



I N T E R I M  
R E P O R T

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C H E M R I N G   G R O U P   P L C





## Statement by the Chairman

I am pleased to report another set of encouraging results for the six months to 30 April 2004. Turnover of continuing operations increased by 27% to £57.4 million (2003\*: £45.1 million), operating profit of continuing operations increased by 32% to £7.5 million (2003\*: £5.7 million), and earnings per share of continuing operations increased by 45% to 15.12p (2003\*: 10.43p).

The directors have recommended an interim dividend of 2.80p per ordinary share (2003\*: 2.55p), an increase of 10%. The interim dividend will be paid on 24 September 2004 to shareholders on the register at 10 September 2004.

The depreciation of the US dollar against sterling, from \$1.60 (the average rate during the first half of 2003) to \$1.80, has reduced sales on conversion by approximately £3 million. The adverse impact of this exchange rate movement has been partially hedged and this will continue to provide some benefit to the Company in the second half.

The loss on disposal of £0.69 million arose on the sale of Kembrey Wiring Systems Limited in November 2003.

In March the Company raised approximately £5.6 million (net of expenses) by way of a placing of ordinary shares, to ensure adequate funding for the Countermeasures business' capital expenditure programme and to fund increased working capital requirements, whilst maintaining debt at a prudent level. This capital raising would have been

### Results for the half year to 30 April 2004 – Highlights

	2004 £000	2003* £000
<b>Turnover</b>		
Continuing operations	57,441	45,133
Discontinued operations	-	4,336
<b>Operating profit</b>		
Continuing operations	7,463	5,701
Discontinued operations	-	244
<b>Profit before tax and loss on disposal</b>	5,803	4,269
<b>Loss on disposal</b>	(690)	-
<b>Profit before tax</b>	5,113	4,269
<b>Basic earnings per share – continuing operations</b>	15.12p	10.43p
<b>Basic earnings per share</b>	12.63p	11.05p

unnecessary had the long running dispute over the Kilgore insurance claim been settled. Considerable further work in relation to the claim, using external experts, has taken place in the last six months and we are hopeful that a settlement with Royal & Sun Alliance may soon be achieved.

### Defence Businesses

Strong demand for our defence products supported significant turnover growth of 34% to £44.4 million, 51% of which comprised sales into the US Department of Defense. Approximately 85% of the Group's defence sales are made overseas, to more than sixty countries worldwide.

Our three Countermeasures businesses, Alloy Surfaces (Alloy) and Kilgore Flares (Kilgore) in the US, and Chemring Countermeasures (CCM) in the UK, enjoyed an outstanding first half, with sales increasing by 34% to

£34.3 million. The Group is the largest supplier of expendable IR and RF decoys worldwide.

Alloy and Kilgore are the leading suppliers of decoys to the US Government and have recently received substantial orders to support activities in Iraq. In particular, Alloy received its largest individual order ever for \$25 million of special material decoys (SMDs) to protect US Army helicopters and Air Force transport aircraft. The increasing demand for Alloy's SMDs has led to the requirement for Alloy to increase manufacturing output by commissioning a second plant, which should be in production by the end of 2004. In addition to providing additional production capacity, this new plant, which has the full support of the US Department of Defense, will also become Alloy's technology centre.

CCM, after an excellent first half, received further encouragement with the award by the UK Ministry of Defence of a £12 million contract for the design and supply of improved ship-borne countermeasures for the Royal Navy.

Military Pyrotechnics turnover increased by 36% to £10.1 million during the period. The business has benefited from our strategy to increase our activity in this area at Kilgore. In the UK, PW Defence also performed well, as did our Australian operation. PW Defence is the main supplier of military pyrotechnics to the UK Ministry of Defence, and is now one year in to a five year partnering agreement as part of a new procurement initiative.

I referred in my Statement in February to our participation in one of the three consortia, chosen by the US Department of Homeland Security, to produce a system for commercial aircraft protection against missile threats. The selection of parties to proceed to the next phase of this programme is expected to be announced in August. We are hopeful that our decoy-based system will be one of those selected for the next phase.

