



CHEMRING GROUP PLC

# Half Year Results to 30 April 2008

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**Half Year Results  
To 30 April 2008**



CHEMRING GROUP PLC

# Ken Scobie

Chairman

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**Half Year Results  
To 30 April 2008**

# Acquisitions

- **Chemring Group PLC has raised £60m to fund the acquisition of Martin Electronics, Inc. (MEI) and the recently announced acquisition of Scot, Inc. (Scot)**
  - *MEI is a leading US manufacturer of training grenade fuzes & specialist 40mm ammunition*
  - *Scot manufactures high value energetic devices for the aerospace, missile & space markets*
- **These acquisitions will enable Chemring to create a major US energetics presence to address the \$1.9 billion market for pyrotechnics and munitions components**

# Financial Highlights

<i>£m</i>	<u>Interim 2008</u>	<u>Interim 2007</u>	<u>Increase</u>	<u>Final 2007</u>
<b>Order Book</b>	<b>408.2</b>	<b>293.5</b>	<b>+39%</b>	297.0
<b>Revenue</b>	<b>150.2</b>	<b>106.8</b>	<b>+41%</b>	254.7
<b>Operating Profit *</b>	<b>28.2</b>	<b>23.3</b>	<b>+21%</b>	61.2
<b>Profit Before Tax *</b>	<b>23.6</b>	<b>20.2</b>	<b>+17%</b>	53.2
<b>Earnings Per Share *</b>	<b>52p</b>	<b>42p</b>	<b>+24%</b>	112p
<b>Dividend Per share</b>	<b>10p</b>	<b>7.2p</b>	<b>+39%</b>	25p

\*Operating Profit, PBT and EPS before amortisation of acquired intangibles



CHEMRING GROUP PLC

# David Price

## Chief Executive

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**Half Year Results  
To 30 April 2008**

# MEI Financials

<b>\$m</b>	<b>Year ended Dec 06 Audited</b>	<b>Year ended Dec 07 Audited</b>	<b>Last 12 months April 08 Unaudited</b>	<b>4 months to April 2008 Unaudited</b>	<b>4 months to April 2007 Unaudited</b>
<b>Order book</b>	<b>25.0</b>	<b>36.0</b>	<b>62.0</b>	<b>62.0</b>	<b>43.0</b>
<b>Turnover</b>	<b>19.0</b>	<b>25.3</b>	<b>30.1</b>	<b>11.8</b>	<b>6.9</b>
<b>Operating Profit*</b>	<b>1.9</b>	<b>4.2</b>	<b>5.9</b>	<b>2.4</b>	<b>0.6</b>
<b>Operating margin</b>	<b>10%</b>	<b>17%</b>	<b>20%</b>	<b>20%</b>	<b>9%</b>

\* Operating profit is stated before annual non-recurring costs of \$1.0m  
(Shareholder costs \$500k and insurance costs \$500k)

# Martin Electronics, Inc.



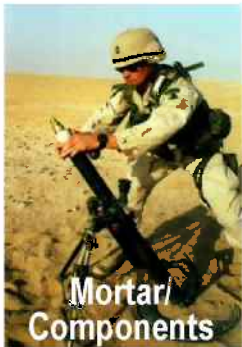
- **US manufacturer of 40mm grenade ammunition**
  - *Full range of training, pyrotechnic and high explosive rounds*
  - *New family of Patented Medium Velocity rounds*
  - *Developed in collaboration with Chemring Defence*
- **Leading high volume manufacturer of pyrotechnics**
  - *M228 practice grenade fuze*
  - *M201 pyrotechnic fuze*
  - *M49 trip flare*
- **Large site with significant scope to expand the business**
- **Strong relationships with US customers with significant scope for export**
  - *US Marines*
  - *US ammunition prime contractors*
  - *Export opportunities to UK and Australia*

# \$900m US Munitions Components Market

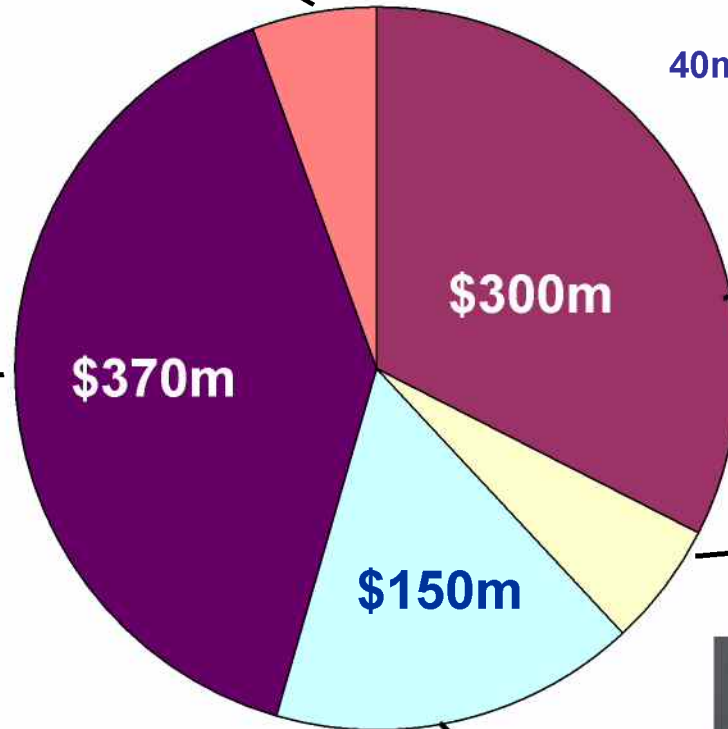


Screening, Signalling  
& Illumination

40mm



Mortar  
Components



Hand Grenade  
Fuzing



Artillery &  
Components



\*All figures based on program funding plans & Chemring estimates of key export markets

# \$900m US Munitions Components Market

- MEI creates a platform to develop a niche prime contract position
- On acquisition, Chemring will have a 6% market share
- Clear strategy for growth
  - *40mm ammunition*
    - ❖ Develop full family of medium velocity ammunition
    - ❖ Exploit Chemring international sales network
  - *Mortars & Artillery*
    - ❖ Expand pyrotechnics and illumination payloads
    - ❖ Position Chemring for prime contract opportunities

