



CHEMRING GROUP PLC

Chemring Group PLC

Full Year Results to 31 October 2007

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Ken Scobie

Chairman

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Financial Highlights

<u>£m</u>	<u>2007</u>	<u>2006</u>	<u>Increase</u>
Order Book	297	214	+39%
Revenue	255	188	+36%
Operating Profit *	61.2	38.5	+59%
Profit Before Tax *	53.2	32.5	+64%
EPS *	112p	72p	+56%
Dividend per share	25p	16p	+56%

* Excludes amortisation of acquired intangibles



CHEMRING GROUP PLC

David Price

Chief Executive

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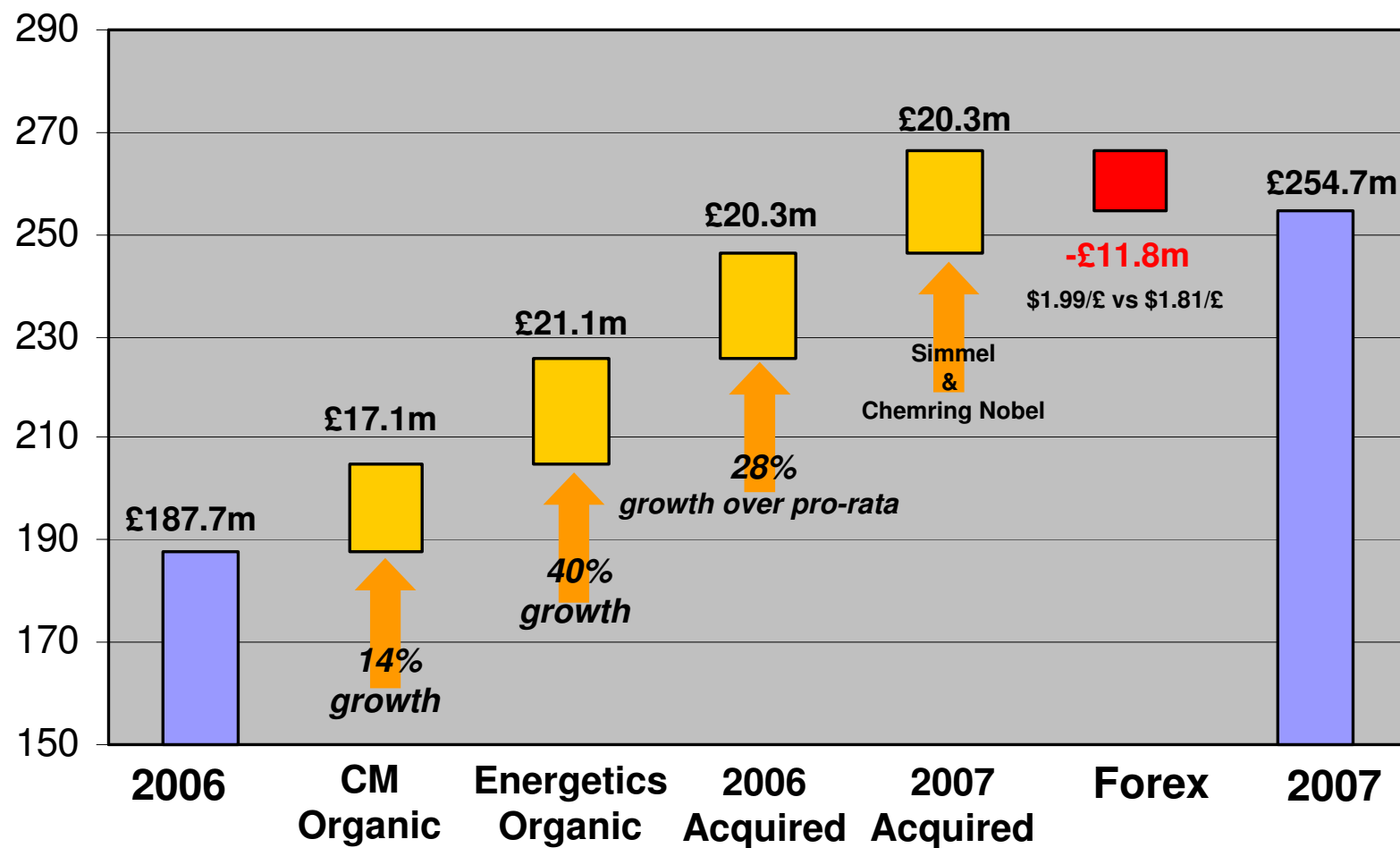


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Headlines

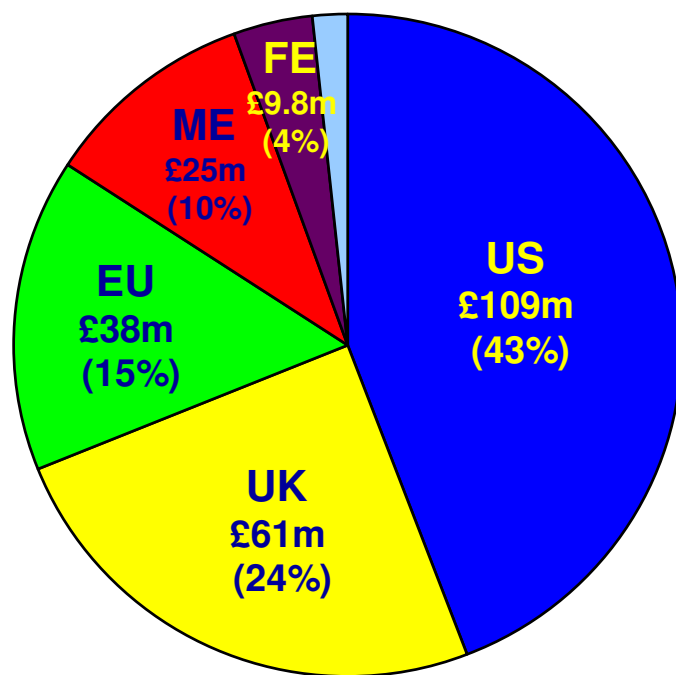
- **Strong growth in sales & profits.**
 - Sales up 36% to £254.7m.
 - Underlying Profit before Tax up 64% to £53.2m.
- **Record year-end orderbook of £297m**
 - Up 39% on previous year
- **Strong growth at Alloy & UK Countermeasures**
 - Record levels of decoy production
- **85% growth in Energetics Division**
 - Energetics sales higher than countermeasures for first time
 - All recent acquisitions performing well
 - Simmel exceeded budget performance
- **Operating margins improved to 24%**

