



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

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

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The Group has performed well in the six months to 30 April 2003, with turnover increasing by 16% to £50.4 million providing operating profit of £6.0 million.

Profit before tax was £4.3 million, after interest of £1.7 million. Tax is estimated at 30%. Earnings per share were 11.14p.

Kilgore made a small operating profit in the period, compared to an operating loss of £3.2 million for the first half of last year. Operating profits for the rest of the Group have grown encouragingly by 30% to £5.9 million. We expect to see at least this level of growth in the second half, compared to the second half of last year.

#### RESULTS FOR THE HALF YEAR TO 30 APRIL 2003

	<b>2003</b>	2002
	<b>£000</b>	£000
Turnover	<b>50,359</b>	43,468
Operating profit – Group excluding Kilgore	<b>5,930</b>	4,570
– Kilgore	<b>52</b>	(3,233)
Credit to operating profit relating to insurance claim	–	4,797
Total operating profit	<b>5,982</b>	6,134
Profit before tax	<b>4,306</b>	4,631
Profit after tax	<b>3,034</b>	3,237
Earnings per share	<b>11.14p</b>	12.01p

The defence order book stands at a record £97 million, an increase of £19 million since the start of the year. This includes a £63 million order book for the US Government, which has grown from £55 million over the period.

In last year's financial statements we accounted for an element of insurance proceeds receivable from Royal & Sun Alliance (RSA). No further amounts have been added to our accrual. We received a further £2.5 million interim payment in January 2003, reducing the debtor to £7.1 million at the end of April 2003. The Group continues to litigate the matter in the US courts as well as continuing to negotiate with RSA, supported by our brokers, Willis, and we remain confident of receiving a sum in excess of our accrual.

#### BALANCE SHEET AND CASH FLOW

Reduction of debt remains a priority. The Group's net debt at the end of April 2003 stood at £47.7 million (2002: £52.0 million). Operational cash flow, the disposal of non-core businesses and ultimately the receipt of insurance claim proceeds will further reduce debt.

Capital expenditure was £3.3 million, compared to £8.8 million in the first half of 2002.

#### PENSIONS

The Board continues to discuss options for the future provision of pensions to the Group's employees, recognising its obligations to them.

#### DIVIDEND

The directors have declared an interim dividend of 2.55p per ordinary share (2002: 2.45p), payable on 26 September 2003 to holders on the register at 12 September 2003.

#### OPERATIONS

##### DEFENCE BUSINESSES

Turnover for our defence businesses grew by 22% to £34 million, of which 41% was sales to the US Government.





Our defence businesses have record order books of £97 million, underpinning future growth. The overall defence order book is up 24% since the last year end, and up 43% on April 2002.

Kilgore has reached the targets we set it for the first half and, having now received final customer approval for all of its decoy production processes, is capable of meeting the required capacity for the second half.

• **Countermeasures**

Countermeasures' turnover increased to £26.6 million, a 24% increase on the first half of 2002.

The Group is the largest supplier of infra red (IR) and radio frequency (RF) passive expendable decoys worldwide. Aircraft IR decoys make up 80% of Countermeasures' turnover. With two operations in the US, we are the leading supplier to the US Government. The order book for the US Government comprises orders for both Kilgore's point source magnesium decoys and Alloy Surfaces' proprietary special material area decoys.

Alloy Surfaces continues to perform well and generated operating profits ahead of last year. Demand for Alloy Surfaces' special material and IR decoys has increased substantially as the US Air Force increases the number of aircraft types carrying the products. Alloy Surfaces delivered a follow-on BOL-IR order to the UK MoD in the first half, and received its first Australian order. Opportunities are increasing for Alloy Surfaces' proprietary material IR area decoys (non-spot source) in pre-emptive mode where the material is dispensed to decoy the missile before it acquires the aircraft, thus eliminating reaction time and the requirement for missile warning. The Comet programme, in conjunction with Raytheon, is a good example, and has been successfully demonstrated on the A-10 ground-attack plane and the C130 transport aircraft. We are also in discussions regarding using this material to protect commercial aircraft.

Kilgore has a healthy order book, and has commenced production of the new F/A-22 advanced expendable countermeasure decoy which it helped to develop. Kilgore has also been advised that it has won its first ship IR decoy order supported by technology transferred from our UK business, Chemring Countermeasures (CCM).

