



CHEMRING GROUP PLC

**Full Year Results
To 31 October 2006**

CHEMRING GROUP PLC





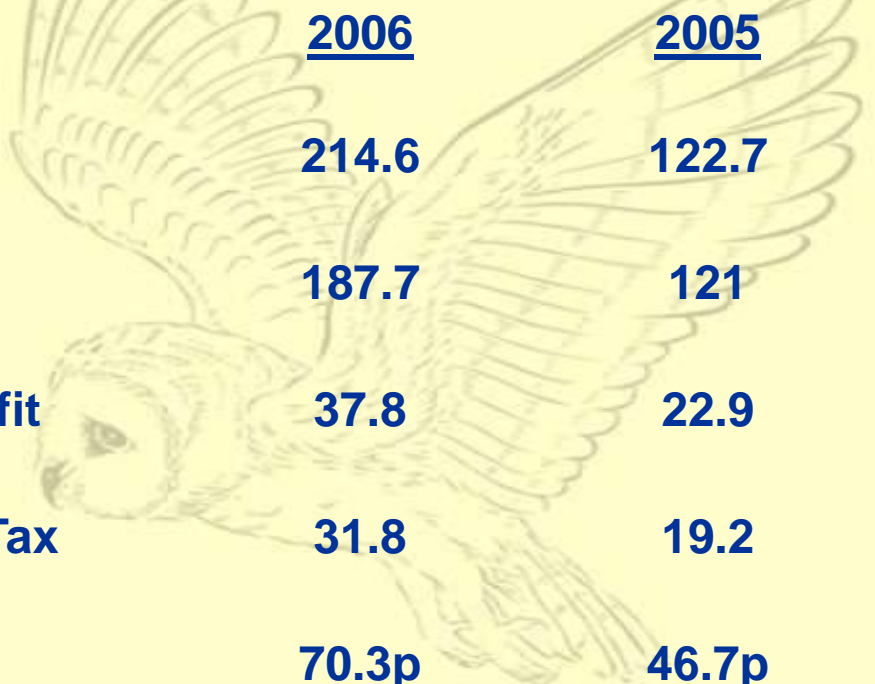

Ken Scobie

Chairman

CHEMRING GROUP PLC



Financial Highlights



<u>£m</u>	<u>2006</u>	<u>2005</u>	<u>Increase</u>
Order Book	214.6	122.7	+75%
Sales	187.7	121	+55%
Operating Profit	37.8	22.9	+65%
Profit Before Tax	31.8	19.2	+66%
EPS	70.3p	46.7p	+51%
Dividend per share	16.0p	10.5p	+52%



David Price

Chief Executive

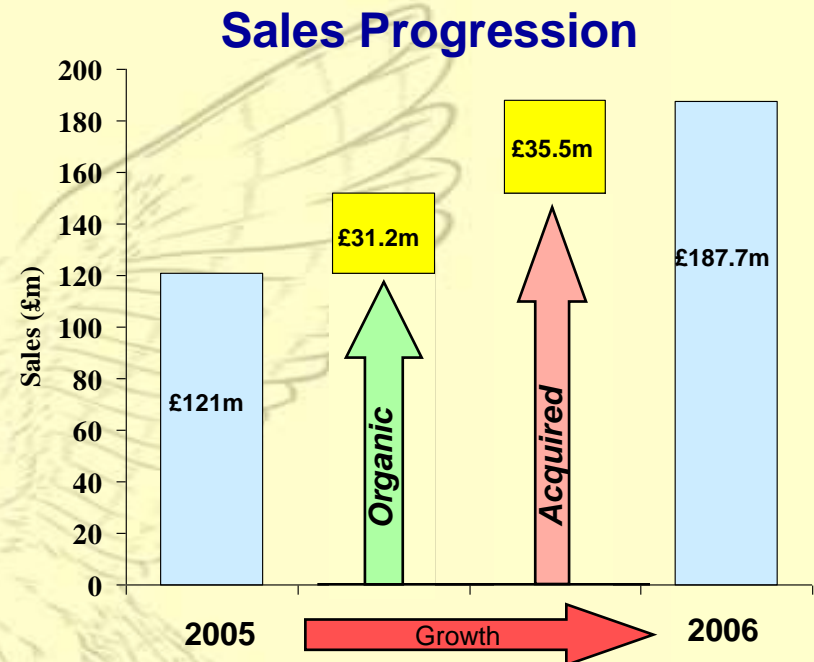
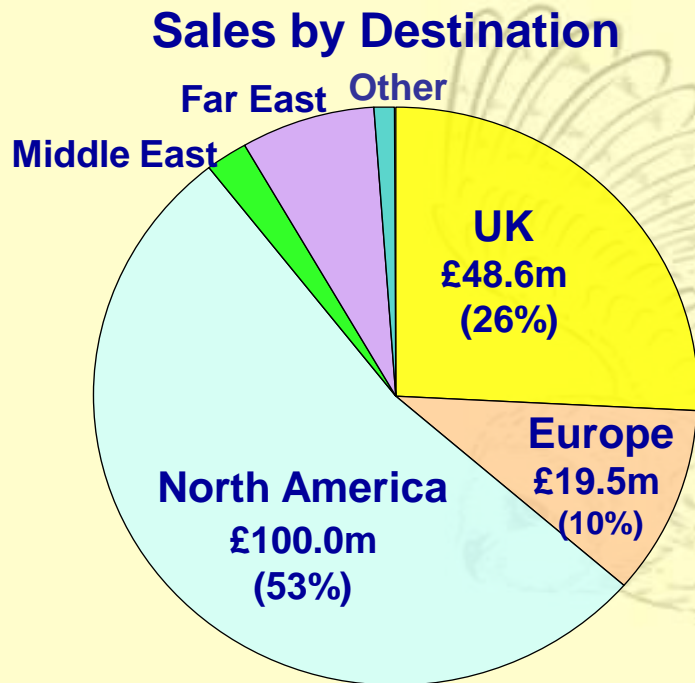
CHEMRING GROUP PLC



