

Full Year Results to 31 October 2010



CHEMRING GROUP PLC

David Price Chief Executive



Financial Highlights

£m	<u>Final</u> <u>2010</u>	<u>Final</u> <u>2009</u>	<u>Increase</u> <u>%</u>
Order Book	803	559	44
Revenue	597	504	18
Operating Profit	136	115	18
Profit Before Tax	117	103	14
Earnings Per Share	246p	213p	15
Dividend Per share	59p	50p	18

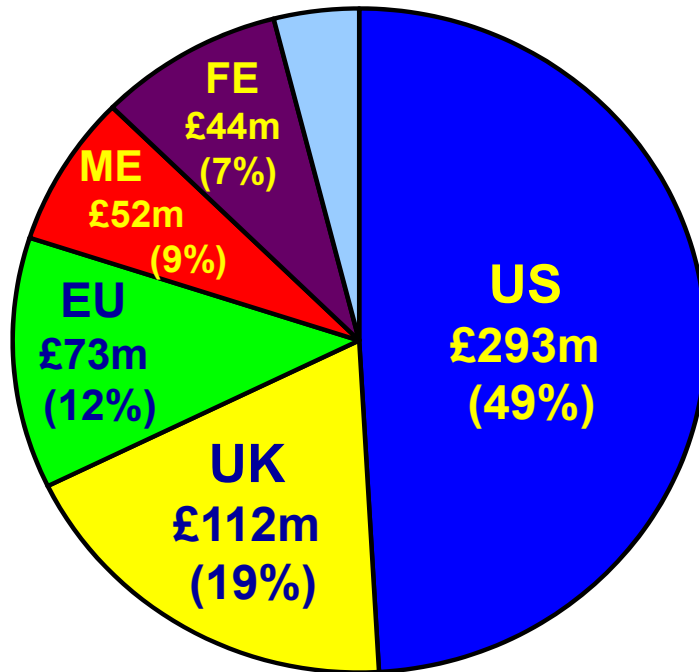
All numbers are underlying measures, rounded to nearest £1m

Headlines

- **Another strong year of growth in revenue & profits.**
 - *Revenue increased 18% to £597m.*
 - *Profit before tax increased 14% to £117m.*
- **Counter-IED revenue increased by 88%.**
- **Munitions revenue grew by 35%.**
- **Good second half cash flow.**
 - *£126m operating cash flow – 93% conversion.*
- **Record year-end order book of £803m.**
 - *Up 44% on previous year.*
 - *Counter-IED & Munitions principal drivers of growth.*

Revenue Analysis

Revenue by Destination



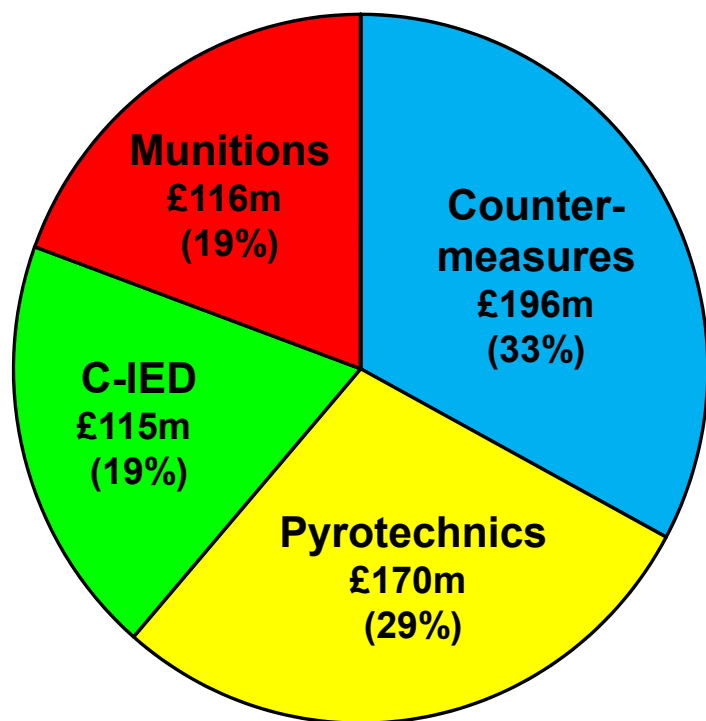
2010 Revenues - £597m

Revenues	2010	2009	Growth
US	£293m	£235m	25%
UK	£112m	£125m	-11%
EU	£73m	£75m	-3%
ME	£52m	£20m	160%
FE	£44m	£39m	13%
RoW	£23m	£10m	130%
Total	£597m	£504m	18%