Group Sales Progression

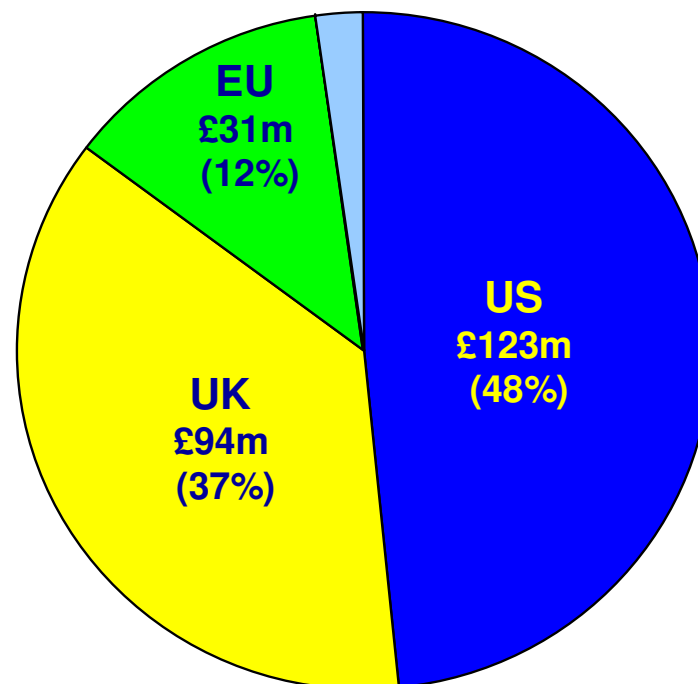


Sales Analysis

Sales by Destination



Sales by Origin



Exports from USA

£19.3m

16% of sales

+16% *on 2006*

Exports from Europe

£33.3m

27% of sales

+109% *on 2006*

Total exports

£52.5m

21% of sales

+61% *on 2006*

Segmental Analysis

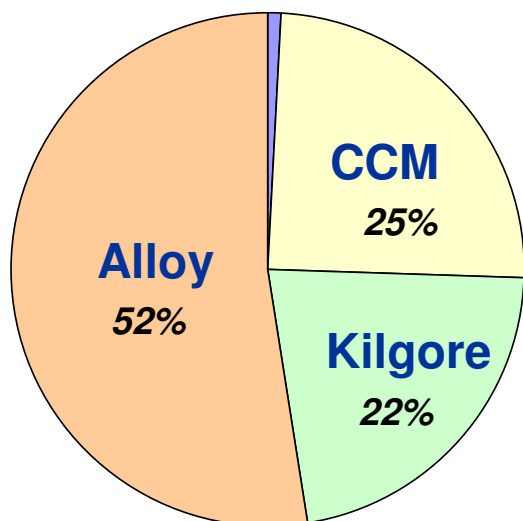
<i>Order Book (£m)</i>	2007	2006
Countermeasures	£119.5m	£130.4m
Energetics	£177.8m	£84.2m
Total Group	£297.3m	£214.6m

<i>Sales (£m)</i>	2007	2006
Countermeasures	£126.5m	£118.4m
Energetics	£128.2m	£69.3m
Total Group	£254.7m	£187.7m

<i>EBIT (£m) *</i>	2007	Margin	2006	Margin
Countermeasures	£38.6m	30%	£33.9m	29%
Energetics	£27.9m	22%	£10.4m	15%
Total Divisions	£66.5m	26%	£44.3m	24%

