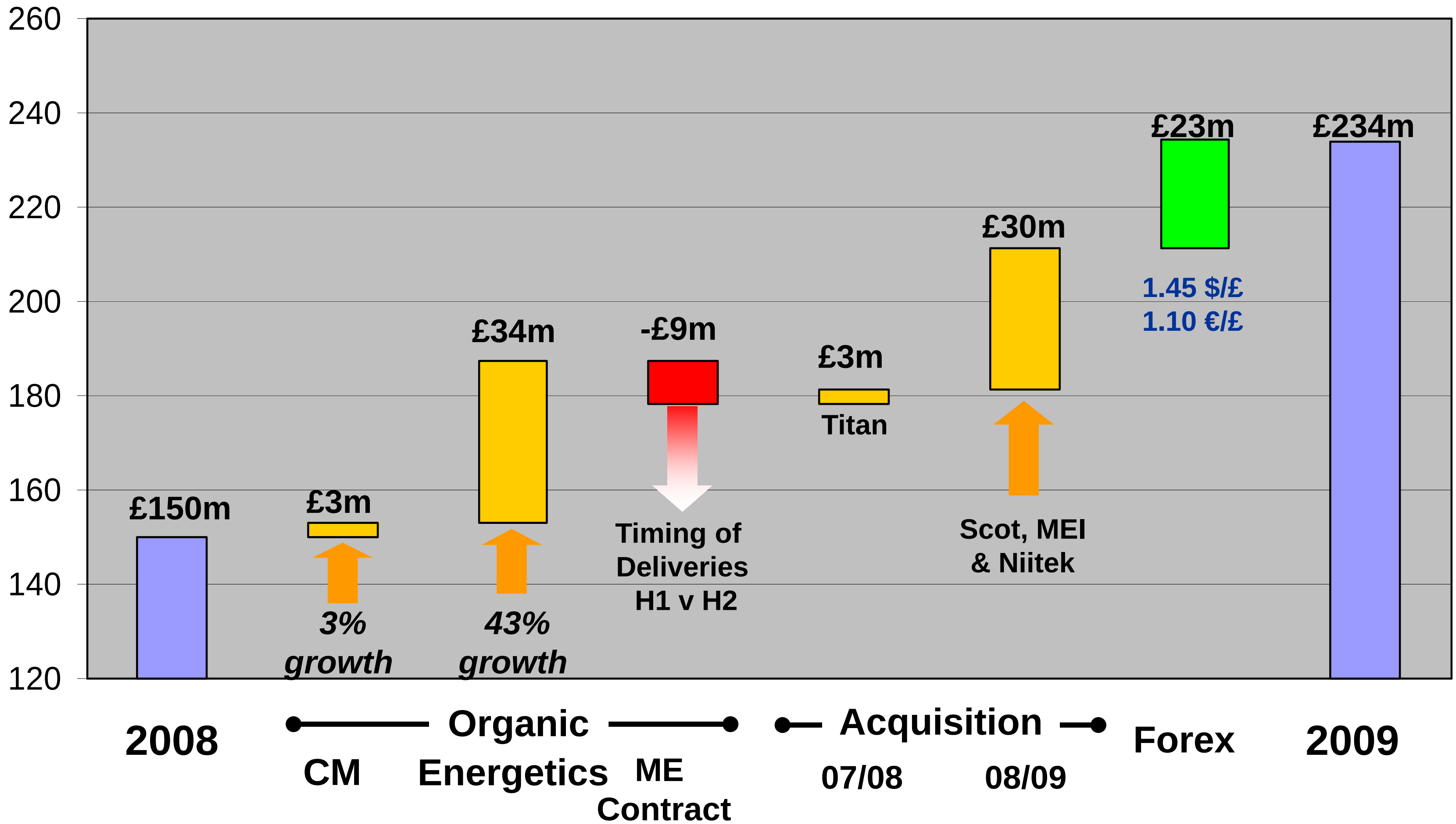
Segment



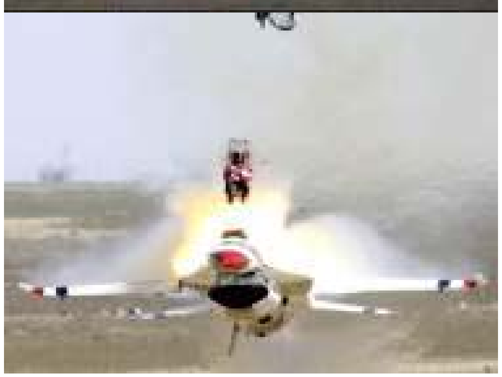
% Year-on-year Growth



Group Sales Progression



Pyrotechnics - Headlines



Signals & Illumination

- *Simmel achieve 300% increase in production volumes of 81mm illumination mortar rounds*
- *Chemring Ordnance awarded new contracts for various pyrotechnic rounds from US 40mm prime contractors*
- *Production orders from US & UK for IR marker device*

