CHEMRING GROUP PLC

INTERIM REPORT 2001

The first six months show Group operating profit increasing by 29% to £5.2 million on turnover of £45.4 million, 54% ahead of last year. Our newly acquired US company, Kilgore Flares, contributed £8.1 million of turnover. A healthy order book supports second half expectations.

The defence businesses performed well, with good results from both Countermeasures and Military Pyrotechnics. The acquisitions of Kilgore and the flares business of Martin Electronics enhance our leading position in the international countermeasures market against a background of increasing focus on protection of military platforms.

Kilgore has been integrated smoothly into the Group and traded profitably in the first half. Regrettably, there was a manufacturing incident at Kilgore in April resulting in the loss of a life. Operations were suspended to carry out safety reviews and manufacture is now recommencing. Costs associated with the incident are being covered by our insurance arrangements.

There are exciting opportunities for Alloy Surfaces' proprietary special material decoys, notably in a pre-emptive mode to protect aircraft operating at low level. Manufacturing problems which impacted Alloy Surfaces last year have been resolved.

The half year ended with strong demand for Marine products after a quiet start. New electronic products continue to be developed for market launch later in the year.

Kembrey Wiring Systems returned to profit as expected, as the BAE Systems Nimrod programme gained momentum.

Results for the half year to 30 April 2001

	2001 £000	2000 £000	% Increase
Turnover	45,370	29,540	54
Operating profit	5,185	4,011	29
Profit before tax	4,300	3,223	33
Profit after tax	3,134	2,385	31
Earnings per share	12.77p	10.02p	27

An exceptional profit of £369,000 was made on the disposal of one of the Group's properties.

Interest costs increased to £1,254,000 (2000: £788,000). Interest was covered by operating profit 4.13 times (2000: 5.09 times).

The tax rate is estimated at 27% (2000: 26%).

Due to financing of the Kilgore acquisition and increases in working capital to support underlying business growth, net debt rose to £38,658,000 from £20,118,000 at the end of the last financial year.

Dividend

The directors have declared an interim dividend of 2.45p per ordinary share (2000: 2.30p), up 6.5%, payable on 15 August 2001 to holders on the register at 10 August 2001.

Business Performance

Defence Businesses

Turnover of our defence businesses doubled to £32 million compared with last year's interim and these businesses generated more than 70% of the Group's total turnover. 88% of defence turnover was overseas, with significant sales to the US Department of Defense, demonstrating our strong US and global market position.

- Countermeasures

  Turnover increased by 130% to £26 million. Continuing Countermeasures businesses' sales increased 59% to £18 million and Kilgore provided £8.1 million of additional sales.

  Against a background of increasing use of aircraft expendable decoys worldwide, Chemring Countermeasures (CCM) continues to expand its overseas markets with its innovative products. There is strong demand for Alloy Surfaces' proprietary special material decoys. Qualification tests for Alloy's BOL IR decoy on the US Air Force F15 are due to complete this year. The application of Alloy's technology in a pre-emptive mode to protect low-flying aircraft is an exciting development. The US Air Force's Air Combat Command division is conducting trials on a new pod mounted decoy to provide extended pre-emptive capability.

  The Kilgore acquisition and the complementary acquisition of the infra-red decoy business and assets of Martin Electronics have been well received by the US customer. The Martin Electronics business provides $15 million of orders to Kilgore, where the products will be manufactured.

  The incident at Kilgore in April, resulting in the loss of a life, arose at a stage of manufacturing previously considered safe. The Kilgore facility had been given a clean bill of health by the State safety authorities in February of this year. The manufacture of magnesium based infra-red flares can be potentially dangerous, and the level of accidents at US manufacturers, including Kilgore, over the years has been unacceptably high. In contrast, the Group in the UK has many years of safe manufacturing history.