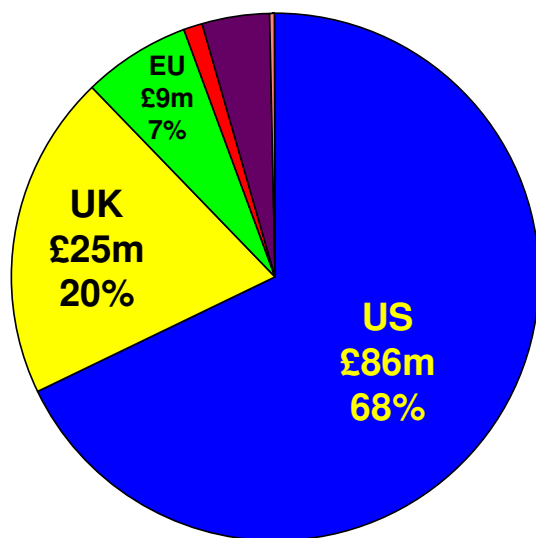
* Before unallocated central costs

Countermeasures Sales Analysis



Sales by Company

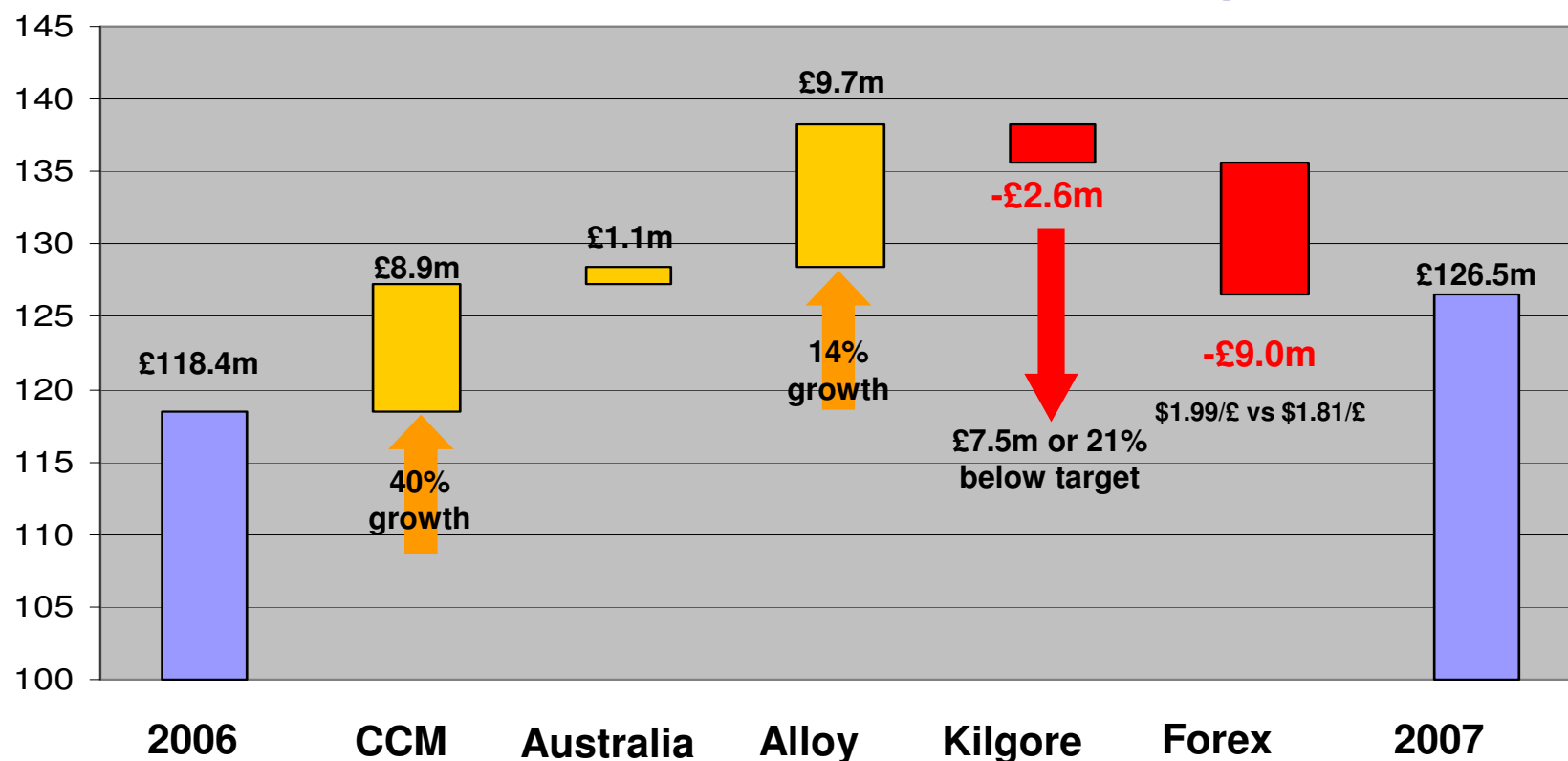
- Special material decoys continue to be over 50% of business.
- Foreign Exchange continues to have major impact on consolidated sales figures.
(US dollar averaged \$1.81/£ in 2006 and \$1.99/£ in 2007.)



Sales by Destination

- 88% of sales were to US/UK.
- 95% of sales were to NATO.
- 92% of sales at Alloy & Kilgore were to US