- Good growth in US, principally driven by US Army counter-IED requirements
- Order delays, due to austerity measures, reduce revenues in UK & Europe
- Strong growth in Middle East due to deliveries on new multi-year contracts
- Good growth achieved in Australia & Far East

Segmental Analysis

2010 Revenues

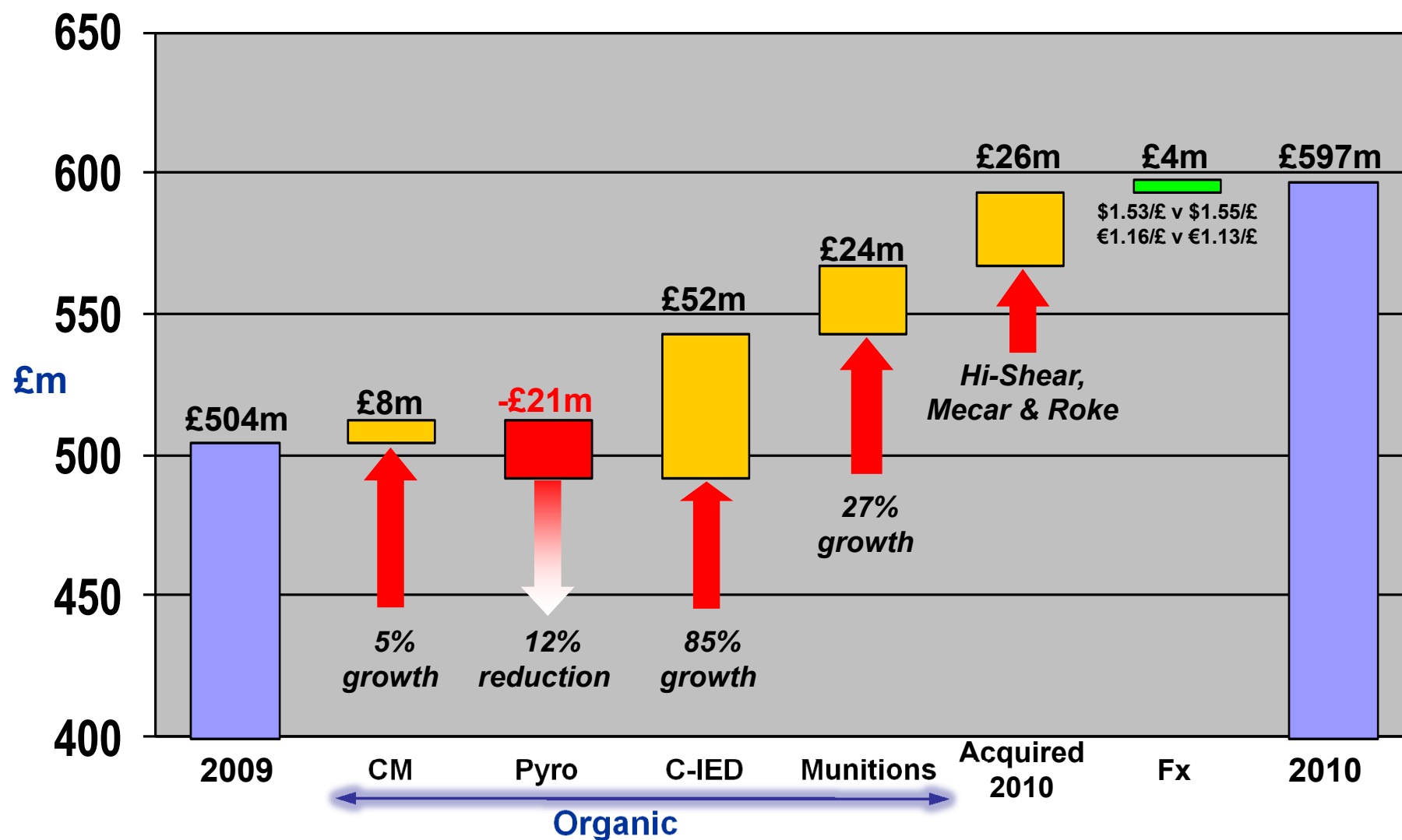


2010 Revenues - £597m

Revenues	2010	2009	Growth
Countermeasures	£196m	£184m	7%
Counter-IED	£115m	£61m	88%
Pyrotechnics	£170m	£173m	-2%
Munitions	£116m	£86m	35%
Total	£597m	£504m	18%