  A review of all safety aspects of Kilgore's manufacturing has been carried out by our experienced UK personnel, resulting in plant modifications to protect the employees and bring safety up to our high UK standards. This will not only provide a safer working environment for employees but also help reduce the involvement of direct operators in the manufacturing process. Production of certain products has recommenced. Modifications to the infra-red plant will provide low volume manufacture this summer and higher rate production by the end of 2001. Whilst the incident will delay sales in the second half, Kilgore's results should not be affected as costs and any loss of profit will be covered by the Group's insurers. Our customers are fully supportive and relationships remain good. Kilgore has been an excellent acquisition for the Group and also provides a conduit for CCM's naval decoys and chaff products into the US Department of Defense.

  On naval countermeasures, significant development costs have been incurred in extending the widely used MK 36 decoy system range of naval decoys. The development phase has completed and production deliveries have commenced against current order book and there are many new opportunities for these naval decoys. The 'bought out' content of naval decoys is much higher than in air decoys and this contributed to a reduction in overall margins for the first half.

  To strengthen CCM's total customer support capability, the Group has recently taken a 25% stake in DT Media Ltd, a UK based company that specialises in high quality computer based training solutions, especially in the fields of electronic warfare, information warfare and other defence related training.

  To exploit synergies, marketing and technical working groups have been established, encompassing expertise from across the expanded Countermeasures companies.

- Military Pyrotechnics

  Turnover increased by 32% over last year to £6 million. International order opportunities continue to look healthy and investment has been made in new production facilities to cope with the increase in demand. In Europe we are now in discussions with a number of companies in order to form strategic alliances. We continue to discuss ways of helping the UK MOD in their long term plans for SMART procurement.

Non-defence Businesses

Turnover of our non-defence businesses at £13.3 million was at a similar level to last year's interim and represents 29% of the Group's total turnover.

- Marine Safety

  Demand for Marine products picked up strongly in the second quarter, particularly in the US for the new 406 EPIRB with integrated GPS, following a slow start to the year.

  Our growth strategy is to expand our Marine electronics range against known legislation and maintain our strong market position on safety pyrotechnics and location lights.

  The award winning EPIRB with GPS is selling well. A Personal Locating Beacon (PLB) based on similar technology has completed development, and will enter the market in the second half. Increasing demand for electronic products will provide turnover increase in future years. Products in development include VHF radios with Digital Selective Calling (DSC) and Automatic Identification Systems (AIS) products.

  In May the Group acquired 51% of Pirotecnia Oroquieta, a manufacturer of a range of marine safety products based in Spain. The acquisition will strengthen our market position in Southern Europe and provide access to a lower cost manufacturing facility.

- Wiring Harnesses

  Kembrey Wiring Systems returned to profit. It is benefiting from increased Nimrod and Tornado activity with BAE Systems. Rolls-Royce is providing additional business and Kembrey is held up as a successful example of their Challenge Partnership initiative. These important relationships will ensure growth for Kembrey along with new partnerships being developed.

Outlook

I remain extremely confident about the prospects for your Group. Nothing has happened since my last report to vary these views. Countermeasures activity and growing interest from the armed forces around the world continue to support our strategy for this niche within the defence industry, where we are the clear market leaders. Our other companies are confident of sound performance in the second half and I believe that when I report to shareholders for the full year we will have made further significant progress.

K C SCOBIE - Chairman
19 June 2001

Unaudited Consolidated Profit and Loss Account

for the half year to 30 April 2001

	Unaudited Half year to 30 April 2001 £000	Unaudited Half year to 28 April 2000 £000	Audited Year to 31 Oct 2000 £000
Turnover			
Continuing operations	37,293	29,540	67,169
Acquired operations	8,077	-	-
	45,370	29,540	67,169
Operating profit			
Continuing operations	4,363	4,011	8,806
Acquired operations	822	-	-
Total operating profit	5,185	4,011	8,806
Profit on disposal	369	-	-
Associated undertaking	-	-	30
Profit on ordinary activities before interest	5,554	4,011	8,836
Interest payable	(1,254)	(788)	(1,709)
Profit on ordinary activities before taxation	4,300	3,223	7,127
Tax on profit on ordinary activities	(1,166)	(838)	(1,866)
Profit on ordinary activities after taxation	3,134	2,385	5,261
Dividends	(629)	(550)	(1,511)
Retained profit	2,505	1,835	3,750
Basic earnings per ordinary share	12.77p	10.02p	22.04p
Earnings per ordinary share before profit on disposal	11.33p	10.02p	22.04p
Diluted earnings per ordinary share	12.57p	9.73p	21.19p
Dividend per ordinary share	2.45p	2.30p	6.30p

