



C H E M R I N G G R O U P P L C



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 a satisfactory increase in the overall Group results for the six months to 30 April 2005.

Operating profit increased to £7.8 million (2004: £7.5 million).

Interest has reduced by 24% to £1.3 million (2004: £1.7 million).

Profit before tax increased by 27% to £6.5 million (2004: £5.1 million) and basic earnings per share increased by 20% to 15.14p (2004: 12.63p).

In the Countermeasures division in the US, Alloy Surfaces' continuing exceptional performance made up for a disappointing, if understandable, result from Kilgore. Kilgore's sales were significantly reduced as a result of a temporary "stop work" order being placed on two major contracts, following an appeal by a competitor, which was subsequently rejected by the US Department of Defense (DoD).

Results for the half year to 30 April 2005

	2005	2004
	£000	£000
Turnover	54,321	57,441
Operating profit	7,801	7,463
Interest	(1,329)	(1,660)
Profit before tax and loss on disposal	6,472	5,803
Loss on disposal	-	(690)
Profit before tax	6,472	5,113
Basic earnings per share	15.14p	12.63p

UK-based Chemring Countermeasures again generated a solid profit.

PW Defence and Pains Wessex

Australia both had a quiet first half, as did the Marine division, where significant changes have been made to ensure improved profitability in the future.

The directors have recommended an interim dividend of 3.20p per ordinary

share (2004: 2.80p), an increase of 14%. The interim dividend will be paid on 23 September 2005 to shareholders on the register at 9 September 2005.

The depreciation of the US dollar against sterling from \$1.80 in the first half of 2004 to \$1.90 in 2005 has reduced sales on translation by approximately £1.5 million. The adverse impact of this exchange rate



movement has been offset through forward sales of US dollars. In addition, in November 2004, the Group converted £10 million of sterling overdraft into dollar overdraft, to protect against the possible fall in the US dollar, with its consequent impact on our translated earnings, and to enjoy the benefit of lower interest rates. These actions proved exceedingly successful and further transactions have subsequently been completed to protect the benefits secured in the first six months.

In my last statement, I referred to the settlement of the Kilgore insurance claim against Royal & Sun Alliance, and our pursuance of a claim against our former insurance broker, Willis, for an additional amount. Willis has now agreed to a non-binding mediation in an attempt to resolve matters, which is provisionally scheduled for September 2005.

Alloy Surfaces' second facility was completed and commenced production in February 2005. £2.5 million of capital expenditure was incurred on the facility during the period, and £4.5 million was invested in working capital. Working capital also increased by £3 million at Kilgore, as production ramped up for sales in the

second half following the release of the "stop work" order.

Net debt at the end of the first half was £39.7 million (2004: £41.7 million).

Reporting

The Board has decided to restructure the Group's reporting to align more closely with our various business activities. Accordingly, the Marine Pyrotechnics business is now included within the Energetic Materials division.

The Energetic Materials division currently comprises the following businesses:

- PW Defence
- Marine Pyrotechnics
- Kilgore Pyrotechnics
- Pains Wessex Australia
- Pirotécnia Oroquieta

The Marine Lights and Electronics division now includes McMurdo and ICS Electronics, our marine systems businesses.

Countermeasures

The Group continues to benefit from strong demand for its countermeasure

decoys, with the order book for this division now standing at £106 million.

Alloy Surfaces is the only company in the world producing an advanced, patented, covert special material decoy. The business had an exceptional six months, with turnover doubling and earnings increasing threefold. As more branches of the armed services come to appreciate the advantages of deploying these decoys, the order book continues to expand rapidly and has recently been boosted by the receipt of a \$20.3 million order from the US Army.

To date, Alloy Surfaces' expansion has been partially restricted because it has been able to supply only to immediate allies of the US. These restrictions are now gradually being relaxed, and this should provide substantial export opportunities in the longer term.

Kilgore's production was seriously disrupted for most of the first half by a temporary "stop work" order placed against two of its major contracts by the US DoD, following an appeal against the award of these contracts by a newcomer to the industrial base in the US. We did not believe that this protest was valid or that it had any chance of success. In February, the



appeal was rejected in its entirety, and in April, the DoD placed \$22 million of contract options for the second year of these five year contracts. Kilgore returned to full production in April, and it is anticipated that the substantial shortfall in turnover in the first half will be recovered in the second half.

