Chemring Group PLC

Chemring Group PLC

INTERIM REPORT 2008







Chemring Group plc

CHEMRING GROUP PLC
INTERIM REPORT 2008

Contents



Interim Management Report

RESULTS FOR THE HALF YEAR TO 30 APRIL 2008

	2008 £m	2007 £m
Continuing operations:		
Revenue	150.2	106.8
Underlying operating profit*	28.2	23.3
Finance expense	(4.7)	(3.1)
Share of post-tax results of associate	0.1	-
Underlying profit before tax*	23.6	20.2
Profit after tax	14.5	11.2
Underlying earnings per share*	52p	42p
Basic earnings per share (continuing)	45p	41p
Dividend per ordinary share	10.0p	7.2p

*Excludes intangible amortisation arising from business combinations of £2.9 million (2007: £0.7 million)

It is a pleasure to report further significant growth in the first half of the year, with sales up 41% to £150.2 million (2007: £106.8 million) and underlying profit before tax* up 17% to £23.6 million (2007: £20.2 million), in line with the Board's expectations. Underlying earnings per share increased 24% to 52p (2007: 42p). Both divisions, Energetics and Countermeasures, performed well, with the Energetics business increasing its revenues by 64% and underlying operating profit* by 44%. The underlying operating margin achieved in the first half was lower than in the previous year because of the four month gradual restart programme implemented at Simmel Difesa after the tragic accident in October 2007. This has delayed a significant amount of revenue and margin into the second half of this year.

The Countermeasures business continued to grow in line with the market outlook published in our last annual report, increasing its revenue by 21% and its underlying operating profit* by 7%. The operating margins of the business were lower than in the previous year, due to a change in product mix at Alloy Surfaces and the increased volume of naval products sold during the period.

Today, the Group has announced the conditional acquisition of Martin Electronics, Inc. ("MEI") in Florida, USA, for a cash consideration of $70 million (£35.5 million). MEI is one of the leading US manufacturers of training grenade fuzes and 40mm ammunition. The acquisition of MEI significantly enhances the Group's position in addressing a $900 million segment of the US ordnance market.

We have also announced today a £60 million equity issue, comprising a vendor placing of 1,555,555 new ordinary shares to fund the acquisition of MEI, and a cash placing of 1,111,112 new

CHEMRING GROUP PLC

ordinary shares, the proceeds of which will be used to fund the acquisition of Scot, Inc. ("Scot"), which was announced on 27 May 2008. The Group's balance sheet will be significantly strengthened following this equity issue.

The Board deems it appropriate that dividends continue to move forward ahead of our growth in earnings. The Board is therefore declaring an interim dividend of 10.0p per ordinary share (2007: 7.2p), an increase of 39%. The interim dividend will be paid on 29 August 2008 to shareholders on the register at 8 August 2008.

ENERGETICS

The Energetics division continued its rapid growth with an increase in revenue of 64%. Although recent acquisitions contributed strongly, it was encouraging to see that the division achieved over 20% organic growth over the last twelve month period. Our US business, Technical Ordnance, delivered a 34% increase in revenue over that same period. Record export sales were delivered to the Middle East and record production levels for high explosive pellets, detonators and primers were achieved from both our US and European subsidiaries.

The division is making excellent progress in establishing itself as the world leader for the supply of realistic battlefield training and simulation cartridge devices. Demand for our multi-effects cartridge system (MECS) and our US battlefield effects simulation (BES) products continues to increase in all NATO countries, and recent demonstrations of our new improvised explosive device (IED) simulators and micro pyrotechnics, which can be used indoors for urban warfare training, have generated considerable interest from the US Army.

Sales of our portable ordnance-clearance system continue to grow, with deliveries of large numbers of systems completed to both France and Australia. Demand for the system from the Middle East and Eastern Europe remains high, supporting a wide range of coalition and peacekeeping deployments. The division also continues to make good progress in the supply of weapon aiming and disrupter technology for both US and European robots used for explosive ordnance and IED disposal.

The phased restart of production at Simmel Difesa took place during the first half of 2008. A careful review of all processes was undertaken, and almost four months of production of certain products was delayed into the second half. Sub-contract manufacture of the white light candle for the 81mm mortar illumination rounds passed qualification tests during the period, and nearly 10,000 rounds were successfully delivered to our UK customer. Simmel Difesa has also been highly successful at maintaining its global leadership in naval ammunition with strong sales of 40mm and 76mm ammunition. It has recently received an Instruction to Proceed (ITP) for the supply of ammunition to France in support of the latest European multi-mission frigate programme.

COUNTERMEASURES

The Countermeasures division also continues to be highly successful, with revenue at our UK countermeasures business growing by 54% following strong demand for its products from the UK and NATO forces operating in Afghanistan. The UK business has also seen significant growth in its naval countermeasure products, with strong demand coming from both traditional NATO and Eastern European nations.

Interim Management Report (continued)

Both Alloy Surfaces and Kilgore Flares performed well in the first half, and secured significant five year contracts for the supply of helicopter flares, that could potentially provide in excess of $750 million of future revenue. Successful flight trials and factory acceptance testing was also achieved for the B-52 and C-17 advanced flares and a rapid increase to full volume production is expected during the second half of the year.

