



CHEMRING GROUP PLC

**Half Year Results
To 30 April 2006**

CHEMRING GROUP PLC





Ken Scobie

Chairman

CHEMRING GROUP PLC



Financial Highlights

<i>£m Continuing Operations *</i>	<u>Interim 2006</u>	<u>Interim 2005</u>	<u>Increase</u>	<u>Final 2005</u>
Order Book	186.0	114.6	+62%	122.2
Revenue	82.6	48.0	+72%	121.0
EBIT before central costs	17.9	9.8	+83%	26.5
Profit Before Tax	11.8	7.2	+64%	19.3
EPS - Adjusted	27.7p	14.6p	+90%	31.4p
Dividend per share	4.8p	3.2p	+50%	10.5p

* Continuing Operations comprise Countermeasures and Energetics



David Price

Chief Executive

CHEMRING GROUP PLC



Headlines

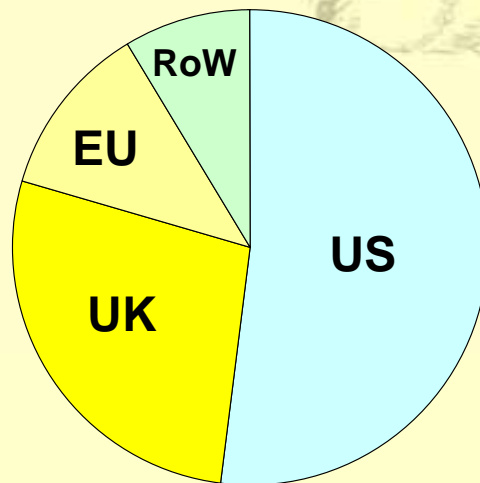
- The high level of peacekeeping operations continue to drive demand for our decoys. *Increased activity in Afghanistan has led to strong growth in UK requirements.*
- Alloy Surfaces continues strong growth. *All milestones on US Army production build-up met.*
- Kilgore & CCM have both consistently increased core production over last 12 months.
- New acquisitions bedding down well and generating strong contributions to profit.
- Sale of marine lights business to Daniamant as first step in Marine divestment. *Strong interest shown in remaining businesses.*
- Half-year turnover up 72%. - *Orderbook at record £186m.*
- Half year EBIT before central costs up 83%
- Half-year PBT up 64%



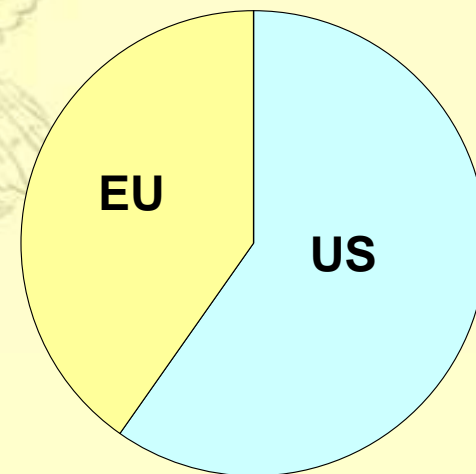
Segmental Analysis

Turnover (£m)	Interim 2006	Interim 2005	Change
Countermeasures	55.6	34.1	+63%
Energetics	27.0	13.9	+94%
Total	82.6	48.0	+72%

Sales by Destination



Sales by Origin



Expansion of Alloy Surfaces



- **Sales at Alloy Surfaces 72% higher than 2005**
 - *M211 (helicopter) flare build-up on schedule to exceed 80,000 units per month in Q2 FY2007.*
 - *M211 order book now exceeds \$85m.*
- **Plant 1: All expansion activities complete.**
M211 Production raised to 30,000 units per month.
US Army milestone #4 hit in April 2006.
- **Plant 2: All development activities complete.**
M211 Production started on June 6th.
Full production by year-end.
- **Plant 3: New 40,000 sq.ft. facility close to Plant 1.**
Planning Approvals awaited.
M211 Production will start in November.