Countermeasures Sales Progression



Orderbook

CCM

Alloy

Kilgore

2007

£34.7m

\$101.7m

\$74.7m

2006

£26.9m

\$139.6m

\$57.9m

Growth

+29%

-27%

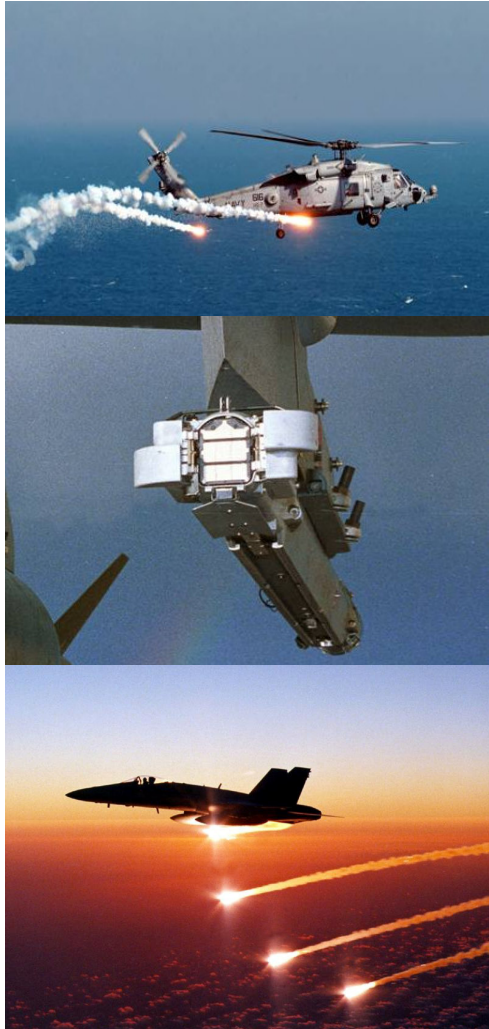
+29%

UK Countermeasures



- **Record levels of sales & production volumes.**
 - 320,000 MTV & 200,000 spectral flares manufactured.
 - First deliveries of Typhoon flares completed.
 - First deliveries to India under multi-year contract.
- **Spectral flare production generating growth.**
 - Production of helicopter flares at 20,000 per month.
 - New flares for fixed-wing aircraft qualified & entering production shortly.
- **Kinematic flare generating strong interest.**
 - Successful participation in recent NATO trials.
- **Growing interest in Naval countermeasures.**
 - Contracts to Spain, Norway & Australia completed.
 - New orders from East Europe just awarded.
- **New automated facilities in 2009**
 - 100% increase in capacity

Alloy Surfaces



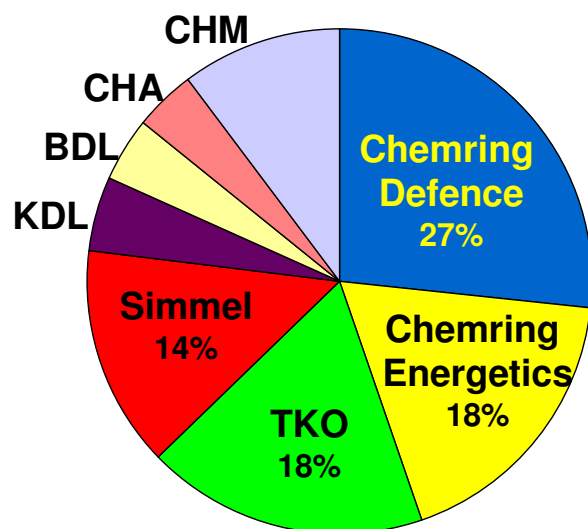
- **Record levels of special material decoy production.**
 - 825,000 M211 helicopter flares delivered to US Army .
 - Metal case production increased 40% to 1.4 million flares.
- **Next-generation helicopter flares under development.**
 - All-SMD technology performed well in recent US Army trials.
 - Products from other US & Israeli competitors also under test.
- **Demand for Bol/IR decoys continues to be high.**
 - Production underway for US F-15 aircraft .
 - New opportunities on Typhoon, Gripen & F-18.
- **5-year contracts will be let in FY2008**
 - US Army: Contract for M211 expected in March.
 - USN: Contract for MJU-49 & three other flares in September
 - USAF: Contract for MJU-50/51 flares in October

Kilgore



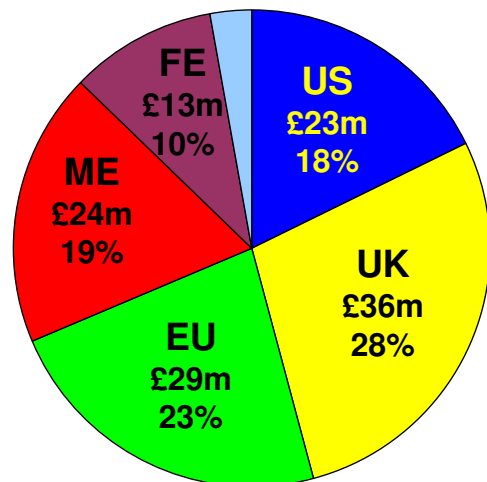
- **Record total sales levels achieved.**
 - 2.2 million flares manufactured.
 - M206 & MJU-10 flare production lower than expected.
 - Consistent production now established.
- **F-22 flares successfully complete qualification.**
 - First deliveries made before year-end.
 - Automated facility will be complete in April.
 - \$12 million option was awarded in October.
- **New flare qualifications taking longer than planned.**
 - B-52 advanced flare awaiting flight trial in March.
 - F-18 advanced flare qualification now in April.
 - C-17 flare qualification also scheduled for April.
- **Strong growth expected in 2008.**
 - MJU-10 & F-22 flares production for full year.
 - New flare production for all of H2.