CCM had an excellent six months, and the business has received significant export and UK MoD orders. CCM is the leading supplier of naval and aircraft IR and RF expendable decoys to the UK MoD, and is the design authority for all in-service magnesium IR and chaff RF decoys. CCM is providing spot spectral flares for UK MoD evaluation and is leading special material pre-emptive development activity.

• **Military Pyrotechnics**

Turnover increased by 16% to £7.4 million in the period, and PW Defence has a strong order book in support of its full year. New production and storage facilities were completed at the end of the first half, which will benefit the business by increasing production capability in the second half.

The political tensions around the world, and in particular the recent Middle East conflict, have increased awareness of the need for training, and this has resulted in additional enquiries for PW Defence's products, which has benefited the business.

On 5 June 2003, the UK MoD signed a "Partnering Agreement" with PW Defence covering the procurement and through-life management of a range of pyrotechnic products. This agreement is also the vehicle for taking forward a raft of initiatives including improvements in the supply chain, packaging, commercial solutions, and smarter manufacturing and marketing.

**NON-DEFENCE BUSINESSES**

• **Marine Safety and Security**

Marine Safety and Security turnover of £12.1 million showed a 20% increase on the first half of last year, contributing to total non-defence sales of £16.4 million (2002: £15.6 million). Profitability,

whilst ahead of last year, has been held back by the amortisation of previously capitalised development expenditure on new products.

The Group is a global market leader in providing products to aid location and safety on both sea and land, and monitoring of shipping. The combination of new electronic products which are being introduced and significant market opportunities offers our Marine business continuing growth prospects over the coming years.

ICS Electronics, acquired last year, has been integrated fully into our Marine operations, and its products, which complement our existing range, supported good growth on our electronics products in the first half.

Demand for our 406MHz products remains high, with the EPIRB with integral Global Positioning System (GPS) selling well, particularly in the US. The US Coast Guard is very satisfied with our service on the 406MHz Personal Locating Beacon (PLB) which is now standard equipment for every US Coast Guard boat crewmember. This product has been instrumental in saving the lives of four US Coast Guard crewmembers, and we are now receiving orders from other US Government authorities, such as the National Oceanographic and Aeronautical Administration (NOAA).

A new market for McMurdo's PLB in land-based personal location and safety has recently opened up with the US Federal Communications Commission permitting the nationwide use of PLBs from 1 July 2003. This landmark decision means that hikers and other outdoor adventurers will be able to take advantage of the same lifesaving technology that mariners and aviators have been able to enjoy or years – a satellite-aided search and rescue system that aims to reduce the time required to alert rescue authorities whenever a distress situation occurs. It is hoped that other countries will follow the US lead.

The business is also expanding in to the Marine Security market, with its newly developed Automatic Identification System (AIS) transponder, which will automatically transmit ship information for interrogation by a third party. Sales of AIS will commence in July 2003 to meet new legislation being implemented by the IMO. The US Maritime Transportation Security Act of 2002 increases the number of vessels to be fitted with AIS when operating in the navigable waters of the US. This represents a significant opportunity for the Group's Marine business with an estimated overall market opportunity of £100 million over the next two years, of which we are targeting to achieve an appreciable market share.

Demand for Marine distress pyrotechnics and lights increased in the first half, although future demand is not expected to increase significantly in these markets.

#### • Wiring Harnesses

Turnover of £3.6 million (2002: £4.4 million) is down on last year, due to the well publicised problems on the Nimrod programme. Kembrey Wiring Systems has recently been awarded a seven year contract to support BAE Systems on the Harrier GR9 upgrade programme. Sales arising out of a new five year contract with Rolls-Royce, secured last year, will commence in the second half.

#### PROSPECTS

The record defence order book, the anticipated substantial growth in profitability at Kilgore, and the sale of new products in the Marine business should produce strong growth in the second half. The current weakness of the US dollar may slightly reduce US earnings in the second half when converted into sterling. However, despite this, the prospects for your Group remain excellent.