Headlines

- **Strong growth in sales & profits.**
 - *Sales up 55% to £187.7m.*
 - *Profit before Tax up 66% to £31.8m.*
- **Countermeasures generated 30% sales growth.**
 - *Record levels of production at Alloy, Kilgore & CCM.*
 - *Alloy Surfaces meet all milestones for US Army production ramp-up.*
 - *Kilgore capture five new decoy production contracts.*
- **New acquisitions in Energetics performing well.**
 - *Operating margin grew to 15% - H2 performance at 20%.*
 - *Nobel delivered 18% organic growth in first full year of ownership.*
- **Divestment of marine business completed.**
- **Current Record Orderbook of £246m underpins future growth.**
 - *Alloy backlog covers US Army production through 2007 & 2008.*

Sales Analysis



Exports from USA	£16.7m	15% of sales
Exports from Europe	£15.9m	22% of sales
Total exports	£43.4m	23% of sales

Segmental Analysis

<i>Sales</i>	2005	H1	H2	2006	Growth
Countermeasures	£90.8m	£55.6m	£62.8m	£118.4m	+30%
Energetics	£30.2m	£27.0m	£42.3m	£69.3m	+130%
Total	£121.0m	£82.6m	£105.1m	£187.7m	+55%

<i>Operating Margin</i>	2005	H1	H2	2006
Countermeasures	27%	28%	29%	29%
Energetics	8%	8%	20%	15%
Total Group	19%	17%	22%	20%

Alloy Surfaces



- **US Army M211 expansion completed on time.**
 - *Plant 1 & 2 now fully operational - all milestones met.*
 - *Record level of 466,000 flares made - now at 60,000/month.*
 - *Orderbook already covers 2007 & 2008 production.*
- **Record year for special material decoys.**
 - *Strong demand from all 3 US armed services - sales up 54%.*
 - *Production was over 1.6 million flares.*
 - *250,000 MJU-49 to USN, 190,000 MJU-50 to USAF.*
- **Demand for BoI/IR decoys continues to be high.**
 - *Production during year increased to over 650,000 flares.*
 - *NATO deployment in Afghanistan continues to drive demand.*
 - *Extended duration upgrade for Tornado likely in 2007.*

Kilgore



- **AIRCM flare demand for peacekeeping grows.**
 - *M206 flare production over 1.4 million.*
 - *M211/M212 flare demand at 60,000 per month in 2007.*
- **Consistent High Volume production achieved**
 - *Over 2.3 million flares manufactured by Kilgore.*
 - *525,000 MJU-7 and 250,000 SM875 flares produced.*
 - *Contract for 2007 SM875 production secured.*
- **New flare order won against tough competition.**
 - *First \$2.26m MJU-53 flare production order secured.*
 - *Part of C-17 countermeasure suite.*
 - *First Article Testing in February 2007.*