I am also delighted to report a major competitive success by Kilgore Flares in securing a 100% contract award for the supply of M212 helicopter flares, which are a key component of the Advanced Infrared Countermeasure Munition (AIRCMM) suite used by the US Department of Defense to protect helicopters from the threat of IR guided missiles. The contract extends over a five year period and, with a maximum potential value of $387 million, is the largest framework contract ever awarded to the Group.

ACQUISITIONS

In November 2007, the Group acquired Richmond Electronics & Engineering Limited ("Richmond"), based in Norfolk, for £12.5 million. Richmond is a supplier of explosive ordnance disposal (EOD) equipment, which complements that provided by BDL Systems.

In March, the Group completed its acquisition of Titan Dynamics Systems, Inc. ("Titan"), based in Marshall, Texas, USA, for £2.6 million. Titan is a leading manufacturer of battlefield training and simulation cartridge-based products that are incorporated into the US Army's and US Marine Corps' digital training ranges. Since completion, the Group has used its expertise in automated production to significantly boost monthly production and, with only 25% of launchers currently deployed, further increases in production are now expected.

During early July, the Group expects to complete the acquisition of Scot for a cash consideration of $40 million (£20 million). Scot, based in Illinois in the USA, is a leading manufacturer of cartridge-actuated devices used in aircraft emergency systems, and pyro-mechanisms used in munitions, missiles and space vehicles, as well as specialist aircraft weapon ejector systems. Its engineering design capability will complement our high volume production capabilities at Technical Ordnance.

The Group has today announced the conditional acquisition of MEI in Florida, USA. MEI already has a long-term collaboration with the Group on the development of a new family of medium velocity 40mm grenades, which will provide the infantryman with longer range operation and greater accuracy than current low velocity in-service products. With a current order book of $62 million and revenue, year to date, up 71% on the previous year, MEI's future prospects look encouraging.

These three recently announced US acquisitions will significantly enhance the Group's position in the US market. In combination with our existing Energetics activities at Technical Ordnance and Kilgore Defense, the Group is now extremely well-positioned to establish itself as the US leader in both the pyrotechnic and munition segments of the market.

RESEARCH AND DEVELOPMENT

To support the organic growth achieved by the business over the last few years, the Group tries to maintain an investment of 3% of its revenue in research and development. However, the rapid rate of growth has given us a major challenge to recruit the scientific and engineering resources to deliver the products and new technologies. We have, therefore, entered into a five

year partnership agreement, worth in excess of £5 million, with Cranfield University to conduct research and development in energetic materials to advance the underpinning science base, develop new products, and enhance our UK skill base. Since 50% of our business is now conducted in the USA, we are looking to establish similar agreements with a number of US universities. This will become the cornerstone of our long-term strategy to maintain and develop our skills and competence over the next ten years.

FINANCIAL POSITION

The Group's net assets increased by 9% to £135.5 million (2007: £124.0 million) during the period.

The main movements in the balance sheet items were increases to goodwill, intangibles, property, plant and equipment, and net debt. These increases relate to the investment in the future of the Group, and strengthen its financial position.

PEOPLE

The rapid expansion of the Group has placed significant demands on our production, engineering and management staff. The Group continues to recruit at the senior management level in both the USA and Europe in order to ensure that we have the right level of expertise to meet the demands of both our current business and future strategy.

PENSIONS

The triennial valuation of the UK Staff Pension Scheme as at 6 April 2006 was agreed with the trustees in February, together with a funding plan which will continue through to the next valuation.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results have not changed significantly from those set out in the Business Review included in the Group's 2007 Financial Statements. These can be summarised as:

- Health and safety risks
- Risks related to the introduction and manufacture of new products
- Risk associated with product design changes
- Risks arising from technology transfers
- Risk associated with the management of prime contracts
- Political risks

Competition was also identified as a risk in the 2007 Financial Statements but, given the current strength of the Group's order book, with over a third of the orders deliverable by the year end, we do not perceive this to be a threat to the remaining six months' performance.




Interim Management Report (continued)

PROSPECTS

The prospects for both of our divisions remain excellent. The Group order book has now grown to a record level of £425 million, up 45% compared with this time last year. 36% of the current order book is for delivery in the second half of the year. Historically, our full year revenue has been split 40%/60% between the two halves and, given the status of our order book, the Board is confident that this trend is likely to be repeated.

The strong organic growth achieved in both divisions and the impact of the latest acquisitions continues to give confidence in the future performance of the Group.

With an unchanged strategy, clear direction, responsibility and accountability at each business, and a record order book, I look forward to the Group delivering a substantial increase in performance in the next six months.

