



CHEMRING GROUP PLC

Half Year Results To 30 April 2007

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**Half Year Results
To 30 April 2007**

CHEMRING GROUP PLC





Ken Scobie

Chairman

**Half Year Results
To 30 April 2007**

CHEMRING GROUP PLC



Financial Highlights

<i>£m Continuing Operations</i>	<u>Interim 2007</u>	<u>Interim 2006</u>	<u>Increase</u>	<u>Final 2006</u>
Order Book	293.0	186.0	+58%	214.5
Revenue	106.8	82.6	+29%	187.7
Operating Profit *	23.3	14.7	+59%	38.5
Profit Before Tax *	20.3	12.1	+68%	32.5
Earnings Per Share *	42.2p	27.2p	+55%	71.9
Dividend Per share	7.2p	4.8p	+50%	16p

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



David Price

Chief Executive

Half Year Results
To 30 April 2007

CHEMRING GROUP PLC



Headlines

- **Half Year PBT up 68%.**
- **Record Orderbook of £293m – up 36% on October 2006.**
 - *Orderbook split 50:50 between the two business segments.*
- **High level of peacekeeping operations continues to drive the demand for decoys.**
 - *Continued growth in sales & orderbook in all parts of business.*
- **Energetics Sector achieving significant organic growth.**
 - *Great performance from Technical Ordnance, Kilgore, PW Defence & Leafield.*
- **New Acquisitions performing well and generating strong contribution to profit.**



Segmental Analysis

<i>Order Book (£m)</i>	2007	2006		
Countermeasures	145.9	121.1		
Energetics	147.6	64.9		
Total Group	293.5	186.0		

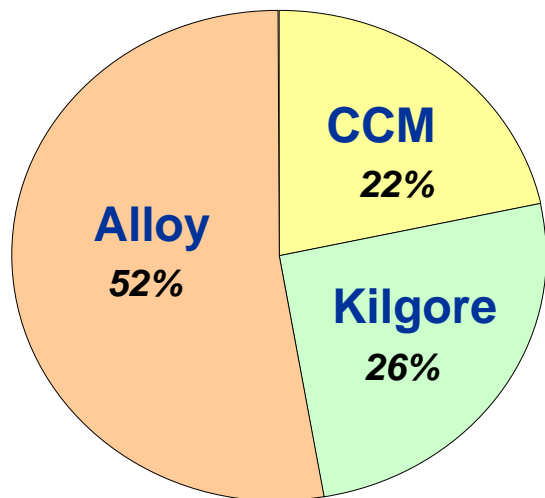
<i>Sales (£m)</i>	2007	2006		
Countermeasures	58.4	55.6		
Energetics	48.4	27.0		
Total Group	106.8	82.6		

<i>EBIT (£m)</i>	2007	<i>Margin</i>	2006	<i>Margin</i>
Countermeasures	17.7	30%	15.6	28%
Energetics	8.6	18%	2.3	9%
Total Group	23.3	22%	14.7	18%