Simulation & Training

- *Number of installations of Battlefield Effects Simulator (BES) launchers at US Army ranges increases by over 300%*
- *Production of BES ammunition for gunfire and target hit increased by over 700% to 68,000 units per month*

Pyromechanisms

- *Chemring Energetic Devices created from merger of Technical Ordnance and Scot - good progress made with integration*
- *CED awarded new contract for redesign of fore & aft thrusters on Atlas V satellite launch vehicle*
- *CED awarded first development contract from USN for devices used in NACES II ejection system*

EOD - Headlines

- **Neutralisation**
  - ***Two new contracts received from Iraqi army for EOD equipment***
  - ***Major contract secured from US Army for latest recoil-less disrupter technology***
  - ***Qualification of new insensitive demolition store for the clearance of obstacles (barbed wire, etc) from the battlefield***
- **Mine Detection**
  - ***$50m of contracts for production and support of 30 Husky Mine Detection Systems (HMDS) received from JIEDDO***
  - ***Twelve units produced to date and four are now operational in Afghanistan***
  - ***Further contract for another 50 HMDS is under negotiation***

Munitions - Headlines

Prime Contract

- *Maintaining strong position in naval ammunition with major orders from Singapore, Egypt, India, Colombia & Turkey*
- *Completed final delivery of 120mm tank ammunition to Turkey and secured additional €8m contract*
- *Awarded multi-year contract for supply of LV 40mm grenades to New Zealand*
- *Chemring Ordnance successfully formed by merger of Martin Electronics, Titan Dynamics & Kilgore Defence*

Components & Sub-systems

- *Qualification completed of dual mode warhead for Aster missile*
- *Qualification completed for fuze for US 20mm ammunition*
- *New contract received for motor initiators for multi-national IRIS-T air-to-air missile*

Countermeasures - Headlines

UK Countermeasures

- *Record levels of sales & profit – driven by demand from NATO*
- *New spectral flares have completed development*
- *Interest in naval countermeasures grows – new orders received from UK & Turkey*

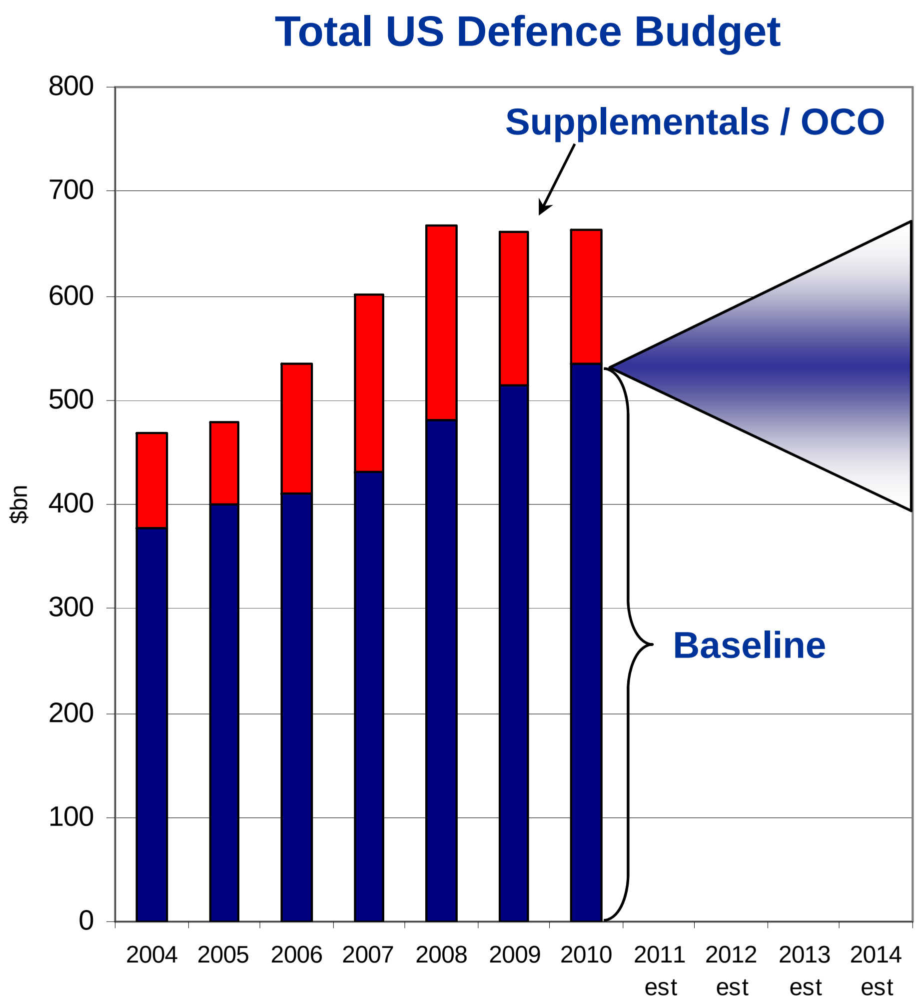
Alloy Surfaces

- *Production of decoys for USAF transport increases to over 50,000 units/month - $74m follow-on order just arrived*
- *Production of BOL/IR for RAF increased to 40,000 units/month*
- *Production of flares for US Army reduced to 20,000 units/month*
- *H1 revenue lower than 2008 but is expected to recover in H2*