### Marine Safety and Security Business

In the period under review the Marine business disappointed, achieving only a breakeven result despite good performance from lights and a satisfactory outcome for pyrotechnic products. During the first half, sales of electronic products increased by 23% but profits were adversely affected by external trials of our personal locating

beacon, the results of which suggested that a product improvement was necessary to meet the demanding operational specification (which no other manufacturer has achieved). This has now been implemented. Although much improved performance is anticipated in the second half, the outcome for the year is still likely to be unsatisfactory. The executive directors are reviewing how the increased turnover in our Marine electronics business can be translated into increased profitability, given the structure of the industry, the size of the market and our heavy research and development costs with their rapid amortisation.

### Board of Directors

In May, I was delighted to welcome Sir Peter Norriss as an additional non-executive director of the Company. His experience in the defence industry is already bringing considerable benefit to the Group.

### Prospects

The strength of the Group's defence order book and the increasing worldwide recognition of the part decoys play in protecting expensive military platforms, gives considerable confidence for the future performance of our defence businesses, not just in the next six months but also in the longer term. This, together with the anticipated improvement in the Marine business in the second half, should ensure another year of satisfactory performance for the Group.



**K C Scobie - Chairman**  
6 July 2004

*\*All comparisons are for the half year to 30 April 2003 as restated following the adoption of FRS5 Application Note G and UITF Abstract 38.*



# Unaudited Consolidated Profit and Loss Account

for the half year to 30 April 2004

	<i>Unaudited Half year to 30 April 2004  £000</i>	<i>Unaudited Half year to 30 April 2003  As restated<sup>1</sup> £000</i>	<i>Audited Year to 31 Oct 2003  As restated<sup>1</sup> £000</i>
<b>Turnover</b>			
Continuing operations	57,441	45,133	110,170
Discontinued operations	-	4,336	8,240
	<u>57,441</u>	<u>49,469</u>	<u>118,410</u>
<b>Operating profit/(loss)</b>			
Continuing operations	7,463	5,701	14,026
Discontinued operations	-	244	(216)
	<u>7,463</u>	<u>5,945</u>	<u>13,810</u>
(Loss)/profit on disposal:			
- insurance claim	-	-	565
- sale of subsidiary undertaking/division	(690)	-	724
Associated undertaking	-	-	178
	<u>-</u>	<u>-</u>	<u>178</u>
<b>Profit on ordinary activities before interest</b>	<b>6,773</b>	<b>5,945</b>	<b>15,277</b>
Interest payable	(1,660)	(1,676)	(3,433)
	<u>(1,660)</u>	<u>(1,676)</u>	<u>(3,433)</u>
<b>Profit on ordinary activities before taxation</b>	<b>5,113</b>	<b>4,269</b>	<b>11,844</b>
Tax on profit on ordinary activities	(1,616)	(1,260)	(3,500)
	<u>(1,616)</u>	<u>(1,260)</u>	<u>(3,500)</u>
<b>Profit on ordinary activities after taxation</b>	<b>3,497</b>	<b>3,009</b>	<b>8,344</b>
Equity minority interest	13	24	23
Dividends	(811)	(702)	(2,034)
	<u>(811)</u>	<u>(702)</u>	<u>(2,034)</u>
<b>Retained profit</b>	<b>2,699</b>	<b>2,331</b>	<b>6,333</b>
	<u>2,699</u>	<u>2,331</u>	<u>6,333</u>
<b>Basic earnings per ordinary share</b>			
- continuing operations	15.12p	10.43p	29.51p
	<u>15.12p</u>	<u>10.43p</u>	<u>29.51p</u>
<b>Basic earnings per ordinary share</b>	<b>12.63p</b>	<b>11.05p</b>	<b>30.48p</b>
	<u>12.63p</u>	<u>11.05p</u>	<u>30.48p</u>
<b>Diluted earnings per ordinary share</b>	<b>12.56p</b>	<b>10.93p</b>	<b>30.05p</b>
	<u>12.56p</u>	<u>10.93p</u>	<u>30.05p</u>
<b>Dividend per ordinary share</b>	<b>2.80p</b>	<b>2.55p</b>	<b>7.40p</b>
	<u>2.80p</u>	<u>2.55p</u>	<u>7.40p</u>