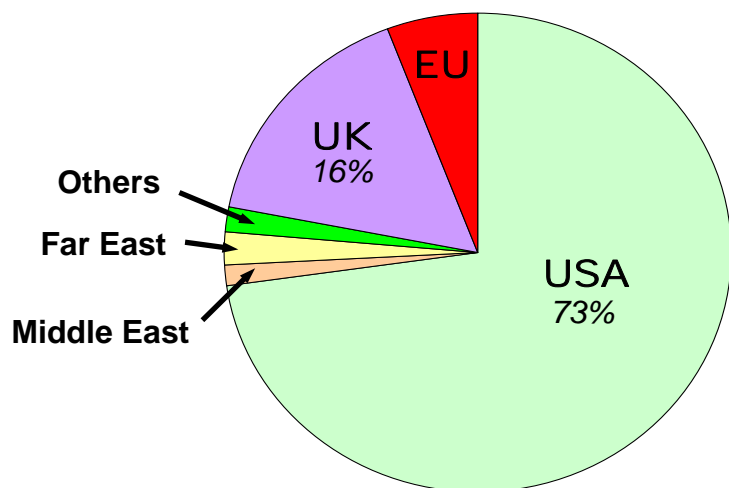
Countermeasures Sales Analysis

Sales by Company



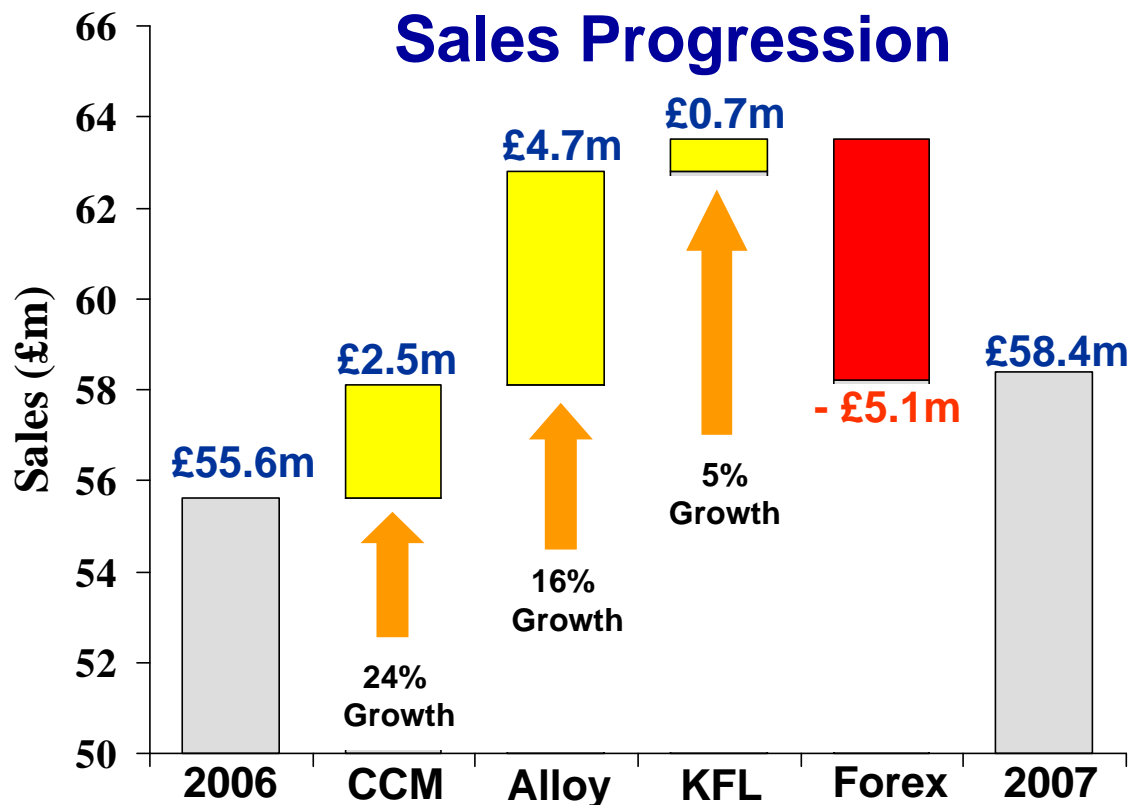
- Special material decoys represent just over 50% of sales.
- US \$ depreciation has had major impact on headline sales figures after translation.

Sales by Destination



- 94% of US company sales to US.
- 90% of UK company sales to Europe.
- Export sales heavily weighted towards H2.

Countermeasures Growth



Orderbook	2007	2006	Growth
CCM	£34.6m	£29.5m	+17%
Alloy	\$142.9m	\$112.5m	+27%
Kilgore	\$79.6m	\$54.7m	+46%



Alloy Surfaces



- **Record levels of special material decoy production.**
 - *30% growth in monthly production rate over last 12 months.*
 - *Plant 3 Qualification achieved for M211, MJU-51 & MJU-64.*
 - *US Navy multi-year IDIQ contract awarded for MJU-49 flare.*
 - *Multi-year contracts from USAF & US Army expected in H2.*
- **2,000,000th Bol/IR decoy delivered to UK MOD.**
 - *\$20m contract award with option for \$20m operational surge.*
 - *Extended duration pod upgrade planned for Tornado.*
 - *UK MOD plan to fit Bol/IR system onto Typhoon.*
- **US demand for Bol/IR starts to grow.**
 - *Contract awarded for F-15 USAF Air National Guard.*
 - *Major interest from both F-18 & V-22 Program Offices.*
- **International demand for Bol/IR also increases.**
 - *Now selected for Swedish Gripen aircraft.*
 - *Strong demand from Australia for F-18 fleet.*



Kilgore



- **Over 1.1 million flares manufactured in first half.**
 - *9% increase on H1 2006 but should have been higher.*
- **Qualification testing of MJU-10 completed.**
 - *volume production now starting in second half.*
- **ALA-17 Qualification taking longer than expected.**
 - *volume production should start before year-end.*
- **Production contract for MJU-55 won in competition.**
 - *sole-source award for F-18 aircraft.*
- **F-22 Qualification expected in September.**
 - *investment in new production facility approved by Board.*
 - *will support both F-22 and JSF programs.*
- **Next flight test of JSF flare suite scheduled to take place over Summer.**