**K C SCOBIE** – Chairman

26 June 2003



UNAUDITED  
CONSOLIDATED  
PROFIT & LOSS  
ACCOUNT  
for the half year  
to 30 April 2003

	<i>Unaudited</i> <i>Half year to</i> <i>30 April 2003</i> <i>£000</i>	<i>Unaudited</i> <i>Half year to</i> <i>30 April 2002</i> <i>£000</i>	<i>Audited</i> <i>Year to</i> <i>31 Oct 2002</i> <i>£000</i>
<b>Turnover – continuing operations</b>	<b>50,359</b>	43,468	96,327
<b>Operating profit – continuing operations</b>	<b>5,982</b>	6,134	7,690
Profit on disposal	–	–	1,123
Associated undertaking	–	–	89
<b>Profit on ordinary activities before interest</b>	<b>5,982</b>	6,134	8,902
<b>Analysis of profit on ordinary activities before interest:</b>			
Group excluding Kilgore	<b>5,930</b>	4,570	7,071
Kilgore – normal operations	<b>52</b>	(3,233)	(4,851)
– insurance claim	–	4,797	6,682
	<b>52</b>	1,564	1,831
<b>Profit on ordinary activities before interest</b>	<b>5,982</b>	6,134	8,902
Interest payable	<b>(1,676)</b>	(1,503)	(3,486)
<b>Profit on ordinary activities before taxation</b>	<b>4,306</b>	4,631	5,416
Tax on profit on ordinary activities	<b>(1,272)</b>	(1,394)	(1,605)
<b>Profit on ordinary activities after taxation</b>	<b>3,034</b>	3,237	3,811
Equity minority interest	<b>24</b>	(3)	29
Dividends	<b>(702)</b>	(660)	(1,843)
<b>Retained profit</b>	<b>2,356</b>	2,574	1,997
<b>Basic earnings per ordinary share</b>	<b>11.14p</b>	12.01p	14.16p
<b>Diluted earnings per ordinary share</b>	<b>11.02p</b>	11.87p	14.11p
<b>Dividend per ordinary share</b>	<b>2.55p</b>	2.45p	6.70p



**ADDITIONAL  
FINANCIAL  
PERFORMANCE  
STATEMENTS**  
for the half year  
to 30 April 2003

	<i>Unaudited</i> <i>Half year to</i> <i>30 April 2003</i> <i>£000</i>	<i>Unaudited</i> <i>Half year to</i> <i>30 April 2002</i> <i>£000</i>	<i>Audited</i> <i>Year to</i> <i>31 Oct 2002</i> <i>£000</i>
<b>Statement of total recognised gains and losses</b>			
Profit on ordinary activities after taxation	3,034	3,237	3,811
Currency translation differences on foreign currency net investments	60	53	(756)
	<u>3,094</u>	<u>3,290</u>	<u>3,055</u>
Prior year adjustment	–	(389)	(389)
	<u>3,094</u>	<u>2,901</u>	<u>2,666</u>
<b>Reconciliation of movements in shareholders' funds</b>			
Profit on ordinary activities after taxation	3,034	3,237	3,811
Equity minority interest	24	(3)	29
Dividends	(702)	(660)	(1,843)
	<u>2,356</u>	<u>2,574</u>	<u>1,997</u>
Ordinary shares issued	–	1	25
Share premium arising	–	41	1,391
Other recognised profits/(losses)	60	53	(756)
	<u>2,416</u>	<u>2,669</u>	<u>2,657</u>
Net addition to shareholders' funds	2,416	2,669	2,657
Opening shareholders' funds	48,671	46,014	46,014
	<u>51,087</u>	<u>48,683</u>	<u>48,671</u>
Closing shareholders' funds	51,087	48,683	48,671