Alloy Surfaces



- US Navy & Airforce continues to buy substantial number of MJU-49, MJU-50 & MJU-55 for protection of fixed wing aircraft.
- UK RAF continues to buy significant quantities (\$10m) to support Harrier operations.
- Australia buys AIRCMM cocktail (M206/211/212) for protection of Chinooks.
- Japanese buy M211 for helicopter & C130J protection.
- Growing interest in helicopter protection with all governments engaged in peacekeeping operations.

Kilgore



- **Kilgore has made strong start to the year.**
 - *Sales 28% up on last year.*
 - *M206 production over 500,000 units in first half with consistent output of 8000/day.*
 - *New option contracts placed for both M206 & MJU-7 flares.*
- **Building of new large flare facility on schedule.**
 - *Building now complete.*
 - *Production start in September.*
 - *Formal opening in October.*
- **Kilgore secured 45% share of multi-year procurement for MJU-10 flares for USAF.**
- **Development of ALA-17 has reached final qualification stage.** *Production contract has been negotiated with Hill AFB and will start before year-end.*

Chemring Countermeasures UK



- UK MOD has placed orders to value of £7.6m.
 - *New orders cover standard MTV, aerodynamic and advanced multi-spectral flares.*
- New thrustured flare in final development.
 - *Airborne trials undertaken in UK, Holland & Italy.*
 - *Initial results look promising.*
 - *Considerable interest from other EU countries.*
- NATO contract placed for Chimera dual-mode & PW216 distraction naval rounds.
- Australia has also placed contract for Seagnat 214 130mm naval rounds

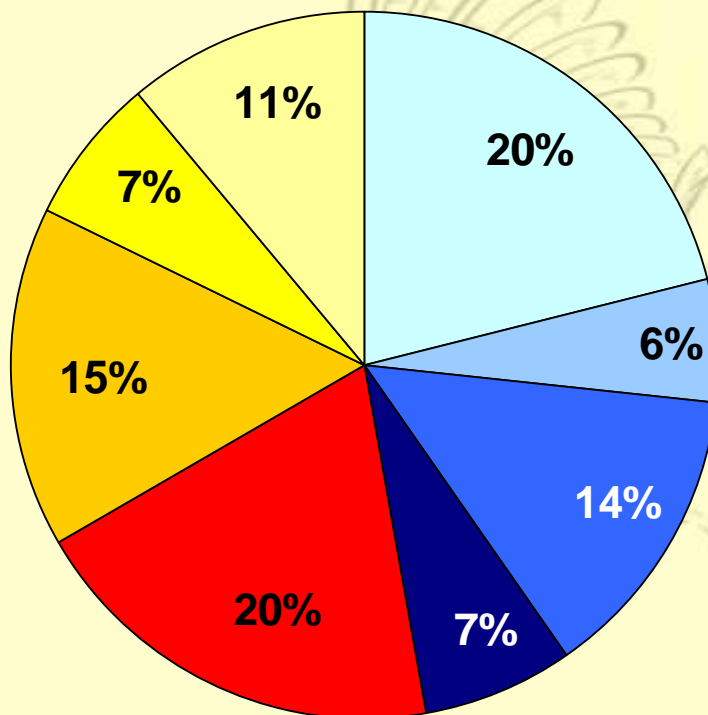
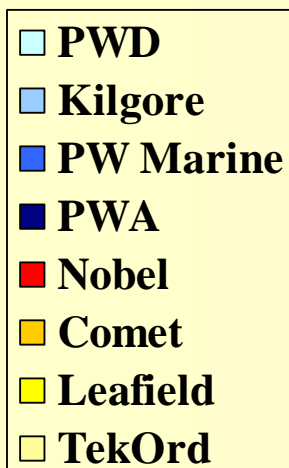
Civil Aircraft Protection



- DHS now funding studies into ground based and airborne alternatives to DIRCM systems.
- Out of 21 proposals, 4 consortia are entering negotiations on funding.
 - *Raytheon Vigilant Eagle.*
 - *Agile Defense (United) using Alloy decoys.*
 - *Textron using Alloy decoys.*
 - *L-3 Avisys using Alloy decoys.*
- FAA has stated that only “special material” decoys are acceptable.
- Chemring also participating in EU-funded Protection of Aircraft & Infrastructure (PATIN).



