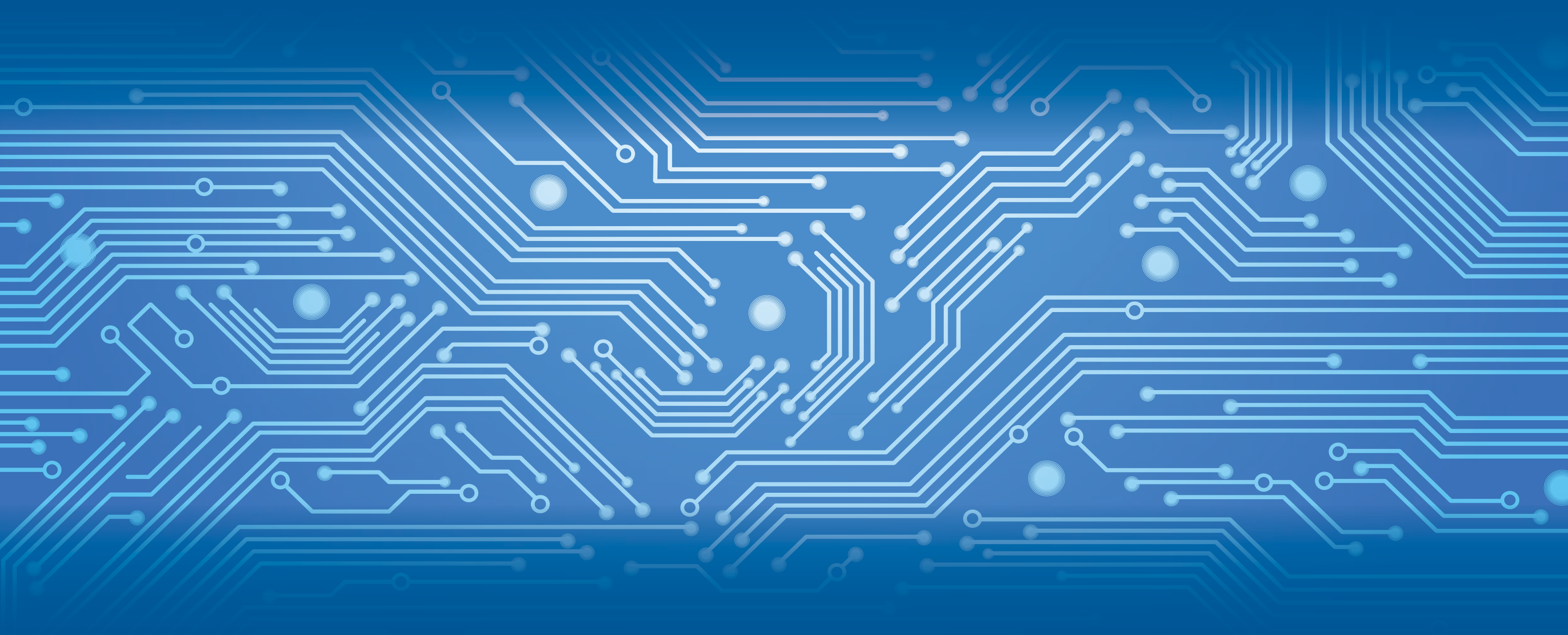
Chemring Group



Chemring Group PLC | Interim Report 2013

A world-leading defence company

Chemring is a manufacturing business with facilities in seven countries, selling to over sixty countries worldwide. It is now organised under four strategic product segments: Countermeasures, Sensors & Electronics, Pyrotechnics & Munitions, and Energetic Sub-Systems, and has a diverse portfolio of products, protecting military people and platforms against a constantly changing threat.

Operating in niche markets with short product development timescales, Chemring has the agility to rapidly react to urgent customer needs. Strong R&D investment for new products and improvements in technology continually allow Chemring to expand its addressable markets.

Chemring Countermeasures USA

Chemring Countermeasures USA awarded contracts by the US Department of Defense for $26.4 million for the manufacture of decoy devices for the US Army and the US Air Force.

Chemring Detection Systems

Chemring Detection Systems awarded a $25.2 million contract for the supply of Joint Biological Point Detection Systems ("JBPDS") to the US Army.

NIITEK

NIITEK received a further delivery order worth $76.7 million, to provide spares for the HMDS for the US Army, for delivery over the period to May 2014.

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Interim results for the six months to 30 April 2013

	2013 £m	2012 £m
Revenue	**297.4**	333.3
Underlying operating profit[2]	**35.1**	48.5
Underlying profit before tax[2]	**25.6**	39.2
(Loss)/profit before tax	**(8.8)**	19.7
	Pence	**Pence**
Underlying earnings per share[2]	**10.3**	16.0
Basic (loss)/earnings per share	**(1.6)**	8.3
Dividend per share[3]	**3.4**	5.3

[1] All results are for continuing operations and comparisons are for the half year to 30 April 2012.

[2] Underlying measures are stated before acquisition and disposal related costs, restructuring and incident costs, profit on disposal of business, impairment of goodwill and acquired intangible assets, amortisation of intangibles arising from business combinations and gains/losses on fair value movements on derivatives, adjusted for tax as appropriate for earnings per share, as stated in the 2012 Annual Report and Accounts.

[3] The interim dividend of 3.4p per ordinary share will be paid on 15 August 2013 to shareholders on the register at 26 July 2013. The ex-dividend date will be 24 July 2013.

Group overview

As anticipated, the first six months of the year saw revenue from continuing operations down 10.8% to £297.4 million (2012: £333.3 million), underlying profit before tax reduce by 34.7% to £25.6 million (2012: £39.2 million), and underlying earnings per share down 35.6% to 10.3p (2012: 16.0p). In particular, these results reflect lower revenues and profits from our Countermeasures and Pyrotechnics & Munitions operations, which were affected by reduced volumes, continuing production delays due to issues arising last year, and slow order intake.

The order book reduced by 7.9% over the period to £701.1 million (October 2012: £760.9 million). Of this order book, £287.6 million is scheduled for delivery during the current financial year.

Markets

Defence spending in NATO markets remains constrained, and our analysis indicates that the global market will continue to contract for the next two years, albeit at a slower rate than being seen at present. Declines in US and NATO defence spending, driven primarily by reduced budgets and the withdrawal from Afghanistan, will significantly outweigh the growth that is expected in other regions of the world.