UNAUDITED  
CONSOLIDATED  
BALANCE SHEET  
as at 30 April 2003

	<i>Unaudited</i> <i>As at</i> <b>30 April 2003</b> <i>£000</i>	<i>Unaudited</i> <i>As at</i> <i>30 April 2002</i> <i>£000</i>	<i>Audited</i> <i>As at</i> <i>31 Oct 2002</i> <i>£000</i>
<b>Fixed assets</b>			
Development costs	2,881	3,065	3,002
Goodwill	28,343	24,789	28,343
Tangible assets	43,229	40,716	42,746
Investments	972	924	972
	<u>75,425</u>	<u>69,494</u>	<u>75,063</u>
<b>Current assets</b>			
Stock	19,522	19,759	17,807
Debtors	37,172	37,231	32,636
Cash at bank and in hand	1,812	2,790	3,774
	<u>58,506</u>	<u>59,780</u>	<u>54,217</u>
<b>Creditors due within one year</b>			
Bank loans and overdrafts	22,130	24,295	22,708
Loan stock	40	40	40
Other	30,332	24,666	26,540
	<u>52,502</u>	<u>49,001</u>	<u>49,288</u>
<b>Net current assets</b>	<u>6,004</u>	<u>10,779</u>	<u>4,929</u>
<b>Total assets less current liabilities</b>	<b>81,429</b>	80,273	79,992
Creditors due after more than one year	<b>(28,421)</b>	(30,161)	(29,375)
Provisions for liabilities and charges	<b>(1,644)</b>	(1,095)	(1,644)
Equity minority interest	<b>(277)</b>	(334)	(302)
	<u>51,087</u>	<u>48,683</u>	<u>48,671</u>
<b>Capital and reserves</b>			
Called-up share capital	1,434	1,410	1,434
Reserves	49,653	47,273	47,237
<b>Shareholders' funds</b>	<u>51,087</u>	<u>48,683</u>	<u>48,671</u>





**UNAUDITED  
CONSOLIDATED  
CASH FLOW  
STATEMENT**  
for the half year  
to 30 April 2003

	<i>Unaudited</i> <i>Half year to</i> <i>30 April 2003</i> <i>£000</i>	<i>Unaudited</i> <i>Half year to</i> <i>30 April 2002</i> <i>£000</i>	<i>Audited</i> <i>Year to</i> <i>31 Oct 2002</i> <i>£000</i>
Net cash inflow/(outflow) from operating activities	5,001	(74)	10,056
Returns on investments and servicing of finance	(2,060)	(1,240)	(2,899)
Taxation	(414)	200	671
Net capital expenditure	(2,696)	(8,272)	(10,622)
Acquisitions	–	–	(145)
Equity dividends paid	–	(1,145)	(1,818)
<b>Cash outflow before use of liquid resources and financing</b>	<b>(169)</b>	<b>(10,531)</b>	<b>(4,757)</b>
Financing – issue of shares	–	42	54
– decrease in debt	(2,196)	(1,047)	(2,111)
<b>Decrease in cash</b>	<b>(2,365)</b>	<b>(11,536)</b>	<b>(6,814)</b>

**Reconciliation of operating profit to net cash flow  
from operating activities**

Operating profit	5,982	6,134	7,690
Amortisation charge	589	289	702
Depreciation charge	1,860	1,256	2,929
Loss on disposal of fixed assets	–	–	27
(Increase)/decrease in stock	(1,715)	(1,528)	514
Increase in debtors	(3,770)	(6,737)	(838)
Increase/(decrease) in creditors	2,055	512	(968)
Net cash inflow/(outflow) from operating activities	5,001	(74)	10,056

**Reconciliation of net cash flow to movement in net debt**

Decrease in cash	(2,365)	(11,536)	(6,814)
Cash outflow from the decrease in debt and lease financing	2,196	1,047	2,111
Change in net debt resulting from cash flows	(169)	(10,489)	(4,703)
New finance leases	(650)	(560)	(3,479)
Translation difference	442	3	1,212
New finance costs applied to loans	–	–	737
Amortisation of debt finance costs	(55)	–	(102)
	(432)	(11,046)	(6,335)

**Analysis of net debt**

	<i>As at</i> <i>1 Nov 2002</i> <i>£000</i>	<i>Cash</i> <i>flow</i> <i>£000</i>	<i>Non cash</i> <i>changes</i> <i>£000</i>	<i>Exchange</i> <i>movement</i> <i>£000</i>	<i>As at</i> <i>30 April 2003</i> <i>£000</i>
Cash at bank and in hand	3,774	(1,932)	–	(30)	1,812
Overdrafts	(17,345)	(433)	–	96	(17,682)
	(13,571)	(2,365)	–	66	(15,870)
Debt due within one year	(5,403)	3,680	(2,765)	–	(4,488)
Debt due after one year	(24,851)	(1,934)	2,710	312	(23,763)
Finance leases	(3,452)	450	(650)	64	(3,588)
	(47,277)	(169)	(705)	442	(47,709)