Kilgore



- **Won first production contract for B-52 decoy.**
 - *ALA-17 flare development completed*
 - *\$3.1m production order awarded.*
- **Won multi-year contract for F-15 decoy.**
 - *Production split 45/55 with Armtec.*
 - *Total sales of \$20m expected from 2007 to 2009.*
- **Won first production contract for F-22 decoy.**
 - *MJU-39 & MJU-40 qualification underway.*
 - *\$18.5m production order awarded.*
- **New facilities will support good growth in 2007.**
 - *Large Flare facility completed on time for \$2.7m.*
 - *New facility for F-22 & JSF will be built in 2007.*

UK Countermeasures



- **Development of new decoys for helicopters completed.**
 - *Aerodynamic and advanced multi-spectral flares.*
 - *Ramping-up to over 20,000 units per month.*
 - *Now flight testing spectral flares for fixed wing aircraft.*
- **Record level of flare production during year.**
 - *110,000 118 flares & 80,000 218 flares manufactured.*
- **First production orders received for Typhoon decoys.**
 - *Design of spectral flare variant will start in 2007.*
 - *RSAF procurement will provide opportunities in 2008.*
- **New production facilities required to support growth.**
 - *New spectral flare facility completed in 4 months.*
 - *Flexible MTV line will increase capacity in 2008/9.*

Energetics



- **Strong growth in detonator & actuator sales.**
 - *Orders received from BAES for detonators & fuze components.*
 - *20% increase in demand from Martin Baker.*
- **New red phosphorous smoke grenade completes development.**
 - *Initial production contract from a NATO country received.*
 - *Strong interest expressed from UK & US armed forces.*
- **Established position as major supplier of impulse cartridges.**
 - *TekOrd delivers 7.7million cartridges in first 7 months.*
 - *UK & RSAF place further orders for bomb release cartridges.*
- **Strong interest shown in new battlefield training products.**
 - *US Army places 5-year contract for MECS.*
 - *New Orders from UK, Germany, Norway & Switzerland.*
 - *Mini/Macro-pyro selected for new urban terrain training systems.*

Energetics



- **Sales of PEMBS Mine Clearance system continue to grow.**
 - *New contracts received from France, Spain, & Poland.*
 - *Selected by UK for Dismounted Counter-Mine Capability.*
- **Mk 58 Marine Location Marker Programme completed.**
 - *Qualification on F/A-18 & helicopter achieved.*
 - *Record production order from USN received.*
- **Acquisition of BDL Systems completed in September 2006.**
 - *Manufactures RF initiators & hard-wired exploders for remote detonation of demolition charges.*
 - *Enhances our capability in explosive ordnance disposal [EOD].*
 - *Principal supplier of EOD equipment to Iraqi training school.*

Integration of Acquisitions



- **Consolidation of marine production in Germany.**
 - *Transfer of production & regulatory qualification by April 2007.*
 - *Production quantities now over 750,000 per annum*
 - *Automation & volume benefits will deliver £1.5m margin gain.*



- **Consolidation of detonator/primary explosives at Nobel.**
 - *Transfer of ceremonial ammunition achieved.*
 - *Transfer of high explosive melt/cast capability completed.*
 - *New orders from BAES for detonator & energetic components.*



- **Growing order intake on canopy cutting charges.**
- **New President appointed to run Chemring North America.**
 - *Staff also recruited to subsidiary management teams.*