Kilgore Flares

- *Delays in annual USAF orders have weighted revenue to H2*
- *First production completed on flares for B-52 & C-17 aircraft*
- *Awarded $53m in follow-on contracts from USAF & USN*
- *New F-22 contract now in negotiation*

US Defence Budget



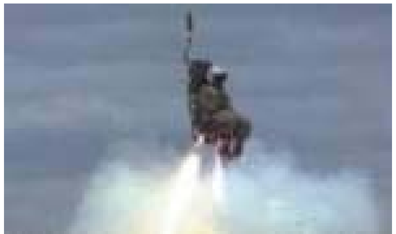
Source: FY2010 Budget Request, Chemring estimates

FY 2010 Budget

- **Uncertainty over future outlook**
  - *No precedent for lack of 5-year data*
- **Overseas Contingency Operations (OCO)**
  - *$130bn in FY 2010*
  - *Increased presence in Afghanistan*
  - *Includes equipping national defence forces*
- **Changes to major programmes**
  - *Cancellation of VH-71 & CSAR Helicopters*
  - *Missile Defence Agency (MDA) funding cuts*
  - *Cancellation of Future Combat Systems (FCS)*
  - ***Capping of C-17 and F-22 fleets***
  - ***Retirement of 250 F-15 & F-16 fighters***
  - *Delay to CG-X cruiser*
  - ***Increase in Special Forces***
  - ***Accelerate F-35 procurement***
  - ***Increase capacity to sustain helicopter operations***

Implications of US Defence Budget

FY10 Budget generally translates to FY11 revenues

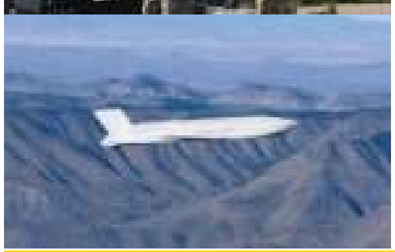


Pyrotechnics

- **Growth in one-shot devices**
- **Growth in pyrotechnic payloads**
  - Air launched rockets
  - Artillery
- **No visibility of training trends**

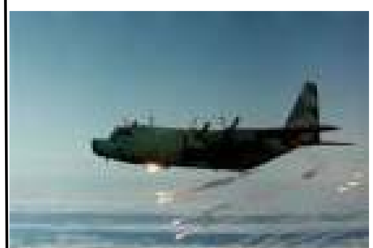
EOD

- **HMDS not yet an Army Programme of Record**
- **No visibility of JIEDDO budget**
- **Growth in Demilitarisation**
- **Sustained demand for Demolition Stores & Disrupters**



Munitions

- **FY10 budget same as FY09**
- **Growth in artillery & rockets**
- **Continued growth in small calibre**
- **Growth in tactical missile budget**
- **Reduction in medium calibre & tank ammunition**
- **Reduction in mortars & grenades**



Countermeasures

- **Army & Navy demand stable**
- **US Army may augment spend with existing uncommitted funds**
- **Air Force reduced budget by $79m**
- **$41m proposed for OCO funding**
- **USAF looking to smooth existing backlog into 2011**

Pyrotechnics Outlook

	Global Market Size	Chemring Market Share	Market Growth Rate
Signals & Illumination	£600m	12%	5-10%
Simulation & Training	£100m	22%	c.10%
Pyromechanisms	£500m	10%	<5%

Signals & Illumination

- **Strong demand for "black light" technology**
  - *Infantry, helicopters & fixed wing delivery*
- **Demand for smaller pyrotechnics growing**
- **Screening smokes used routinely in peace-keeping to disguise numbers & locations**

Simulation & Training

- **Growing installed base of launchers will accelerate demand for gunfire & target-hit pyrotechnics**
- **Competition for new 5-year contract for practice grenades now underway**
- **Major opportunities for Alloy technology in 30mm & 40mm training rounds**

Pyromechanisms

- **Aircraft demand driven by 3-year component life**
  - *Both civil & military*
- **Growth in satellite launch activity – 100 devices on each vehicle**
- **Good opportunities on missile programs in US & EU**

EOD Outlook

	Global Market Size	Chemring Market Share	Market Growth Rate
Demilitarisation	£350m	0%	c.10%
Neutralisation	£600m	4%	c.10%
Counter-IED jammers	£1bn	0%	>10%
Countermine / Counter IED	£500m	7%	>10%

Demilitarisation

- Growth in demand from recent cluster-munition ban
- US stock-piles will soon exceed 500,000 tons
- Simmel facility will start operation in 2010