The US market dominates the global defence industry, and the ongoing lack of clarity caused by sequestration makes forecasting increasingly difficult. The current FY14 US President's request for defence spending of $527 billion, 6.9% more than the current $493 billion of funding requested for FY13, ignored sequestration budget cuts which would reduce the budget by $52 billion. The budget request backs the military's shift to the Asia-Pacific region, and increases funding in areas including cyber security and intelligence, surveillance and reconnaissance. Importantly for Chemring, the budget request supports current plans for the F-35 Joint Strike Fighter, HMDS transitions to a programme of record, and the PAC-3 Missile Segment Enhancement is maintained. In May 2013, the FY14 budget request was amended to include the Overseas Contingency Operations ("OCO") budget. At $79 billion, the OCO budget request is $8 billion lower than the FY13 OCO budget.

Our expectation is that, given the identified depth of disagreements on Capitol Hill, sequestration and a Continuing Resolution for FY14 is the likely outcome. We therefore expect there will be a decline of approximately 10% in the US defence budget between 2012 and 2017, with the budget stabilising by 2016 at the earliest.

Elsewhere in the world, we expect to see moderate declines in defence spending in the UK and Europe as a result of ongoing austerity measures, with these declines being offset by growth in Asia-Pacific, the Middle East and South America. Spending in the Asia-Pacific region will be primarily driven by India's planned doubling of its defence budget by 2017 but the risk of delays and underspend remains. The Middle East and Maghreb are expected to grow at about 4% annually, dominated by Saudi Arabia, as increasing security spend is driven by internal and international unrest.

Finally, spending in South America is focused in Brazil, where economic growth, global aspirations and major homeland security programmes are driving significant equipment investment.

Update on Performance Recovery Programme

The Group's performance in recent times has suffered as a result of numerous, well-documented operational issues. Many of these should have been identified earlier, and resource mobilised to mitigate the impact of the issues sooner.

A new executive management team has been appointed during the period, and good progress has been made on its two year Performance Recovery Programme set out in January 2013. This will drive improvements in operational performance and provide greater resilience to the challenges presented by our markets, whilst at the same time reorganising the Group to ensure that it can effectively respond to attractive market opportunities in the immediate and longer term.

Five immediate priorities were identified as the initial areas of focus for the Programme:

- strengthen and simplify the organisational structure;
- integrate business units and exploit the untapped synergies that exist;
- implement a systematic programme of operational performance improvement;
- re-focus business development activity; and
- prioritise cash and cost management.

The complex structure under which Chemring previously operated comprised of four geographic divisions, four reporting segments and fifteen subsidiary businesses. This overly complicated operating and reporting structure has been abolished. In its place is a new structure that clusters similar businesses together within four Strategic Product Segments:

- Countermeasures;
- Sensors & Electronics;
- Pyrotechnics & Munitions; and
- Energetic Sub-Systems.

This new structure, and the constituent parts of each Strategic Product Segment, are reflected in the operational review that follows.

Chemring's head office and divisional functions have been integrated into a single

Interim management report
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organisation that provides the functional support needed to facilitate the effective performance of the operating businesses, whilst maintaining appropriate oversight and control. The closure of the Group's administrative offices at Pall Mall and Derby in the UK, and at Washington and Philadelphia in the US, will be complete by the end of the current financial year. The result of these changes will be an anticipated reduction in corporate and divisional headcount of 40%.

Within the Strategic Product Segments, a number of the operating businesses are being integrated to exploit operating synergies and reduce costs. The combined businesses, or Strategic Business Units ("SBUs"), are, as a direct result, now better positioned to leverage volume, and integrate product and technology development plans. The elimination of policies and procedures that have historically created significant inertia within the Group, coupled with clearer reporting lines and more rapid communication with the Group's senior management, is delivering improved focus, accountability and responsiveness. It has also contributed significantly to the elimination of duplication and waste, and led to a reduction in management overhead and infrastructure.

The cost of this restructuring will be around £15 million, predominantly arising in FY2013, and will deliver annual savings of approximately £10 million from FY2014. While the operational benefits of the Performance Recovery Programme are beginning to come through, these are not expected to have a significant impact on the FY2013 results.

Our focus to date has been on creating the structure and working environment needed to improve the operational performance of the business. This will be an ongoing process. During the remainder of the current financial year, we will complete the process of integrating four SBUs:

- Chemring Countermeasures USA ("CCM USA") - Alloy Surfaces and Kilgore
- Chemring Sensors & Electronic Systems ("CSES") - NIITEK and Chemring Detection Systems
- Chemring Technology Solutions ("CTS") - Roke and Chemring EOD
- Chemring Energetic Devices ("CED") - CED and Hi-Shear

Simultaneously, we will complete operational performance assessments at Chemring Countermeasures UK, Chemring Energetics UK, Simmel and Mecar. The operational improvements that will result from this activity will enable us to benefit from improved on-time deliveries and improved quality, thereby delivering a sustained enhancement in profitability.

Finally, we will complete a comprehensive planning process that will detail our business strategy for the next three years. This review will be comprehensive and cover all aspects of the business. It will assist us in crystallising a set of strategic objectives that will set out the future direction of the business.

Countermeasures

Comprising: Chemring Countermeasures USA (Alloy Surfaces and Kilgore), Chemring Countermeasures UK, Chemring Australia

The Countermeasures businesses had a disappointing first half, with revenue down 25.3% to £57.0 million (2012: £76.3 million) and operating profit down 77.1% to £4.9 million (2012: £21.4 million). The operating margin reduced to 8.6% (2012: 28.0%), mainly due to reduced volumes and margins at CCM USA.

As explained above, our two US-based countermeasures businesses, Alloy Surfaces and Kilgore Flares, are being integrated and the combined business renamed Chemring Countermeasures USA. The project has progressed well, and we are already seeing the benefits of integration in terms of cost savings but more importantly, in improved product quality performance for our customers. Activity levels at CCM USA reduced significantly year-on-year, reflecting the contraction of demand resulting from the drawdown in Afghanistan, and resulting in a marked reduction in profit due to the fixed operating cost base of the business. During the period, CCM USA was awarded contracts by the US Department of Defense for $26.4 million for the manufacture of M211, M206, MJU-7A/B and MJU-10/B decoy devices for the US Army and the US Air Force. Deliveries under these contracts are scheduled to begin in June 2013 and will continue into 2015.

At Chemring Countermeasures UK, pressure from defence budget cuts is continuing to have a significant influence on order placement by European customers, resulting in delay or cancellation of normal annual requirements. This reflects an ongoing contraction in demand from the UK Ministry of Defence and other NATO customers, as stocks are run down in anticipation of withdrawing troops and assets from Afghanistan. Progress has been made in resolving technical problems associated with the development of the new countermeasure referred to in the 2012 Annual Report and Accounts. We anticipate resuming customer acceptance testing of this countermeasure in the second half of the current financial year.

Chemring Australia has also seen activity levels reduce as a consequence of lower expenditure by the Australian Defence Force, following cuts to their operating budget as a result of the decision to withdraw from Afghanistan.