K C SCOBIE

CHAIRMAN

24 JUNE 2008

Responsibility Statement

We confirm that to the best of our knowledge:

a) the Condensed Set of Financial Statements has been prepared in accordance with IAS 34 - *Interim Financial Reporting;*

b) the Interim Management Report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

c) the Interim Management Report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

D J PRICE

CHIEF EXECUTIVE

P A RAYNER

FINANCE DIRECTOR

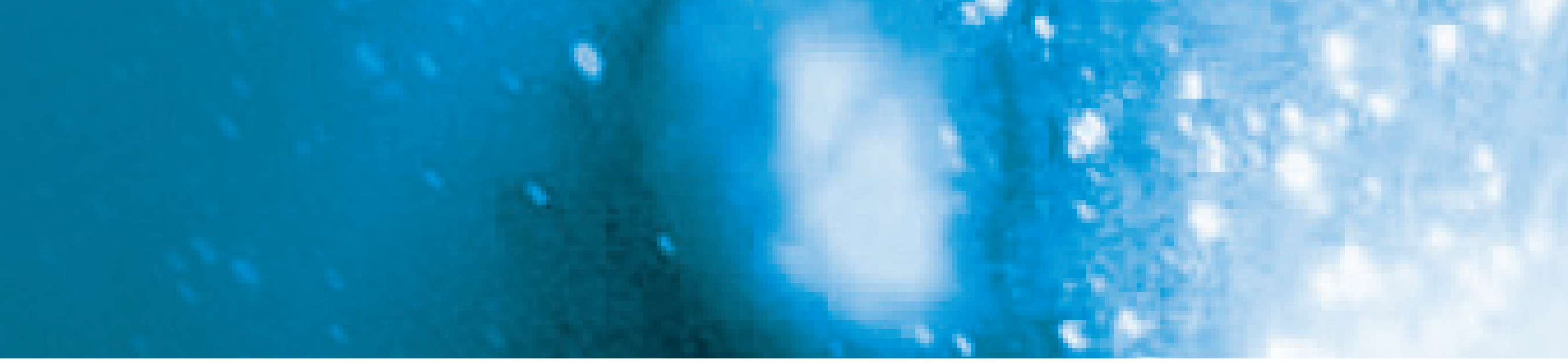
24 JUNE 2008

CHEMRING GROUP PLC

Condensed Consolidated Income Statement

for the half year to 30 April 2008

	Note	**Unaudited Half year to 30 April 2008 £m**	Unaudited Half year to 30 April 2007 £m	Audited Year to 31 Oct 2007 £m
Continuing operations				
Revenue -continuing		**146.4**	106.8	254.7
-acquired		**3.8**	-	-
Total revenue		**150.2**	106.8	254.7
Operating profit -continuing		**24.5**	22.6	57.8
-acquired		**0.8**	-	-
Total operating profit	2	**25.3**	22.6	57.8
Operating profit is analysed as:				
Underlying operating profit before intangible amortisation arising from business combinations		**28.2**	23.3	61.2
Intangible amortisation arising from business combinations		**(2.9)**	(0.7)	(3.4)
Total operating profit		**25.3**	22.6	57.8
Share of post-tax results of associate		**0.1**	-	0.1
Finance expense		**(4.7)**	(3.1)	(8.1)
Profit before tax for the period/year from continuing operations		**20.7**	19.5	49.8
Tax	4	**(6.2)**	(6.4)	(15.9)
Profit after tax for the period/year from continuing operations	2	**14.5**	13.1	33.9
Discontinued operations				
Loss after tax from discontinued operations		**-**	(1.9)	(1.9)
Profit after tax for the period/year		**14.5**	11.2	32.0
Attributable to:				
Equity holders of the parent		**14.5**	11.2	32.1
Minority interest		**-**	-	(0.1)
Earnings per ordinary share	5			
From continuing operations:				
Underlying		**52p**	42p	112p
Basic		**45p**	41p	105p
Diluted		**44p**	40p	104p
From continuing and discontinued operations:				
Basic		**45p**	35p	99p
Diluted		**44p**	34p	98p



Condensed Consolidated Statement of Recognised Income and Expense

for the half year to 30 April 2008

	Note	**Unaudited Half year to 30 April 2008 £m**	Unaudited Half year to 30 April 2007 £m	Audited Year to 31 Oct 2007 £m
Profit after tax for the period/year		**14.5**	11.2	32.0
Other recognised income and expense				
(Losses)/gains on cash flow hedges		**(1.6)**	0.1	0.2
Movement on deferred tax relating to cash flow hedges		**0.4**	-	(0.1)
Exchange differences on translation of foreign operations		**5.2**	(3.8)	(7.0)
Actuarial (losses)/gains on defined benefit pension schemes		**(2.4)**	3.5	4.4
Movement on deferred tax relating to pension schemes		**0.7**	(1.0)	(1.5)
Tax on items taken directly to equity		**0.6**	0.6	3.1
Total recognised income and expense for the period/year		**17.4**	10.6	31.1
Attributable to:				
Equity holders of the parent	7	**17.4**	10.6	31.2
Minority interest		**-**	-	(0.1)