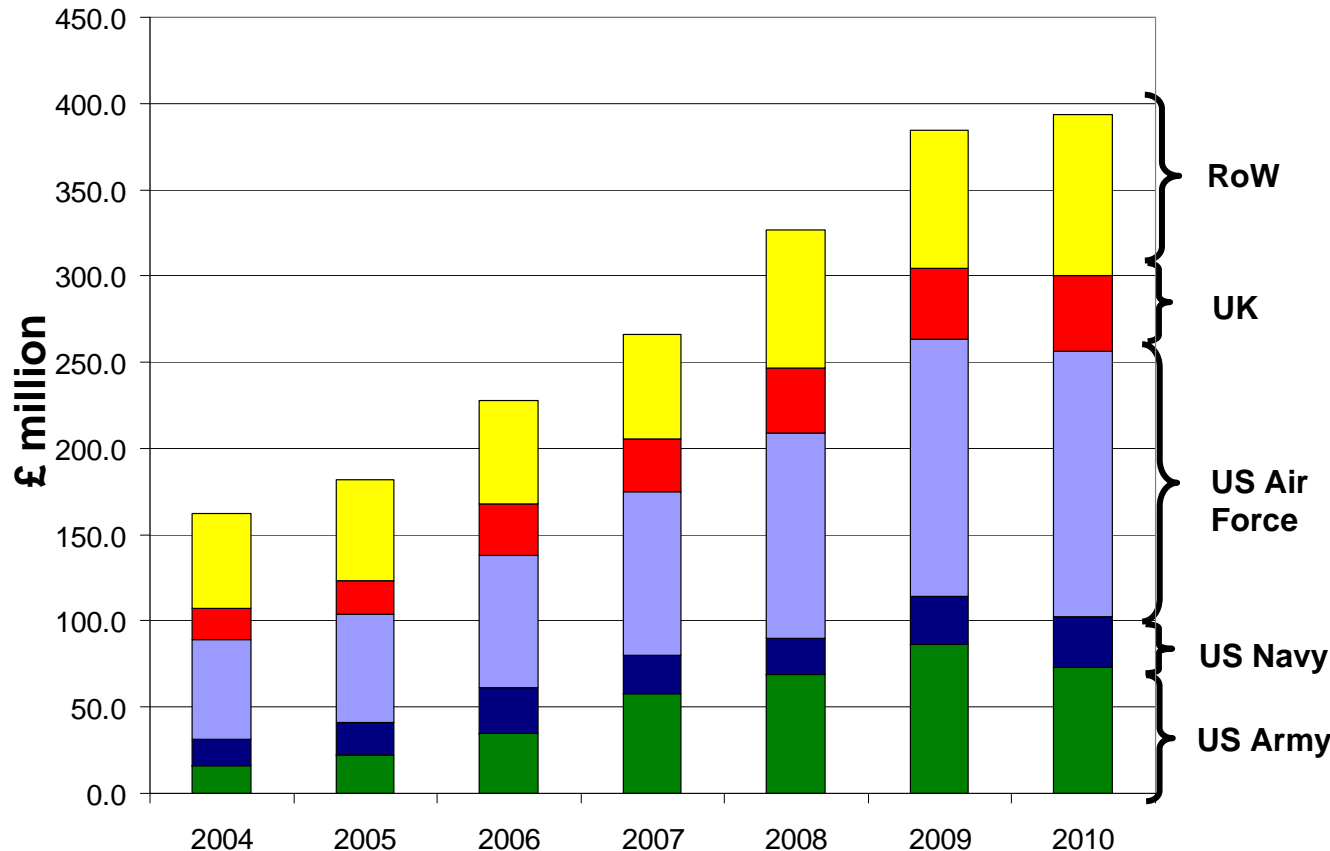
UK Countermeasures



- **Spectral Flare production showing strong growth.**
 - *Order intake now in excess of £10m.*
 - *DSTL39 production now over 20,000 per month.*
 - *Transport & Fast Jet variants entering production in H2.*
 - *US Army flight trials expected in July.*
- **Kinematic flare development making good progress.**
 - *Qualification trials successfully completed.*
 - *First production contract received from Italian Airforce.*
 - *Strong interest shown by F-16 users.*
- **First production contracts for Typhoon awarded.**
 - *Development of spectral and other advanced flare configurations well underway.*
- **Selected by EADS for supply of RF Modular Expandable Block on A400M aircraft.**

The Global Countermeasure Market

Global Market Size (£m)



- Peacekeeping activities driving increased decoy usage.
- US FY08 budget figures showing significant growth.
- Strong competition from US & Israeli companies
- USAF growth driven by introduction of advanced flares for 3rd & 4th generation seekers:
 - *MJU-55 for F-18*
 - *ALA-17 for B-52*
 - *F-22 advanced flares*
 - *JSF advanced flares*

Source: Internal estimates based on US program documentation & export market knowledge

Civil Aircraft Protection

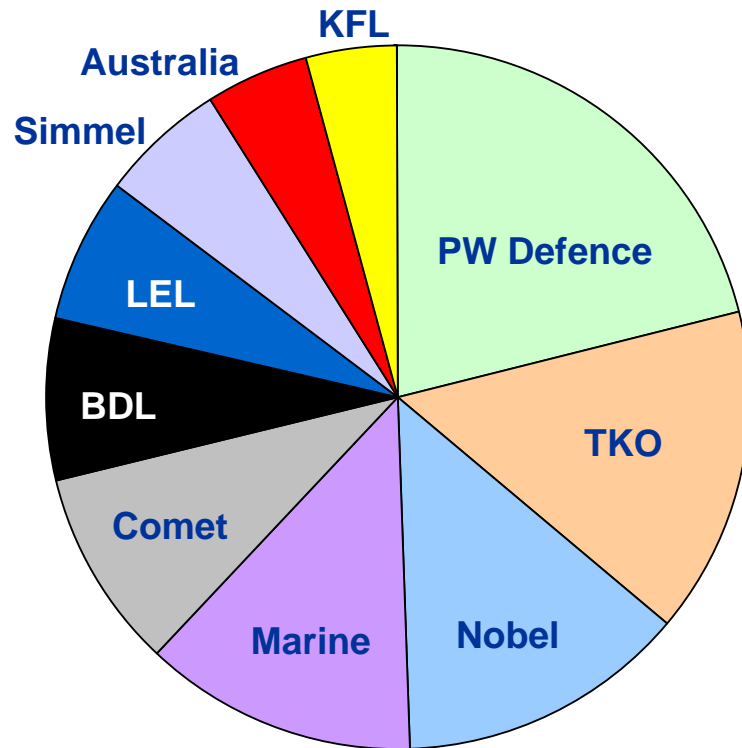


- Major collaboration programme between Saab, Chemring & Naturelink Aviation.
- Extensive flight testing of Saab system took place in South Africa.
 - *Fitted to Embraer EMB-120 aircraft.*
 - *Saab Avitronics UV missile approach warner*
 - *BOP-L Conventional Dispensers & BOA electro-mechanical dispensers.*
 - *Chemring conventional MTV and pyrophoric area decoys.*
- Naturelink Aviation plan to fit system to their EMB-120 fleet over next 12 months.
- Significant interest from Customers for systems for G5, BAE146 and C130 aircraft.