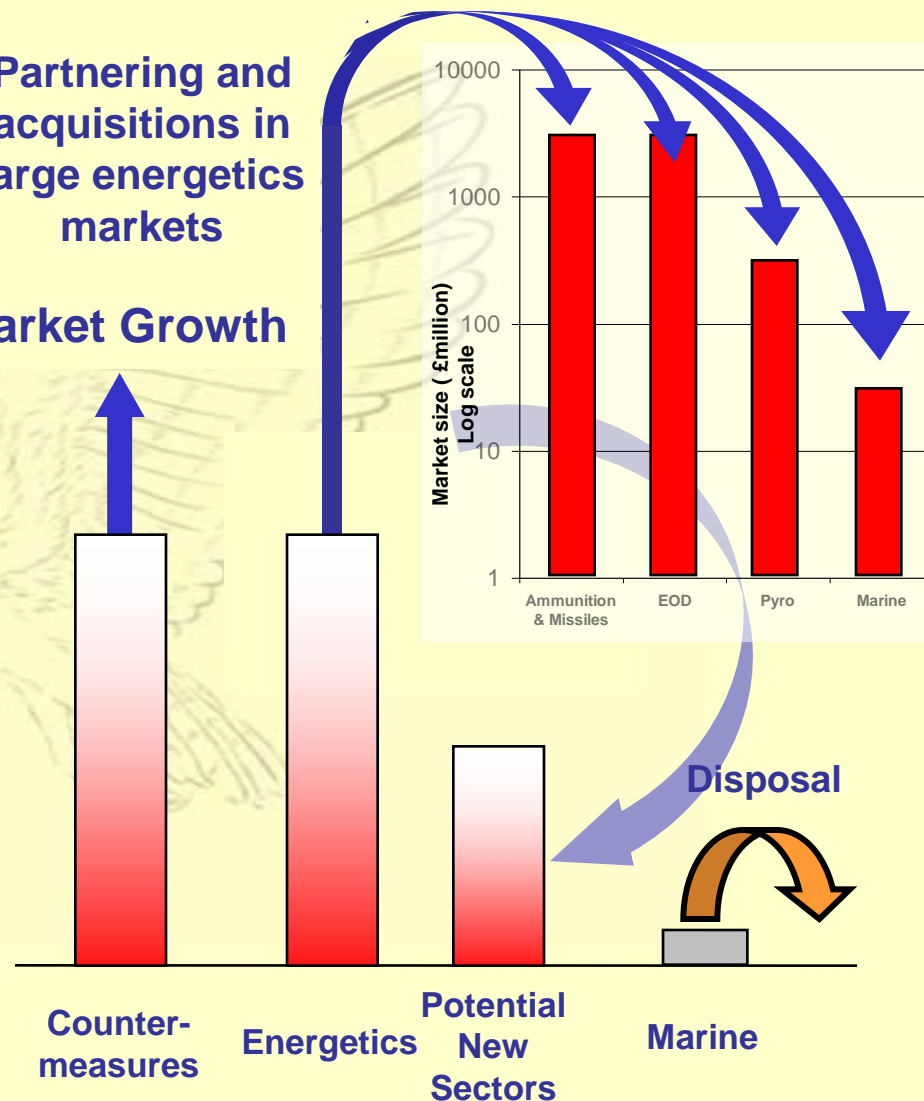
Corporate Strategy

Strategic Intent:

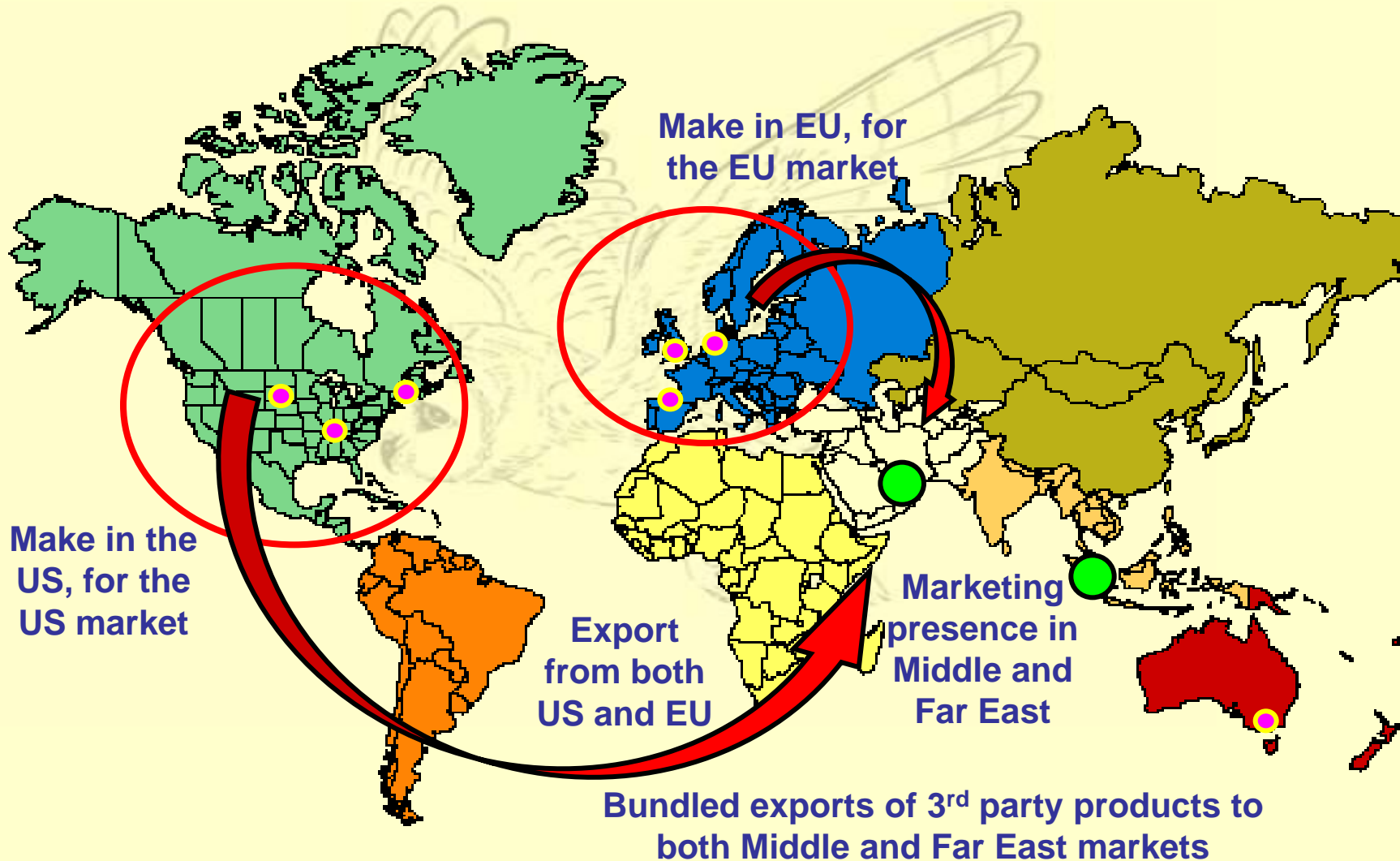
- Build on core competences
 - Energetic materials
 - High reliability & safety
 - High volume manufacturing
 - Global defence markets
- Maintain US/Europe Balance
- Expand countermeasures
 - Maintain market share
 - Exploit lead in SMD & spectral flare
 - Establish lead position on new platforms
- Energetics focus for strong growth
 - Acquisitions in both US & Europe
 - Outsourcing opportunities from Primes
 - Consolidation for synergy & critical mass