Condensed Consolidated Balance Sheet

as at 30 April 2008

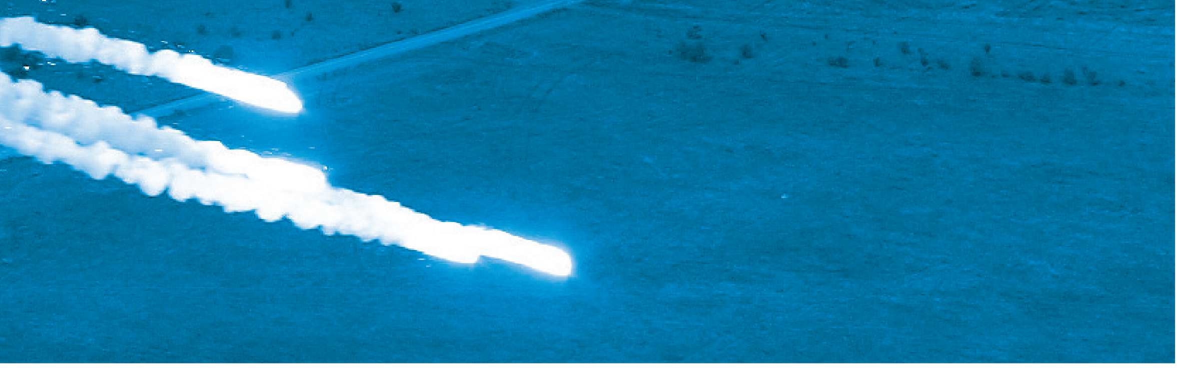
	Note	**Unaudited As at 30 April 2008 £m**	Unaudited As at 30 April 2007 £m	Audited As at 31 Oct 2007 £m
Non-current assets				
Goodwill		**108.6**	97.3	94.8
Other intangible assets		**42.1**	36.9	35.4
Development costs		**2.2**	1.0	1.7
Property, plant and equipment		**86.7**	60.0	69.8
Investments		**1.1**	1.0	1.0
Deferred tax		**10.1**	11.7	9.1
		250.8	207.9	211.8
Current assets				
Inventories		**65.0**	51.9	51.2
Trade and other receivables		**79.0**	57.0	61.9
Cash and cash equivalents		**36.0**	14.4	38.7
Derivative financial instruments		**-**	0.3	0.9
		180.0	123.6	152.7
Assets held for sale		**-**	2.5	-
Total assets		**430.8**	334.0	364.5
Current liabilities				
Bank loans		**(13.5)**	(8.7)	(9.2)
Bank overdraft		**-**	-	(13.3)
Obligations under finance leases		**(1.0)**	(0.2)	(0.7)
Trade and other payables		**(77.9)**	(64.6)	(71.4)
Provisions		**(0.4)**	(1.3)	(0.4)
Derivative financial instruments		**(1.3)**	-	-
Current tax liabilities		**(6.0)**	(3.5)	(3.3)
Liabilities held for sale		**-**	(2.0)	-
		(100.1)	(80.3)	(98.3)
Non-current liabilities				
Bank loans		**(84.7)**	(113.5)	(113.5)
Senior notes		**(75.5)**	-	-
Obligations under finance leases		**(2.6)**	(0.1)	(1.5)
Trade and other payables		**(1.5)**	(0.5)	(0.4)
Deferred tax		**(13.6)**	(13.7)	(12.1)
Provisions		**(1.3)**	(4.5)	(1.3)
Preference shares		**(0.1)**	(0.1)	(0.1)
Retirement benefit obligations		**(15.9)**	(13.0)	(13.3)
		(195.2)	(145.4)	(142.2)
Total liabilities		**(295.3)**	(225.7)	(240.5)
Net assets		**135.5**	108.3	124.0
Equity				
Share capital		**1.6**	1.6	1.6
Share premium account		**61.6**	60.3	60.5
Special capital reserve		**12.9**	12.9	12.9
Hedging reserve		**(1.1)**	0.3	0.4
Revaluation reserve		**1.5**	1.6	1.6
Own shares		**(4.7)**	-	(2.8)
Retained earnings		**63.7**	31.3	49.8
Equity attributable to equity holders of the parent		**135.5**	108.0	124.0
Minority interest		**-**	0.3	-
Total equity		**135.5**	108.3	124.0