Statement of Total Recognised Gains and Losses

	Unaudited Half year to 30 April 2001 £000	Unaudited Half year to 28 April 2000 £000	Audited Year to 31 Oct 2000 £000
Profit on ordinary activities after taxation	3,134	2,385	5,261
Currency translation differences on foreign currency net investments	311	260	388
	3,445	2,645	5,649

Reconciliation of Movements in Shareholders' Funds

	Unaudited Half year to 30 April 2001 £000	Unaudited Half year to 28 April 2000 £000	Audited Year to 31 Oct 2000 £000
Profit on ordinary activities after taxation	3,134	2,385	5,261
Dividends	(629)	(550)	(1,511)
	2,505	1,835	3,750
Ordinary shares issued	88	11	11
Share premium arising	4,225	268	306
Other recognised gains	311	260	388
Net addition to shareholders' funds	7,129	2,374	4,455
Opening shareholders' funds	33,304	28,849	28,849
Closing shareholders' funds	40,433	31,223	33,304

Unaudited Consolidated Balance Sheet

as at 30 April 2001

	Unaudited As at 30 April 2001 £000	Unaudited As at 28 April 2000 £000	Audited As at 31 Oct 2000 £000
Fixed assets			
Intangible assets	25,384	18,894	19,248
Tangible assets	29,107	17,845	19,199
Investments	893	880	883
	55,384	37,619	39,330
Current assets			
Stock	17,826	12,976	14,235
Debtors	25,954	17,237	20,794
Cash at bank and in hand	1,768	1,509	2,062
	45,548	31,722	37,091
Creditors due within one year			
Bank loans and overdraft	7,014	4,964	4,832
Loan stock	40	44	44
Other	19,805	15,333	20,884
	26,859	20,341	25,760
Net current assets	18,689	11,381	11,331
Total assets less current liabilities	74,073	49,000	50,661
Creditors due after more than one year	(33,372)	(17,337)	(17,089)
Provisions for liabilities and charges	(268)	(440)	(268)
	40,433	31,223	33,304
Capital and reserves			
Called up share capital	1,346	1,258	1,258
Reserves	39,087	29,965	32,046
Shareholders' funds	40,433	31,223	33,304

Unaudited Consolidated Cash Flow Statement

for the half year to 30 April 2001

	Unaudited Half year to 30 April 2001 £000	Unaudited Half year to 28 April 2000 £000	Audited Year to 31 Oct 2000 £000
Net cash (outflow)/inflow from operating activities	(784)	3,309	7,937
Returns on investments and servicing of finance	(1,054)	(951)	(1,694)
Taxation	(343)	(592)	(881)
Net capital expenditure	(1,679)	(1,384)	(3,130)
Acquisitions and disposals	(14,063)	-	-
Equity dividends paid	(1,007)	(836)	(1,380)
Cash (outflow)/inflow before use of liquid resources and financing	(18,930)	(454)	852
Financing - issue of shares	775	279	317
- increase/(decrease) in debt	19,157	-	(884)
Increase/(decrease) in cash	1,002	(175)	285