Neutralisation

- Evolving IED threat drives product evolution
- International demand for bundled solutions
- EOD robot fleet continues to grow

Counter-IED jammers

- Partnerships to access non-NATO market with older technologies

Countermine / Counter IED

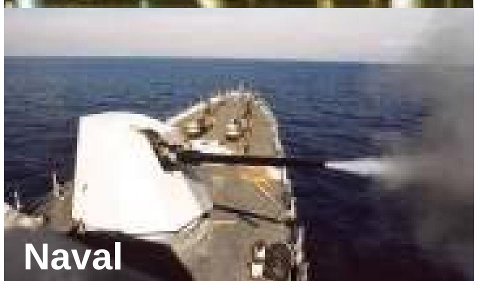
- US demand from specialist route clearance units
- Growing interest from NATO allies
- Development of robot system underway

Munitions Outlook

	Global Market Size	Chemring Market Share	Market Growth Rate
Subsystems	£2bn	3-6%	c.5%
Naval	£100m	12%	>5%
40mm Grenade	£300m	4%	c.5%
Mortar	£900m	0%	>10%

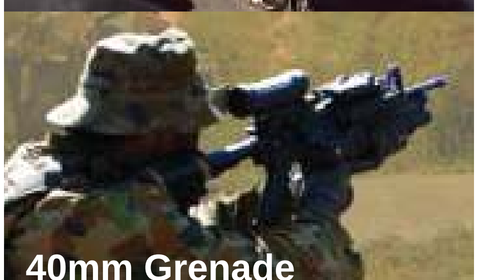
Subsystems

- Many opportunities for fuze production in US & EU
- Manufacture of warheads with insensitive explosives
- Final qualification of modular charge system in 2009
- Growing opportunities for rocket motor supply



Naval

- Strong potential for 127mm ammunition in Germany, Turkey & Korea
- US looking for Prime contractor for full family of 5” naval ammunition



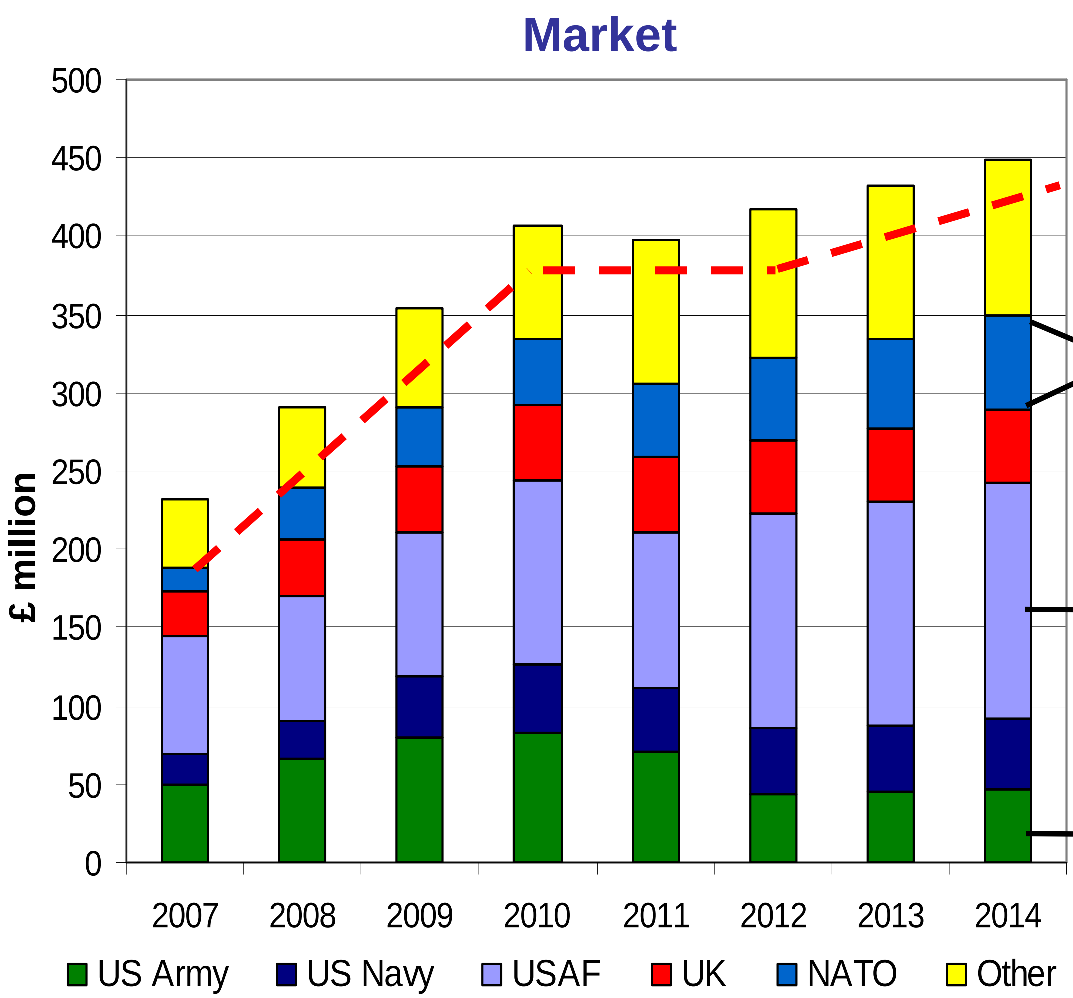
40mm Grenade

- Strong UK & Dutch interest in medium velocity
- US Opportunity for new day/night training round
- Growing International demand for LV & HV products