The order book for Countermeasures reduced by 6.6% in the period to £199.0 million (October 2012: £213.0 million), reflecting the flattening of demand. We anticipate receiving a significant order from a Middle East customer for delivery in the second half of the current financial year.

Sensors & Electronics

Comprising: Chemring Sensors & Electronic Systems (NIITEK and Chemring Detection Systems), Chemring Technology Solutions (Roke and Chemring EOD)

Revenue for the Sensors & Electronics segment increased by 20.6% to £108.3 million (2012: £89.8 million) during the period, and operating profit rose by 93.8% to £25.2 million (2012: £13.0 million). The operating margin increased to 23.3% (2012: 14.5%), due to inventory cost savings and a favourable sales mix.

In the US, we are integrating NIITEK and Chemring Detection Systems to create Chemring Sensors & Electronic Systems. This integration allows us to realise cost benefits across both businesses and, more importantly, allows us to better leverage our technology capabilities, co-ordinate our customer interaction and maximise efficiencies within the supply chain. Trading in the period was strong, and included completion of the initial $161.3 million delivery order placed under the $579 million multi-year Husky Mounted Detection System ("HMDS") Ground Penetrating Radar Indefinite-Delivery/Indefinite-Quantity ("IDIQ") contract awarded in April 2012.

On 3 June 2013, we announced a further delivery order worth $76.7 million, to provide spares for the HMDS for the US Army, for delivery in the period to May 2014. This announcement followed a similar order valued at $24.1 million that was received in April 2013 and a $9.1 million order received in February 2013.

The detection systems business continues to perform well and, since the period end, has been awarded a $25.2 million contract for the supply of Joint Biological Point Detection Systems ("JBPDS") to the US Army.

Roke and Chemring EOD are being integrated to create Chemring Technology

Solutions. Trading in the period was encouraging, with sales of the Resolve electronic warfare manpack system being made to Australia, Spain and Sweden. The period also saw a favourable sales mix, biased towards product sales and away from contract-based R&D activity.

The order book for Sensors & Electronics at 30 April 2013 was £99.8 million, 0.9% down over the period (October 2012: £100.7 million). This reduction is principally a reflection of changes in order placement patterns, with a larger number of smaller value orders being placed for programmes such as HMDS.

Pyrotechnics & Munitions

Comprising: Mecar, Simmel, Chemring Defence, Chemring Ordnance

The Pyrotechnics & Munitions segment had a tough start to the financial year, with revenue down 27.5% to £89.2 million (2012: £123.0 million) and operating profit reducing 67.9% to £5.0 million (2012: 15.6 million). Operating margins therefore reduced to 5.6% (2012: 12.7%), reflecting the relatively high fixed operating costs of these businesses.

This result reflects a general reduction in demand levels, driven by defence spending cuts, the drawdown from Afghanistan, and the timing of activity under certain major orders, including the mortar systems contract.

Following the production issues that occurred in the previous financial year, the Anti-Personnel Obstacle Breaching System ("APOBS") has recently passed quality tests and full scale production has resumed.

The order book for Pyrotechnics & Munitions reduced by 9.6% to £316.7 million (October 2012: £350.3 million). We are continuing to see customers in all regions served by our businesses deferring order placement decisions, particularly in the Munitions area, in a continuation of the trend highlighted in our Interim Management Statement issued in February 2013.

Energetic Sub-Systems

Comprising: Chemring Energetics UK, Chemring Nobel, Chemring Energetic Devices (Hi-Shear and Chemring Energetic Devices)

Revenues for the Energetic Sub-Systems segment fell in the period by 2.9% to £42.9 million (2012: £44.2 million); however, operating profit increased by 18.2% to £5.2 million (2012: £4.4 million). The operating margin rose to 12.1% (2012: 10.0%), mainly due to a recovery in profitability in the US businesses.

Overall activity at Chemring Energetics UK was similar to last year, but with significant differences in product mix. The principal change was a reduction in Next Generation Light Anti-tank Weapon ("NLAW") rocket motor sales, with this being offset by an increase in the purchases of explosives by the UK Ministry of Defence. Order intake was down, primarily as a result of delays in the placement of demolition stores contracts, and the comparative period having benefited from significant orders for ejector seat propulsion systems.

In the US, we are expanding Chemring Energetic Devices with the addition of Hi-Shear, to create a new SBU that will be able to better leverage volume through the supply chain, integrate product and technology development, and streamline management overhead. The combined customer portfolio of defence, space launch and satellite prime contractors provides a strong opportunity for further growth across this segment.

The order book for Energetic Sub-Systems at 30 April 2013 was £85.6 million, a reduction of 11.7% in the period (October 2012: £96.9 million). This is largely a reflection of lower forward demand indications at Chemring Energetic Devices.

Dividend

The Board has declared an interim dividend of 3.4p per ordinary share (2012: 5.3p). The dividend is three times covered by underlying earnings per share, in line with the policy detailed in the 2012 Annual Report and Accounts. The interim dividend will be paid on 15 August 2013 to shareholders on the register at 26 July 2013.

Balance sheet

The Group's net debt rose by £30.3 million during the period to £275.1 million (October 2012: £244.8 million; April 2012: £311.5 million). This increase included £10.1 million of exchange rate effects, primarily attributable to the higher translated value of US dollar denominated debt as a result of the weakening of sterling during the period.

Working capital increased during the period by £51.4 million, including a £25.5 million increase in inventories. Part of this additional inventory reflects opportunities taken to procure, at improved pricing, materials for orders that are scheduled for delivery in the second half of the current financial year. In addition, inventory continues to be held whilst production delays are fully resolved. Capital expenditure in the period, including capitalised development costs, was £7.6 million (2012: £21.8 million), principally comprising spend on health and safety related improvements.

During the period, a charge of £15.7 million was made in relation to acquired intangible assets in respect of Chemring Energetic Devices, part of the Energetic Sub-Systems segment, as a result of lower expected cash inflows at this business. This reflects the continuing challenging economic conditions facing the defence industry within the US, and Chemring Energetic Devices' markets in particular.

Debt facilities

We have successfully concluded a revision of financial covenants with our debt providers. In respect of our revolving credit facility, the maximum permitted ratio of net debt to underlying EBITDA has been increased to 3.50x at the April and July 2013 testing dates, and to 3.25x at the October 2013 and January 2014 testing dates, before reverting to 3.00x thereafter. The basis of calculation of this ratio has also been amended so as to translate non-sterling denominated debt using average, rather than closing, rates of exchange. In respect of our loan notes, the permitted ratio of debt to underlying EBITDA has been increased to 3.50x for the four quarters mentioned above, with this covenant continuing to be based upon total gross debt. This covenant will also adopt the use of average exchange rates. Taken together, these changes provide Chemring with considerable additional headroom.