Partnering and acquisitions in large energetics markets

Market Growth

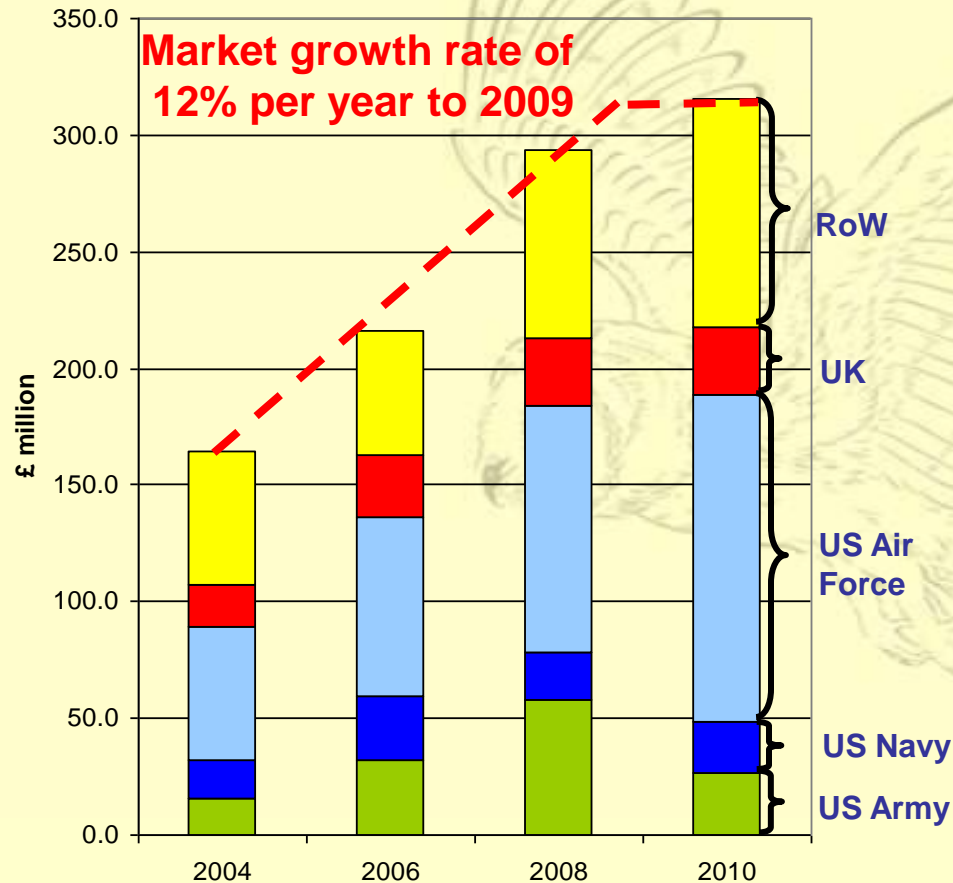


Geographic Strategy



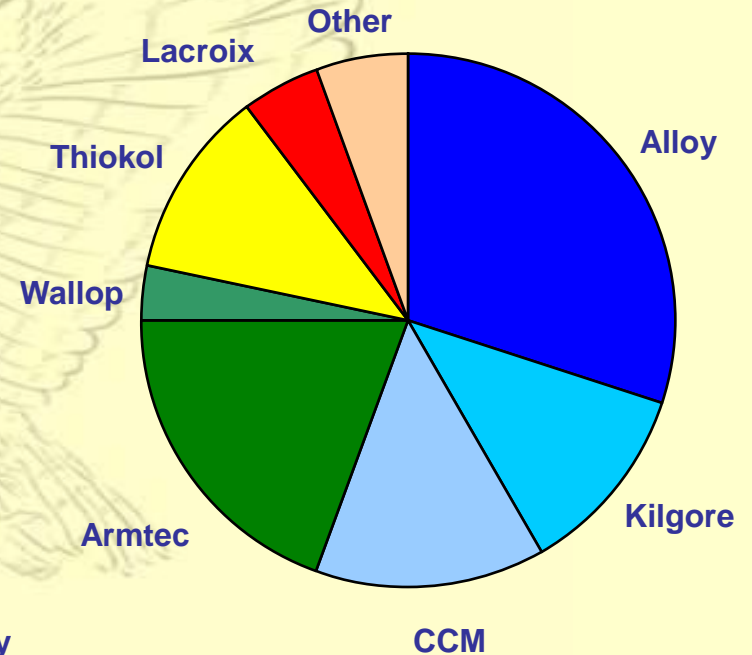
Outlook for Countermeasures

Global Market (£m) ¹



¹ All figures based on program funding plans & estimates of key export markets

Market Shares (2006) ²



Total Market £215m ²

² Management Estimates

Outlook for Munitions



- **Tank & medium calibre ammunition remains attractive market.**
 - *Major supplier of detonators and primers in US & Europe.*
 - *Largest supplier of Tracer pellets in USA.*
- **Good opportunities in large calibre and Mortar payloads.**
 - *Major supplier of detonators and initiation chains.*
 - *Growing opportunities for illumination and screening smoke.*
- **Growing opportunities for rocket propulsion.**
 - *NLAW rocket motors now in volume production.*
 - *2.75" rocket motors offers interesting short-term focus.*
- **Global market is huge at over £2billion per year.**
 - *Sales currently at only £15.4m – good opportunities to grow.*

Outlook for Pyrotechnics & EOD



- **Sales of pyrotechnics increased to £49m.**
 - *Marine remains stable market & market share maintained.*
 - *Strong interest in red phosphorous & cinnamic acid grenades.*
 - *New emphasis on realistic training for urban warfare and handling improvised explosive devices.*

- **Explosive Ordnance Disposal market is now over £2billion per year.**
 - *New 2-way coded RF detonations systems.*
 - *Comprehensive supply contracts required by some Customers.*



Summary

- Strong growth in sales & profits.
- Countermeasures generated 30% sales growth.
- Record production levels at all countermeasure businesses.
- New acquisitions in Energetics performing well.
- Operating margins grew to 20%.
 - *Energetics generated 20% margin for second half of year.*
- Record Orderbook of £246m.