Mortar

- UK opportunity for 60mm system and ammunition
- New fuzing products now under development

Countermeasures Outlook



Market looks to plateau from 2010

- *but further DAS / Dispenser penetration*
- *and increased cost of advanced flares*

NATO & export market growth

- *DAS/ Dispenser installation*
- *Increased peacekeeping and training*
- *Typhoon delivery profile*

US Air Force growth

- *Advanced flares for air-to-air superiority*
- *FY10 budget proposal reduction*
- *Flares to support 512 F-35s*

US Army reduction

- *Planned reduction of troops in Iraq*

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

Summary

- **Excellent growth in revenue & profits**
  - ***Potential for organic and acquisitive growth remains strong***
- **Better first-half performance than 2008**
  - ***1% improvement in operating margin to 20%***
  - ***Operating cash conversion substantially improved to 67%***
- **Energetics performance is excellent**
  - ***4% improvement in operating margins***
  - ***86% growth with over 30% organic***
- **Countermeasures remains stable with better margins**
- **Current orderbook at new record of £603m**
  - ***42% increase on previous year***

CHEMRING GROUP PLC

Paul Rayner

Finance Director

Profit and Loss

£m	*Interim 2009*	*Interim 2008*	*Final 2008*
Revenue	234	150	354
Operating profit	46	28	85
Interest	(6)	(4)	(11)
Profit Before Tax	40	24	74
Tax	(11)	(7)	(21)
Profit After Tax	29	17	53
EPS	81p	52p	160p
DPS	14p	10p	35p

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

Results

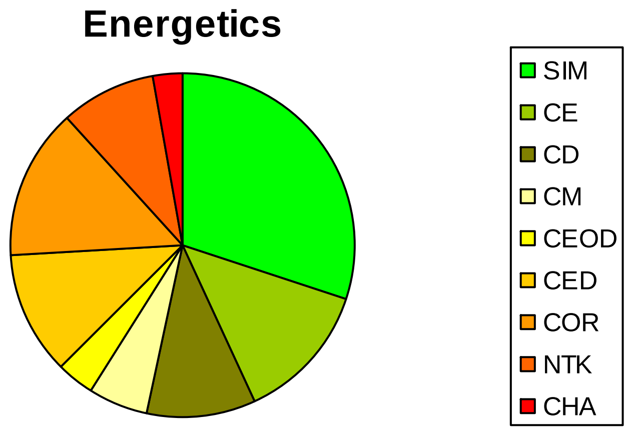
- Strong revenue growth of 55%
  - *47% from continuing activities*
  - *8% from acquistion of Niitek*
- Strong operating profit growth of 64%
  - *53% from continuing activities*
  - *11% from acquisition of Niitek*
- Operating profit margins increased by 1% to 20%
  - *Accounts for higher % increase in EBIT than revenue*
- Interest £6m (2008: £4m)
  - *Interest cover 8 times (2008: 7 times)*
- Profit before tax £40m up 67%
- Tax rate 28% (2008: 29%)
- EPS 81p up 56%
- DPS 14p up 40%

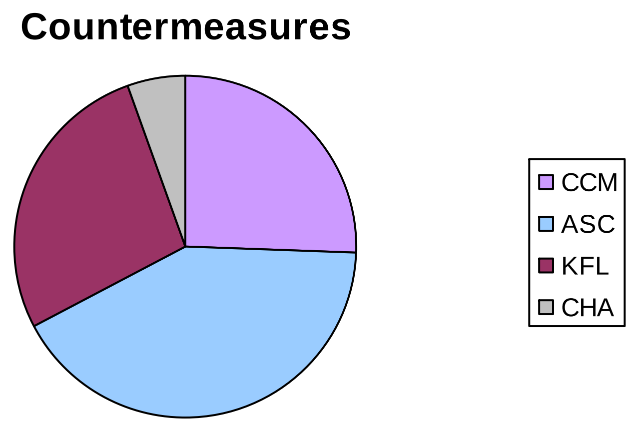
Segmental Results

£m		*Interim 2009*	*Interim 2008*	*Final 2008*
Energetics	Revenue	147	79	197
	Operating Profit *	29	12	46
	Operating Margin	20%	16%	23%
Counter-Measures	Revenue	87	71	157
	Operating Profit *	24	19	45
	Operating Margin	28%	27%	29%
Total	Revenue	234	150	354
	Operating Profit	46	28	85
	Operating Margin	20%	19%	24%