# Scot Financials

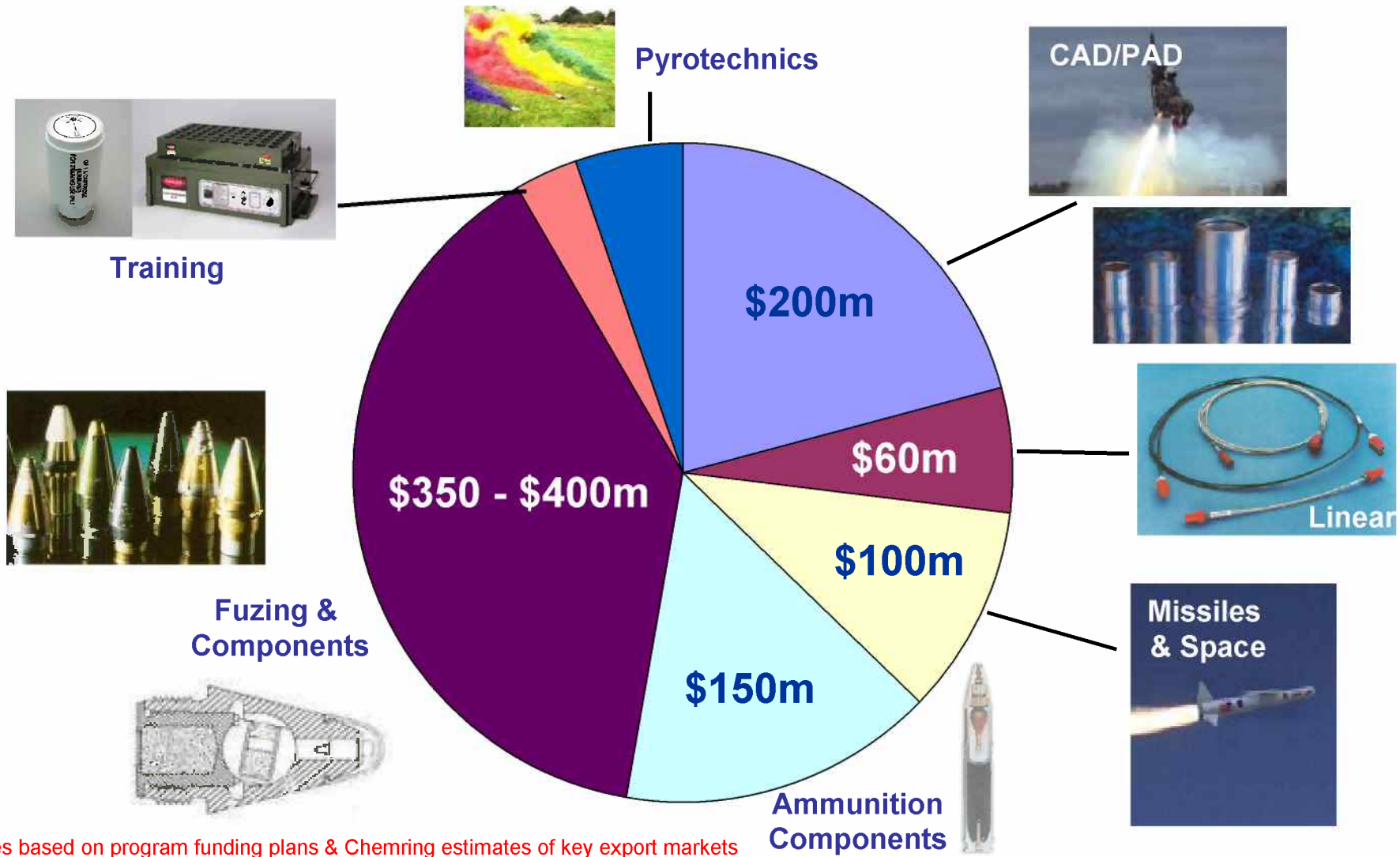
<b>\$m</b>	<b>Year ended Dec 06 Audited</b>	<b>Year ended Dec 07 Audited</b>	<b>Last 12 months April 08 Unaudited</b>	<b>4 months to April 2008 Unaudited</b>	<b>4 months to April 2007 Unaudited</b>
<b>Order book</b>	12.0	12.0	14.0	14.0	16.0
<b>Turnover</b>	21.0	23.8	25.9	6.5	4.5
<b>Operating Profit</b>	4.0	4.7	6.9	1.7	(0.4)
<b>Operating margin</b>	19%	20%	27%	26%	(9%)

# Scot, Inc.



- **Leading US Manufacturer of Cartridge / Propellant Actuated Devices (CAD/PAD)**
  - *Military aircraft emergency systems*
  - *Energetic components for missiles & munitions*
  - *Civil aircraft emergency systems & space launch vehicles*
- **Secure long-term position on current and next generation platforms**
  - *ACES II , F-15, F-16, F/A-18, F-22, B-1, B-2, C-17, T-38*
  - *Harpoon, JASSM, DAGR*
  - *Atlas V, Crew Exploration Vehicle*
- **Strong product engineering capability**
- **Access to US customers**
  - *US Air Force and Navy*
  - *US aircraft, missile & space prime contractors*

# \$1 Billion US Pyrotechnics Market



\*Figures based on program funding plans & Chemring estimates of key export markets