Energetics Summary



Half-year Sales of £27.0m

- Organic sales growth of 12% from on-going businesses.
 - *PWD achieved 41% growth.*
 - *Kilgore sales low whilst product developments continue.*
- New acquisitions performing well.
 - *All contributing profit.*
 - *TekOrd making rapid progress on both profit & cashflow.*
- Strong focus on integration of new companies into Group.

Energetics



- **Strong demand from Martin Baker for wide range of pyrotechnics and propellants.**
 - **Technology transfer of canopy cutting charges from BAES underway.**
- **NLAW programme making good progress.**
 - ***Final rocket motor development milestone completed.***
 - ***Safety & Arming Device nearing qualification.***
- **Mk 58 Marine Location Marker upgrade programme completed .**
 - ***Flight qualification of F/A-18 & helicopter achieved.***
 - ***New production order placed.***

Energetics

- **PEMBS minefield clearance system (Comet) selected by French Army.**
 - New procurements planned in US, UK & Australia.
 - Growing interest from other “peacekeeping” Nations.
- **Two substantial NATO contracts secured for supply of thunderflash products.**
 - Successful transfer of manufacturing to Estonia to reduce costs.
- **Good progress being made on transfer of technology from BAES as part of their site closure plans.**
- **Full recall of Pains-Wessex Mk7 white hand flares instituted for safety reasons.**
 - Recall process working well with adverts in 23 countries.
 - No discernable impact on company performance.



Integration of Acquisitions

- Consolidation of marine pyrotechnic production underway.
 - *All products will be transferred by calendar year-end.*
- Consolidation of High Explosive production at Ardeer.
 - *Ceremonial ammunition successfully transferred from Leafield.*
 - *Demolition charges transferred from Salisbury.*
 - *Good partnership with BAES on technology transfer*
- Operational management being strengthened.
 - *New US divisional management being recruited.*
 - *EU divisional management recruited & driving integration.*



- TekOrd automation expertise being applied to:
 - *Consolidation of marine*
 - *New production lines at Ardeer & Derby*

Summary

- Peacekeeping operations continue to drive demand for our broad range of decoys.
 - Record Order Book of £186m.
- Alloy Surfaces meeting every milestone in production ramp-up programme for US Army.
 - Expansion of Plant 2 completed and production underway.
- Production at Kilgore & Salisbury continues to expand.
- PBT up 64%, with total operating margins at 17.4%.
- Dividend up 50% to 4.8p.
- Outlook for full-year positive – continued strong growth.





Paul Rayner

Finance Director

CHEMRING GROUP PLC



Profit and Loss

£m- Core Operations	<i>Interim 2006</i>	<i>Interim 2005</i>
Revenue - <i>Continuing</i>	72.9	48.0
Revenue - <i>Acquired</i>	9.7	0
Total Revenue	82.6	48.0
Operating Profit - <i>Continuing</i>	13.2	8.5
Operating Profit - <i>Acquired</i>	1.2	0
Total Operating Profit	14.4	8.5
Interest	(2.6)	(1.3)
Profit Before Tax	11.8	7.2

Results

- All numbers under IFRS.
- Strong growth in continuing operations.
 - 52% growth in revenue.
 - 55% growth in EBIT.
- 4 acquisitions all contributing well to results.
 - Revenue £9.7m; EBIT £1.2m.
- Segmental EBIT before central costs.
 - £17.9m (2005: £9.8m) up 83%.
 - Unallocated head office IFRS and other costs.
- Total operating profit up 68% on 2005.
- PBT up 64% to £11.8m.
- Marine treated as discontinued.