Paul Rayner

Finance Director

CHEMRING GROUP PLC



Profit & Loss

<u>£m Continuing Operations</u>	<u>Final 2006</u>	<u>Final 2005</u>
Sales	187.7	121.0
Operating profit	37.8	22.9
Associate	0.1	0.1
Interest	(6.1)	(3.8)
Profit Before Tax	31.8	19.2
Tax	(9.9)	(5.6)
Profit After Tax	21.9	13.6

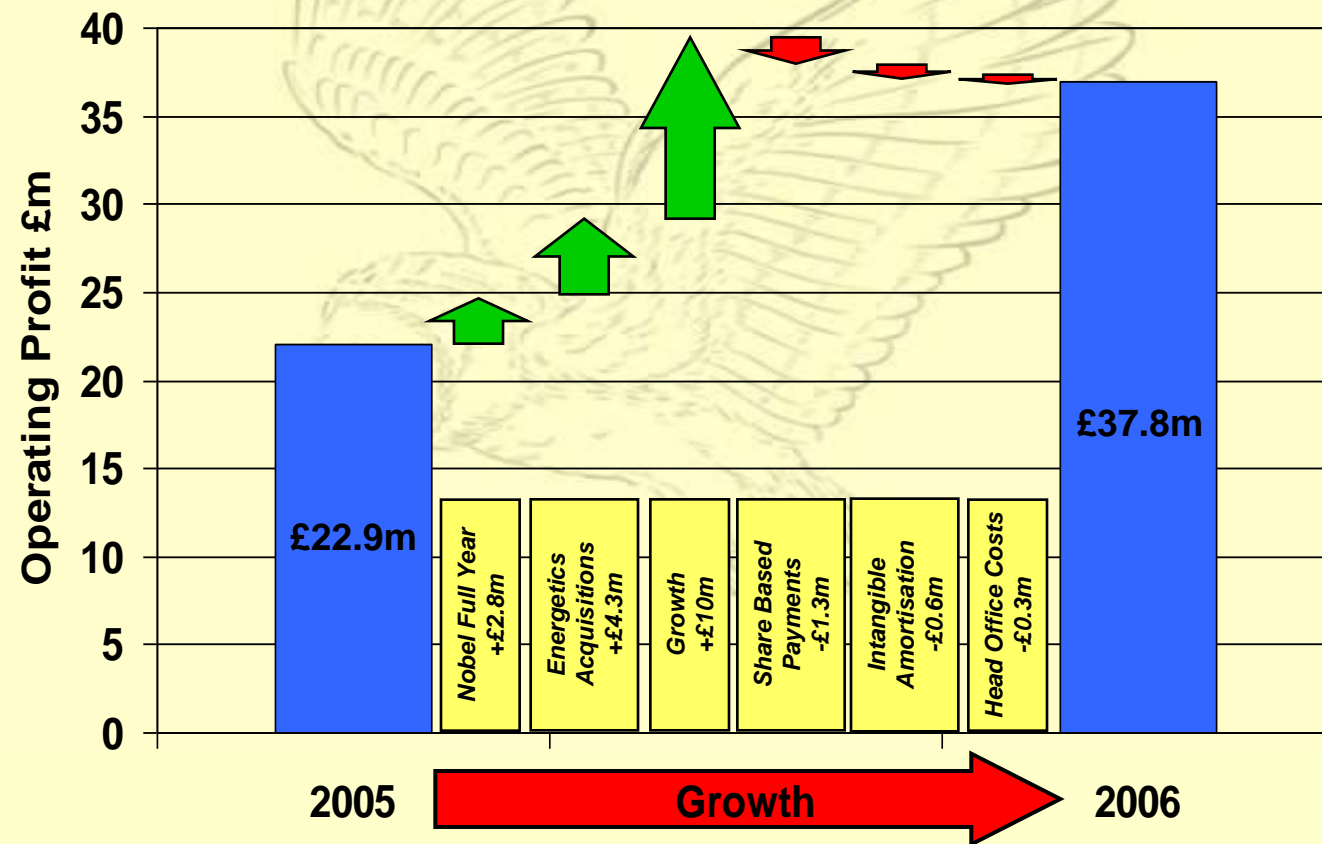
Profit & Loss

- **Strong growth in operations**
 - *55% growth in revenue*
 - *65% growth in operating profit*
- **All acquisitions performing well**
 - *Revenue £27.3m; operating profit £4.3m*
- **Operating profit margins 20% (2005: 19%)**
 - *Countermeasures 29% (2005: 27%)*
 - *Energetics 15% (2005: 8%)*
- **Interest £6.1m (2005: £3.8m)**
 - *Interest cover 6 times*
 - *Pension scheme finance cost £0.8m (2005: £0.9m)*
- **Profit Before Tax £31.8m up 66%**