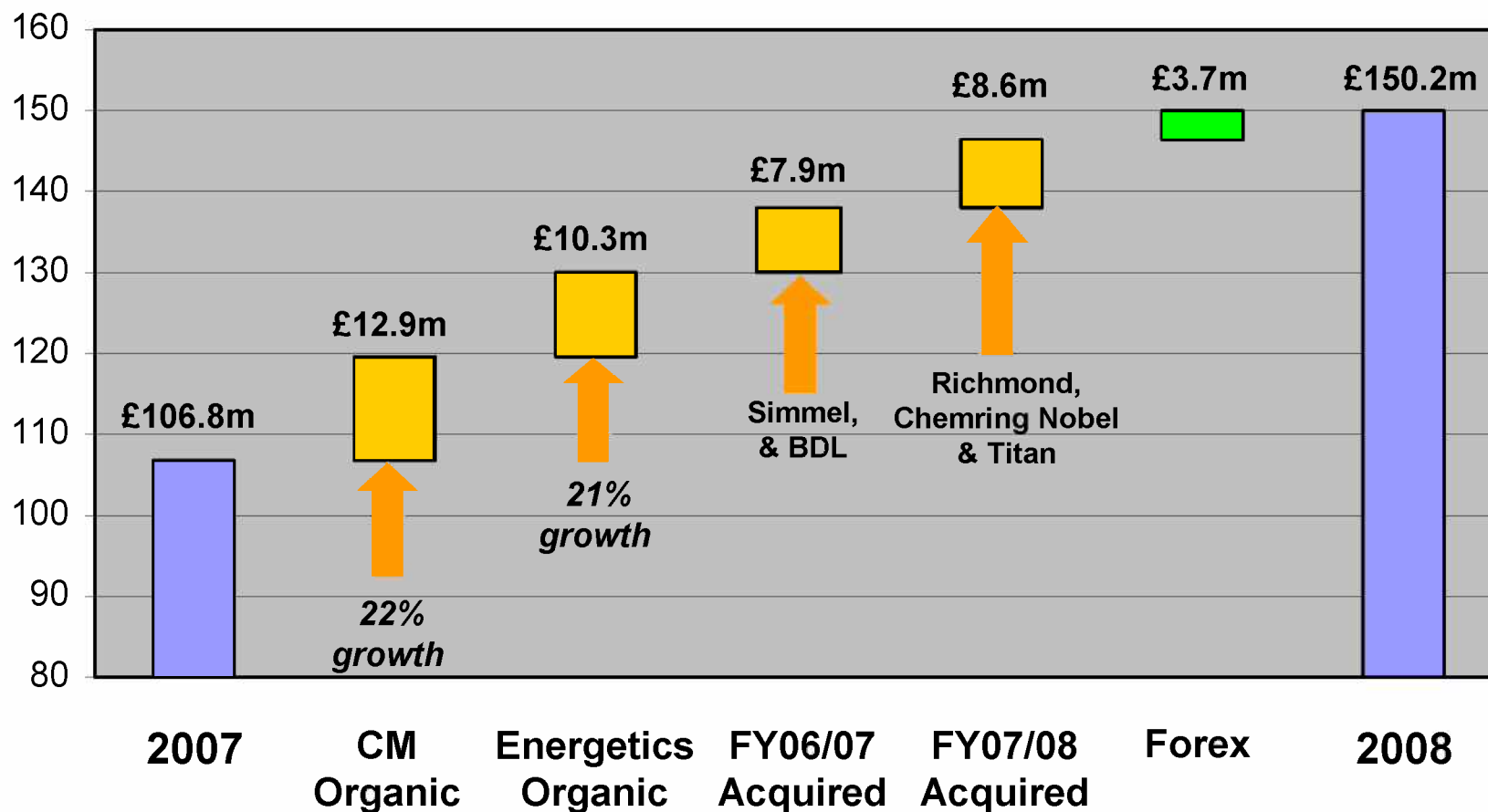
# \$1Billion US Pyrotechnics Market

- **Scot creates a platform on which to create the leading Energetic Devices business in the United States**
- **On acquisition, Scot and Chemring will have a 6.5% market share**
- **Combine Scot, TekOrd and Titan's strengths**
  - *Scot creates a step-change Chemring's US product development, engineering, and qualification capabilities, and has good relationships with United States Air Force and Navy, as well as aircraft and missile prime contractors*
  - *TekOrd has leading competence in high volume manufacture of small devices and automation, with strong customer relationships with Hill Air Force Base and ammunition prime contractors*
  - *Titan has a promising range of launchers and cartridges for military training, with strong relationships with the Army*
- **Route to US market for Chemring technologies:**
  - *CEUK product and customer knowledge in ejection seats and missiles*
  - *Chemring Defence range of traditional and cartridge-based simulators, as well as screening, signalling & illumination products*
  - *Simmel's fuzing, S&A, and warhead manufacture*

# Interim Headlines

- **Operating profits up 21% - in line with expectations**
  - *Half-year Revenue up 41% to new record*
- **Record Orderbook of £408m – up 39% on last year**
  - *Orderbook now 66% energetics*
- **Energetics continuing to deliver strong growth**
  - *Good mix of organic & acquisitive growth*
  - *New acquisitions offer strong platform for future growth*
- **Simmel re-start has been successfully completed**
  - *Delay in revenues has impacted margins in first half*
- **Countermeasures continues to grow with market**
  - *Strong performance from UK countermeasures company*

# Group Sales Progression



# Segmental Analysis

<i>Order Book (£m)</i>	Interim 2008	Interim 2007		
<b>Energetics</b>	267.6	147.6		
<b>Countermeasures</b>	140.6	145.9		
<b>Total Group</b>	408.2	293.5		