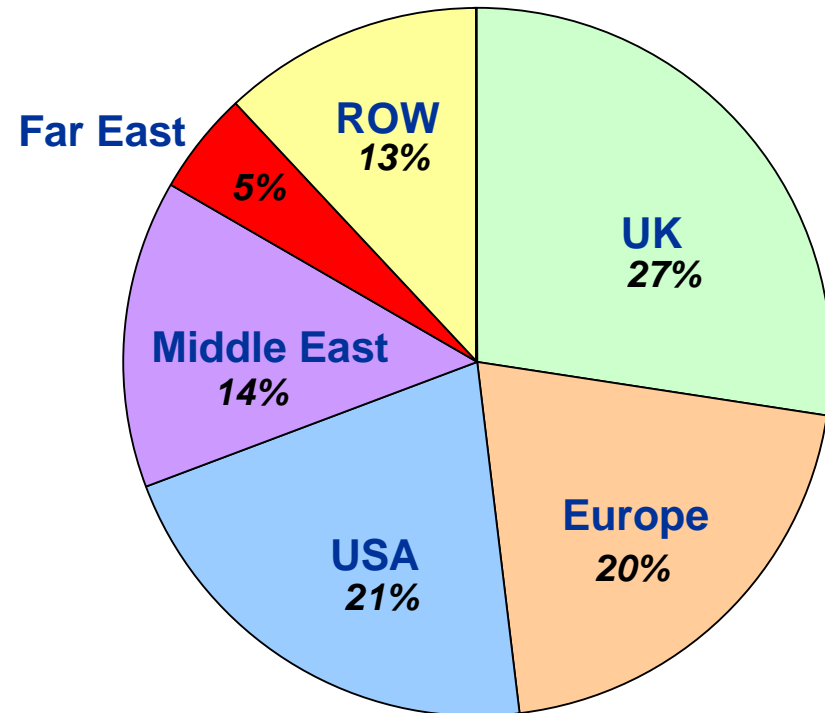


Energetics Sales Analysis

Sales by Company



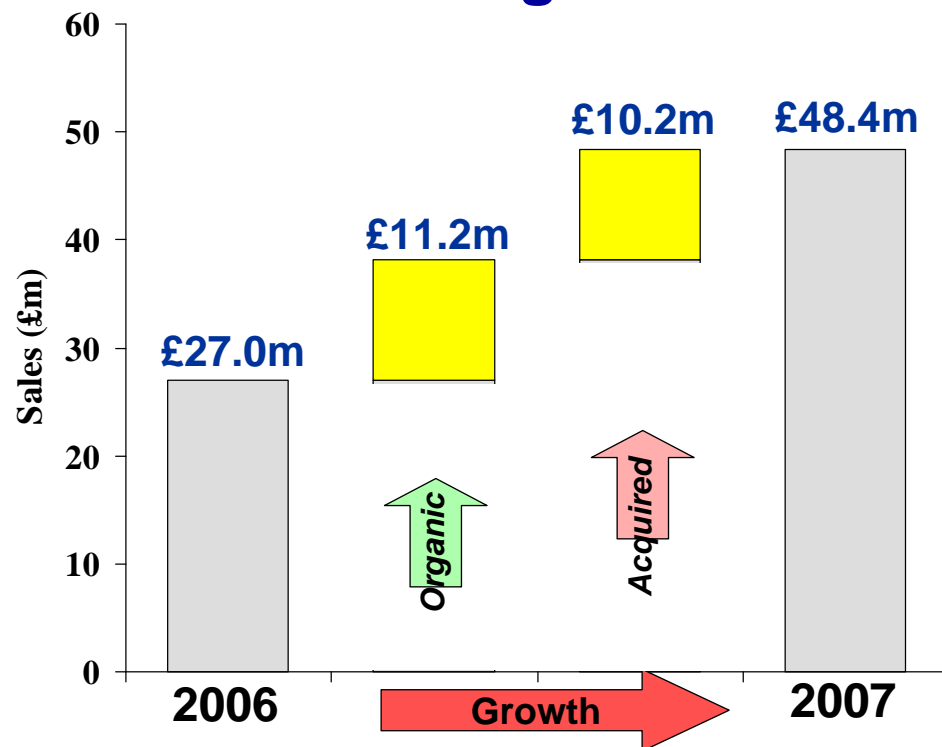
Sales by Destination



Half-year Sales of £48.4m

Energetics Sales Growth

Sales Progression



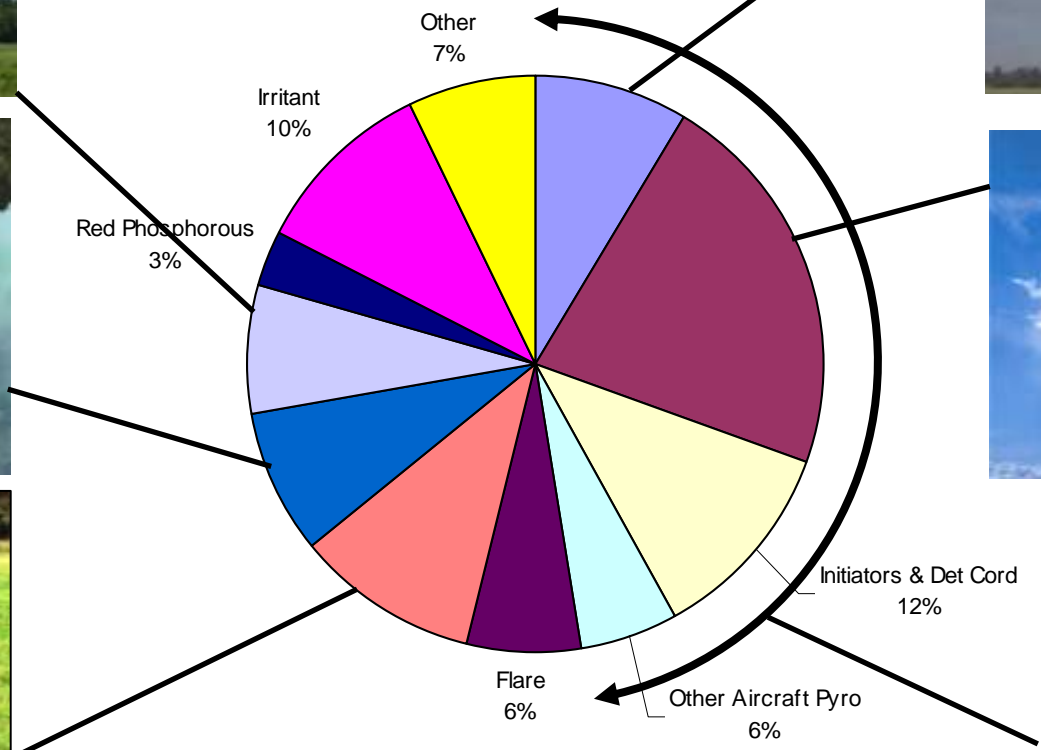
Annual Growth

Kilgore	+138%	Organic
PW Defence	+ 89%	
Comet	+ 77%	
Marine	+ 21%	
Nobel	+ 16%	
CHG Australia	+ 16%	
Leafield	+127%	Mixed
Technical Ordnance	+119%	

Energetics Achievements

- **Kilgore increased ordnance production.**
 - *Mk58 marine markers for USN*
 - *Mk4 practice bombs for USAF & USN.*
- **Simmel deliver first production IR Illumination mortar round to UK.**
 - *Development & qualification achieved in 5 months.*
- **Designated primary US supplier of M55 detonator for 40mm rounds.**
 - *Production expected to grow to 2m units per month in 2008.*
- **Major contracts secured from Middle East.**
- **Technical Ordnance increasing market share in fuze components**
 - *High levels of process automation & high quality major factor.*
 - *Several contracts won in competition against previously sole-source supplier.*
- **Successful transfer of marine production to Germany.**
 - *Operating margins increased to 18%.*
- **First contract from Libya for EOD products.**

