Chemring Group plc

Chemring Group PLC

Interim report 2009

Delivering global protection

CHEMRING
World leaders in defence

Chemring is a global group of companies that specialises in the manufacture of energetic material products and decoy countermeasures. We provide unique solutions for specific customer requirements in defence, security and safety markets.

Contents

Interim Management Report

Underlying earnings per share* increased 56% to 81p

It is a pleasure to report further significant growth in the first half of the year, with revenue up 55% to £233.5 million (2008: £150.2 million) and underlying profit before tax* up 67% to £39.5 million (2008: £23.6 million).

£23.0 million (15%) of the revenue growth can be directly attributed to foreign exchange movements, which means the growth of the business was 40% on a constant currency basis, with 22% generated from companies acquired during the last two years and 18% growth generated organically.

£4.0 million (17%) of the growth in underlying profit before tax* was attributable to foreign exchange movements, leaving a growth in underlying profit before tax* of 50% on a constant currency basis, with 25% generated by companies acquired in the last two years and 25% generated organically.

These are excellent results and reflect the significant progress made in increasing our Energetics market share, as well as substantially improving our first half operating margins.

Underlying earnings per share* increased 56% to 81p (2008: 52p).

Our Energetics division performed extremely well, increasing its revenue by 86% to £147.3 million and its operating profit more than doubled to £28.8 million. The operating margin achieved in the first half was 20%, which is significantly higher than the 16% achieved in 2008. This improvement reflects a very strong first half performance from Simmel Difesa in Italy, as well as substantial margin improvements in our Chemring Defence and Chemring Marine operations.

The Countermeasures division also performed well, increasing revenue by 22% to £86.2 million (2008: £70.9 million) and operating profit by 25% to £23.7 million (2008: 19.0 million). The operating margin achieved in the first half was 28%, a further improvement upon the 27% reported in 2008, reflecting operational efficiencies achieved within both our Chemring Countermeasures and Alloy Surfaces businesses.

Results for the half year to 30 April	2009 £m	2008 £m
Continuing operations:		
Revenue	**233.5**	150.2
Underlying operating profit*	**46.1**	28.2
Finance expense	**(6.6)**	(4.7)
Share of post-tax results of associate	**–**	0.1
Underlying profit before tax*	**39.5**	23.6
Profit before tax	**29.9**	20.7
Underlying earnings per share*	**81p**	52p
Basic earnings per share	**61p**	45p
Dividend per ordinary share	**14p**	10p

*Excludes intangible amortisation arising from business combinations and loss on fair value movements on derivatives of £9.6 million (2008: £2.9 million)

Energetics

The Energetics division has continued to enhance its market position and during the first half of the year generated an 86% increase in revenue.

Simmel had an excellent first half performance, with record levels of production of 81mm mortar illumination rounds and 120mm tank ammunition. Over 45,000 visible illumination and infra-red (IR) illumination mortar rounds were delivered to our UK customer in support of various peace-keeping operations. Simmel also completed final qualification of the new warhead for the Aster missiles which are used as the principal air defence weapon on the UK's Type 45 destroyers.

Demand for our pyrotechnic products also continues to be high, with Chemring Defence achieving record deliveries of smoke grenades and other non-lethal products to US, UK and other NATO countries.

During the period, the Scot and Technical Ordnance businesses were merged to create our new US component and sub-system business unit, Chemring Energetic Devices. Good progress has been made in the development of strong relationships with the key US prime contractors, and a new contract was recently received to redesign and extend the service life of the thruster modules that are used to separate the boosters on the Atlas V satellite launch vehicle.

The merger of Martin Electronics, Titan Dynamic Systems and Kilgore Defense to form the new US business unit, Chemring Ordnance, was also completed successfully in the period. We benefited from strong demand for our 40mm pyrotechnic grenades, including coloured flares, illumination and IR illumination rounds. Production of practice grenades, used during infantry training, also continues to grow with the successful commissioning of our new automated manufacturing facility. Installation of our battlefield effects simulator (BES) systems at US Army training centres continues to grow substantially (+315%), with 448 new systems installed during the period. This growth in the installed base continues to drive demand for our BES cartridges, and production has been substantially increased (over 700%) to in excess of 68,000 units per month, to satisfy the growing realistic training requirements.