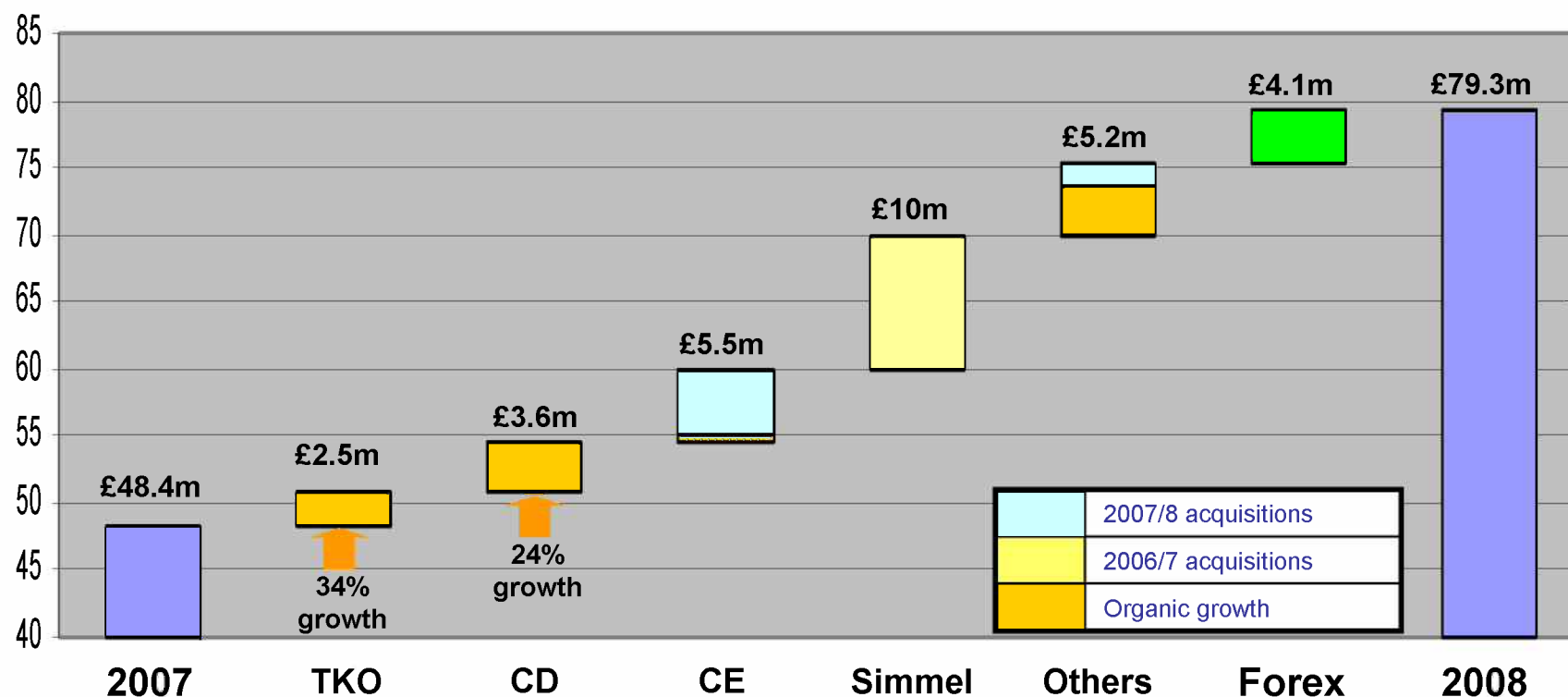
  

<i>Sales (£m)</i>	Interim 2008	Interim 2007		
<b>Energetics</b>	79.3	48.4		
<b>Countermeasures</b>	70.9	58.4		
<b>Total Group</b>	150.2	106.8		

<i>EBIT (£m)</i>	Interim 2008	Margin	Interim 2007	Margin
<b>Energetics</b>	12.4	16%	8.6	18%
<b>Countermeasures</b>	19.0	27%	17.7	30%
<b>Total Group</b>	28.2	19%	23.3	22%

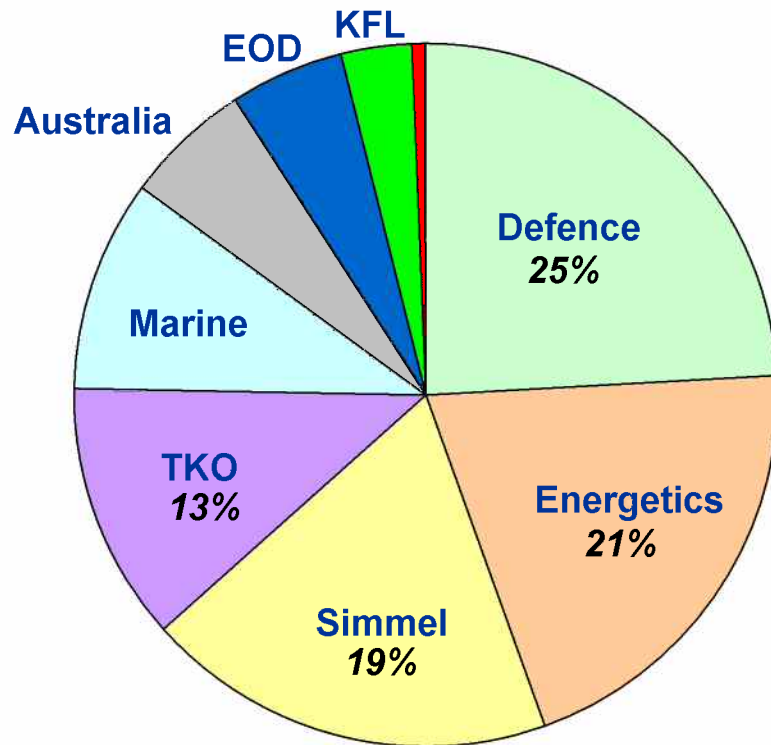
# Energetics Sales Progression



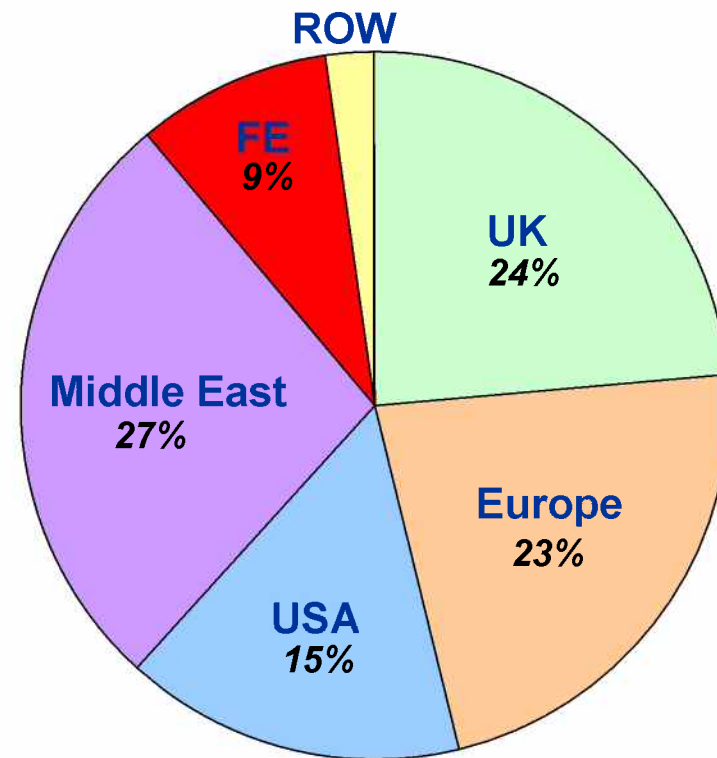
Orderbook	Interim 2008	Interim 2007	Growth
C. Defence	£33.4m	£26.3m	+27%
C. Energetics	£50.3m	£41.5m	+21%
TKO	£12.1m	£11.3m	+7%
Simmel	£143.5m	£46.6m	+208%

# Energetics Sales Analysis

## Sales by Company



## Sales by Destination



Half-year Sales of £79.3m

# Simmel



- **Production re-start has been successfully completed**
  - *Thorough review undertaken of all safety procedures*
  - *€1m increased cost of work – recovered from Insurance*
  - *Reduced sales volume & €3m margin delayed into H2*
  - *March/April production consistent with full-year recovery*
- **Deliveries of 81mm mortar rounds have re-started**
  - *Sub-contract manufacture of candle successfully qualified*
  - *9,844 rounds of Illumination delivered in first half*
  - *Contract award for 140,000 illumination & 50,000 black-light rounds*
- **Maintaining world lead in naval ammunition**
  - *ITP award for 76mm ammunition for FREMM frigate*
  - *Contract award for 40mm ammunition to Middle East*
  - *Well positioned to capture 127mm contract from Turkey in H2*
- **Growing position in tank ammunition**
  - *\$28m award from Middle East for 125mm tank ammunition*
  - *Initial deliveries of 120mm ammunition to NAMSA in H2*