Energetics Sales Analysis



Sales by Company

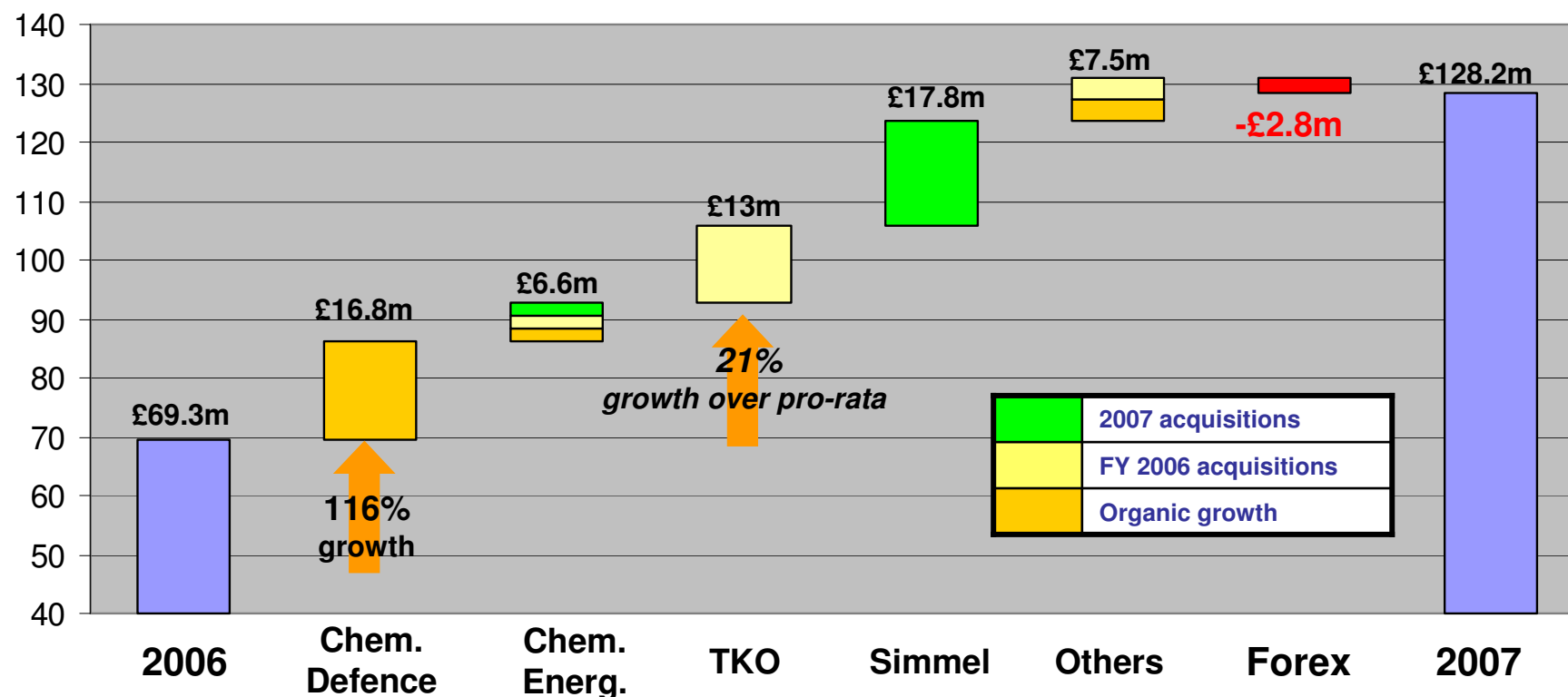
- 45% of sales now generated in UK.
- 74% of sales generated in Europe.
- Chemring Defence currently largest company.



Sales by Destination

- UK remains largest market at 28% of sales.
- US grows to 18% of sales.
- Successful exports to Middle East.

Energetics Sales Progression



Orderbook	2007	2006	Growth
C. Defence	£45.0m	£27.1m	+66%
C. Energetics	£47.0m	£40.6m	+16%
TKO	\$31.2m	\$14.7m	+112%
Simmel	£50.0m		

Pyrotechnics/EOD



- **Integration of new acquisitions continues successfully.**
 - PW Defence & Comet merged into Chemring Defence.
 - Nobel, Leafield & Chemring Nobel become Chemring Energetics.
- **Strong position in £85m global battlefield training market.**
 - MECS production for US Army now in excess of 700,000 per year.
 - IED Simulator developed & US Army qualification underway.
 - Urban training systems securing increased funding.
- **Improving position in US market.**
 - Awarded 5-year, \$74m contract by US Army for non-lethal VDGs.
 - Awarded 5-year, \$30m contract for marine location markers.
 - Collaboration with General Dynamics on new VDG family.
- **Strong progress made in Explosive Ordnance Disposal.**
 - Demolition stores sales up 35%.
 - 5-year partnering agreement, worth £20m, signed with UK MoD.
 - Breach development completed – strong interest from US.
 - PEMBS orders from UK, Australia, & Eastern Europe.
- **World-wide agreements signed with major liferaft suppliers, Viking & RFD Beaufort.**

Richmond EEI Ltd



- **Leading supplier of recoilless disrupters.**
 - Lightweight for large and small robot applications.
 - Long-range stand-off.
- **Weapon carriers for all leading US Robots**
 - Remotec, Foster-Miller, iRobot.
- **Good range of search & detection products as well as EOD tools.**
- **Strong position in the UK, North America, Italy, Holland & Middle East.**
- **Potential for broader EOD equipment contracts.**
- **Acquisition made at 9x post tax historic.**