Chemring Countermeasures continues to provide products for the military in many parts of the world, and has extensive research programmes in place to preserve its position at the forefront of the industry. During the first half, the business performed well and met our expectations.

I have referred in previous statements to the US Department of Homeland Security's (DHS) initiatives in relation

to the protection of commercial aircraft. The Group continues to be involved in this area and we are still hopeful of participating in the DHS project with Alloy Surfaces' special material decoys, particularly as funds have recently been made available for alternative solutions.

Energetic Materials

After a quiet 2004 at PW Defence, the expected improvement in orders in 2005 has not yet materialised, either domestically or from overseas. The business has experienced similar market conditions previously, and continues to compete vigorously for orders all around the world, whilst looking at new products to expand the range.

The separation of the Marine Pyrotechnics business from the rest of our Marine division continued during the first half, and will be completed by the year end.

Whilst only a small profit was generated in the first half, sales in the Marine Pyrotechnics business are biased to the second half, and a sound performance for the year is anticipated.

After an excellent 2004, Pains Wessex Australia predicted a quieter 2005, both in its military and marine activities. The company now acts as an agent for both Alloy Surfaces and Kilgore with the military in Australia, following the expiry of the previous contract with an external agent. This should improve the profitability

of the business as sales to Australia are significant.

Marine Lights and Electronics

The restructuring of the Marine division is proceeding satisfactorily, with costs of approximately £0.35 million being incurred during the first half. Marine Lights performed well, although not at the same, excellent level that they did in 2004. With the exception of one updated product range, Electronics achieved its anticipated sales, with improvements expected in the second half from the seasonal business.

Board of Directors

As referred to previously, on 4 April 2005, Dr David Price joined us as Chief Executive and David Evans was appointed Non-Executive Deputy Chairman. Tim Hayter resigned as Chief Operating Officer on 10 March 2005.

Pensions

The Board is obviously aware of all the changes currently affecting company pension schemes but in the absence of yet to be produced Government legislation, finds it impossible to judge the best course of action for the future.

On the basis of current information before the Board, and taking into consideration the actions that we have already taken to improve the funding of our defined benefit schemes, we do not believe the Group is facing any material problem with long-term funding of the schemes.

I will report more fully on pension issues in my next statement.

Prospects

The results for the half year were satisfactory and would have been outstanding with a full contribution from Kilgore, PW Defence and the Marine division. The Countermeasures division, with its substantial order book, should perform well in the second half, and with a stronger performance from the Group's other businesses, we expect to achieve another year of excellent growth.



K C SCOBIE - Chairman

28 June 2005

**All comparisons are for the half year to 30 April 2004.*

Unaudited Consolidated Profit and Loss Account

for the half year to 30 April 2005

	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
	<i>Half year to</i>	<i>Half year to</i>	<i>Year to</i>
	<i>30 April 2005</i>	<i>30 April 2004</i>	<i>31 Oct 2004</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Turnover – continuing operations	54,321	57,441	125,580
Operating profit – continuing operations	7,801	7,463	16,927
Loss on disposal of subsidiary undertaking	-	(690)	(690)
Associated undertaking	-	-	151
Profit on ordinary activities before interest	7,801	6,773	16,388
Interest payable	(1,329)	(1,660)	(3,073)
Profit on ordinary activities before taxation	6,472	5,113	13,315
Tax on profit on ordinary activities	(2,071)	(1,616)	(3,822)
Profit on ordinary activities after taxation	4,401	3,497	9,493
Equity minority interest	(6)	13	15
Profit for financial period/year	4,395	3,510	9,508
Dividends	(933)	(811)	(2,690)
Retained profit	3,462	2,699	6,818
Basic earnings per ordinary share	15.14p	12.63p	33.32p
Diluted earnings per ordinary share	15.09p	12.56p	33.14p
Basic earnings per ordinary share – continuing operations	15.14p	15.12p	35.02p
Dividend per ordinary share	3.20p	2.80p	9.00p

Additional Financial Performance Statements

for the half year to 30 April 2005

	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
	<i>Half year to</i>	<i>Half year to</i>	<i>Year to</i>
	<i>30 April 2005</i>	<i>30 April 2004</i>	<i>31 Oct 2004</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Statement of total recognised gains and losses			
Profit for the financial period/year	4,395	3,510	9,508
Foreign currency translation differences on net investments	(2,708)	(696)	(1,945)
	<u>1,687</u>	<u>2,814</u>	<u>7,563</u>