# Chemring Defence



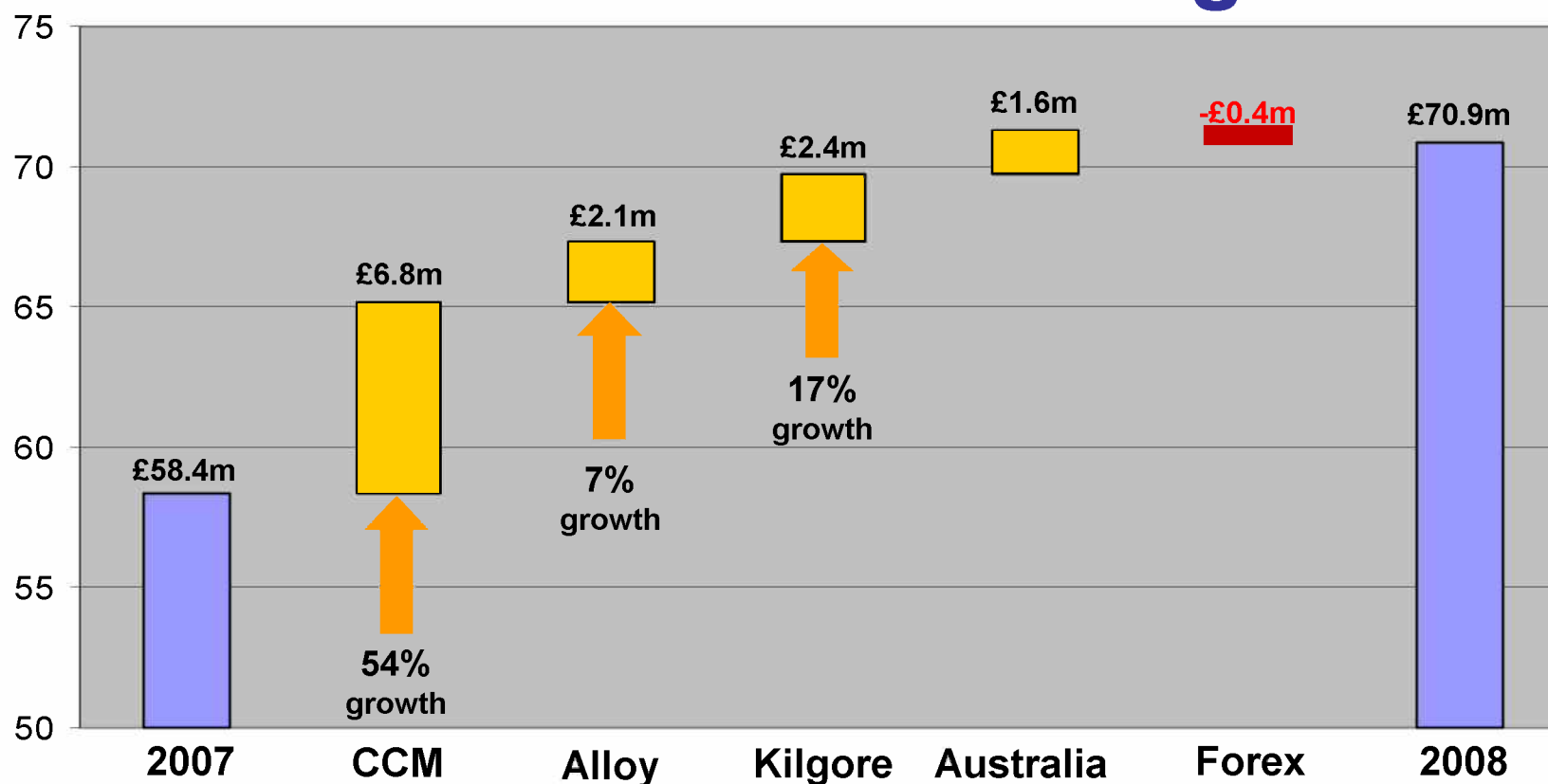
- **Demand grows for mine-clearance system**
  - *PEMBS systems delivered to France & Australia*
  - *Eastern Europe & Middle East showing strong interest*
- **Strong growth emerging for pyrotechnics**
  - *£8.5m contract awarded by UK MOD*
  - *Record level of sales achieved to Middle East*
  - *Successful FAT of L96/L97 VDGs for US Army*
- **Strong position on battlefield training & simulation**
  - *New lightweight launcher system demonstrated*
  - *US DoD have released RFP for IED simulation program*
  - *US qualification underway for Micro/Macro pyro*
  - *Demand increasing for MECS products – US & Europe*
- **Successful demonstration of new 40mm MV family**
  - *Good demonstrations to both UK & US forces*
  - *Urgent operational interest from UK Special Forces*

# Energetic Components



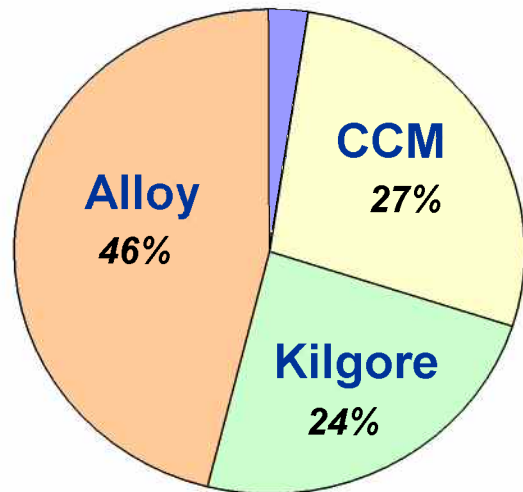
- **Production of components reaches record levels**
  - *HEI pellets up 217% & tracer pellets up 86%*
  - *Detonator & primer production for BAES up 500%*
  - *Propellant production up 27%*
  
- **Major programmes now heavily H2 weighted**
  - *NLAW motor production only just increasing to full rate - recovery plan implemented*
  - *M55 detonator production still below 900,000 per month due to automation issues*
  
- **Strong growth in bulk explosives sales**
  - *Contract award from Nexter for NTO used in IM-compliant LU211 155mm ammunition*
  
- **Major investment programs underway**
  - *Propellant processing facility in Scotland*
  - *NTO volume production plant in Norway*