Condensed Consolidated Cash Flow Statement

for the half year to 30 April 2008

	Note	Unaudited Half year to 30 April 2008 £m	Unaudited Half year to 30 April 2007 £m	Audited Year to 31 Oct 2007 £m
Cash flows from operating activities				
Cash generated from operations (before phantom share option payment)	A	**12.2**	13.8	60.6
Phantom share option payment *		**(3.4)**	-	-
		8.8	13.8	60.6
Tax paid		**(2.4)**	(4.7)	(12.0)
Net cash inflow from operating activities		**6.4**	9.1	48.6
Cash flows from investing activities				
Dividends received from associate		**0.1**	0.1	0.1
Purchases of property, plant and equipment		**(16.5)**	(5.1)	(14.6)
Purchases of intangible assets		**(1.9)**	(0.2)	(1.4)
Proceeds on disposal of subsidiary undertaking/division		**-**	3.2	3.2
Proceeds on disposal of property, plant and equipment		**-**	-	0.2
Acquisition of subsidiaries (net of cash acquired)	9	**(11.4)**	(37.8)	(46.9)
Net cash outflow from investing activities		**(29.7)**	(39.8)	(59.4)
Cash flows from financing activities				
Dividends paid		**(5.8)**	(3.6)	(6.0)
Interest paid		**(2.7)**	(2.8)	(7.4)
Proceeds on issue of shares		**0.2**	-	0.1
New borrowings		**72.7**	47.4	50.7
Repayment of borrowings		**(31.7)**	(3.8)	(6.4)
New/(repayments of) obligations under finance leases		**1.7**	-	(0.7)
Purchase of own shares		**(1.9)**	-	(2.8)
Net cash inflow from financing activities		**32.5**	37.2	27.5
Increase in cash and cash equivalents during the period/year		**9.2**	6.5	16.7
Cash and cash equivalents at start of the period/year		**25.4**	9.0	9.0
Effect of foreign exchange rate changes		**1.4**	(1.1)	(0.3)
Cash and cash equivalents at end of the period/year		**36.0**	14.4	25.4

* The phantom share option payment of £3.4 million relates to the final settlement of The Chemring Group Phantom Share Option Scheme. This payment, including tax and national insurance, was made to Mr K C Scobie and full details were disclosed in the Group's 2007 Financial Statements.



Notes to the Condensed Consolidated Cash Flow Statement

for the half year to 30 April 2008

A. Cash generated from operations	Unaudited Half year to 30 April 2008 £m	Unaudited Half year to 30 April 2007 £m	Audited Year to 31 Oct 2007 £m
Operating profit from continuing operations	**24.5**	22.1	55.2
Operating profit from acquired operations	**0.8**	0.5	2.6
Operating loss from discontinued operations	-	(0.1)	(0.4)
Loss on disposal/impairment of discontinued operations	-	(1.6)	(1.5)
Adjustment for:			
Depreciation of property, plant and equipment	**4.4**	3.5	6.8
Amortisation of intangible assets arising from business combinations	**2.9**	0.7	3.4
Amortisation of other intangible assets	**0.7**	0.4	0.6
Negative goodwill included in operating profit	-	-	(0.4)
Difference between pension contributions paid and amount recognised in income statement	**(0.3)**	(0.1)	(0.6)
(Decrease)/increase in provisions	**(1.1)**	0.1	(0.5)
Operating cash flows before movements in working capital	**31.9**	25.5	65.2
Increase in inventories	**(12.5)**	(7.7)	(4.6)
Increase in trade and other receivables	**(16.6)**	(9.1)	(9.0)
Increase in trade and other payables	**9.4**	5.1	9.0
Cash generated from operations (before phantom share option payment)	**12.2**	13.8	60.6

Reconciliation of net cash flow to movement in net debt			
Increase in cash and cash equivalents during the period/year	**9.2**	6.5	16.7
Cash inflow from increase in debt and lease financing	**(42.7)**	(43.6)	(43.6)
Change in net debt resulting from cash flows	**(33.5)**	(37.1)	(26.9)
Decrease/(increase) in debt and finance leasing	**0.6**	(0.1)	(2.1)
Translation difference	**(8.6)**	(0.3)	0.4
Amortisation of debt finance costs	**(0.3)**	(0.1)	(0.4)
Movement in net debt in the period/year	**(41.8)**	(37.6)	(29.0)
Net debt at start of the period/year	**(99.6)**	(70.6)	(70.6)
Net debt at end of the period/year	**(141.4)**	(108.2)	(99.6)

Analysis of net debt	As at 1 Nov 2007 £m	Cash flow £m	Non-cash changes £m	Exchange movement £m	As at 30 April 2008 £m
Cash at bank and in hand	38.7	6.2	(10.4)	1.5	**36.0**
Overdrafts	(13.3)	3.0	10.4	(0.1)	-
Cash and cash equivalents	25.4	9.2	-	1.4	**36.0**
Debt due within one year	(9.2)	3.5	(7.0)	(0.8)	**(13.5)**
Debt due between two and five years	(113.5)	28.2	7.0	(6.4)	**(84.7)**
Debt due after more than five years	-	(72.7)	-	(2.8)	**(75.5)**
Finance leases	(2.2)	(1.7)	0.3	-	**(3.6)**
Preference shares	(0.1)	-	-	-	**(0.1)**
	(99.6)	(33.5)	0.3	(8.6)	**(141.4)**

Independent Review Report to Chemring Group PLC

We have been engaged by the Company to review the Condensed Set of Financial Statements in the half-yearly financial report for the six months ended 30 April 2008 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Recognised Income and Expense, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Cash Flow Statement, the Notes to the Condensed Consolidated Cash Flow Statement and the related Notes 1 to 14. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements 2410 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 half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in Note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting*, as adopted by the European Union.