The results of the covenant tests at the period end, with comparatives as at 31 October 2012, are as follows:

	2013	2012
Covenant ratio - revolving credit facility		
Actual ratio of net debt to underlying EBITDA	**2.79x**	2.14x
Maximum allowed ratio of net debt to underlying EBITDA	**3.50x**	3.00x
Actual ratio of underlying EBITDA to finance costs	**4.95x**	6.71x
Minimum allowed ratio of underlying EBITDA to finance costs	**4.00x**	4.00x
Covenant ratio - loan note agreements		
Actual ratio of total debt to underlying EBITDA	**2.83x**	2.79x
Maximum allowed ratio of total debt to underlying EBITDA	**3.50x**	3.00x
Actual ratio of underlying EBITDA to finance costs	**6.23x**	6.86x
Minimum allowed ratio of underlying EBITDA to finance costs	**3.50x**	3.50x

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Board changes

A number of changes have been made to the Board of Directors during the period. Mark Papworth was appointed Group Chief Executive on 5 November 2012, replacing Dr David Price. Steve Bowers was appointed as Group Finance Director with effect from 7 January 2013. He took over from Nigel Young, who had been appointed Interim Chief Financial Officer on 31 July 2012. Sir Peter Norriss, who had been a non-executive director since May 2004, stood down at the Group's Annual General Meeting on 20 March 2013.

Since the period end, the Company has appointed Nigel Young as a non-executive director and Chair of the Audit Committee on 1 May 2013, and announced the appointment of Andy Hamment, who joins the Board as a non-executive director on 1 July 2013.

Health and safety

The Group continues to place health and safety as its first priority in all actions and decision making. We have invested substantial funds and effort in improving the safety record of our operations, and in protecting our employees, especially those who work with highly volatile and energetic materials. Significant amounts of capital have been expended on robotics and similar automated processes to isolate operators from the most sensitive operations. This is a continual process of improvement for Chemring.

Risk assessments are carried out by our health and safety teams, supported, where appropriate, by external consultants. Complacency is the enemy of safe operations, and the training of staff in safety procedures continues to be an ongoing focus throughout the Group.

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, are those set out in the "Principal Risks and Uncertainties" section of the Group's 2012 Annual Report and Accounts. These can be summarised as:

- Health and safety risks
- Political and economic risks, including possible defence budget cuts
- Risks associated with the timing of receipt and value of orders
- Risks associated with the introduction of new manufacturing facilities
- Risks associated with the introduction of new products
- Competitive risks
- Product failure risks
- Risks related to management resource
- Compliance and corruption risks
- Financial risks, including credit, interest rate and foreign exchange risks

The Board does not anticipate any significant change in the likely impact of these risks overall.

Outlook

The Group has made good progress in the first half. The quality of our operations is improving, and while there is still much to do, we are confident that the Group's performance is heading in the right direction. However, visibility generally, and the limited level of detail on the extent and nature of cuts to US defence spending in particular, makes forecasting increasingly difficult. For the current financial year, the Board's outlook is towards the lower end of expectations.

Looking ahead, significant progress has been made in our Performance Recovery Programme. These actions are expected to underpin 2014 profitability, drive improvements in operational performance, and provide greater resilience in current challenging markets.

Mark Papworth
Group Chief Executive
18 June 2013

Cautionary statement

This Interim Management Report (IMR) has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The IMR should not be relied on by any other party or for any purpose.

The IMR contains certain-forward looking statements. These statements are made by the directors in good faith based on information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

Statement of directors' responsibilities

The directors are responsible for the maintenance and integrity of the Company website.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

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

Mark Papworth
Group Chief Executive
18 June 2013

Steve Bowers
Group Finance Director
18 June 2013

Condensed consolidated income statement

for the half year to 30 April 2013

	Note	Unaudited Half year to 30 April 2013 Underlying business performance £m	Non-underlying items* £m	Total £m	Unaudited Half year to 30 April 2012 Underlying business performance £m	Non-underlying items* £m	Total £m
Continuing operations							
Revenue		**297.4**	**-**	**297.4**	333.3	-	333.3
Continuing operations							
Operating profit		**35.1**	**(34.4)**	**0.7**	48.5	(19.5)	29.0
Share of post-tax results of associate		**-**	**-**	**-**	-	-	-
Finance income		**-**	**-**	**-**	0.1	-	0.1
Finance expense		**(9.5)**	**-**	**(9.5)**	(9.4)	-	(9.4)
Profit/(loss) before tax from continuing operations		**25.6**	**(34.4)**	**(8.8)**	39.2	(19.5)	19.7
Tax	4	**(5.7)**	**11.5**	**5.8**	(8.4)	4.7	(3.7)
Profit/(loss) after tax from continuing operations		**19.9**	**(22.9)**	**(3.0)**	30.8	(14.8)	16.0
Discontinued operations							
Profit after tax from discontinued operations	11	**-**	**-**	**-**	1.6	-	1.6
Profit/(loss) after tax for the period	2	**19.9**	**(22.9)**	**(3.0)**	32.4	(14.8)	17.6
Earnings per ordinary share	5						
From continuing operations							
Basic		**10.3p**		**(1.6p)**	16.0p		8.3p
Diluted		**10.0p**		**(1.5p)**	15.7p		8.2p
From continuing and discontinued operations							
Basic		**10.3p**		**(1.6p)**	16.8p		9.1p
Diluted		**10.0p**		**(1.5p)**	16.5p		9.0p

* Further information about non-underlying items can be found in note 2

Condensed consolidated income statement

for the half year to 30 April 2013 (continued)

	Note	Underlying business performance £m	Non-underlying items* £m	Audited Year to 31 Oct 2012 Total £m
Continuing operations				
Revenue		740.3	-	740.3
Continuing operations				
Operating profit		88.3	(51.3)	37.0
Share of post-tax results of associate		0.1	-	0.1
Finance income		0.1	-	0.1
Finance expense		(18.4)	-	(18.4)
Profit before tax from continuing operations		70.1	(51.3)	18.8
Tax	4	(15.1)	9.5	(5.6)
Profit after tax from continuing operations		55.0	(41.8)	13.2
Discontinued operations				
Profit after tax from discontinued operations	11	2.1	-	2.1
Profit after tax for the year	2	57.1	(41.8)	15.3
Earnings per ordinary share	5			
From continuing operations				
Basic		28.5p		6.8p
Diluted		28.1p		6.7p
From continuing and discontinued operations				
Basic		29.6p		7.9p
Diluted		29.2p		7.8p