# Countermeasures Sales Progression



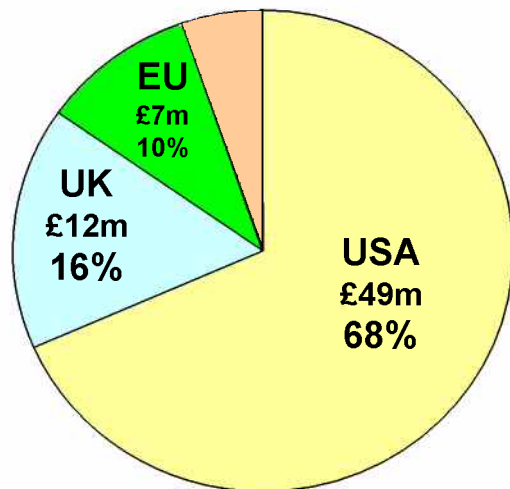
Orderbook	Interim 2008	Interim 2007	Growth
CCM	£39.4m	£34.6m	+14%
Alloy	£62.8m	£71.5m	-12%
Kilgore	£38.5m	£39.8m	-3%

# Countermeasures Sales Analysis



## Sales by Company

- Growth at CCM & Kilgore reduces special material decoy share below 50%
- 70% of production US-based



## Sales by Destination

- US continues to represent major market
- UK market reduced to 16% as European sales increase
- NATO represent 94% of sales

# Alloy Surfaces



- **Strong performance despite varying product volumes**
  - *M211 production rate reduced for US Army*
  - *MJU-50 production rate increased for USAF*
  - *MJU-49 production rate increased for USN*
- **Next-generation helicopter flare competition soon**
  - *All-SMD solution continues to perform well*
  - *Israeli flare emerging as key competitor*
- **Upgraded BOL/IR product developed**
  - *UK MOD looking for rapid production growth*
- **Progress made on 5-year IDIQ contract awards**
  - *Contract award for M211 flares for US Army (\$348m max)*
  - *MJU-51 contract award expected in July from USAF*
  - *RFPs from USN (MJU-49) & USAF (MJU-50) by year-end*

# Kilgore



- **High volume flare production running well**
  - *Successful shift to single shift production*
  - *Next multi-year IDIQ contract delayed to June 2009*
  
- **F-22 production increasing to plan**
  - *Monthly production has reached 600 flare sets*
  - *Automated production facility will complete in June*
  - *FAT from this facility in July for further rate increase*
  
- **5-year IDIQ awarded for M212 helicopter flare**
  - *100% award to Kilgore*
  - *Maximum value of contract \$387m – initial order \$16m*
  - *FAT in March 2009*
  
- **Progress being made on new flare products**
  - *Flight trials of B-52 flares successful*
  - *FAT for C-17 flares will take place in June*