*before unallocated central costs

Sales £m



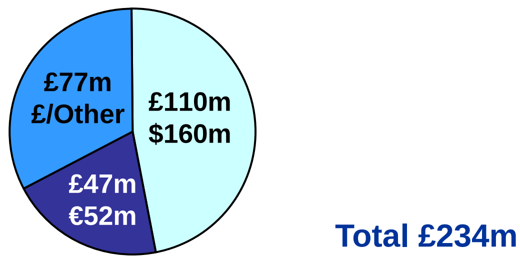


Segmental Results

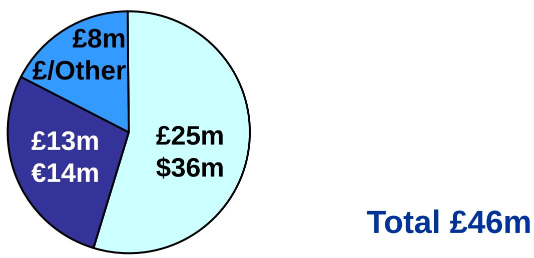
- Energetics
  - *86% growth in revenue*
    - £10m FX at constant rates
    - £23m from Simmel
    - £13m from Niitek acquisition
  - *Operating margin improvement to 20% from 16%*
    - Simmel strong 6 months
    - Improvement in CD and CM margins
- Countermeasures
  - *22% growth in revenue*
    - £13m FX at constant rates
    - Small underlying growth
  - *Operating margin improvement to 28% from 27%*
- Unallocated Costs
  - *Share based payments £1m (2008: £1m)*
  - *Head Office costs £5m (2008: £2m)*
    - Includes £2m restructuring charge for Salisbury
- Total group margins 20% (2008: 19%)

Foreign Currency

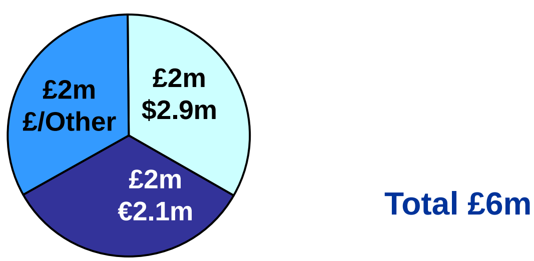
Revenue by Currency as converted to £m



EBIT by Currency as converted to £m



Interest by Currency as converted to £m

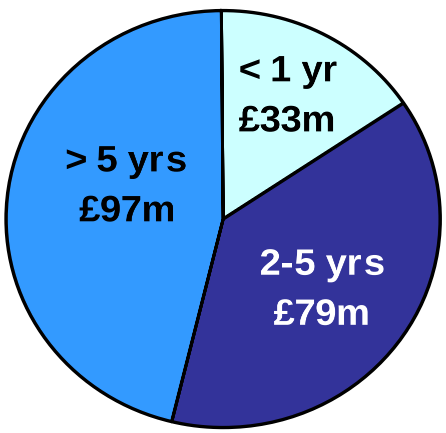


- **$ rate 2009: 1.45 (2008: 1.99)**
  - ***27% appreciation of $ to £***
  - ***At constant $ additional revenue and EBIT:***
    - **£17m revenue**
    - **£4m EBIT**
- **€ rate 2009: 1.10 (2008: 1.25)**
  - ***12% appreciation of € to £***
  - ***At constant € additional revenue and EBIT:***
    - **£6m revenue**
    - **£1m EBIT**
- **£1m additional interest from FX on local currency loans**
- **PBT at constant FX £4m approx 7p EPS**

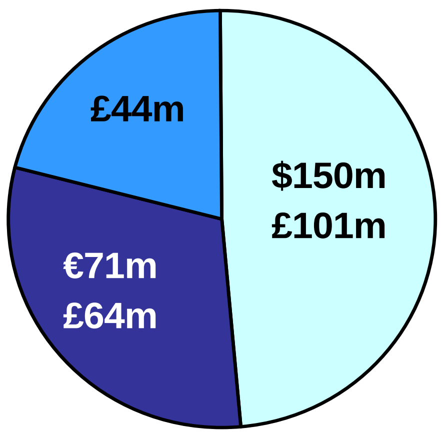
Cash & Debt

COVENANTS	Target	Actual	Headroom
Interest cover to EBITDA	4.0	10.0	6.0
Cashflow	1.0	1.5	0.5
Debt: EBITDA	3.0	2.0	1.0