Pyrotechnics

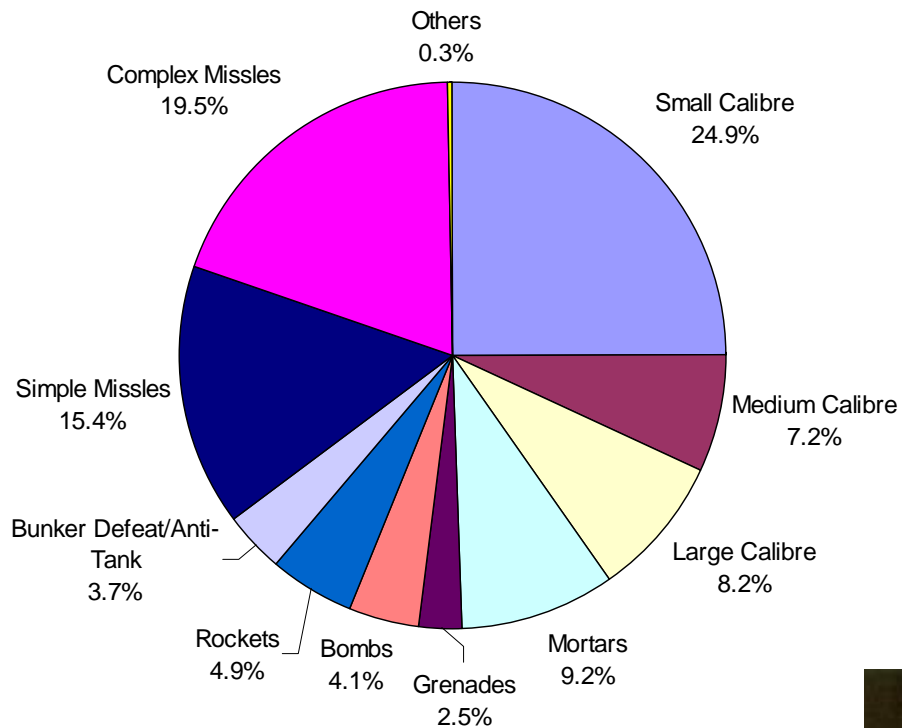


Total US & EU market c.£600m

**Aircraft Pyro
47%**

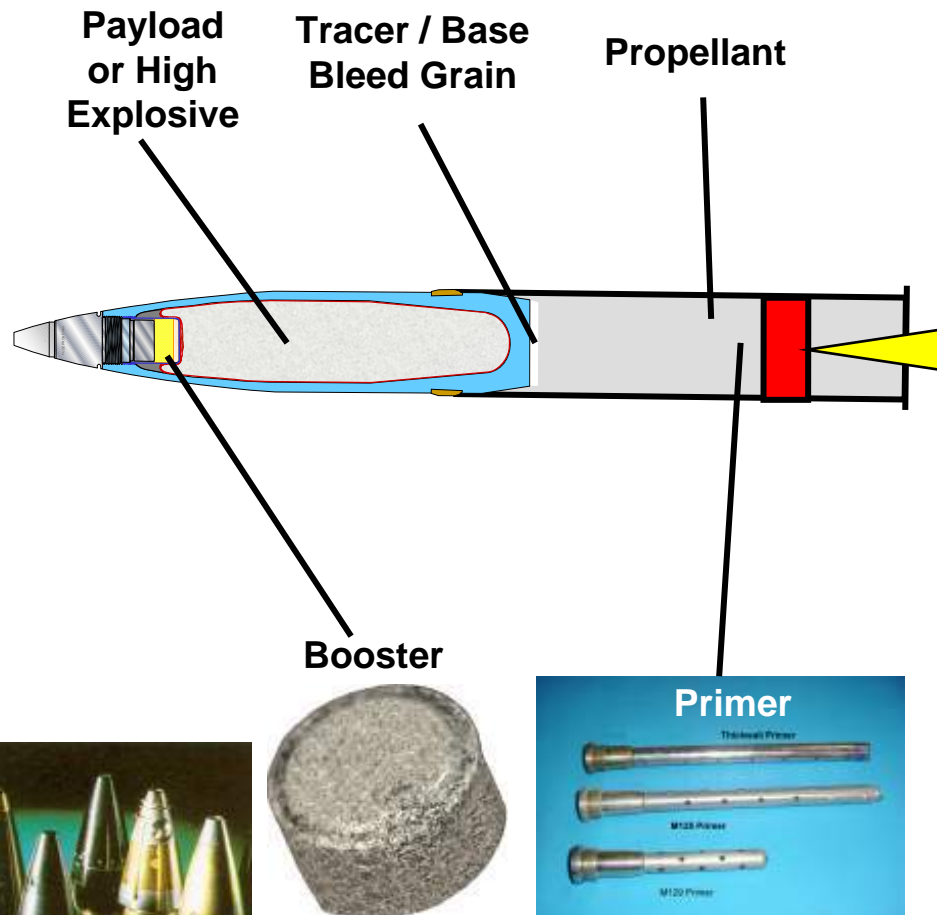
Munitions

Estimated Global Ammunition Market (2006)