	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
	<i>Half year to</i>	<i>Half year to</i>	<i>Year to</i>
	<i>30 April 2005</i>	<i>30 April 2004</i>	<i>31 Oct 2004</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Reconciliation of movements in shareholders' funds			
Profit on ordinary activities after taxation	4,401	3,497	9,493
Equity minority interest	(6)	13	15
Dividends	(933)	(811)	(2,690)
Retained profit	3,462	2,699	6,818
Ordinary shares issued	6	73	77
Share premium arising	230	5,752	5,984
Foreign currency translation differences on net investment	(2,708)	(696)	(1,945)
Net addition to shareholders' funds	990	7,828	10,934
Opening shareholders' funds	63,357	52,423	52,423
Closing shareholders' funds	<u>64,347</u>	<u>60,251</u>	<u>63,357</u>

Unaudited Consolidated Balance Sheet

as at 30 April 2005

	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
	<i>As at</i>	<i>As at</i>	<i>As at</i>
	<i>30 April 2005</i>	<i>30 April 2004</i>	<i>31 Oct 2004</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Fixed assets			
Development costs	2,575	2,384	2,841
Goodwill	27,984	28,442	27,984
Tangible assets	42,236	41,525	41,810
Investments	1,073	1,063	1,073
	<u>73,868</u>	<u>73,414</u>	<u>73,708</u>
Current assets			
Stock	31,123	24,456	25,090
Debtors	30,114	31,498	27,036
Cash at bank and in hand	327	4,093	9,933
	<u>61,564</u>	<u>60,047</u>	<u>62,059</u>
Creditors due within one year			
Bank loans and overdraft	16,825	24,021	20,493
Loan stock	40	40	40
Other	28,097	21,893	29,382
	<u>44,962</u>	<u>45,954</u>	<u>49,915</u>
Net current assets	<u>16,602</u>	<u>14,093</u>	<u>12,144</u>
Total assets less current liabilities	90,470	87,507	85,852
Creditors due after more than one year	(22,252)	(21,638)	(18,174)
Provisions for liabilities and charges	(3,601)	(5,352)	(4,057)
Equity minority interest	(270)	(266)	(264)
	<u>64,347</u>	<u>60,251</u>	<u>63,357</u>
Capital and reserves			
Called-up share capital	1,517	1,507	1,511
Share premium account	26,940	26,478	26,710
Special capital reserve	12,939	12,939	12,939
Revaluation reserve	2,392	2,446	2,410
Revenue reserves	20,559	16,881	19,787
Shareholders' funds	<u>64,347</u>	<u>60,251</u>	<u>63,357</u>

Unaudited Consolidated Cash Flow Statement

for the half year to 30 April 2005

	Unaudited	Unaudited	Audited		
	Half year to 30 April 2005	Half year to 30 April 2004	Year to 31 Oct 2004		
	£000	£000	£000		
Net cash (outflow)/inflow from operating activities	(2,460)	(5,715)	14,462		
Returns on investments and servicing of finance	(1,320)	(1,276)	(3,045)		
Taxation	(2,856)	(748)	(2,291)		
Net capital expenditure	(3,673)	(2,323)	(5,580)		
Acquisitions	242	645	485		
Equity dividends paid	-	-	(2,219)		
Cash (outflow)/inflow before use of liquid resources and financing	(10,067)	(9,417)	1,812		
Financing - issue of shares	236	5,825	6,061		
- increase/(decrease) in debt	5,340	(1,688)	(4,478)		
(Decrease)/increase in cash	(4,491)	(5,280)	3,395		
Reconciliation of net cash flow to movement in net debt					
(Decrease)/increase in cash	(4,491)	(5,280)	3,395		
Cash (inflow)/outflow from the (increase)/decrease in debt and lease financing	(5,340)	1,688	4,478		
Change in net debt resulting from cash flows	(9,831)	(3,592)	7,873		
New finance leases	-	(231)	(354)		
Translation difference	219	808	1,157		
Amortisation of debt finance costs	(85)	(48)	-		
Cash disposed with subsidiary undertaking	-	-	(3)		
	(9,697)	(3,063)	8,673		
Reconciliation of operating profit to net cash flow from operating activities					
Operating profit	7,801	7,463	16,927		
Amortisation charge	625	1,044	1,555		
Depreciation charge	1,939	1,891	3,229		
Loss on sale of tangible fixed assets	47	-	128		
Increase in stock	(6,033)	(535)	(1,169)		
(Increase)/decrease in debtors	(3,320)	(3,347)	1,116		
Decrease in creditors	(3,519)	(12,231)	(7,324)		
Net cash (outflow)/inflow from operating activities	(2,460)	(5,715)	14,462		
Analysis of net debt					
	As at 1 Nov 2004 £000	Cash flow £000	Non-cash changes £000	Exchange movement £000	As at 30 April 2005 £000
Cash at bank and in hand	9,933	(9,477)	-	(129)	327
Overdrafts	(17,463)	4,986	-	-	(12,477)
	(7,530)	(4,491)	-	(129)	(12,150)
Debt due within one year	(3,070)	1,254	(2,753)	181	(4,388)
Debt due after one year	(17,055)	(7,132)	2,668	-	(21,519)
Finance leases	(2,353)	538	-	167	(1,648)
	(30,008)	(9,831)	(85)	219	(39,705)