Gross Debt Profile £209m



Analysis of Debt in Local Currency

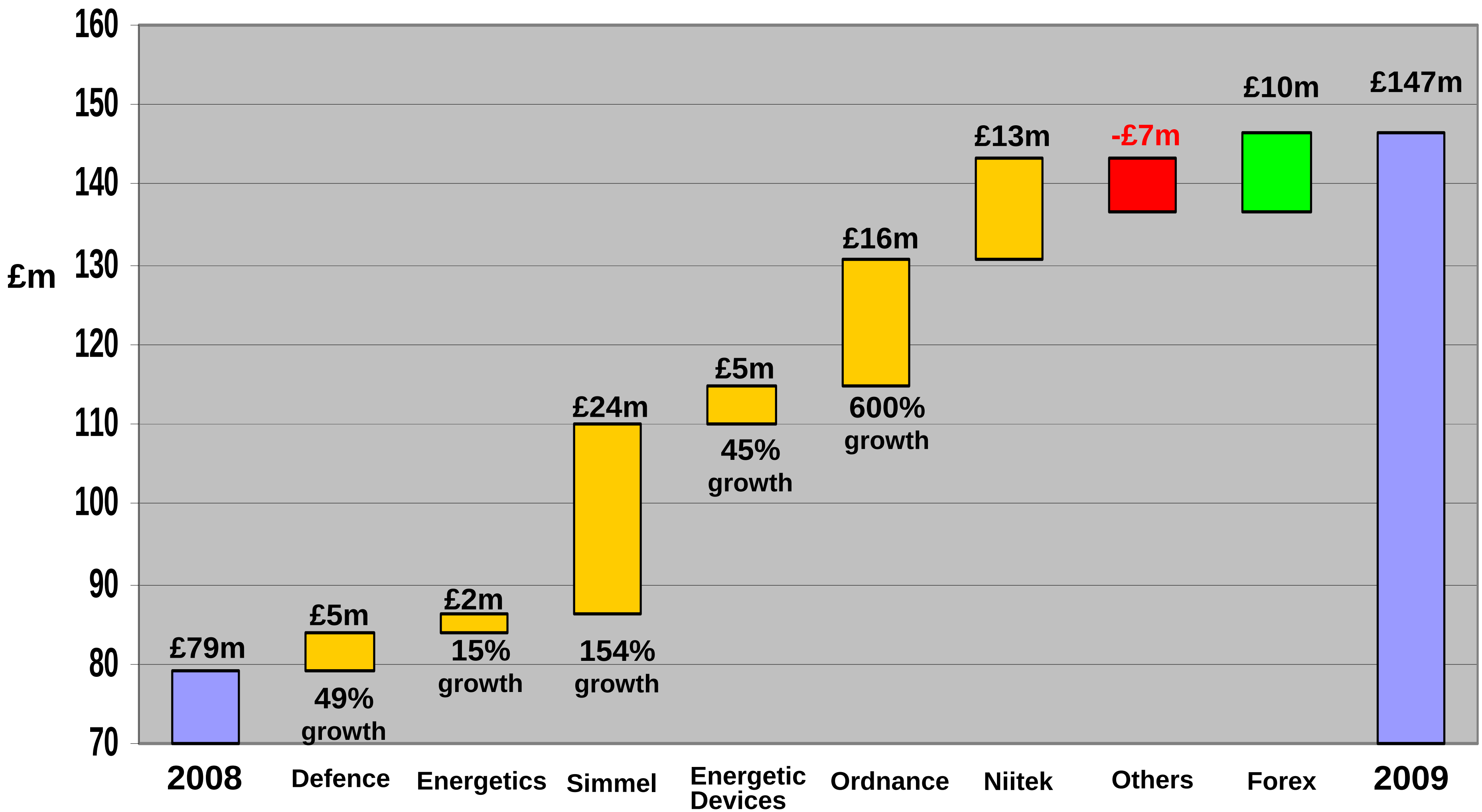


- Good operating cash flow £31m, (2008: £9m)
  - Cash conversion 67% (2008: 31%)
  - targeting 100% full year
- Capex £16m (2008: £18m)
  - £25m, authorised spend on Salisbury and Australia facilities
    - £5m H1
- Strong covenant compliance
- Debt repayment approx 50% due in 2017