OUR RESPONSIBILITY

Our responsibility is to express to the Company a conclusion on the Condensed Set of Financial Statements in the half-yearly financial report based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the Condensed Set of Financial Statements in the half-yearly financial report for the six months ended 30 April 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

DELOITTE & TOUCHE LLP
Chartered Accountants and Registered Auditor
Southampton, United Kingdom
24 June 2008

Notes to the Condensed Set of Financial Statements

1. BASIS OF PREPARATION

The Condensed Consolidated Income Statement for each of the six month periods and the Condensed Consolidated Balance Sheet as at 30 April 2008 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 half-yearly financial report was approved by the Board of Directors on 24 June 2008. Full accounts for the year ended 31 October 2007, which include an unqualified audit report and did not contain statements under section 237(2) or (3) of the Companies Act 1985, have been delivered to the Registrar of Companies.

The accounting policies applied by the Group in this half-yearly financial report are the same as those applied by the Group in its Consolidated Financial Statements for the year ended 31 October 2007.

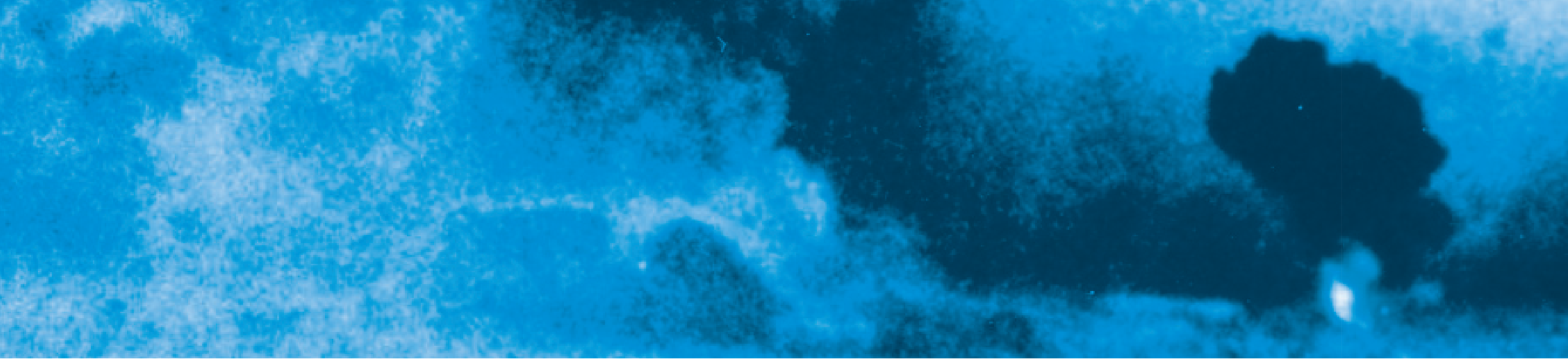
In the current financial year, the Group will adopt IFRS7 - *Financial Instruments: Disclosures* for the first time. As IFRS7 is a disclosure standard there is no impact on the half-yearly financial report. Full details of the change will be disclosed in our annual report for the year ended 31 October 2008.

These interim financial statements have been prepared in accordance with IFRSs as adopted by the European Union. The Condensed Set of Financial Statements included in the half-yearly financial report has been prepared in accordance with International Accounting Standard 34 - *Interim Financial Reporting* as adopted by the European Union.

2. SEGMENTAL ANALYSIS

A segmental analysis of revenue and operating profit is set out below:

Continuing operations:	**Unaudited Half year to 30 April 2008 £m**	Unaudited Half year to 30 April 2007 £m	Audited Year to 31 Oct 2007 £m
Revenue			
Countermeasures	**70.9**	58.4	126.5
Energetics	**79.3**	48.4	128.2
Total	**150.2**	106.8	254.7
Underlying operating profit			
Countermeasures	**19.0**	17.7	38.6
Energetics	**12.4**	8.6	27.9
Charge for share-based payments	**(0.8)**	(1.6)	(2.4)
Unallocated head office costs	**(2.4)**	(1.4)	(2.9)
Underlying operating profit before intangible amortisation arising from business combinations	**28.2**	23.3	61.2
Intangible amortisation arising from business combinations	**(2.9)**	(0.7)	(3.4)
Total operating profit	**25.3**	22.6	57.8
Share of post-tax results of associate	**0.1**	-	0.1
Finance expense	**(4.7)**	(3.1)	(8.1)
Profit before tax for the period/year	**20.7**	19.5	49.8
Tax	**(6.2)**	(6.4)	(15.9)
Profit after tax for the period/year	**14.5**	13.1	33.9



Notes to the Condensed Set of Financial Statements (continued)

3. SEASONALITY OF REVENUE

Revenue for both Countermeasures and Energetics businesses is more weighted towards the second half of the financial year in line with defence spending. Margins in the second half of the financial year are anticipated to improve as increased turnover should lead to higher gross profit whilst fixed costs should remain at similar levels to the first half of the financial year.

4. TAX

The estimated tax rate for the Group for continuing operations for the year ending 31 October 2008 is 30% (2007: 33%), representing the best estimate of the average effective income tax rate expected for the full year, applied to the pre-tax income for the six month period.