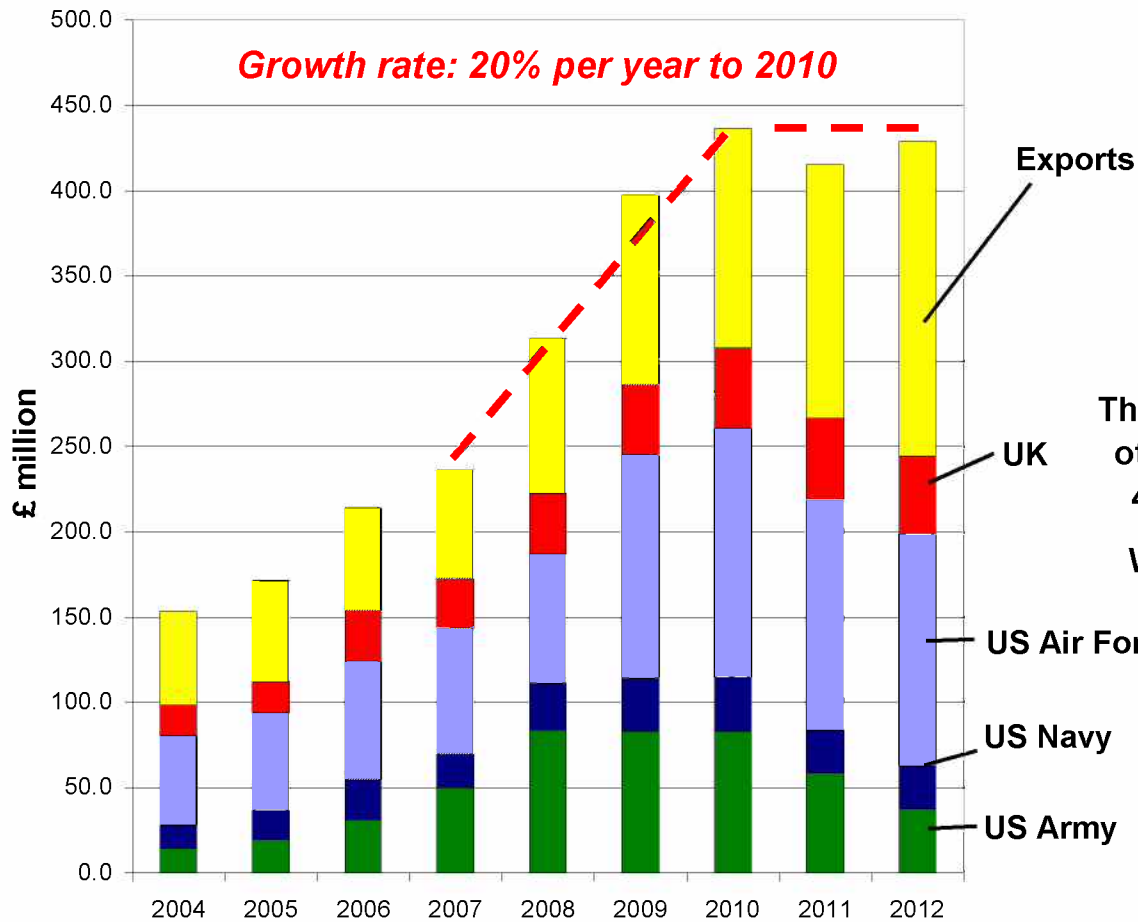
# UK Countermeasures



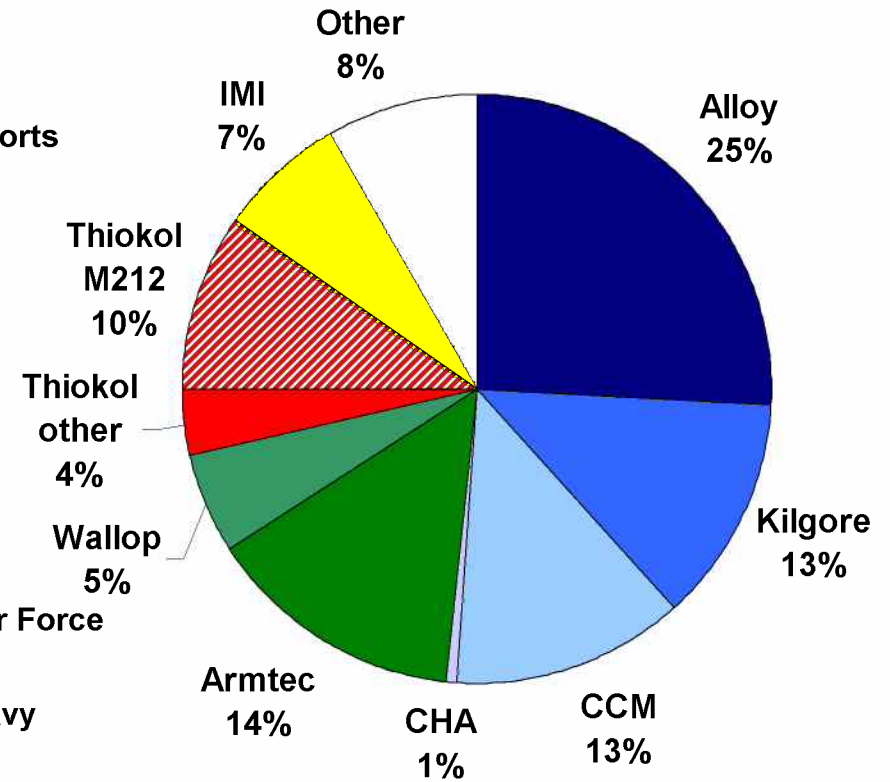
- **Spectral Flare production delivering growth**
  - *Full six months of production*
  - *Transport variants now 30% of volume*
  - *Fast Jet variant just entering production*
  
- **Strong growth in naval countermeasures**
  - *Sales up 180% on H1 2007*
  - *Deliveries to Norway, Spain & Chile*
  - *New orders from NAMSA, Romania & Denmark*
  - *Growing interest in both RF & IR variants*
  
- **Good progress on new 50mm chaff product**
  - *Orders received for Su-30 aircraft*
  - *Indian deliveries scheduled to start in H2*

# Outlook for Countermeasures

Global Market (£m)



Market Shares (2007)



**Total Market £237m**

\*All figures based on program funding plans & estimates of key export markets

# Summary

- Operating profit up 21% - margins expected to recover in H2
- Continued strong growth in Revenues - 41% and Orderbook - 39%
- Energetics continues to grow rapidly
  - *New acquisitions significantly enhance our position in huge US market*
- Countermeasures market continues to grow at 20%
  - *M212 competition success has increased our potential market share from FY09 onwards*
- Order book now stands at record high of £425m
  - *45 % increase on previous year*



CHEMRING GROUP PLC

# Paul Rayner

## Finance Director

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**Half Year Results  
To 30 April 2008**

# Profit and Loss

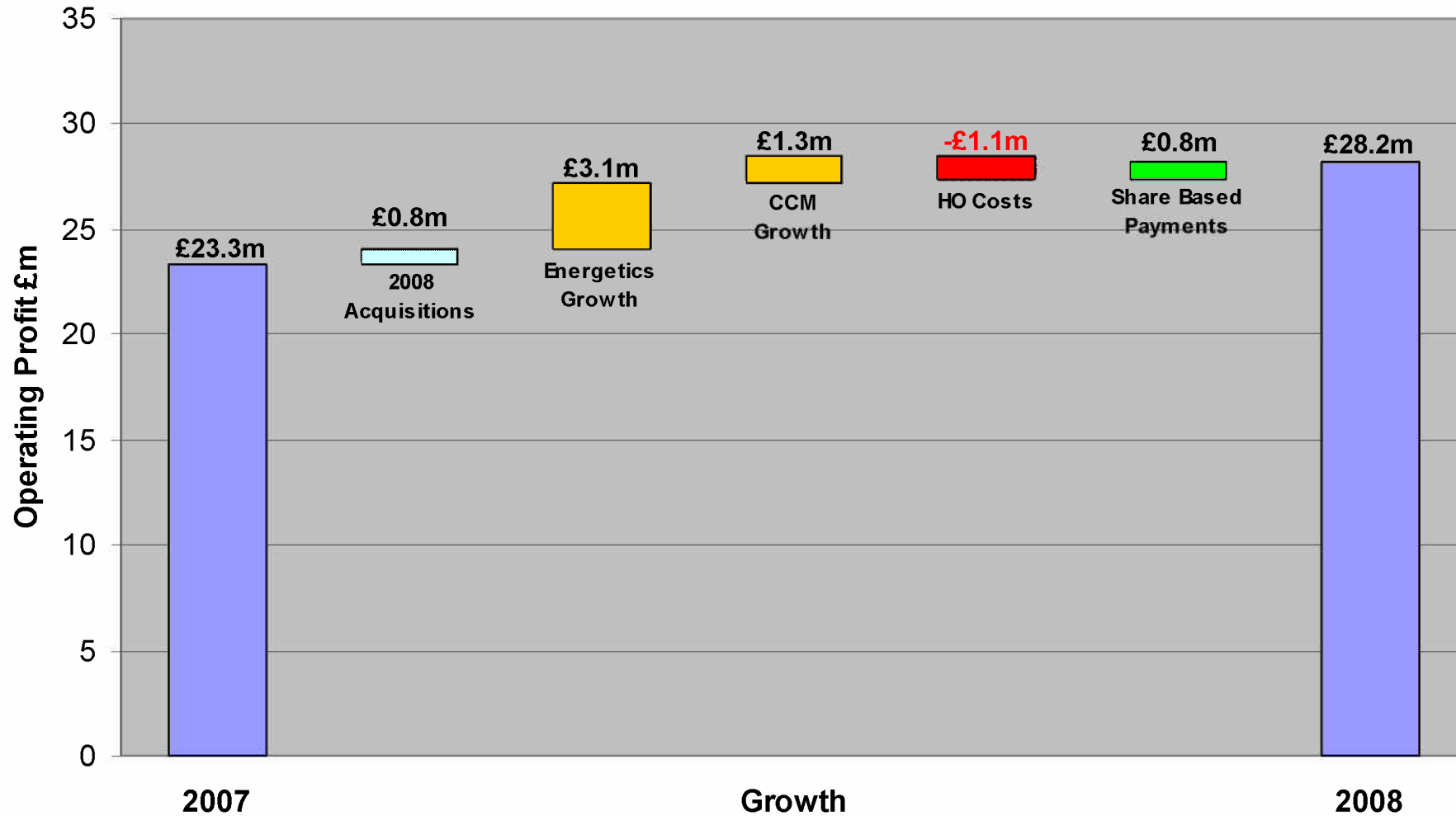
£m- Core Operations	<i>Interim</i> 2008	<i>Interim</i> 2007
Revenue - <i>Continuing</i>	146.4	106.8
Revenue - <i>Acquired</i>	3.8	-
<b>Total Revenue</b>	<b>150.2</b>	<b>106.8</b>
Operating Profit – <i>Continuing</i> *	27.4	23.3
Operating Profit – <i>Acquired</i> *	0.8	-
<b>Total Operating Profit*</b>	<b>28.2</b>	<b>23.3</b>
Associate	0.1	-
Interest	(4.7)	(3.1)
<b>Profit Before Tax*</b>	<b>23.6</b>	<b>20.2</b>