US & EU market £4.9 billion

Source: Forecast International, Chemring internal estimates



EOD

Demolition Stores, 6.7%



Initiators, 2.6%



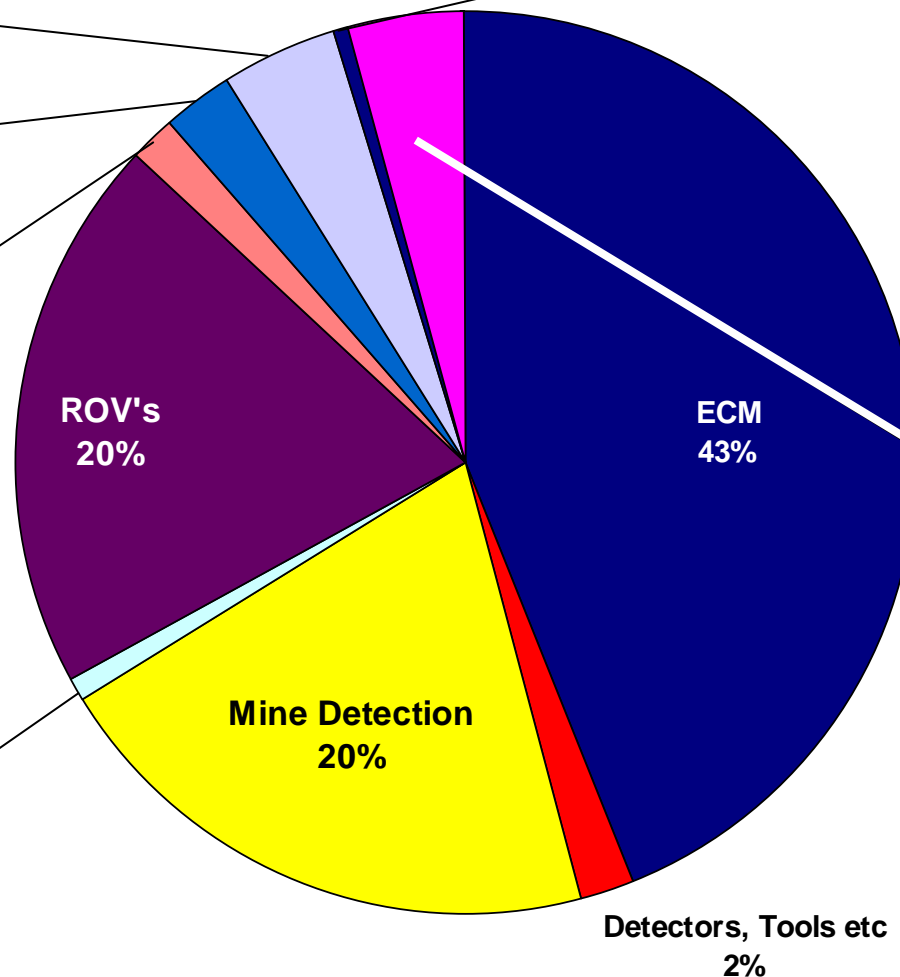
Minefield Breaching, 0.9%



Plastic Explosive, 0.6%



Demil, 4.2%



Total US & EU market £2.5bn

Simmel Difesa



- **World Leader in naval ammunition.**
 - 76/62 cal ammunition is NATO reference ammunition.
- **Principal supplier of 120mm tank ammunition to Italian armed forces.**
- **Development of NATO 155mm modular charge will complete in early 2008.**
- **150,000 Illumination mortar rounds supplied to UK over last few years.**
- **Strong fuze and warhead sub-system technology.**
- **Strong market position in India, Middle East, & South America.**
- **Acquisition made at 13x historic post-tax earnings.**

Chemring-Nobel HEM



- **Europe's leading supplier of primary explosives.**
 - *Located at Saetre, Norway.*
 - *RDX, HMX, HNS, NENA & NTO.*
 - *Supplier to both military & civil markets.*
- **Annual sales of NOK100m.**
 - *95% export, including USA.*
- **Military Applications.**
 - *Warheads, propellants, demolition charges.*
 - *detonating cords, detonators, shock tube etc.*