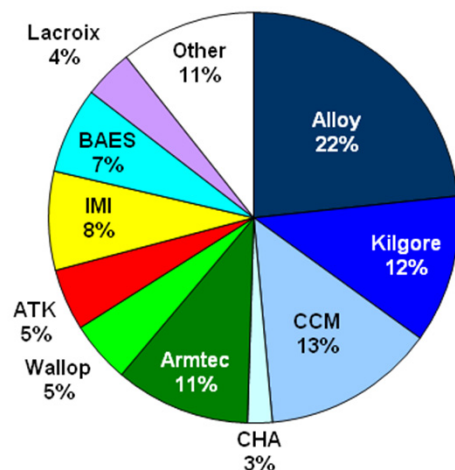
- Good growth in Countermeasures in spite of £7m revenue lost due to September incident at Kilgore.
- Strong growth in Counter-IED, driven by sales of HMDS to US Army.
- Pyrotechnics plateaus after three years of strong growth due to order delays in UK & Europe.
- Strong growth in munitions due to new multi-year contracts to Middle East customers.

Organic Growth of 13%



2010 Countermeasures

Countermeasures Market



Total Market: £390m

Chemring Revenue	2010	2009	Growth
Fast Jet	£91m	£90m	1%
Helicopter/Transport	£87m	£82m	6%
Naval	£17m	£10m	70%
Land/EW	£1m	£2m	-50%

■ Alloy Surfaces

- Production volumes reduce 6% on flat revenues.
- 15% growth in demand for transport aircraft offsets lower demand for fast jet decoys.
- 60% growth in MJU-50 decoys for USAF for stockpile.

■ Kilgore Flares

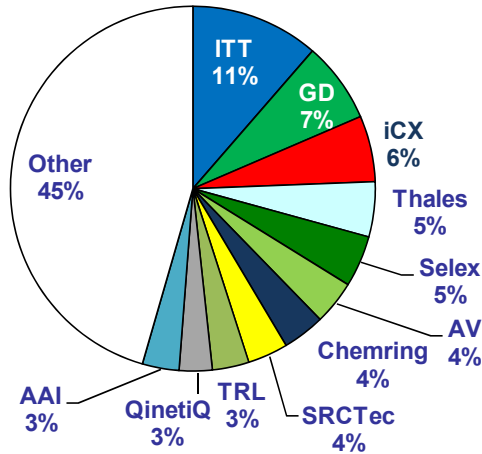
- 17% growth in revenues to new record.
- 24% growth from flares used on fast jets.
- 120% growth in revenues from F-22 & JSF programs.
- Qualification of M212 flare took longer than expected.

■ UK Countermeasures

- Small growth in revenue despite 70% growth in naval countermeasures.
- Typhoon flare volumes plateau as European austerity programs limit acquisition of planned war stocks.
- Next generation spectral flares completed qualification.

2010 Counter-IED

Counter-IED Market



Total Market: £3bn

Chemring Revenue	2010	2009	Growth
Detect	£102m	£46m	121%
Defeat	£12m	£15m	-20%
Disable	£1m	-	-

■ Detect

- 107 Husky Mounted Detection System (HMDS) Ground Penetrating Radars delivered to US & Canada in year.
- New Niitek production facility completed in July and production increased to 20 systems per month.
- New order for another 64 HMDS, worth up to \$78m, recently received from US Army.
- Over 240 HMDS systems ordered to date – 60 staff now providing operational support.

■ Defeat

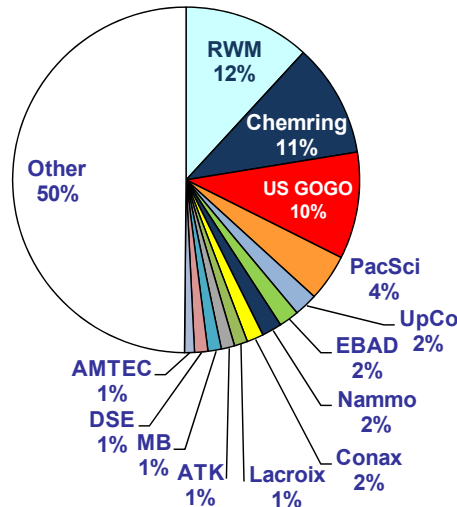
- Qualification of full range of demolition stores still underway with UK MoD.
- Contract delays from various UK & European customers in response to austerity measures.