5. EARNINGS PER SHARE

Earnings per share are based on the average number of shares in issue of 32,577,899 (2007: 32,305,968) and profit on ordinary activities after tax and minority interests of £14.5 million (2007: £11.2 million). Diluted earnings per share has been calculated using a diluted average number of shares in issue of 32,785,516 (2007: 32,531,707) and profit on ordinary activities after tax and minority interests of £14.5 million (2007: £11.2 million).

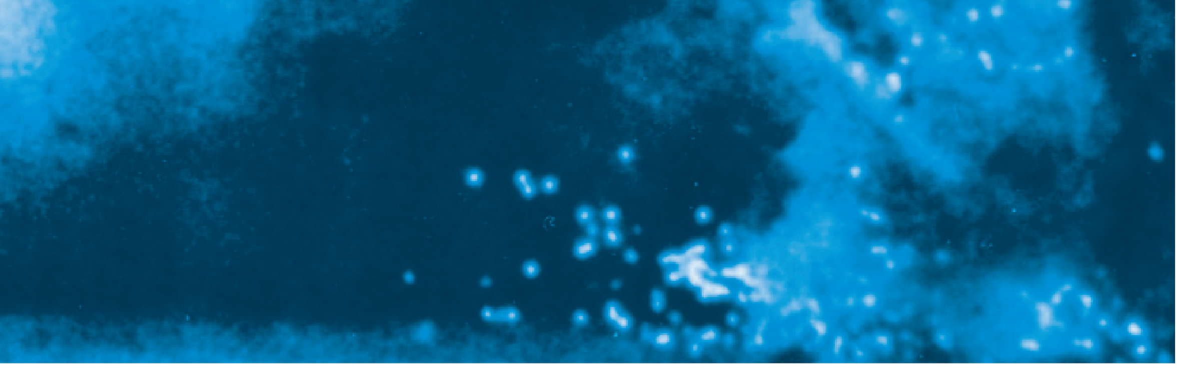
The earnings and shares used in the calculations are as follows:

			2008			2007
From continuing operations	**Earnings £m**	**Ordinary shares Number 000s**	**EPS Pence**	Earnings £m	Ordinary shares Number 000s	EPS Pence
Basic	14.5	32,578	45	13.1	32,306	41
Additional shares issuable other than at fair value in respect of options outstanding	-	208	(1)	-	226	(1)
Diluted	14.5	32,786	44	13.1	32,532	40

Reconciliation from basic earnings per share to underlying earnings per share:

Underlying earnings has been defined as earnings before intangible amortisation arising from business combinations. The directors consider this measure of earnings allows a more meaningful comparison of earnings trends.

			2008			2007
From continuing operations	**Earnings £m**	**Ordinary shares Number 000s**	**EPS Pence**	Earnings £m	Ordinary shares Number 000s	EPS Pence
Basic	14.5	32,578	45	13.1	32,306	41
Intangible amortisation arising from business combinations (after tax)	2.3	-	7	0.5	-	1
Underlying	16.8	32,578	52	13.6	32,306	42



5. EARNINGS PER SHARE (continued)

From continuing and discontinued operations	2008 Earnings £m	2008 Ordinary shares Number 000s	2008 EPS Pence	2007 Earnings £m	2007 Ordinary shares Number 000s	2007 EPS Pence
Basic	14.5	32,578	45	11.2	32,306	35
Additional shares issuable other than at fair value in respect of options outstanding	-	208	(1)	-	226	(1)
Diluted	14.5	32,786	44	11.2	32,532	34

Details of earnings per share for the year ended 31 October 2007 are disclosed in the Group's audited 2007 Financial Statements. Underlying earnings per share from continuing operations was 112p. Basic earnings per share was 105p from continuing operations and 99p from continuing and discontinued operations.

6. DIVIDENDS

	2008 £m	2007 £m
Dividends on ordinary shares of 5p each		
Interim dividend for the half year ended 30 April 2007 7.2p	-	2.4
Final dividend for the year ended 31 October 2007 17.8p (2006:11.2p)	5.8	3.6
Total dividends	5.8	6.0

The interim dividend declared by the Board in respect of the half year ended 30 April 2008 of 10.0p per share will absorb approximately £3.5 million of shareholders' funds. No liability for the interim dividend has been included in these interim financial statements.

7. STATEMENT OF CHANGES IN EQUITY

	Unaudited Half year to 30 April 2008 £m	Unaudited Half year to 30 April 2007 £m	Audited Year to 31 Oct 2007 £m
Total recognised income and expense for the period/year	17.4	10.6	31.1
Dividends	(5.8)	(3.6)	(6.0)
Retained profit for the period/year	11.6	7.0	25.1
Share capital and share premium arising	1.1	6.8	6.9
Net cost of share-based payments	0.7	-	0.9
Purchase of minority interest	-	-	(0.2)
Own shares	(1.9)	-	(2.8)
Other recognised gains/losses	-	0.4	-
Net addition to shareholders' funds	11.5	14.2	29.9
Opening shareholders' funds	124.0	94.1	94.1
Closing shareholders' funds	135.5	108.3	124.0

During the period, the Group issued 50,107 ordinary shares as part consideration for the acquisition of Richmond Electronics & Engineering Limited. In addition, 50,000 ordinary shares were issued under the Chemring 1998 Executive Share Option Scheme.