Segmental Results

<i>£m</i>		<i>Interim 2006</i>	<i>Interim 2005</i>
Countermeasures	Revenue	55.6	34.0
	Operating Profit *	15.6	9.6
	Operating Margin	28.1%	28.2%
Energetics	Revenue	27.0	13.9
	Operating Profit *	2.3	0.2
	Operating Margin	8.5%	1.4%
Total	Revenue	82.6	48.0
	Operating Profit *	17.9	9.8
	Operating Margin	21.7%	20.4%

* Before unallocated central costs



Segmental Results

■ Countermeasures

- *All 3 businesses up on 2005.*
- *Full year forecast supported by current order book.*
- *Revenues and EBIT up 63% on 2005.*
 - *Kilgore met all targets in H1.*
 - *All plants operational in H1 .*
- *Margins very healthy.*

■ Energetics

- *Impact of acquisitions on division significant.*
- *£9.7m of revenue and £1.2m of EBIT from acquisitions.*
- *£500k hand flare provision.*
- *Existing businesses up on 2005.*
- *Margins should improve further as full contribution from acquisitions is realised.*



Other Profit & Loss Items

- Interest £2.6m (2005: £1.3m)
 - *Impact of debt funded acquisitions.*
 - *Interest Cover 5.5 times (2005: 6.5 times).*
- Forex
 - *Average translation H1 1.76 (2005: 1.88).*
 - *Full year covered at \$1.80.*
- Tax 32.5% (2005: 32%)
- Marine results
 - *Broke even at EBIT (2005: £1m loss).*
 - *£100k of restructuring ahead of disposal.*
 - *Small post tax loss £129k (2005: loss £720k).*

Balance Sheet

£m	<i>Interim 2006</i>	<i>Interim 2005</i>
Tangible Fixed Assets	56.6	42.2
Development costs	0.7	2.6
Goodwill & intangibles	77.7	28.0
Other Net Assets	28.4	30.6
Marine For Disposal	13.3	0
Net Debt	(75.4)	(39.7)
Net Pension Deficit	(11.7)	(12.6)
Shareholders' Funds	89.6	51.1

Balance Sheet

- **Tangibles £56.6m (2005: £42.2m)**
 - *Impact of H1 acquisitions £5m.*
 - *Alloy Plant 2 build H1; Plant 3 H2 total \$10m.*
 - *Large flare facility at Kilgore H2 \$2.7m.*
- **Goodwill & intangibles £77.7m (2005: £28.0m)**
 - *5 acquisitions in past year.*
- **Marine £13.3m**
 - *Lights sold May £2.845m.*
 - *On going process to divest.*

Balance Sheet

- **Net Pension Deficit £11.7m (2005: £12.6m)**
 - *Similar level to April 2005.*
 - *October 2005 net deficit £14.1m.*
 - *Reduction of £2.4m in H1 2006.*
- **Net Debt £75.4m (2005: £39.7m)**
 - *Year end October 2005 £52.8m.*
 - *Net cash inflow before acquisitions H1.*
 - *Term loans to finance acquisitions.*
- **Shareholders funds £89.6m (2005: £51.1m)**
 - *Gearing 84% (2005: 78%).*

Cash Flow

£m	<i>Interim 2006</i>	<i>Interim 2005</i>
Operating Cash Flow	13.4	(2.0)
Interest & Tax	(6.0)	(4.2)
Capex	(5.8)	(3.7)
Free Cash Flow	1.6	(9.9)
Acquisitions and Disposals	(25.2)	(0.3)
Net Cash Flow	(23.6)	(10.2)

Cash Flow & Net Debt

- **Strong operational cash**
 - *Conversion rate to EBIT 93%.*
 - *Inflow £13.4m (2005: outflow £2.0m).*
- **Interest & Tax**
 - *Higher as impact of acquisitions.*
 - *Higher overall profits.*
- **Capital**
 - *Increased spend at Alloy.*
- **Free Cash Flow**
 - *Inflow H1 £1.6m (2005 Outflow £9.9m).*

Impact of IFRS

- **Key Points as follows:**
 - *Marine as discontinued.*
 - *Pension deficit on balance sheet.*
 - *Intangible amortisation £332k (2005: nil).*
 - *Share based payments 2006 £433k (2005: £101k).*
 - *Employee benefits 2006 £256k (2005: £262k).*
- **All numbers restated**
 - *Impact on H1 2005 PBT reduction £0.3m.*
 - *Impact on Full year 2005 PBT reduction £0.6m.*



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