■ Demilitarisation

- Plant installed in new facility in Italy. Commissioning will start in 2011.

2010 Pyrotechnics

Pyrotechnics Market



Total Market: £1.6bn

Chemring Revenue	2010	2009	Growth
Smoke/Illumination	£112m	£120m	-7%
Training	£16m	£24m	-33%
Safety Systems	£34m	£27m	26%
Space	£8m	£2m	300%

Smoke/Illumination

- Steady demand for “black light” & Illumination mortar rounds from UK & NATO customers.
- New “black light” payload developed for BAES Bofors & first production delivered to UK MoD.
- Compact smoke grenades developed for UK MOD & production rapidly increased to over 150,000 per month.

Training

- Confidence Clip modification to M228 training grenade now completed & automated production only just returning to 20 units per minute.
- Transfer of BES production from Texas to Chicago & Florida took longer than planned – no deliveries in 2010.
- First training systems delivered to French market.

Safety Systems

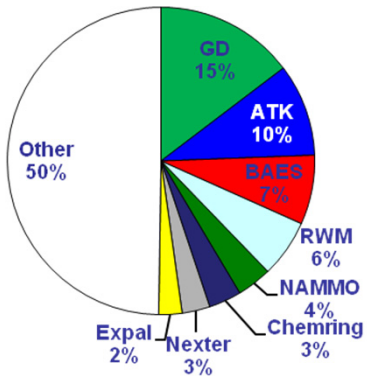
- Growth in revenues due to acquisition of Hi-Shear.

Space

- Growth in revenues due to acquisition of Hi-Shear.

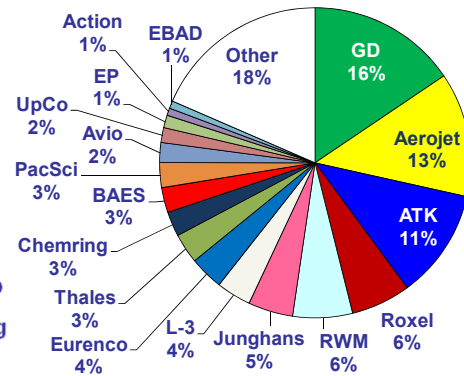
2010 Munitions

Ammunition Market



Total Market: £4bn

Munition Components Market



Total Market: £2bn

■ Naval Ammunition

- Qualification completed on 76mm training round for France and first production order now received.
- Qualification of 76mm operational round still underway in France and will complete in 2011.

■ Land Forces Ammunition

- Deliveries to Middle East customers grow by 270%.
- 150,000 40mm grenades delivered.
- Deliveries of 125mm tank ammunition completed.
- Italian MoD place new contracts for 25mm & 105mm ammunition.

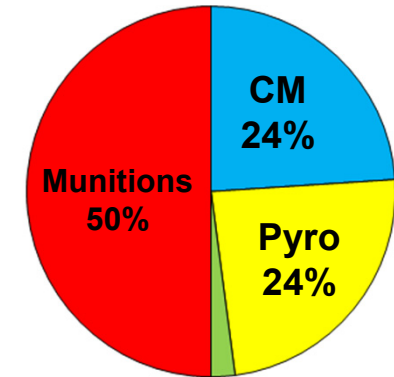
■ Components

- Demand from UK prime contractors grows by 49%.
- Deliveries of NLAW sub-systems increase by 32%.
- Demand from US prime contractors grows by 52%.
- New microwave fuze for naval applications completes qualification.