\*Operating Profit and PBT before amortisation of acquired intangibles

# Results

- **Strong revenue growth 37% before impact of 2008 acquisitions**
  - *Richmond and Titan contributed £3.8m to top line in period*
- **Majority of 2008 revenue order book covered**
- **Operating profit up 18% before impact of 2008 acquisitions**
  - *Richmond and Titan contributed £0.8m (21% margin)*
- **Total operating profit £28.2m, up 21% on 2007**
- **Interest higher at £4.7m (2007: £3.1m)**
- **Profit before tax £23.6m, up 17% on 2007**

# Operating Profit Progression



# Segmental Results

<i>£m</i>		<i>Interim 2008</i>	<i>Interim 2007</i>
<b>Energetics</b>	Revenue	79.3	48.4
	Operating Profit *	12.4	8.6
	Operating Margin	16%	18%
<b>Countermeasures</b>	Revenue	70.9	58.4
	Operating Profit *	19.0	17.7
	Operating Margin	27%	30%
<b>Total</b>	Revenue	150.2	106.8
	Operating Profit *	31.4	26.3
	Operating Margin	21%	25%

\*before unallocated central costs

# Segmental Results

- **Energetics**
  - **64% growth in revenue**
    - ❖ £4.1m favourable FX over 2007
  - **44% growth in operating profit**
    - ❖ Simmel €3m delayed margin following incident, recovery H2
- **Countermeasures**
  - **21% growth in revenue**
  - **7% growth in operating profit**
    - ❖ Margins in range of 27%-30%
    - ❖ Impact of naval rounds – higher bought in content
- **Unallocated Costs**
  - **Share based payments £0.8m (2007: £1.6m)**
    - ❖ Phantom £nil (2007: £0.8m)
  - **Head Office costs £2.5m (2007: £1.4m)**
    - ❖ Non-recurring net Willis cost £0.6m
- **Total group margins 19% (2007: 22%)**

# Other Profit and Loss Items

- **Interest £4.7m (2007: £3.1m)**
  - *Higher due to impact of debt funded acquisitions*
  - *Interest cover 6.0 times (2007: 7.5 times)*
  - *Pension scheme interest £0.3m (2007: £0.3m)*
- **Forex**
  - *Average \$1.99 to £1 (2007: 1.96)*
  - *Average €1.25 to £1 (2007: 1.48)*
  - *Additional sales £3.7m, EBIT £0.7m, EPS 1p*
- **Tax 30% (2007: 33%)**
  - *Lowering guidance to 30% 2008 and beyond*
- **Amortisation of acquired intangibles- taken as 'below line' charge**

# Balance Sheet

<b>£m</b>	<i>Interim 2008</i>	<i>Interim 2007</i>
<b>Tangible Fixed Assets</b>	<b>86.7</b>	<b>60.0</b>
<b>Goodwill &amp; intangibles</b>	<b>152.9</b>	<b>135.2</b>
<b>Other Net Assets</b>	<b>48.4</b>	<b>30.3</b>
<b>Gross Debt</b>	<b>(187.8)</b>	<b>(122.6)</b>
<b>Cash</b>	<b>46.4</b>	<b>14.4</b>
<b>Net Debt</b>	<b>(141.4)</b>	<b>(108.2)</b>
<b>Pension Deficit (post tax)</b>	<b>(11.1)</b>	<b>(9.0)</b>
<b>Shareholders' Funds</b>	<b>135.5</b>	<b>108.3</b>

# Balance Sheet

- **Fixed Assets**
  - *£16.5m spend in H1*
    - ❖ Acquisition of Simmel property £7m
  - *Full year guidance £23m*
- **Goodwill and Intangibles**
  - *Acquisition of Richmond and Titan £14.4m*
- **Net Debt**
  - *Cash outflow H1*
  - *Impact of €/\$ appreciation since year end £8.6m*
  - *£75m (2007: £nil) senior secured notes 2017 fixed interest 6.3%*
  - *£155m committed bank facilities*
- **Pension Deficit**
  - *Increase linked to falling equity markets*
- **New equity ( £60m) strengthens balance sheet**
  - *Post transaction gearing at 74%*

# Proforma Balance Sheet

£m	Chemring Interim Balance Sheet April 2008	Acquisition		Proforma Consolidated Group
		Scot April 2008	MEI April 2008	
Fixed Assets	86.7	1.0	1.0	88.7
Goodwill & Intangibles	152.9	17.0	28.0	197.9
Working Capital	37.3	2.0	6.0	45.3
Net Debt	(141.4)	-	-	(141.4)
Net Assets	135.5	20.0	35.0	190.5
Gearing %	104			74

\* \$2 = £1

Consideration before costs		20	35
Net Assets		<b>3</b>	<b>7</b>
Goodwill & Intangibles		17	28

Before fair value adjustments for tax assets available

# Cash Flow

<b>£m</b>	<i>Interim 2008</i>	<i>Interim 2007</i>
<b>Operating Cash Flow</b>	<b>12.2</b>	<b>13.8</b>
Phantom Share Payment	(3.4)	-
Tax	(2.4)	(4.7)
Capex	(18.3)	(5.3)
<b>Free Cash (Out)/In Flow</b>	<b>(11.9)</b>	<b>3.8</b>
Acquisitions and Disposals	(11.4)	(34.6)
Interest & Dividends	(8.5)	(6.4)
Treasury Shares	(1.9)	-

# Cash Flow and Net Debt

- **Operating cashflow 43% conversion rate (2007: 59%)**
  - *Build up of working capital at Simmel, CCM and CD*
  - *Target 90%+ for full year*
  - *2007 H2 generated £46.8m to produce full year 2007 conversion 99%*
  - *Phantom share payout £3.4m – non-recurring*
  
- **Acquisitions net of cash acquired £11.4m**
  
- **Treasury shares £1.9m (2007: £nil)**



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