- **Commercial Applications.**
 - *Oil well perforating charges.*
 - *Detonators, detonating charges, shock tube etc.*
- **Insensitive Munitions Technology.**
 - *Major production award from European country.*

Summary

- Excellent first half performance with underlying earnings per share up 55%
- Record Orderbook at £293m.
- Operating margins improved to 22%.
- Strong organic growth achieved across all Energetics subsidiaries.
- New countermeasures production facilities will benefit second half.
 - *Plant 3 at Alloy Surfaces.*
 - *Large Flare facility at Kilgore.*
 - *Spectral facility at CCM, Salisbury.*
- Prospects for full year continue to look promising.



Paul Rayner

Finance Director

Half Year Results
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Profit and Loss

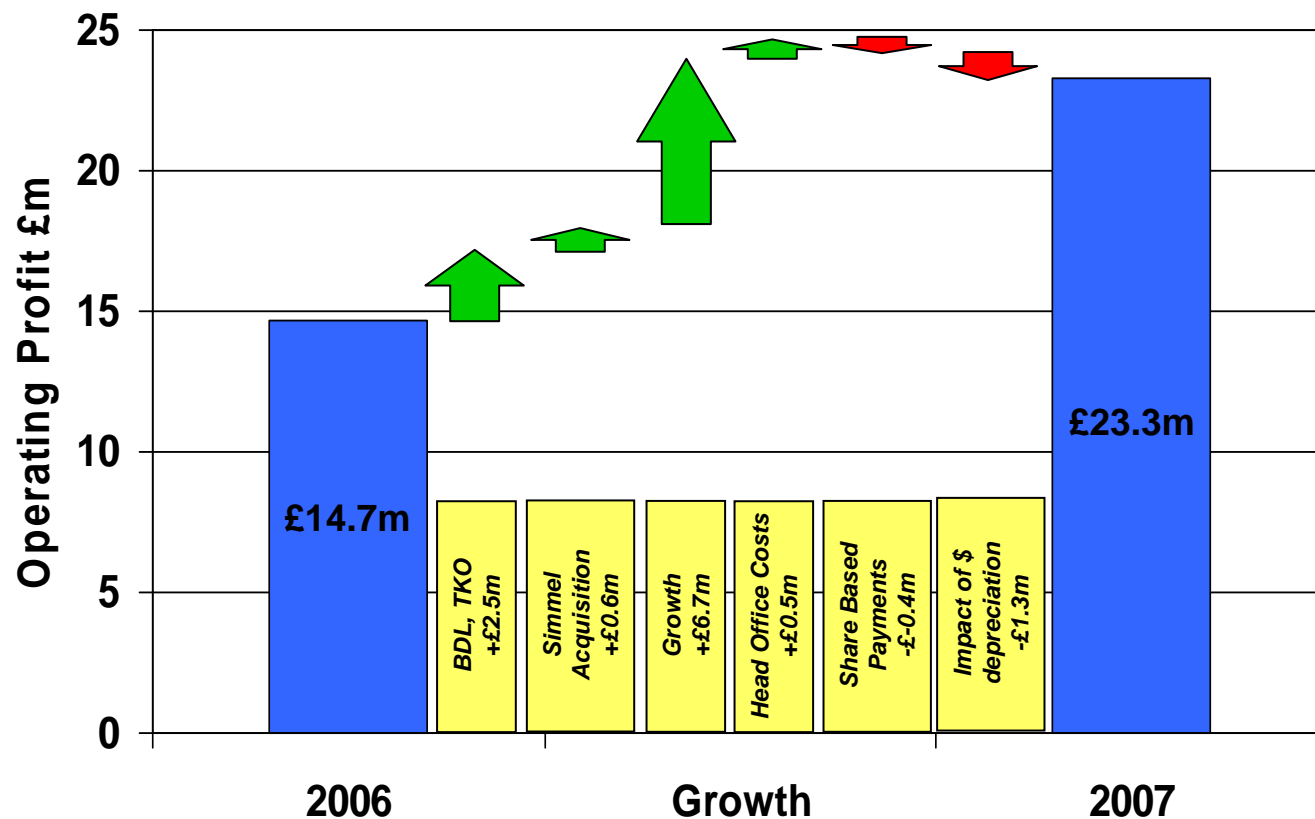
£m- Core Operations	<i>Interim 2007</i>	<i>Interim 2006</i>
Revenue - <i>Continuing</i>	104.0	82.6
Revenue - <i>Acquired</i>	2.8	-
Total Revenue	106.8	82.6
Operating Profit – <i>Continuing</i> *	22.7	14.7
Operating Profit – <i>Acquired</i> *	0.6	-
Total Operating Profit*	23.3	14.7
Interest	(3.0)	(2.6)
Profit Before Tax*	20.3	12.1