Chemring Revenue	2010	2009	Growth
Naval	£9m	£11m	-18%
Land	£53m	£25m	112%
Components	£54m	£50m	8%

Regional Analysis

2010 Revenue £597m

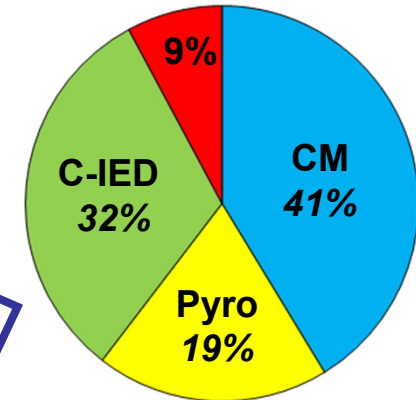


ME/FE – up 61%

CM – up 10%

Pyro - up 44%

Munitions – up 155%

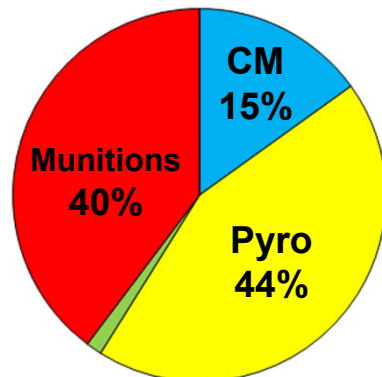


US – up 25%

CM – up 13%

Pyro - down 10%

C-IED – up 94%

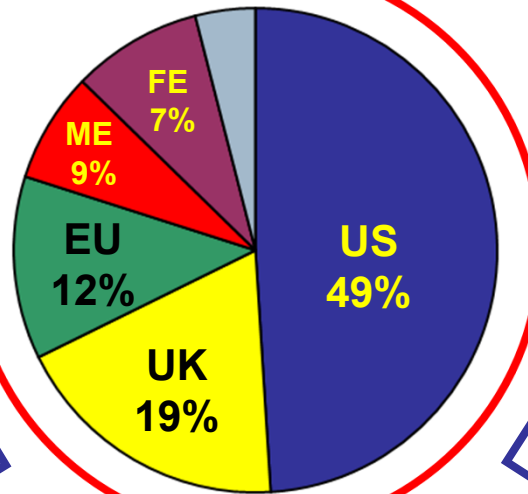


EU – down 3%

CM – down 31%

Pyro - up 85%

Munitions – down 25%

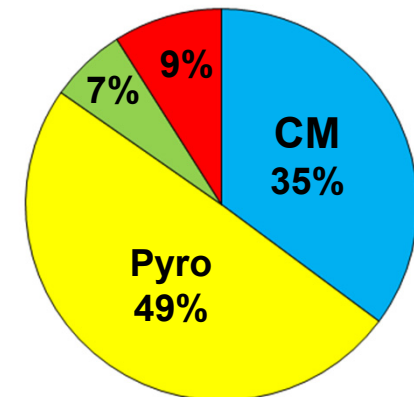


NATO 80%

UK – down 11%

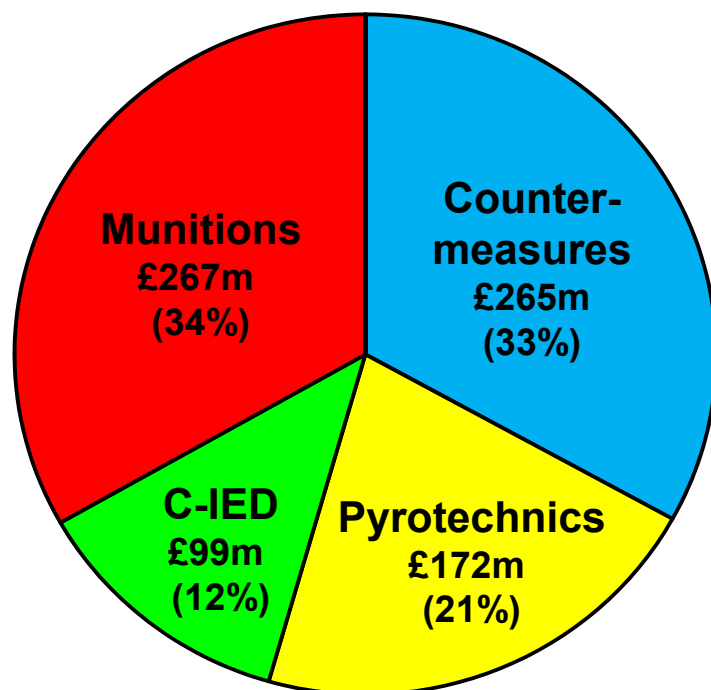
CM – down 1%

Pyro - down 27%



Order Book Analysis

Closing Order Book



2010 Order Book £803m

Closing Order Book	2010	2009	Growth
Countermeasures	£265m	£232m	14%
Counter-IED	£99m	£37m	168%
Pyrotechnics	£172m	£172m	0%
Munitions	£267m	£118m	126%
Total	£803m	£559m	44%

- Record order book in all four segments.
- Counter-IED & Munitions with fastest rates of growth – C-IED has shorter cycle.
- Order book shows strong regional bias
 - US grows by 39%.
 - UK grows by 4%.
 - EU grows by 107%
 - ME grows by 204%.