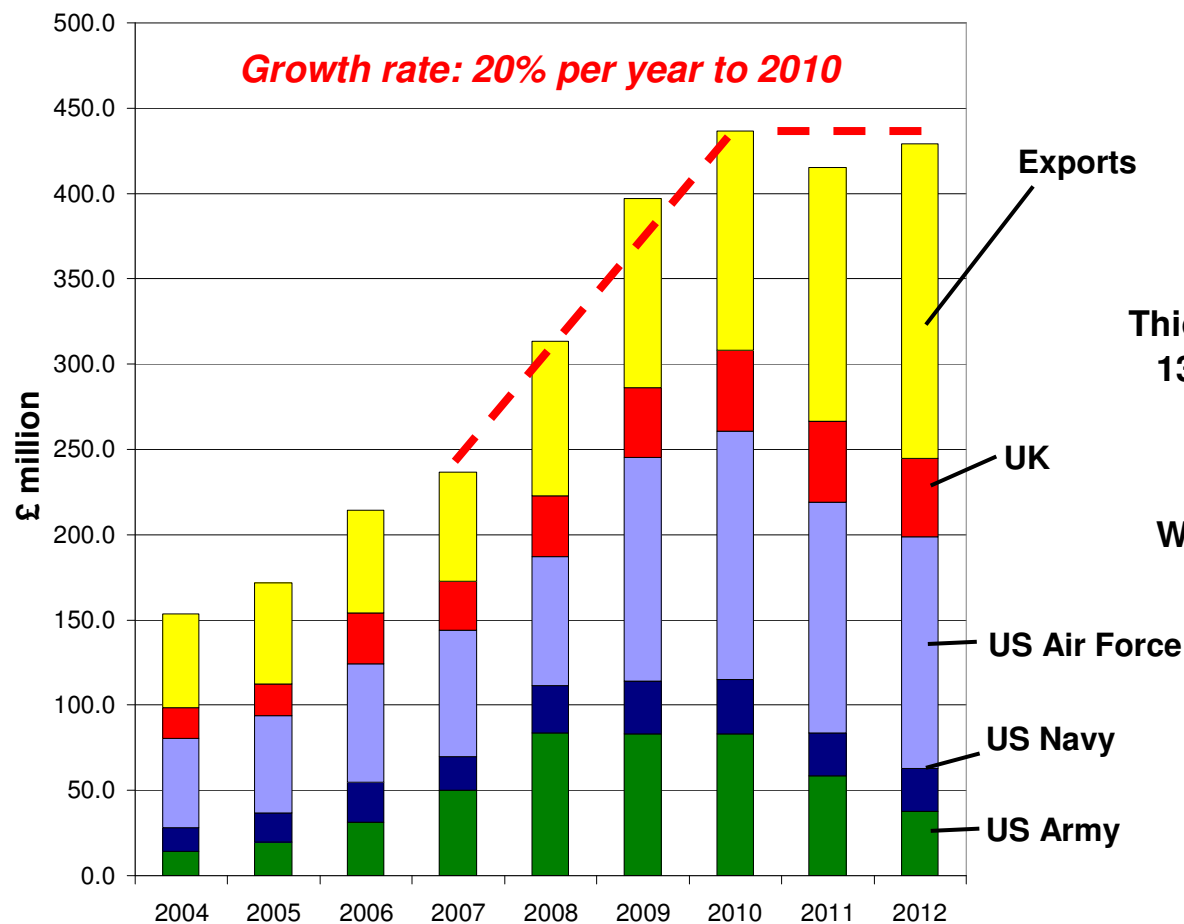
Munitions



- **Mortar illumination rounds in strong demand**
 - Deliveries of white- & black-light rounds to BAES achieved.
 - Re-start of canister production expected by end of February.
- **Good position on Naval Ammunition maintained**
 - Qualification of 76mm ammunition for FREMM in early 2008.
- **Growing position on 120mm tank ammunition.**
 - Multi-year award, worth €26m, for a NATO country.
- **Successful entry into rocket motor market.**
 - NLAW launch & flight motors in volume production.
 - Awarded contract for supply of grains for 84mm HEAT rounds.
 - Successful development of new rocket grains for 70mm air-launched rocket.
- **40mm ammunition opportunities continue to grow.**
 - First Article Test of M55 detonator successful. Production will increase to 900,000 units per month by end of April.
 - Partnership with MEI on new Medium Velocity family.

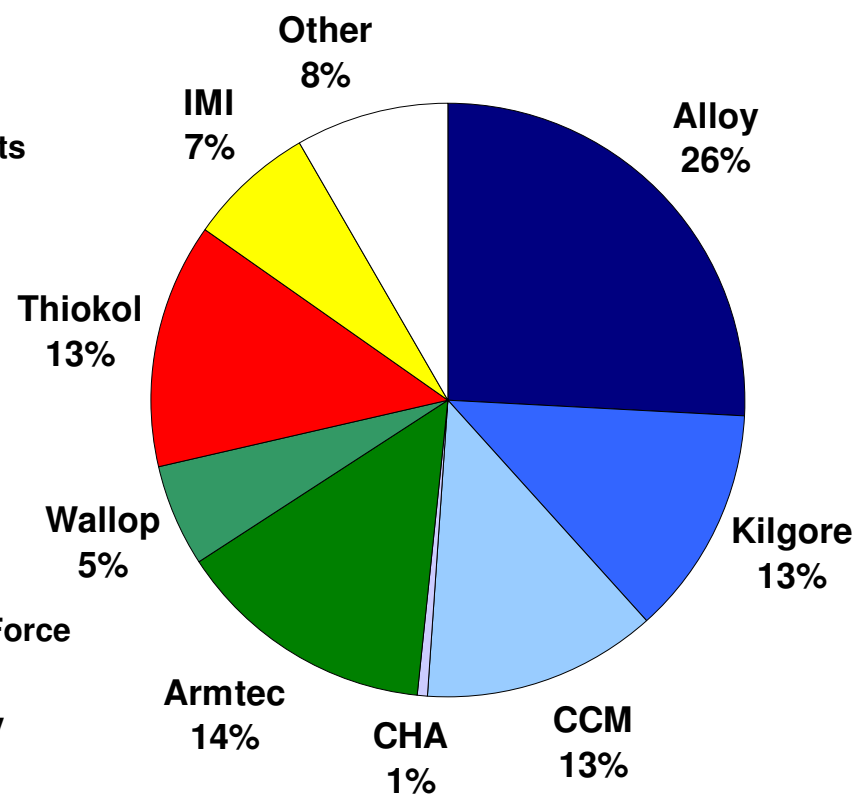
Outlook for Countermeasures

Global Market (£m)