* Further information about non-underlying items can be found in note 2

Condensed consolidated statement of comprehensive income

for the half year to 30 April 2013

	Unaudited Half year to 30 April 2013 £m	Unaudited Half year to 30 April 2012 £m	Audited Year to 31 Oct 2012 £m
(Loss)/profit after tax for the period/year attributable to equity holders of the parent	**(3.0)**	17.6	15.3
Items that will not be reclassified subsequently to profit or loss:			
Actuarial losses on defined benefit pension schemes	**(5.2)**	(4.4)	(2.7)
Movement on deferred tax relating to pension schemes	**1.4**	0.7	0.7
	(3.8)	(3.7)	(2.0)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	**14.5**	(9.3)	(20.1)
Deferred tax on items taken directly to equity	**-**	-	0.7
	14.5	(9.3)	(19.4)
Total comprehensive income/(expense) for the period/year attributable to equity holders of the parent	**7.7**	4.6	(6.1)

Condensed consolidated statement of changes in equity

for the half year to 30 April 2013

	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2012	2.0	230.7	12.9	1.3	(39.6)	235.8	(9.6)	433.5
Loss after tax for the period	-	-	-	-	-	(3.0)	-	(3.0)
Other comprehensive income for the period	-	-	-	-	14.5	(3.8)	-	10.7
Total comprehensive income for the period	-	-	-	-	14.5	(6.8)	-	7.7
Share-based payments (net of settlement)	-	-	-	-	-	0.6	-	0.6
Transfers between reserves	-	-	-	-	-	-	-	-
At 30 April 2013	2.0	230.7	12.9	1.3	(25.1)	229.6	(9.6)	441.8

	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2011	2.0	230.6	12.9	1.4	(19.5)	254.6	(6.6)	475.4
Profit after tax for the period	-	-	-	-	-	17.6	-	17.6
Other comprehensive income for the period	-	-	-	-	(9.3)	(3.7)	-	(13.0)
Total comprehensive income for the period	-	-	-	-	(9.3)	13.9	-	4.6
Ordinary shares issued	-	0.1	-	-	-	-	-	0.1
Dividends paid	-	-	-	-	-	(20.8)	-	(20.8)
Share-based payments (net of settlement)	-	-	-	-	-	0.4	-	0.4
Transactions in own shares	-	-	-	-	-	-	(4.5)	(4.5)
Transfers between reserves	-	-	-	(0.1)	-	0.1	-	-
At 30 April 2012	2.0	230.7	12.9	1.3	(28.8)	248.2	(11.1)	455.2

	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2011	2.0	230.6	12.9	1.4	(19.5)	254.6	(6.6)	475.4
Profit after tax for the year	-	-	-	-	-	15.3	-	15.3
Other comprehensive income for the year	-	-	-	-	(20.1)	(1.3)	-	(21.4)
Total comprehensive income for the year	-	-	-	-	(20.1)	14.0	-	(6.1)
Ordinary shares issued	-	0.1	-	-	-	-	-	0.1
Dividends paid	-	-	-	-	-	(31.1)	-	(31.1)
Share-based payments (net of settlement)	-	-	-	-	-	(1.8)	-	(1.8)
Transactions in own shares	-	-	-	-	-	-	(3.0)	(3.0)
Transfers between reserves	-	-	-	(0.1)	-	0.1	-	-
At 31 October 2012	2.0	230.7	12.9	1.3	(39.6)	235.8	(9.6)	433.5

Condensed consolidated balance sheet

as at 30 April 2013

	Note	**Unaudited As at 30 April 2013 £m**	Unaudited As at 30 April 2012 £m	Audited As at 31 Oct 2012 £m
Non-current assets				
Goodwill		**220.5**	236.9	214.8
Development costs		**31.7**	27.6	31.0
Other intangible assets		**146.8**	178.6	167.4
Property, plant and equipment		**242.2**	235.2	240.0
Interest in associate		**1.4**	1.5	1.4
Deferred tax		**24.2**	21.5	16.9
	2	**666.8**	701.3	671.5
Current assets				
Inventories		**139.3**	113.4	113.8
Trade and other receivables		**197.2**	219.4	193.0
Cash and cash equivalents	7	**25.9**	36.3	96.0
Derivative financial instruments		**0.5**	1.9	1.0
		362.9	371.0	403.8
Assets held for sale		**-**	19.9	-
Total assets		**1,029.7**	1,092.2	1,075.3
Current liabilities				
Borrowings		**(26.3)**	(85.5)	(74.0)
Obligations under finance leases		**(0.9)**	(1.1)	(1.7)
Trade and other payables		**(180.3)**	(176.4)	(201.5)
Short term provisions		**(3.3)**	(1.4)	(2.8)
Current tax liabilities		**(7.1)**	(9.9)	(5.2)
Derivative financial instruments		**(0.8)**	(3.0)	(0.1)
Liabilities held for sale		-	(2.6)	-
		(218.7)	(279.9)	(285.3)
Non-current liabilities				
Borrowings		**(270.8)**	(259.9)	(262.1)
Obligations under finance leases		**(2.9)**	(4.5)	(2.9)
Trade and other payables		**(1.4)**	(3.5)	(4.3)
Long term provisions		**(6.8)**	(2.8)	(4.9)
Deferred tax		**(53.6)**	(54.5)	(52.7)
Preference shares		**(0.1)**	(0.1)	(0.1)
Retirement benefit obligations		**(31.7)**	(27.2)	(27.0)
Derivative financial instruments		**(1.9)**	(4.6)	(2.5)
		(369.2)	(357.1)	(356.5)
Total liabilities		**(587.9)**	(637.0)	(641.8)
Net assets		**441.8**	455.2	433.5
Equity				
Share capital		**2.0**	2.0	2.0
Share premium account		**230.7**	230.7	230.7
Special capital reserve		**12.9**	12.9	12.9
Revaluation reserve		**1.3**	1.3	1.3
Translation reserve		**(25.1)**	(28.8)	(39.6)
Retained earnings		**229.6**	248.2	235.8
		451.4	466.3	443.1
Own shares		**(9.6)**	(11.1)	(9.6)
Equity attributable to equity holders of the parent		**441.8**	455.2	433.5
Total equity		**441.8**	455.2	433.5