Countermeasures Outlook

Chemring Order Book	2010	2009	Growth
US	£140m	£135m	4%
UK	£42m	£26m	61%
EU	£8m	£5m	60%
FE	£71m	£64m	11%
RoW	£4m	£2m	50%

Chemring Order Book	2010	2009	Growth
Fast Jet	£168m	£117m	44%
Helicopter/Transport	£68m	£94m	-28%
Naval	£16m	£19m	-16%
Land/EW	£13m	£2m	550%

■ Alloy Surfaces

- *\$60m of multi-year awards in 2010 from USN & UK RAF.*
- *Future demand for MJU-50 drops back to earlier levels.*
- *Competition for next generation US helicopter decoys just starting – good trials results from Alloy product.*

■ Kilgore Flares

- *Record order book of \$186m – up 95% on 2009.*
- *\$105m of orders for F-22 & B-52 flares.*
- *\$53m order book for M212 spectral flare.*
- *JSF flares now in low rate initial production.*

■ UK Countermeasures

- *£24m of orders from UK MOD for advanced naval countermeasures in 2010.*
- *Successful live-firing demonstration of Centurion launcher in November.*
- *Growing interest in Centurion & new naval rounds.*

Counter-IED Outlook

Chemring Order Book	2010	2009	Growth
US	£72m	£21m	243%
UK	£20m	£7m	186%
EU	£1m	£2m	-50%
FE	£5m	£5m	0%
RoW	£1m	£2m	-50%

Chemring Order Book	2010	2009	Growth
Detect	£70m	£21m	233%
Defeat	£16m	£16m	0%
Disable	£13m	-	-

■ Detect

- *Good feedback from customers on HMDS performance and growing interest from NATO countries.*
- *New multi-year sustainment contract for all 200+ HMDS systems expected in 2012 .*
- *Next generation, multi-sensor system will be procured as multi-year competitive contract in late 2012.*
- *Hand-held system undergoing successful field trials.*
- *New ROV-based system under development.*

■ Defeat

- *Strong global demand for new flexible cutting charge & sheet explosives.*

■ Disable

- *Growing opportunities for Roke technology to support UK operations.*

Pyrotechnics Outlook

Chemring Order Book	2010	2009	Growth
US	£62m	£42m	48%
UK	£83m	£104m	-20%
EU	£6m	£4m	50%
ME	£0m	£1m	-100%
FE	£21m	£21m	0%

Chemring Order Book	2010	2009	Growth
Smoke/Illumination	£122m	£138m	-12%
Training	£15m	£20m	-25%
Safety Systems	£29m	£13m	123%
Space	£6m	£1m	500%

■ Smoke/Illumination

- Development of air-launched “black light” products underway – qualification unlikely before 2012.
- Red star 40mm round starting production in 2011.

■ Training

- Training grenade & BES production resumes in 2011.
- \$75m IDIQ contract for BES awarded in May 2010.
- US Army training requirements expected to grow by 20% in 2011.

■ Safety Systems

- First deliveries of leg restraint system for F-16 ejection system.
- Growing demand for egress system for MRAP vehicles.
- F-22 thermal battery completes qualification
- First orders for JCAST awarded for F-16 & F-22 aircraft

Munitions Outlook

Chemring Order Book	2010	2009	Growth
US	£26m	£17m	53%
UK	£18m	£18m	0%
EU	£60m	£25m	140%
ME	£126m	£41m	207%
FE	£34m	£15m	127%
RoW	£3m	£2m	50%

Chemring Order Book	2010	2009	Growth
Naval	£22m	£12m	83%
Land	£189m	£58m	226%
Components	£56m	£48m	17%

■ Naval Ammunition

- *Strong global demand for 76mm naval rounds.*
- *French production contract for new 76mm round expected in 2011.*

■ Land Forces Ammunition

- *190% growth in order book to Middle East.*
- *First order received for 115mm tank ammunition.*
- *New export orders for 40mm rounds received from Australia & Middle East.*
- *Growing international demand for 90mm Mk8 ammunition.*