<sup>1</sup> See Note 4

# Additional Financial Performance Statements

for the half year to 30 April 2004

	<i>Unaudited</i> <i>Half year to</i> <i>30 April 2004</i>  <i>£000</i>	<i>Unaudited</i> <i>Half year to</i> <i>30 April 2003</i> <i>As restated<sup>1</sup></i>  <i>£000</i>	<i>Audited</i> <i>Year to</i> <i>31 Oct 2003</i> <i>As restated<sup>1</sup></i>  <i>£000</i>
<b>Statement of total recognised gains and losses</b>			
Profit on ordinary activities after taxation	3,497	3,009	8,344
Currency translation differences on foreign currency net investments	(696)	60	(1,636)
	2,801	3,069	6,708
Prior year adjustment <sup>1</sup>	(1,097)	-	-
	<u>1,704</u>	<u>3,069</u>	<u>6,708</u>

<sup>1</sup>See Note 4

## Reconciliation of movements in shareholders' funds

Profit on ordinary activities after taxation	3,497	3,009	8,344
Equity minority interest	13	24	23
Dividends	(811)	(702)	(2,034)
	2,699	2,331	6,333
Ordinary shares issued	73	-	-
Share premium arising	5,752	-	-
Other recognised (losses)/profits	(696)	60	(1,636)
Net addition to shareholders' funds	7,828	2,391	4,697
Opening shareholders' funds	52,423	47,726	47,726
	<u>60,251</u>	<u>50,117</u>	<u>52,423</u>
Closing shareholders' funds			

<sup>1</sup>See Note 4

# Unaudited Consolidated Balance Sheet

as at 30 April 2004

	<i>Unaudited Half year to 30 April 2004</i>	<i>Unaudited Half year to 30 April 2003 As restated<sup>1</sup></i>	<i>Audited Year to 31 Oct 2003 As restated<sup>1</sup></i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Fixed assets</b>			
Development costs	2,384	2,881	2,996
Goodwill	28,442	28,343	28,442
Tangible assets	41,525	43,229	42,879
Investments	1,063	972	1,063
	<u>73,414</u>	<u>75,425</u>	<u>75,380</u>
<b>Current assets</b>			
Stock	24,456	23,172	24,962
Debtors	31,498	32,142	30,059
Cash at bank and in hand	4,093	1,812	5,821
	<u>60,047</u>	<u>57,126</u>	<u>60,842</u>
<b>Creditors due within one year</b>			
Bank loans and overdraft	24,021	22,130	22,986
Loan stock	40	40	40
Other	21,893	29,922	34,173
	<u>45,954</u>	<u>52,092</u>	<u>57,199</u>
<b>Net current assets</b>	<u>14,093</u>	<u>5,034</u>	<u>3,643</u>
<b>Total assets less current liabilities</b>	<b>87,507</b>	<b>80,459</b>	<b>79,023</b>
Creditors due after more than one year	(21,638)	(28,421)	(21,489)
Provisions for liabilities and charges	(5,352)	(1,644)	(4,832)
Equity minority interest	(266)	(277)	(279)
	<u>60,251</u>	<u>50,117</u>	<u>52,423</u>
<b>Capital and reserves</b>			
Called-up share capital	1,507	1,434	1,434
Reserves	58,744	48,683	50,989
<b>Shareholders' funds</b>	<u>60,251</u>	<u>50,117</u>	<u>52,423</u>