Condensed consolidated cash flow statement

for the half year to 30 April 2013

	Note	Unaudited Half year to 30 April 2013 £m	Unaudited Half year to 30 April 2012 £m	Audited Year to 31 Oct 2012 £m
Cash flows from operating activities				
Cash generated from continuing underlying operations		**5.0**	15.3	114.9
Cash generated from discontinued underlying operations		**-**	2.7	3.3
Cash generated from underlying operations	A	**5.0**	18.0	118.2
Acquisition and disposal related costs		**(3.3)**	(2.7)	(5.5)
Restructuring and incident costs		**(3.3)**	(4.8)	(10.1)
Cash (absorbed)/generated from operations		**(1.6)**	10.5	102.6
Tax received/(paid)		**1.3**	(4.0)	(6.1)
Net cash (outflow)/inflow from operating activities		**(0.3)**	6.5	96.5
Cash flows from investing activities				
Dividends received from associate		**-**	-	0.1
Purchases of intangible assets		**(1.9)**	(5.1)	(11.0)
Purchases of property, plant and equipment		**(5.7)**	(16.7)	(30.1)
Receipts from sales of trades or businesses (net of cash transferred)		**-**	-	21.8
Net cash outflow from investing activities		**(7.6)**	(21.8)	(19.2)
Cash flows from financing activities				
Dividends paid		**-**	(20.8)	(31.1)
Interest paid		**(11.4)**	(9.0)	(23.8)
Proceeds on issue of shares		**-**	0.1	-
New borrowings		**27.0**	2.5	12.5
Repayments of borrowings		**(77.6)**	(3.2)	(23.0)
Capital payments on finance leases		**(0.9)**	(0.8)	(1.8)
Purchase of own shares		**-**	(4.5)	(4.8)
Net cash outflow from financing activities		**(62.9)**	(35.7)	(72.0)
(Decrease)/increase in cash and cash equivalents during the period/year		**(70.8)**	(51.0)	5.3
Cash and cash equivalents at start of the period/year		**96.0**	91.9	91.9
Effect of foreign exchange rate changes		**0.7**	(1.3)	(1.2)
Cash and cash equivalents at end of the period/year		**25.9**	39.6	96.0

Analysis of continuing and discontinued cash and cash equivalents

	Unaudited Half year to 30 April 2013 £m	Unaudited Half year to 30 April 2012 £m	Audited Year to 31 Oct 2012 £m
Cash and cash equivalents at the end of the period/year			
- continuing operations	**25.9**	36.3	96.0
- discontinued operations	**-**	3.3	-
Cash and cash equivalents at the end of the period/year	**25.9**	39.6	96.0

Notes to the condensed consolidated cash flow statement

for the half year to 30 April 2013

A. Cash generated from operations

	Unaudited Half year to 30 April 2013 £m	Unaudited Half year to 30 April 2012 £m	Audited Year to 31 Oct 2012 £m
Operating profit from continuing operations	**0.7**	29.0	37.0
Operating profit from discontinued operations	**-**	2.6	3.1
Adjustment for:			
Impairment of acquired intangibles/goodwill	**15.7**	-	22.5
Amortisation of development costs	**2.2**	1.9	4.3
Amortisation of intangible assets arising from business combinations	**10.4**	10.2	20.9
Amortisation of patents and licenses	**0.2**	0.2	0.3
Loss on disposal of property, plant and equipment	**0.6**	-	3.4
Depreciation of property, plant and equipment	**9.8**	9.5	15.9
Loss/(gain) on fair value movements on derivatives	**0.4**	1.7	(1.9)
Share-based payment expense	**0.6**	0.9	(0.1)
Difference between pension contributions paid and amount recognised in income statement	**(0.8)**	1.9	0.6
Operating cash flows before movements in working capital	**39.8**	57.9	106.0
(Increase)/decrease in inventories	**(25.5)**	27.9	28.0
Increase in trade and other receivables	**(4.1)**	(34.8)	(8.2)
Decrease in trade and other payables	**(14.2)**	(39.8)	(20.2)
Increase/(decrease) in provisions	**1.1**	(0.7)	2.8
Cash (absorbed)/generated from operations	**(2.9)**	10.5	108.4
Acquisition and disposal related costs	**2.3**	2.7	8.2
Restructuring and incident costs	**5.6**	4.8	11.9
Profit on disposal of business	**-**	-	(10.3)
Cash generated from operations	**5.0**	18.0	118.2
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash and cash equivalents during the period/year	**(70.8)**	(51.0)	5.3
Decrease in debt and lease financing due to cash flows	**51.5**	0.8	12.3
Change in net debt resulting from cash flows	**(19.3)**	(50.2)	17.6
Foreign exchange (losses)/gains	**(10.1)**	2.2	1.9
Amortisation of debt finance costs	**(0.9)**	(0.8)	(1.6)
Movement in net debt in the period/year	**(30.3)**	(48.8)	17.9
Net debt at start of the period/year	**(244.8)**	(262.7)	(262.7)
Net debt at end of the period/year	**(275.1)**	(311.5)	(244.8)

Analysis of net debt

	As at 1 Nov 2012 £m	Cash flow £m	Non-cash changes £m	Exchange movement £m	**As at 30 April 2013 £m**
Cash at bank and in hand	96.0	(70.8)	-	0.7	**25.9**
Debt due within one year	(74.0)	50.6	(1.1)	(1.8)	**(26.3)**
Debt due after one year	(262.1)	-	0.2	(8.9)	**(270.8)**
Finance leases	(4.6)	0.9	-	(0.1)	**(3.8)**
Preference shares	(0.1)	-	-	-	**(0.1)**
Net debt	(244.8)	(19.3)	(0.9)	(10.1)	**(275.1)**

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 2013, which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, the notes to the condensed consolidated cash flow statement and related notes 1 to 12. 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 (UK and Ireland) 2410 *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"* 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 it 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 Conduct 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 2013 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 Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
18 June 2013

Notes to the condensed set of financial statements

1. Accounting policies

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 2013 do not constitute statutory accounts as defined by section 435 of the Companies Act 2006 and have not been delivered to the Registrar of Companies. The half-yearly financial report was approved by the Board of Directors on 18 June 2013. The information for the year ended 31 October 2012 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. Full accounts for the year ended 31 October 2012, which include an unqualified audit report, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006, have been delivered to the Registrar of Companies.

These half-yearly 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.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Going concern

The directors believe the Group is well placed to manage its business risks successfully, despite the current uncertain economic outlook. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current committed facilities.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the half-yearly condensed financial statements.

Accounting policies

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 2012.

Restatement of prior period figures

The segmental analysis of revenue and profit has been restated for the prior periods, in order to reflect the new operating segments within the Group. These new segments have arisen from the restructuring process announced in 2012, and are deemed to better reflect the core operating activities of the Group going forward. See note 2 for further detail.