■ Components

- *Lead Azide manufactured in US will complete qualification in 2011 & commercial sales will begin.*
- *Order for 30,000+ naval fuzes received from India.*

Summary

■ Steady growth in revenue & profits

- *Revenue and Operating Profit up 18%.*

■ Niitek delivers outstanding performance

- *US Army demand for HMDS still growing – up 124% on last year.*
- *New contract will take installed base to over 240 systems.*

■ Munitions grows strongly

- *Revenues up 35% & order book up 126%.*
- *Substantial growth from Middle East underway.*

■ Countermeasures continues to grow

- *September incident at Kilgore limited growth to 7%.*
- *Kilgore order book up 95% on 2009.*

■ Outlook for the future looks strong

- *Order book today a new record high of £902 million.*

Paul Rayner Finance Director



Profit & Loss

	Final 2010	Final 2009	<u>Increase</u> %
Revenue	597	504	18
Operating profit	136	115	18
Interest	(19)	(12)	
Profit Before Tax	117	103	14
Tax	(30)	(28)	
Profit After Tax	87	75	16
EPS	246p	213p	15
DPS	59p	50p	18

- **13% organic growth in revenue**
 - £26m contribution from 2010 acquisitions
- **9% organic growth in operating profit**
 - £11m contribution from 2010 acquisitions
 - Net “one-off” costs at centre £1.9m
- **Overall margin 23% (2009: 23%)**
- **Interest 7 times covered (2009: 10 times)**
 - Impact of debt funded acquisitions
- **Profit Before Tax up 14%**
- **Tax rate 26% (2009: 27%)**
- **EPS +15%**
- **DPS + 18%**
 - >4 times covered

Segmental Results

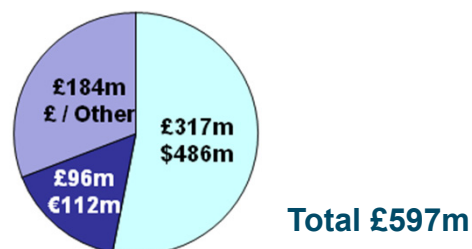
		Final 2010	Final 2009
Countermeasures	Revenue	196	184
	Operating Profit *	59	54
	Operating Margin %	30	29
C-IED	Revenue	115	61
	Operating Profit *	28	16
	Operating Margin %	25	25
Pyrotechnics	Revenue	170	173
	Operating Profit *	40	44
	Operating Margin %	24	25
Munitions	Revenue	116	86
	Operating Profit *	21	13
	Operating Margin %	18	16
Divisional Underlying Profit		148	127
Unallocated Central Costs		(12)	(12)
Underlying Operating Profit		<u>136</u>	<u>115</u>

*before unallocated central costs

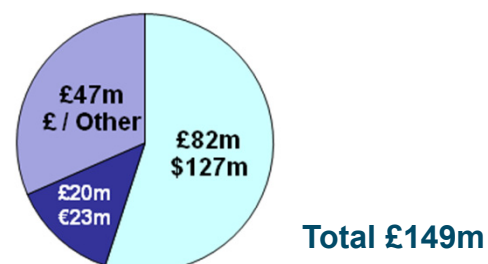
- **Countermeasures**
 - 7% growth
 - Margins in line with 2009
 - ❖ Strong H2 margin
- **C-IED**
 - Significant growth driven by Niitek
 - Benefits of UK restructuring in 2011
- **Pyrotechnics**
 - Flat year on year
 - Slight reduction in margins
- **Munitions**
 - 35% growth
 - Improving margin
- **Overall Divisional margin 25% (2009: 25%)**
- **Unallocated central costs £12m (2009: £12m)**
 - £2.3m (2009: £2.1m share based payments)
 - £1.5m EOD restructuring charge
 - £2.8m Kilgore and Mear incident costs
 - 2009 CM restructuring £2.9m
 - £2.4m excess provision release
 - £8.1m (2009: £6.6m) Head Office