*Operating Profit and PBT before amortisation of acquired intangibles

Results

- **Strong growth in continuing operations**
 - *26% growth in revenue*
 - *54% growth in operating profit*
- **Simmel acquisition contributed well in 1 month in the Group**
 - *£2.8m revenue and £0.6m operating profit (21% margin)*
- **Operating profit up 59% on 2006**
- **Profit before Tax up 68% on 2006**
- **EPS up 55% on 2006**
- **Dividend up 50% on 2006**

Operating Profit Progression



Segmental Results

<i>£m</i>		<i>Interim 2007</i>	<i>Interim 2006</i>
Countermeasures	Revenue	58.4	55.6
	Operating Profit *	17.7	15.6
	Operating Margin	30%	28%
Energetics	Revenue	48.4	27.0
	Operating Profit *	8.6	2.3
	Operating Margin	18%	9%
Total	Revenue	106.8	82.6
	Operating Profit *	26.3	17.9
	Operating Margin	25%	22%

*before unallocated central costs

Segmental Results

■ Countermeasures

- *Overall 5% growth in revenue*
 - ❖ \$ negative impact US businesses £5.1m at constant FX 2006 rates
- *Full year supported by order book*
- *Improvement in margin % mix related*

■ Energetics

- *2006 acquisitions contributed significantly to growth of 79%*
- *Margin increase to 18% – benefiting from rationalisation*
- *Order book growing – bigger than Countermeasures*

■ Unallocated Costs

- *Share based payments £1.6m (2006: £1.2m)*
- *Head Office costs £1.5m (2006: £2m)*

■ Total group margins 22% (2006: 18%)

Other Profit & Loss Items

- **Interest £3.0m (2006: £2.6m)**
 - *Impact of debt funded acquisitions*
 - *Interest cover 7.8 times (2006: 5.6 times)*
- **Forex**
 - *Average translations H1 \$1.98 (2006: \$1.76)*
 - ❖ Sales £5.1m & Operating Profit £1.3m
 - ❖ EPS approx 2.5p
 - ❖ H2 expected average translation 1.98
 - ❖ 2007 net transactions fully covered at 1.92
- **Tax 32.8% (2006: 32.6%)**
 - *In line with guidance of 32-33%*
- **Amortisation of acquired intangibles- taken as 'below line' charge**
 - *£0.7m (2006: £0.3m)*
 - *Full year estimate £2m*

Balance Sheet

£m	<i>Interim 2007</i>	<i>Interim 2006</i>
Tangible Fixed Assets	60.0	56.6
Goodwill & intangibles	136.2	79.4
Other Net Assets	28.8	27.5
Marine	0.5	13.3
Net Debt	(108.2)	(75.5)
Net Pension Deficit	(9.0)	(11.7)
Shareholders' Funds	108.3	89.6

Balance Sheet

- **Tangibles £60m (2006: £56.6m)**
 - *Completion of Plant 3*
 - *Depreciation £3.5m; full year estimate £7m*
 - *Approval of new flare facilities at KFL and CCM*
 - *Full year spend in region of £16m*
- **Goodwill & Intangibles £136.2m (2006: £78.4m)**
 - *Simmel acquisition price £53.4m*
 - ❖ £36.8m goodwill
 - ❖ Debt £46.6m ; equity £6.8m
- **Net Pension Deficit £9.0m (2006: £11.7m)**
 - *23% reduction on last year*
 - *Ongoing discussion with Trustees*
- **Net Debt £108.2m (2006: £75.5m)**
 - *100% geared*
 - *Cash positive H2*

Cash Flow

£m	<i>Interim 2007</i>	<i>Interim 2006</i>
Operating Cash Flow	13.8	13.4
Tax	(4.7)	(3.6)
Capex	(5.3)	(5.8)
Free Cash Flow	3.8	4.0
Acquisitions and Disposals	(34.6)	(25.2)
Interest & Dividends	(6.4)	(2.4)
Net Cash Outflow	(37.2)	(23.6)

Cash Flow & Net Debt

- **Operational cash flow £13.8m (2006:£13.4m)**
 - *Conversion rate 61% (2006:93%)*
 - ❖ Build up in working capital H1 in countermeasures
 - *Inflow in H2*
 - *Target 100% conversion rate*
- **Acquisitions and Disposals**
 - *£3m receipt from marine sale*
 - *£46.7m to acquire Simmel*
- **Interest and Dividends**
 - *£3.6m Dividends paid April (2006 paid May)*



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