<sup>1</sup>See Note 4



# Unaudited Consolidated Cash Flow Statement

for the half year to 30 April 2004

	<i>Unaudited Half year to 30 April 2004</i>	<i>Unaudited Half year to 30 April 2003 As restated<sup>1</sup></i>	<i>Audited Year to 31 Oct 2003 As restated<sup>1</sup></i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Net cash (outflow)/inflow from operating activities	(5,715)	5,001	18,084
Returns on investments and servicing of finance	(1,276)	(2,060)	(3,420)
Taxation	(748)	(414)	(686)
Net capital expenditure	(2,323)	(2,696)	(5,497)
Acquisitions	645	-	1,475
Equity dividends paid	-	-	(1,866)
<b>Cash (outflow)/inflow before use of liquid resources and financing</b>	<b>(9,417)</b>	<b>(169)</b>	<b>8,090</b>
Financing - issue of shares	5,825	-	-
- decrease in debt	(1,688)	(2,196)	(5,645)
<b>(Decrease)/increase in cash</b>	<b>(5,280)</b>	<b>(2,365)</b>	<b>2,445</b>
<b>Reconciliation of operating profit to net cash flow from operating activities</b>			
Operating profit	7,463	5,945	13,810
Amortisation charge	1,044	589	1,210
Depreciation charge	1,891	1,860	3,295
Increase in stock	(535)	(2,568)	(4,757)
Increase in debtors	(3,347)	(2,880)	(1,606)
(Decrease)/increase in creditors	(12,231)	2,055	6,132
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(5,715)</b>	<b>5,001</b>	<b>18,084</b>
<b>Reconciliation of net cash flow to movement in net debt</b>			
(Decrease)/increase in cash	(5,280)	(2,365)	2,445
Cash outflow from the decrease in debt and lease financing	1,688	2,196	5,645
Change in net debt resulting from cash flows	(3,592)	(169)	8,090
New finance leases	(231)	(650)	(1,153)
Translation difference	808	442	1,964
Amortisation of debt finance costs	(48)	(55)	(305)
	<b>(3,063)</b>	<b>(432)</b>	<b>8,596</b>

<sup>1</sup>See Note 4

## Analysis of net debt

	<i>As at 1 Nov 2003 £000</i>	<i>Cash flow £000</i>	<i>Non-cash changes £000</i>	<i>Exchange movement £000</i>	<i>As at 30 April 2004 £000</i>
Cash at bank and in hand	5,821	(1,576)	-	(152)	4,093
Overdrafts	(16,766)	(3,704)	-	156	(20,314)
	(10,945)	(5,280)	-	4	(16,221)
Debt due within one year	(6,260)	7	2,507	-	(3,746)
Debt due after one year	(18,065)	1,023	(2,555)	722	(18,875)
Finance leases	(3,411)	658	(231)	82	(2,902)
	<b>(38,681)</b>	<b>(3,592)</b>	<b>(279)</b>	<b>808</b>	<b>(41,744)</b>

# Independent Review Report by the Auditors

## To Chemring Group PLC

### Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 April 2004 which comprises the consolidated profit and loss account, statement of total recognised gains and losses, reconciliation of movements in shareholders' funds, consolidated balance sheet, consolidated cash flow statement and associated notes, and the related notes 1 to 8. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

### Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

### Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

### Uncertainty relating to insurance claim

In arriving at our review conclusion, we have considered the adequacy of disclosures made in note 3 concerning the possible outcome in respect of amounts recoverable under an insurance claim relating to an incident at Kilgore Flares, a subsidiary undertaking of the Company, in April 2001. The future settlement of this claim could result in a shortfall, or a surplus, when compared with the recorded debtor at 30 April 2004. It is not possible to quantify the effect, if any, of this uncertainty. Details of the circumstances relating to this uncertainty, profit and loss account treatment and the amount of the related debtor recorded at 30 April 2004 are disclosed in note 3.

### Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 April 2004.

**Deloitte & Touche LLP**  
**Chartered Accountants**  
**Southampton**

6 July 2004

# Notes to the Interim Statement

## 1. BASIS OF PREPARATION

The interim accounts to 30 April 2004 have been prepared on the basis of the accounting policies set out in the audited full year accounts to 31 October 2003, except for the adoption of FRS5 Application Note G *Revenue recognition* and the adoption of UITF Abstract 38 *Accounting for ESOP trusts*. See Note 4.