Foreign Currency

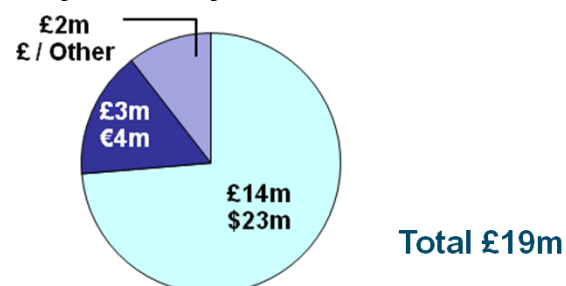
Revenue by Currency as converted to £m



Divisional Profit by Currency as converted to £m



Interest by Currency as converted to £m



- Average \$ rate 2010: 1.53 (2009: 1.55)
- Average € rate 2010: 1.15 (2009: 1.13)
- Minimal FX impact from translation compared to 2009
- Interest 78% US\$ denominated
- FX impact increased assets £10m, debt £7m
- Impact of 10 cents move in \$
 - £15m ± revenue
 - £5m ± assets
 - £17m ± debt

Balance Sheet

<u>£m</u>	<u>Final 2010</u>	<u>Final 2009</u>
Goodwill	236	150
Acquired Intangibles	181	82
Tangible Assets	189	135
Other Net Assets	91	78
Tax	(43)	(20)
Pension Deficit	(23)	(28)
Gross Debt	(366)	(184)
Cash	58	61
Net Debt	(308)	(123)
Shareholders' Funds	323	274
Gearing	95%	45%

- **5 debt funded acquisitions in year £177m – 3 principal being:**
 - *Hi-Shear*
 - *Mecar*
 - *Roke*
- **£41m Capital spend on tangible assets**
 - *£19m on UK and Australia facilities – completion in 2011*
 - *2011 estimate £35m*
- **Pension deficit reduced by 18%**
- **\$280m private placement in 2009**
- **After year end bank facilities refinanced**

Cash Flow

<u>£m</u>	<u>Final</u> <u>2010</u>	<u>Final</u> <u>2009</u>
Operating Cash Flow	126	107
Operating Cash conversion % from EBIT	93	93
Tax	(30)	(19)
Capital spend	(48)	(38)
Cash Flow from Operating Activities	48	50
Interest	(14)	(11)
Dividends	(19)	(14)
Net acquisitions spend	(177)	(27)
Purchase of own shares	(4)	(1)

- **Operating cash flow 18% up on 2009**
 - *93% converted from operating profit (2009: 93%)*
- **Capital spend £48m**
 - *Tangible assets £41m*
 - *Development costs £7m*
- **Acquisitions £177m net of £7m cash acquired**
- **Purchase of own shares to satisfy LTIP**

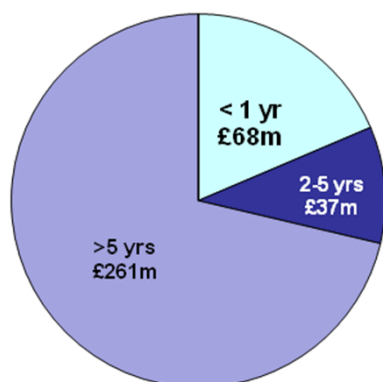
Covenants & Debt

COVENANTS	Minimum	Actual	Headroom
Interest cover to EBITDA*	4	9	£80m
Debt: EBITDA	3	2	£105m

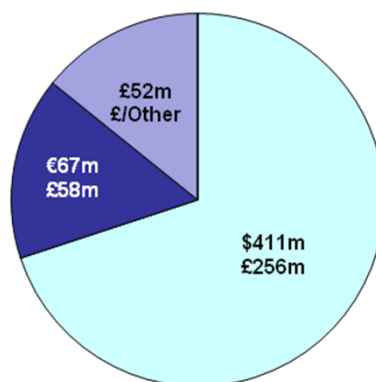
* Covenants tested on historic rolling 12 months

- Strong covenant compliance
- Headroom on core facilities
➤ £105m (2009: £107m)
- \$600m of gross assets hedged by \$400m debt
- Average debt profile 6 years
- Average cost of debt 6%

Gross Debt Profile
£366m



Analysis of Debt
in Local Currency



DEBT SUMMARY	£m
Gross Debt	366
Cash	58
Net Debt	308
Gearing	95%

Post Balance Sheet Events

New Bank Facilities

- On 14 January 2011 existing secured and bonding bank facilities of £175m refinanced
- New club of 5 banks to provide £230m of unsecured facilities
 - *£130m working capital and bonding lines*
 - *£100m term loans*
- Maturity April 2015
- New facilities provide additional headroom

Share Split

- Resolution to be tabled at AGM for 5 for 1 share split

Full Year Results to 31 October 2010



CHEMRING GROUP PLC