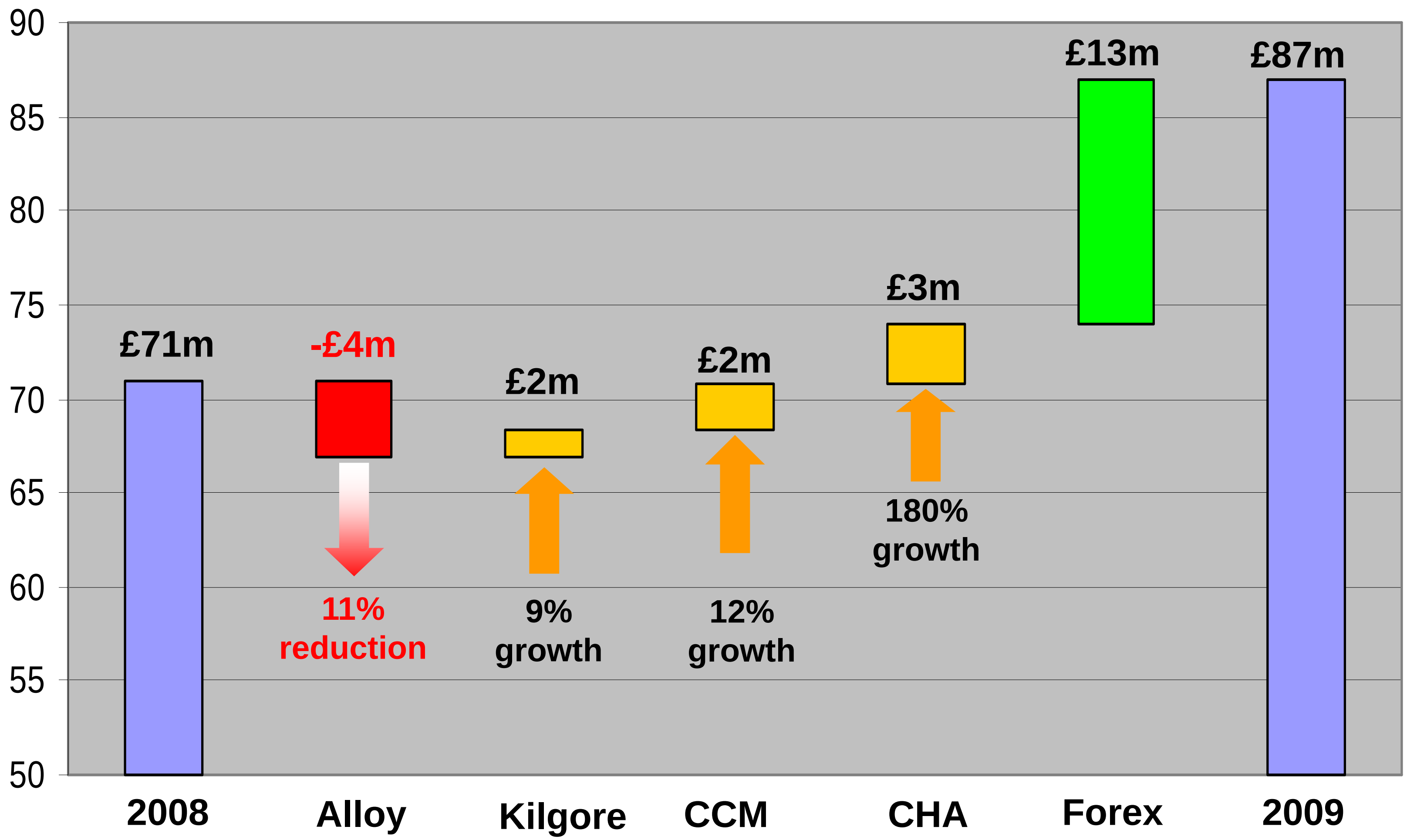
DEBT SUMMARY	£m
Gross Debt	209
Cash	42
Net Debt	167
Gearing	66%

Appendices

Energetics Sales Progression



Countermeasures Sales Progression



Cash Flow

£m	Interim 2009	Interim 2008	Final 2008
Operating Cash Flow	**31**	**9**	**84**
Operating Cash conversion % from EBIT	*67*	*31*	*99*
Tax	(7)	(2)	(13)
Capital spend	(16)	(18)	(34)
Cash Flow from Operating Activities	**8**	**(11)**	**37**
Interest	(6)	(3)	(8)
Dividends	(9)	(6)	(10)
Net acquisitions spend	(27)	(11)	(68)
Share issue proceeds	-	-	59
Purchase of own shares	(1)	(2)	(3)

Cash Flow

- **Operating cashflow 67% conversion rate (2008: 31%) – significant improvement**
  - ***Target 100% for full year***
- **Capital spend**
  - ***Estimate for full year £40m – Salisbury and Australia build***
- **Acquisitions net of cash acquired £27m**
  - ***Niitek acquired December 2008***
- **Interest and dividend**
  - ***Higher final dividend***
  - ***Interest higher as debt increases***
- **Treasury shares £1.4m (2008: £1.9m)**

Balance Sheet

£m	Interim 2009	Interim 2008	Final 2008
Goodwill	155	109	129
Acquired Intangibles	96	42	80
Tangible Assets	128	87	110
Other Net Assets	76	65	57
Tax	(20)	(10)	(14)
Pension Deficit	(17)	(16)	(14)
Net Debt	(167)	(141)	(117)
Shareholders' Funds	251	136	231
Gearing	66%	104%	51%

Balance Sheet

- **Fixed Assets**
  - ***£16m spend in H1***
    - **CCM and CHA expenditure for H1 is £5m**
  - ***Full year guidance £40m***
- **Goodwill and Intangibles**
  - ***Acquisition of Niitek***
- **Net Debt**
  - ***Impact of €/$ appreciation since year end £14m***
  - ***£150m committed bank facilities***
- **Pension Deficit**
  - ***Increase linked to falling equity markets***
  - ***Triannual valuation commenced***

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