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

Market Shares (2007)



Total Market £237m

Outlook for Pyrotechnics & EOD



- **Small market share with good opportunities for growth.**
 - Global market remains approximately £3 billion.
 - Chemring sales now £74.8m, a market share of 2.5%
- **Growing demand from NATO for new battlefield training products, particularly for convoy, ambush and check-point simulation.**
- **Strong demand for low toxicity smokes, multi-spectral screening and black light illumination for all calibres.**
- **Defeat of Improvised Explosive Devices a major priority in both US & UK. Demand for disrupters, weapon carriers and firing systems growing for US robot applications.**
- **New short-range, rf initiation system (BREACH) attracting strong interest in the US from bomb disposal and law enforcement customers.**

Outlook for Munitions

- **Global market is huge at over £10billion per year**
 - Sales currently at only £53.4m – good opportunities to grow.
- **Strong position on Naval Ammunition**
 - Partnership with Oto Melara & ATK for US market.
 - Good prospects for 76mm to Indian Navy
- **Modular Charge System completes qualification in 2008**
 - Major opportunities in Europe, Middle East & Far East
- **Strong demand for illumination mortars from UK MOD**
 - New multi-year contract under negotiation
- **Strong demand from major ammunition Primes for energetic components & sub-systems**
 - Further opportunities with BAES, ATK & Nexter



Summary

- Strong growth in sales & profits.
- Continued growth at Alloy & UK Countermeasures.
- Strong growth in Energetics division.
- New acquisitions performing well.
- Operating margins grew to 24%.
- Current orderbook at new record of £401m.
 - Orderbook at Kilgore now \$99m – strong growth in 2008 expected



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Paul Rayner

Finance Director

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Profit & Loss

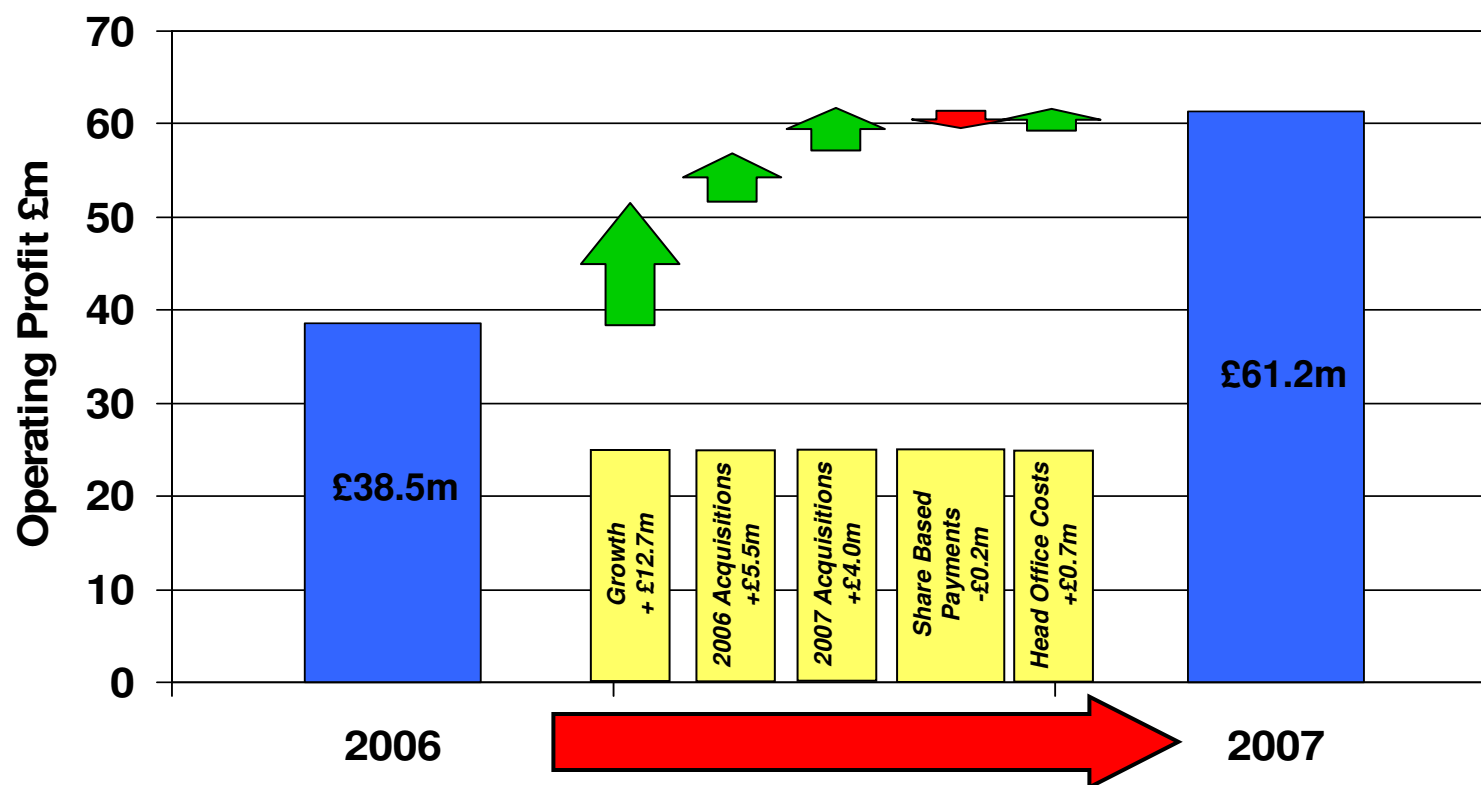
<u>£m Continuing Operations</u>	<u>Final 2007</u>	<u>Final 2006</u>
Revenue	254.7	187.7
Operating profit*	61.2	38.5
Associate	0.1	0.1
Interest	(8.1)	(6.1)
Profit Before Tax *	53.2	32.5
Tax	(17.1)	(10.1)
Profit After Tax *	36.1	22.4