**INDEPENDENT REVIEW REPORT BY THE AUDITORS**

To Chemring Group PLC

**INTRODUCTION**

We have been instructed by the Company to review the financial information for the six months ended 30 April 2003 which comprises the consolidated profit and loss account, statement of total recognised gains and losses, reconciliation of movements in shareholders' funds, consolidated balance sheet, consolidated cash flow statement and associated notes, and the related notes 1 to 7. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

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

**DIRECTORS' RESPONSIBILITIES**

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

**REVIEW WORK PERFORMED**

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

**UNCERTAINTY RELATING TO LITIGATION**

In arriving at our review conclusion, we have considered the adequacy of disclosures made in note 3 concerning the possible outcome of litigation in respect of amounts recoverable under an insurance claim relating to an incident at Kilgore Flares, a subsidiary undertaking of the Company, in April 2001. The future settlement of this claim could result in a shortfall, or a surplus, when compared with the recorded debtor at 30 April 2003. It is not possible to quantify the effect, if any, of this uncertainty. Details of the circumstances relating to this uncertainty and the amount of the related debtor recorded at 30 April 2003 are disclosed in note 3.

**REVIEW CONCLUSION**

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 April 2003.

DELOITTE & TOUCHE  
Chartered Accountants  
Southampton  
26 June 2003



### 1. BASIS OF PREPARATION

The interim accounts to 30 April 2003 have been prepared on the basis of the accounting policies set out in the full year accounts to 31 October 2002.

### 2. SEGMENTAL ANALYSIS OF TURNOVER

	<i>Unaudited</i> <i>Half year to</i> <i>30 April 2003</i> <i>£000</i>	<i>Unaudited</i> <i>Half year to</i> <i>30 April 2002</i> <i>£000</i>	<i>Audited</i> <i>Year to</i> <i>31 Oct 2002</i> <i>£000</i>
<b>Defence</b>			
Countermeasures	26,568	21,459	45,725
Military pyrotechnics	7,410	6,387	17,942
	<u>33,978</u>	<u>27,846</u>	<u>63,667</u>
<b>Non-defence</b>			
Marine safety and security	12,116	10,113	21,345
Wiring harnesses	3,565	4,405	9,305
Chemical coatings	700	1,104	2,010
	<u>16,381</u>	<u>15,622</u>	<u>32,660</u>
<b>Total</b>	<u>50,359</u>	<u>43,468</u>	<u>96,327</u>

### 3. INSURANCE CLAIM

As reported in the financial statements for the year ended 31 October 2002 the Group has lodged a claim with its insurers in respect of property damage and business interruption arising out of an incident at Kilgore in April 2001. To date £5,700,000 has been received from the insurers.

At 31 October 2002 a balance of £9,633,000 was recognised within other debtors. This outstanding balance has been reduced to £7,133,000 since the year end, following receipt of a further payment of £2,500,000 in January 2003.

The opinion of the Board with regards to the total amount recoverable from the insurers has not changed since the year end. As such, there has been no change to the total amount recognised within the financial statements in the interim period.

### 4. 2002 RESULTS

The figures for the year to 31 October 2002 are abridged from the Group's full financial statements for that period which carry an unqualified Auditors' Report and have been filed with the Registrar of Companies.

### 5. TAXATION

The estimated tax rate for the Group for the year ending 31 October 2003 is 30% (2002: 30%). The tax rate reflects the upward pressure from a greater proportion of profits being earned overseas, offset by various reliefs and credits anticipated to be available in the year.

### 6. EARNINGS PER SHARE

Earnings per share are based on the average number of shares in issue of 27,435,972 (2002: 26,939,579) and profit on ordinary activities after taxation and minority interests of £3,058,000 (2002: £3,234,000). Diluted earnings per share has been calculated using a diluted average number of shares in issue of 27,726,796 (2002: 27,245,486) and profit on ordinary activities after taxation and minority interests of £3,058,000 (2002: £3,233,000).

### 7. CORPORATE WEBSITE

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







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