2. Segmental analysis

A segmental analysis of revenue and results is set out below:

	Unaudited Half year to 30 April 2013 £m	Unaudited Half year to 30 April 2012 £m	Audited Year to 31 Oct 2012 £m
Revenue			
Countermeasures	**57.0**	76.3	163.2
Sensors & Electronics	**108.3**	89.8	228.9
Pyrotechnics & Munitions	**89.2**	123.0	249.5
Energetic Sub-Systems	**42.9**	44.2	98.7
Revenue from continuing operations	**297.4**	333.3	740.3
Revenue from discontinued operations			
Pyrotechnics & Munitions	**-**	10.8	15.1
Total revenue	**297.4**	344.1	755.4

2. Segmental analysis continued

	Unaudited Half year to 30 April 2013 £m	Unaudited Half year to 30 April 2012 £m	Audited Year to 31 Oct 2012 £m
Underlying operating profit			
Countermeasures	**4.9**	21.4	20.4
Sensors & Electronics	**25.2**	13.0	44.9
Pyrotechnics & Munitions	**5.0**	15.6	21.2
Energetic Sub-Systems	**5.2**	4.4	12.3
Unallocated corporate costs	**(5.2)**	(5.9)	(10.5)
Underlying operating profit from continuing operations	**35.1**	48.5	88.3
Underlying operating profit from discontinued operations			
Pyrotechnics & Munitions	**-**	2.6	3.1
Total underlying operating profit	**35.1**	51.1	91.4
Acquisition and disposal related costs	**(2.3)**	(2.7)	(8.2)
Restructuring and incident costs	**(5.6)**	(4.9)	(11.9)
Profit on disposal of business	**-**	-	10.3
Impairment of acquired intangibles/goodwill	**(15.7)**	-	(22.5)
Amortisation of intangibles arising from business combinations	**(10.4)**	(10.2)	(20.9)
(Loss)/gain on fair value movements on derivatives	**(0.4)**	(1.7)	1.9
Non-underlying items	**(34.4)**	(19.5)	(51.3)
Operating profit from continuing operations	**0.7**	29.0	37.0
Share of post-tax results of associate	**-**	-	0.1
Finance income	**-**	0.1	0.1
Finance expense	**(9.5)**	(9.4)	(18.4)
(Loss)/profit before tax for the period/year from continuing operations	**(8.8)**	19.7	18.8
Tax	**5.8**	(3.7)	(5.6)
(Loss)/profit after tax for the period/year from continuing operations	**(3.0)**	16.0	13.2
Profit after tax for the period/year from discontinued operations	**-**	1.6	2.1
(Loss)/profit after tax for the period/year	**(3.0)**	17.6	15.3

There were no material inter-segment sales in any of the periods.

In 2013, there were acquisition and disposal related costs of £2.3 million (H1 2012: £2.7 million, 2012: £8.2 million). The costs in the period related to acquisitions and disposals made in previous periods, as well as ongoing merger and acquisition activity. See note 8 for further details.

In 2013, the restructuring costs relate to the restructuring of the divisional management structure - £3.1 million, the integration of Alloy Surfaces and Kilgore Flares in the US - £1.2 million, and to a non-recurring incentive scheme designed to ensure the continued service of key personnel during the restructuring process - £0.2 million. In addition, in 2013 there were costs of £0.9 million relating to several smaller restructuring projects and incident-related costs of £0.2 million.

In H1 2012, the £4.9 million of restructuring costs related to the restructuring at Alloy Surfaces and NIITEK in the US, and Chemring Energetics in the UK. In 2012, the restructuring costs related to the closure of a facility in Texas - £3.3 million, restructuring of the Group's USA countermeasures business - £2.5 million, restructuring of UK operations - £2.6 million, an additional £1.5 million relating to smaller restructuring projects, and £2.0 million relating to the Board changes during the year.

Notes to the condensed set of financial statements
continued

2. Segmental analysis continued

In 2013, the £15.7 million (H1 2012: £nil, 2012: £nil) charge in respect of acquired intangible assets was recognised in relation to Chemring Energetic Devices, Inc.; these assets are therefore fully amortised. This was primarily driven by the lower cash flows within the business plans, reflecting the continuing challenging economic conditions facing the defence industry within the US, and Chemring Energetic Devices, Inc.'s markets in particular. The business operates in the Energetic Sub-Systems segment. The impairment loss has been recognised in the income statement as part of non-underlying items within continuing operating profit and is based on value-in-use calculations.

In 2012, the impairment to goodwill of £22.5 million related to Chemring Ordnance, Inc. (£6.8 million) and Chemring Energetic Devices, Inc. (£15.7 million).

An update of the annual impairment assessment performed for the preparation of the Group's financial statement for the year ended 31 October 2012 has been undertaken, with indicators of potential impairment having been considered. Indicators were identified for Chemring Energetic Devices, Inc., Hi-Shear Technology Corporation and Simmel Difesa SpA, and a charge in respect of acquired intangible assets was made in relation to Chemring Energetic Devices, Inc. as described above. In respect of Hi-Shear Technology Corporation and Simmel Difesa SpA, a reasonably possible change in the key assumptions used would result in a significant impairment charge being recorded in the financial statements. A 25% fall in the forecast cash flows at Hi-Shear Technology Corporation and Simmel Difesa S.p.A. would require an impairment charge of up to £20 million in each of the afore-mentioned CGUs. During the second half of the year, a comprehensive planning process will be undertaken for all Group businesses, and this will be used to provide financial projections and value-in-use calculations for the 2013 annual impairment assessment.

	Unaudited Half year to 30 April 2013 £m	Unaudited Half year to 30 April 2012 £m	Audited Year to 31 Oct 2012 £m
Revenue by destination			
Continuing operations:			
UK	**60.2**	52.3	112.0
USA	**132.0**	138.6	348.5
Europe	**27.8**	40.8	84.8
Australia and Far East	**19.6**	24.6	60.4
Middle East	**54.5**	67.9	120.5
Rest of the world	**3.3**	9.1	14.1
	297.4	333.3	740.3
Discontinued operations:			
UK	**-**	0.6	1.0
USA	**-**	1.0	2.5
Europe	**-**	4.3	6.7
Australia and Far East	**-**	3.2	3.4
Middle East	**-**	0.5	-
Rest of the world	**-**	1.2	1.5
	-	10.8	15.1
Total	**297.4**	344.1	755.4

The directors consider the only countries that are significant in accordance with IFRS 8 are the UK and USA, as disclosed above, and Saudi Arabia, which is included within the Middle East category and which had revenue of £48.0 million (H1 2012: £51.5 million, 2012: £92.8 million).

2. Segmental analysis continued

The Group does not disclose assets by segment in the monthly management accounts provided to the Executive Committee or the Board of Directors. The *Improvements to IFRSs* issued in April 2009 only requires information provided to the chief operating decision maker as a key decision making tool to be disclosed. The Group has adopted this amendment in order to clarify that the chief operational decision makers do not use this as a key decision tool. IFRS 8 *Operating Segments* requires a geographic analysis of non-current assets and so a disclosure of non-current assets by location is shown below:

	Unaudited Half year to 30 April 2013 £m	Unaudited Half year to 30 April 2012 £m	Audited Year to 31 Oct 2012 £m
Continuing operations:			
Non-current assets by location			
UK	**225.7**	222.4	219.7
USA	**269.7**	309.6	283.6
Europe	**141.2**	140.3	138.7
Australia and Far East	**30.2**	29.0	29.5
Total	**666.8**	701.3	671.5

3. Seasonality of revenue

Revenue for all four of the business segments is more weighted towards the second half of the financial year, in line with defence spending.