The unaudited consolidated profit and loss account for each of the six month periods and the unaudited consolidated balance sheet as at 30 April 2004 do not amount to full accounts within the meaning of section 240 of the Companies Act 1985 and have not been delivered to the Registrar of Companies. The interim report was approved by the Board of Directors on 6 July 2004.

## 2. SEGMENTAL ANALYSIS OF TURNOVER

	<i>Unaudited Half year to 30 April 2004</i>	<i>Unaudited Half year to 30 April 2003 As restated<sup>1</sup></i>	<i>Audited Year to 31 Oct 2003 As restated<sup>1</sup></i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Countermeasures	34,303	25,678	64,264
Military pyrotechnics	10,113	7,410	19,540
Marine safety and security	13,025	12,116	26,366
<b>Continuing operations</b>	<b>57,441</b>	<b>45,204</b>	<b>110,170</b>
Discontinued operations	-	4,265	8,240
<b>Total</b>	<b>57,441</b>	<b>49,469</b>	<b>118,410</b>

<sup>1</sup>See Note 4

## 3. INSURANCE CLAIM

As reported in the financial statements for the year ended 31 October 2003 the Group has lodged a claim with its insurers in respect of property damage and business interruption arising out of an incident at Kilgore in April 2001. To date £5,700,000 has been received from the insurers.

At 31 October 2003 a balance of £7,486,000 (2002: £9,633,000) was recognised within other debtors. This outstanding balance has been reduced by £340,000 since the year end, as a result of exchange rate movements against the US dollar.

At 30 April 2004 the Board increased its estimate of the additional proceeds receivable to £7,717,000, an increase of £571,000. There is no net impact on operating profit as legal costs of a similar amount were incurred.

# Notes to the Interim Statement

- continued

## 4. PRIOR YEAR ADJUSTMENT

As explained in Note 1, FRS5 Application Note G has been adopted in the period. As a result a prior year adjustment of £771,000 to reduce shareholders' funds at 31 October 2002 is required. Prior to adoption, the Group recognised a sale, under bill and hold arrangements, when production of goods had been completed but external testing and acceptance of products by US Government agencies was awaited. Following the adoption of FRS5 Application Note G, sales are now recognised upon acceptance by US Government agencies.

The adoption of FRS5 Application Note G also resulted in a reduction to the previously reported profits for the financial year ended 31 October 2003 by £152,000, a reduction to the previously reported profits for the half year to 30 April 2003 by £25,000 and an increase in profits for the current half year by £296,000.

In addition, as stated in Note 1, UITF Abstract 38 has been adopted in the period. As a result a prior year adjustment of £174,000 to shareholders' funds at 31 October 2002 is required.

## 5. 2003 RESULTS

The figures for the year to 31 October 2003 are abridged from the Group's full Financial Statements for that period which carry an unqualified Auditors' Report and have been filed with the Registrar of Companies.

## 6. TAXATION

The estimated tax rate for the Group for the year ending 31 October 2004 is 32% (2003: 30%).

## 7. EARNINGS PER SHARE

Earnings per share are based on the average number of shares in issue of 27,765,886 (2003: 27,435,972) and profit on ordinary activities after taxation, minority interests and preference dividends of £3,508,000 (2003: £3,031,000). Diluted earnings per share has been calculated using a diluted average number of shares in issue of 27,922,564 (2003: 27,726,796) and profit on ordinary activities after taxation, minority interests and preference dividends of £3,508,000 (2003: £3,031,000). Earnings per share – continuing operations of 15.12p is based on the average number of shares in issue of 27,765,886 (2003: 27,435,972) and represents a basic earnings per share of 12.63p and an increase of 2.49p per share for discontinued operations.

## 8. CORPORATE WEBSITE

Further information on the Group and its activities can be found on the corporate website at [www.chemring.co.uk](http://www.chemring.co.uk).





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