Profit & Loss

- **Forex**
 - *Average translation \$1.81 (2005:\$1.82)*
 - *Budget average translation 2007 \$1.9*
- **Tax 31% (2005: 29%)**
 - *Estimate 2007 32-33%*
- **Dividend per share 16.0p (2005: 10.5p)**
 - *52% increase on 2005*
 - *Dividend cover 4.4 times (2005: 4.4 times)*
- **Discontinued Ops- Marine**
 - *Sales £11m*
 - ❖ *Trading loss £1m*
 - ❖ *Impairment and disposal loss £8m*

Operating Profit Progression



Segmental Results

<i>£m</i>		<i>Final 2006</i>	<i>Final 2005</i>
Countermeasures	Revenue	118.4	90.8
	Operating Profit *	33.9	24.8
	Operating Margin	29%	27%
Energetics	Revenue	69.3	30.2
	Operating Profit *	10.4	2.3
	Operating Margin	15%	8%
Total Group	Revenue	187.7	121.0
	Operating Profit	37.8	22.9
	Operating Margin	20%	19%

* Before unallocated central costs

Segmental Results

■ Countermeasures

- *30% revenue growth*
- *37% EBIT growth*
- *Margin slight increase*

■ Energetics

- *£27.3m acquired sales and EBIT £4.3m*
- *H1 £500k recall provision absorbed in numbers*
- *H2 margin (20%) indicative of ongoing margins*

■ Unallocated costs

- *LTIP charges £2.2m (2005:£0.9m)*
- *Amortisation £0.7m (2005: £0.1m)*
- *Head office £3.5m (2005: £3.2m)*

Balance Sheet

<u>£m</u>	<u>Final 2006</u>	<u>Final 2005</u>
Goodwill	72.7	34.7
Acquired Intangibles	10.8	2.9
Tangible Assets	57.7	50.7
Other Net Assets	41.4	44.1
Tax	(1.6)	(2.5)
Pre Tax Pension Deficit	(16.3)	(20.2)
Net Debt	(70.6)	(52.8)
Shareholders' Funds	94.1	56.9

Balance Sheet

- **Acquisitions**
 - £41m goodwill
 - £9m intangibles amortised over 10 years
 - Amortisation £1.2m (2005: £0.3m)
- **Tangible Assets**
 - \$10m Alloy plant 2 & 3
 - \$3m Kilgore large flare facility
 - £17m+ likely spend 07
 - ❖ £4m Salisbury countermeasures
 - ❖ \$5m Purchase of freehold at Tech Ord
 - ❖ £4m at Nobel
 - ❖ \$3m Kilgore advanced flare facility
 - Depreciation £5.3m (2005: £4.1m)
- **£4m cash from Marine sale in Spring 2007**
- **Pension deficit 19% reduction on 2005**
- **Net Debt £70.6m (2005: £52.8m)**
 - Gearing 75% (2005: 93%)
- **Shareholders Funds £94.1m**

Cash Flow & Net Debt

<u>£m</u>	<u>Final 2006</u>	<u>Final 2005</u>
Operating Cash Flow	45.6	21.1
Tax	(10.6)	(7.6)
Capital spend	(11.9)	(8.0)
Free Cash Flow	23.1	5.5
Interest and Dividends	(9.0)	(6.0)
Net Acquisitions Spend	(60.5)	(21.8)
Share issue proceeds	26.4	0.6
Net Cash Out Flow	(20.0)	(21.7)
FX Movements	2.2	(1.1)
Opening Net Debt	(52.8)	(30.0)
Closing Net Debt	(70.6)	(52.8)

Cash Flow & Net Debt

- **Operating cash flow**
 - *121% conversion from EBIT (2005 : 92%)*
- **Free cash flow**
 - *61% conversion from EBIT (2005: 24%)*
- **Higher interest and dividend**
- **Net Acquisition Spend £60.5m**
 - *£2.6m net disposal proceeds - Lights*
 - *£1.8m cash acquired*
 - *£26.4m placing proceeds to fund Tech Ord*
- **£30m of term loans US\$ denominated**
- **65% of term debt fixed to 2011**



CHEMRING GROUP PLC

**Full Year Results
To 31 October 2006**

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