Unaudited Consolidated Cash Flow Statement (continued)

for the half year to 30 April 2001

	Unaudited Half year to 30 April 2001 £000	Unaudited Half year to 28 April 2000 £000	Audited Year to 31 Oct 2000 £000
Reconciliation of operating profit to net cash flow from operating activities			
Operating profit	5,185	4,011	8,806
Amortisation charge	198	67	139
Depreciation charge	1,044	830	1,555
Profit on sale of tangible fixed assets	-	(27)	(68)
Decrease/(increase) in stocks	909	(3,379)	(4,638)
(Increase)/decrease in debtors	(2,872)	63	(3,517)
(Decrease)/increase in creditors	(5,248)	1,744	5,660
Net cash (outflow)/inflow from operating activities	(784)	3,309	7,937
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash	1,002	(175)	285
Cash (inflow)/outflow from the increase/(decrease) in debt and lease financing	(19,157)	-	884
Change in net debt resulting from cash flows	(18,155)	(175)	1,169
New finance leases	-	47	(259)
Translation difference	(385)	(160)	(347)
	(18,540)	(288)	563

Analysis of net debt	As at 1 Nov 2000 £000	Cash flow £000	Exchange movement £000	As at 30 April 2001 £000
Cash at bank in hand	2,062	(298)	4	1,768
Overdrafts	(4,832)	1,300	-	(3,532)
	(2,770)	1,002	4	(1,764)
Debt due within one year	(44)	(3,478)	-	(3,522)
Debt due after one year	(16,889)	(15,875)	(389)	(33,153)
Finance leases	(415)	196	-	(219)
	(20,118)	(18,155)	(385)	(38,658)

Independent Review Report by the Auditors

To Chemring Group PLC

Introduction

We have been instructed by the Company to review the financial information on pages 2 to 5 for the 6 months ended 30 April 2001, and we have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities

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

Review work performed

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

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the 6 months ended 30 April 2001.

DELOITTE & TOUCHE, Chartered Accountants, 19 June 2001
Mountbatten House, 1 Grosvenor Square, Southampton, Hampshire SO15 2BZ

1. Accounting policies

The interim accounts to 30 April 2001 have been prepared on the basis of the accounting policies set out in the full year accounts to 31 October 2000 with the following exception.

The accounting policy for revenue recognition has been broadened to include long term contracts in accordance with SSAP 9 (revised), whereby a prudent level of income is recognised based on the estimated percentage completion of contracts where the final outcome can be reasonably assessed. The directors believe that this change is necessary to reflect certain major countermeasures contracts which have been in production in the period, in order to give a more accurate representation of the results of the Group. The effect of adopting this policy on the comparative figures at 31 October 2000 and 28 April 2000 is not significant. Accordingly no restatement of the comparative figures has been made.

2. Segmental analysis of turnover

		Unaudited Half year to 30 April 2001 £000	Unaudited Half year to 28 April 2000 £000	Audited Year to 31 Oct 2000 £000
Defence				
Countermeasures	- continuing operations	17,990	11,311	28,538
	- acquired operations	8,077	-	-
Military pyrotechnics		5,971	4,535	11,169
		32,038	15,846	39,707
Non-defence				
Marine safety		8,478	8,522	17,700
Wiring harnesses		4,249	3,968	7,608
Chemical coatings		605	1,204	2,154
		13,332	13,694	27,462
Continuing operations		37,293	29,540	67,169
Acquired operations		8,077	-	-
		45,370	29,540	67,169

3. Purchase of subsidiary

The Group acquired Kilgore Flares Company LLC on 5 February 2001. The initial analysis of the fair value of assets acquired is as follows:

	Fair value to Group £000
Fixed assets	10,196
Stock	4,500
Debtors	2,288
Creditors	(4,139)
Net assets	12,845
Consideration:	£000
1,200,000 5p ordinary shares allotted	3,538
Cash	14,053
Total consideration	17,591
Goodwill arising	4,746

The fair value adjustments are provisional and may be subject to revision in the full year accounts to 31 October 2001. Any adjustment made will be reflected in the goodwill calculation.

4. 2000 Results

The figures for the year to 31 October 2000 are abridged from the Group's full Financial Statements for that period which carry an unqualified Auditors' Report and have been filed with the Registrar of Companies.

5. 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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