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 2005 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 7. 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 the disclosure made in note 3 concerning the amounts recognised under a claim against the Group's former insurance brokers concerning the insurance for Kilgore Flares Company LLC and their subsequent handling of an insurance claim. The future settlement of the claim against the brokers could result in a shortfall, or a surplus, when compared with the recorded debtor at 30 April 2005. It is not possible to quantify the effect, if any, of this uncertainty. Details of the circumstances relating to this uncertainty and the amount of the related debtor recorded at 30 April 2005 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 2005.

DELOITTE & TOUCHE LLP

Chartered Accountants

Southampton

28 June 2005

Notes to the Interim Statement

1. BASIS OF PREPARATION

The interim accounts to 30 April 2005 have been prepared on the basis of the accounting policies set out in the audited full year accounts to 31 October 2004.

The unaudited consolidated profit and loss account for each of the six month periods and the unaudited consolidated balance sheet as at 30 April 2005 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 28 June 2005.

2. SEGMENTAL ANALYSIS OF TURNOVER

As discussed in the Chairman's Statement, segmental analysis of turnover has been amended and prior period results restated to reflect more accurately the current structure and management of the Group.

	<i>Unaudited</i>	<i>Unaudited</i>	<i>Audited</i>
	<i>Half year to</i>	<i>Half year to</i>	<i>Year to</i>
	<i>30 April 2005</i>	<i>30 April 2004</i>	<i>31 Oct 2004</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Countermeasures	34,050	34,303	78,724
Energetic materials	13,927	15,564	31,360
Marine lights and electronics	6,344	7,574	15,496
Total	54,321	57,441	125,580

All turnover is derived from continuing operations.

3. INSURANCE CLAIM

The Group is pursuing a claim against its former insurance brokers, concerning the insurance cover for Kilgore Flares Company LLC and the broker's subsequent handling of a claim, following the manufacturing incident at Kilgore Flares Company LLC on 18 April 2001.

At 31 October 2004 a balance of £2,689,000 was recognised within other debtors. This outstanding balance has been reduced by £98,000, to £2,591,000 at 30 April 2005, as a result of exchange rate movement against the US dollar. All further legal and professional costs incurred in the half year to 30 April 2005 have been taken to the profit and loss account.

Notes to the Interim Statement

- continued

4. 2004 RESULTS

The figures for the year to 31 October 2004 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.

5. TAXATION

The estimated tax rate for the Group for the year ending 31 October 2005 is 32% (2004: 32%).

6. EARNINGS PER SHARE

Earnings per share are based on the average number of shares in issue of 29,013,854 (2004: 27,765,886) and profit on ordinary activities after taxation, minority interests and preference dividends of £4,393,000 (2004: £3,508,000). Diluted earnings per share has been calculated using a diluted average number of shares in issue of 29,119,379 (2004: 27,922,564) and profit on ordinary activities after taxation, minority interests and preference dividends of £4,393,000 (2004: £3,508,000).

7. CORPORATE WEBSITE

Further information on the Group and its activities can be found on the corporate website at www.chemring.co.uk.



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