4. Tax

The effective tax rate on underlying profits is 22.2% (H1 2012: 21.5%, 2012: 21.5%) and is based on the estimated effective tax rate on underlying profits for the full year. The tax credit on non-underlying items has been calculated based on the actual costs incurred in the six month period and is an effective tax rate of 33.3% (H1 2012: 26.8%, 2012: 18.6%). This results in a statutory effective tax rate of 65.9% (H1 2012: 19.9%, 2012: 28.4%) for the half year. The full year statutory effective tax rate will be dependent on the precise mix of profits between underlying and non-underlying items but is currently forecast to be 23.6% (H1 2012: 19.9%, 2012: 28.4%).

Notes to the condensed set of financial statements

continued

5. Earnings per share

Earnings per share are based on the average number of shares in issue of 193,292,527 (H1 2012: 193,337,430) and a loss on ordinary activities after tax and minority interests of £3.0 million (H1 2012: £17.6 million profit). Diluted earnings per share has been calculated using a diluted average number of shares in issue of 198,377,126 (H1 2012: 195,631,729) and a loss on ordinary activities after tax and minority interests of £3.0 million (H1 2012: £17.6 million profit).

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

Continuing operations

		2013		2012
	Basic	Diluted	Basic	Diluted
	£m	£m	£m	£m
Total (loss)/profit after tax	(3.0)	(3.0)	16.0	16.0
Non-underlying items (see reconciliation below)	22.9	22.9	14.8	14.8
Underlying profit after tax	19.9	19.9	30.8	30.8

		2013		2013
		Ordinary shares		Ordinary shares
		Number		Number
	000s	000s	000s	000s
Weighted average number of shares	193,293	193,293	193,337	193,337
Additional shares issuable other than at fair value in respect of options outstanding	-	5,084	-	2,295
Weighted average number of shares used for earnings per share	193,293	198,377	193,337	195,632

		2013		2012
	Basic	Diluted	Basic	Diluted
	Pence	Pence	Pence	Pence
Earnings per share	(1.6)	(1.5)	8.3	8.2
Underlying earnings per share	10.3	10.0	16.0	15.7

5. Earnings per share continued

Continuing and discontinuing operations

	2013 Basic £m	2013 Diluted £m	2012 Basic £m	2012 Diluted £m
Total (loss)/profit after tax	**(3.0)**	**(3.0)**	17.6	17.6
Non-underlying items (see reconciliation below)	**22.9**	**22.9**	14.8	14.8
Underlying profit after tax	**19.9**	**19.9**	32.4	32.4

	000s	2013 Ordinary shares Number 000s	000s	2013 Ordinary shares Number 000s
Weighted average number of shares	**193,293**	**193,293**	193,337	193,337
Additional shares issuable other than at fair value in respect of options outstanding	**-**	**5,084**	-	2,295
Weighted average number of shares used for earnings per share	**193,293**	**198,377**	193,337	195,632

	2013 Basic Pence	2013 Diluted Pence	2012 Basic Pence	2012 Diluted Pence
Earnings per share	**(1.6)**	**(1.5)**	9.1	9.0
Underlying earnings per share	**10.3**	**10.0**	16.8	16.5

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

Underlying earnings has been defined as earnings before acquisition and disposal related costs, restructuring and incident costs, impairment of acquired intangibles/goodwill, amortisation of intangibles arising from business combinations and loss/gain on fair value movements on derivatives, adjusted for tax as appropriate. The directors consider this measure of earnings allows a more meaningful comparison of earnings trends. These are set out below.

	2013 £m	2012 £m
(Loss)/profit after tax	**(3.0)**	17.6
Acquisition and disposal related costs	**2.3**	2.7
Restructuring and incident costs	**5.6**	4.9
Impairment of acquired intangibles/goodwill	**15.7**	-
Amortisation of intangibles arising from business combinations	**10.4**	10.2
Loss on fair value movements on derivatives	**0.4**	1.7
Tax on non-underlying items	**(11.5)**	(4.7)
Underlying profit after tax	**19.9**	32.4

Notes to the condensed set of financial statements
continued

6. Dividends

	2013 £m	2012 £m
Dividends on ordinary shares of 1p each		
Interim dividend for the year ended 31 October 2012 5.3p	-	10.3
Final dividend for the year ended 31 October 2012 4.2p (2011: 10.8p)	**8.1**	20.8
Total dividends	**8.1**	31.1

The proposed interim dividend in respect of the half year ended 30 April 2013 of 3.4p per share will, if approved, absorb approximately £6.6 million of shareholders' funds. No liability for the proposed interim dividend has been included in these half-yearly financial statements.

7. Cash and cash equivalents

Included within cash is £nil of restricted cash (H1 2012: £0.4 million, 2012: £4.5 million).

8. Acquisitions and disposals

No acquisitions were made in the period but, as a result of ongoing merger and acquisition activity and acquisitions and disposals in prior periods, acquisition and disposal related costs of £2.3 million (H1 2012: £2.7 million) have been recognised through the income statement in accordance with IFRS 3 (revised 2008). This cost predominantly relates to an onerous lease cost relating to a previous acquisition, along with costs incurred on proposed joint ventures in India, Brazil and Saudi Arabia.

9. Pensions

The defined benefit obligations are calculated using an actuarial valuation as at 30 April 2013. The deficit on the Chemring Group Staff Pension Scheme has increased to £30.6 million (H1 2012: £26.5 million), as a result of changes to the scheme's asset values from rising equity markets and from adjustments 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 comprehensive income in accordance with the Group's accounting policy.

10. Related party transactions

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

11. Discontinued operations

The results of the discontinued marine business for the period, which have been included within the condensed consolidated income statement, were as follows:

	Unaudited Half year to 30 April 2013 £m	Unaudited Half year to 30 April 2012 £m	Audited Year to 31 Oct 2012 £m
Revenue	-	10.8	15.1
Operating profit	-	2.6	3.1
Finance expense	-	(0.3)	(0.5)
Tax	-	(0.7)	(0.5)
Profit after tax	-	1.6	2.1

During the period, the discontinued operations contributed a £nil inflow (H1 2012: £2.4 million, 2012: £3.3 million) to the Group's net operating cash flows and paid £nil (H1 2012: £0.3 million, 2012: £0.5 million) in respect of financing activities.

12. 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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