Notes to the Condensed Set of Financial Statements (continued)

8. BANK LOANS AND OVERDRAFTS

During the period, the Group refinanced part of its borrowing facilities with a private placement of senior loan notes in the USA. The new financing arrangements reflect the Group's investment structure in overseas businesses. Senior loan notes (repayable in full in 2017) of £72.7 million were issued in the period and £31.7 million of existing loans were repaid. The Group now has £155 million of committed facilities with Bank of Scotland.

9. ACQUISITIONS

On 2 November 2007, the Group acquired the entire share capital of Richmond Electronics & Engineering Limited for a total consideration of £12.5 million.

On 17 March 2008, the Group acquired the entire stock capital of Titan Dynamics Systems, Inc. for a cash consideration of £2.6 million.

A summary of the assets acquired and consideration paid in respect of these two acquisitions is set out below:

	Book value £m	Fair value adjustments £m	Fair value £m
Intangible assets	0.2	6.1	6.3
Property, plant and equipment	1.7	-	1.7
Net cash	2.7	-	2.7
Working capital	(0.1)	(0.5)	(0.6)
Deferred tax	(0.1)	(1.9)	(2.0)
Provisions falling due within one year	(0.1)	(1.0)	(1.1)
Net assets acquired	4.3	2.7	7.0
Goodwill	-	8.1	8.1
Total	**4.3**	**10.8**	**15.1**

Consideration	
Cash	13.5
Share issue	1.0
Directly attributable costs	0.6
Total consideration	**15.1**

Adjustments from book value to fair value arise principally from the application of Group accounting policies and the recognition of intangible assets under IFRS3 - *Business Combinations and Fair Value Adjustments to Inventories, Receivables, Property, Plant and Equipment.* Intangible assets relate principally to customer relationships and technology.

At 30 April 2008, the estimated fair value of assets and liabilities are provisional and will be updated as necessary within the twelve month period following the acquisitions.

Summary of cash flows:	£m
Cash paid for acquisitions in the period	(14.1)
Cash acquired	2.7
Net cash outflow	**(11.4)**

The acquisitions during the period contributed £3.8 million of revenue and £0.8 million to the Group's operating profit for the period between the date of acquisition and the Balance Sheet date.

9. ACQUISITIONS (continued)

If the acquisitions had been completed on the first day of the current period, Group revenues and operating profit for continuing operations for the period would have been approximately £151.0 million and £25.4 million respectively. This information is not necessarily indicative of the results of operations that would have occurred had the operations been acquired at the start of the current period, nor of the future results of the combined operations.

During the prior year the Group acquired Simmel Difesa S.p.A. The fair value of net assets acquired of £19.2 million was recognised at 31 October 2007 based on provisional values. The fair values have been finalised since October 2007 and in accordance with IFRS3 a decrease of £1.4 million has been made retrospectively to the value of net assets. Accordingly, goodwill has been retrospectively increased by £1.4 million. This is the only adjustment relating to prior periods.

10. POST BALANCE SHEET EVENTS

On 27 May 2008, the Group announced the conditional acquisition of the entire issued stock capital of Scot, Inc. ("Scot") from SMS Industries, Inc. for a cash consideration of $40 million (£20 million), with a working capital adjustment at completion. The consideration for Scot, together with transaction costs and expenses, is being retrospectively funded by a cash placing of 1,111,112 new ordinary shares to raise £25 million. The acquisition is expected to complete in early July and hence the full acquisition information is not yet available.

Today the Group announced the conditional acquisition of the entire issued stock capital of MEI Holdings, Inc. and its wholly-owned subsidiary, Martin Electronics, Inc. (collectively referred to as "MEI"), for a cash consideration of $70 million (£35.5 million), with a net asset adjustment at completion. The acquisition will be funded by a vendor placing of 1,555,555 new ordinary shares at 2,250p per share, raising £35 million. The acquisition is expected to complete during August and hence the full acquisition information is not yet available.

11. INSURANCE CLAIM

During the reporting period the case against the Group's former insurance broker for alleged negligence in relation to an insurance claim was settled. At the beginning of the period, the balance of the claim that had not been recovered from the broker was £2.4 million. After incurring legal costs in the period of £0.6 million, releasing specific provisions of £0.4 million and a related tax reserve of £0.8 million, a net write-off of £0.6 million has been charged to unallocated head office costs in Note 2 following settlement.

12. PENSIONS

The defined benefit obligation is calculated using an actuarial valuation as at 30 April 2008. The deficit has increased as a result of changes to the schemes' asset values from falling equity markets and from the adjustment in assumptions to reflect current market conditions. The difference between the expected return on assets and the actual return on assets has been recognised as an actuarial loss in the Condensed Consolidated Statement of Recognised Income and Expense in accordance with the Group's accounting policy.

13. RELATED PARTY TRANSACTIONS

The Group had no related party transactions during the period requiring disclosure.

14. 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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