* Excludes amortisation of acquired intangibles

Profit & Loss

- **Strong growth in operations**
 - £67m (36%) growth in total revenue
 - ❖ £20m from 2007 acquisitions
 - ❖ £20m from full year 2006 acquisitions
 - ❖ £27m growth
 - £23m (59%) growth in operating profit
 - ❖ £4m from 2007 acquisitions
 - ❖ £5.5m from full year 2006 acquisitions
 - ❖ £13.5m growth
- **Operating profit margins 24% (2006: 21%)**
 - Countermeasures 30% (2006: 29%)
 - Energetics 22% (2006: 15%)
- **Average \$ translation 1.99 (2006: 1.81)**
- **Interest £8.1m (2006: £6.1m)**
 - Interest cover 7.6 times
 - Pension scheme finance cost £0.6m (2006: £0.8m)
- **Profit Before Tax £53.2m up 64% (2006: £32.5m)**
- **Tax 32% (2006: 31%)**

Operating Profit Progression



* Excludes amortisation of acquired intangibles

Segmental Results

<i>£m</i>		<i>H1</i>	<i>H2</i>	<i>Final 2007</i>	<i>Final 2006</i>
Countermeasures	Revenue	58.4	68.1	126.5	118.4
	Operating Profit *	17.7	20.9	38.6	33.9
	Operating Margin	30%	30%	30%	29%
Energetics	Revenue	48.4	79.8	128.2	69.3
	Operating Profit *	8.6	19.3	27.9	10.4
	Operating Margin	18%	24%	22%	15%
Total Group	Revenue	106.8	147.9	254.7	187.7
	Operating Profit	23.3	37.9	61.2	38.5
	Operating Margin	22%	26%	24%	21%

* Before unallocated central costs

Segmental Results

■ Countermeasures

- Consistent margins across the year
- \$ translation £9.0m on revenue, £2.8m in EBIT at constant FX

■ Energetics

- £20m revenue from 2007 acquisitions – Simmel and Norway
- Strong 2nd half in revenue and profit terms
 - ❖ Profit nearly same as countermeasures
- Margin 22% up from 15% in 2006
 - ❖ H2 Margin 24%
 - ❖ Margin increase volume related

■ Unallocated costs

- LTIP charges £2.4m (2006:£2.2m)
 - ❖ Phantom £1.0m (2006: £1.5m), non-recurring in 2008
- Head office £2.9m (2006: £3.6m)
 - ❖ Costs of retired CEO £nil (2006: £0.3m)

■ Total operating margin 24% up from 21% in 2006

Balance Sheet

<u>£m</u>	<u>Final 2007</u>	<u>Final 2006</u>
Goodwill	94.8	59.7
Acquired Intangibles	35.4	23.8
Tangible Assets	69.8	57.7
Other Net Assets	43.2	37.5
Discontinued	-	4.1
Tax	(6.3)	(1.8)
Pre Tax Pension Deficit	(13.3)	(16.3)
Net Debt	(99.6)	(70.6)
Shareholders' Funds	124.0	94.1

Balance Sheet

- Acquisitions
 - Simmel £53.3m
 - ❖ Euro loan £46.5m, shares to vendor £6.8m
 - ❖ Goodwill arising £34.1m
- Tangible Assets
 - Fixed Asset acquisitions £14.6m (2006: £12.0m)
 - ❖ Alloy £2.9m, CCM Salisbury £2.2m, TKO property £2.5m
 - 2008 Capital expenditure £20m – Simmel property (£7m)
 - Depreciation £6.8m (2006: £5.3m)
 - 2008 depreciation in region of £10m
- Pension deficit 18% reduction on 2006
- Net Debt £99.6m (2006: £70.6m)
 - Gearing 80% (2006: 75%)
- Shareholders Funds £124m (2006: £94.1m)

Cash Flow

<u>£m</u>	<u>H1</u>	<u>H2</u>	<u>Final 2007</u>	<u>Final 2006</u>
Operating Cash Flow	13.8	46.8	60.6	45.6
Tax	(4.7)	(7.3)	(12.0)	(10.6)
Capital spend	(5.0)	(11.0)	(16.0)	(12.0)
Free Cash Flow	4.1	28.5	32.6	23.0
Interest and dividends	(6.5)	(6.9)	(13.4)	(9.0)
Net acquisitions spend	(34.6)	(8.9)	(43.5)	(60.5)
Share issue proceeds	0.1	-	0.1	26.4
Purchase of own shares	-	(2.8)	(2.8)	-

Cash Flow & Net Debt

- Operating cash flow
 - 99% conversion from EBIT (2006: 118%)
 - Strong H2 performance – more than whole of 2006
 - ❖ 123% conversion from EBIT as working capital unwound in Countermeasures
- Free cash flow
 - 53% conversion from EBIT (2006: 60%)
 - Target to exceed 50% per annum
- Higher interest and dividend
- Net acquisition spend £43.5m
 - Simmel and Norway
 - £4.6m cash acquired
 - £3.2m marine disposal proceeds
- Euro and GBP term debt fixed to 2011
- US Private Placement \$150m in November 2007
 - 6.3% fixed 10 year bullet maturity



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Full Year Results to 31 October 2007

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