Early in the year NIITEK, which was acquired in December 2008, received its first production contract from the US Army for thirty Husky Mine Detection Systems (HMDS) which are used for route clearance of buried mines. With spares and support, the total contract is now worth in excess of $50 million. Twelve units have been delivered to the customer and four units are now operational. A further production contract is being negotiated, and a number of other nations have indicated a strong interest in the product.

The Energetics division has continued to enhance its market position and during the first half of the year generated an 86% increase in revenue

Interim Management Report

CONTINUED

The Board is today declaring an interim dividend of 14p per ordinary share, an increase of 40% over 2008

Countermeasures

Revenue within our Countermeasures division grew by 22% compared with the previous year, although most of this growth was due to foreign exchange fluctuations.

Our UK countermeasures business continues to perform well, with steady demand for our conventional and spectral flares from the UK and other European nations. Production of Typhoon flares is expected to increase during the second half of the year and demand is then expected to further accelerate as the number of aircraft deliveries increases.

Alloy Surfaces had a rather subdued first half, with sales lower than 2008 as the mix of production was significantly altered. Production volumes of several decoys for the US Air Force and the UK Royal Air Force were substantially increased over the period. However, US Army volumes for helicopter flares were significantly reduced in anticipation of the planned withdrawal from Iraq. These changes in production have altered the revenue phasing and created a greater second half weighting.

Kilgore continued to generate good growth in the first half of the year, although delays in the award of a number of contracts have altered the first half, second half weighting. Initial production of the new flares for the B-52 bomber and C-17 transport fleet were delivered successfully and should continue at high volume throughout the rest of the year. Substantial progress was also made in upgrading the spectral flare (M212) for the US Air Force helicopter fleet, and volume production should start towards the end of this financial year.

Dividend and financial position

The Board is today declaring an interim dividend of 14p per ordinary share (2008: 10p). This represents an increase of 40% over last year's interim dividend, and builds on the substantial increases delivered in recent years. The interim dividend will be paid on 7 August 2009 to shareholders on the register at 17 July 2009.

The Group's net assets increased by 85% to £251 million from £136 million at April 2008. Net debt at the period end was £167 million (2008: £141 million) and gearing was 66% (2008: 104%).

The main movements in the Group's balance sheet during the period were increases to goodwill and net debt following the acquisition of NIITEK, and increases to fixed assets following the commencement of construction of new facilities at our sites in Salisbury and Australia.

Acquisition

On 12 December 2008, the Group acquired Non-Intrusive Inspection Technology, Inc. (NIITEK) for an initial cash consideration of $30 million. Deferred contingent consideration of $8.5 million was also paid during the period. NIITEK is a leading supplier of robot and vehicle-mounted mine detection systems.

Board and senior executive appointments

With the increasing size of the Group and its position in the FTSE250, the Board felt that it would now be appropriate, in accordance with the Combined Code on Corporate Governance, to appoint a Senior Independent Director. Mr Ian Much has assumed this additional role.

The Group's executive management was strengthened during the period, with the appointment of Mr Richard Dellar as a third Divisional Managing Director. Mr Dellar is responsible for the Group's international businesses outside the US and Europe, as well as the management of our European countermeasures business.

Principal risks and uncertainties

The principal risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results have not changed significantly from those set out in the Business Review included in the Group's 2008 Financial Statements. These can be summarised as:

- Health and safety risks
- Risks related to the strength and breadth of management resource
- Competitive risks
- Risks associated with timing of receipt of orders
- Risks associated with the introduction of new products
- Risks associated with the introduction of new manufacturing facilities
- Risks arising from technology transfers
- Risks associated with the management of prime contracts
- Political, economic and financial risks
- Compliance and corruption risks

Prospects

The Group's substantial increase in earnings in the first half of the financial year follows years of consistently high growth, averaging over 50% compound growth in earnings per share over the last ten years. Shareholders will recognise, irrespective of economic cycles and fluctuations in defence budgets, that such outstanding levels of growth are not sustainable in the long term.

However the strength of our countermeasures business around the world and the opportunities for growth – both organic and acquisitive – demonstrated by our now larger Energetics division, combined with the Group's strong cash flow, suggest that we can maintain above average growth in the immediate future. The Board's judgment is based on the successful, consistent business strategy of the Group and the current terrorist and military activities around the world, particularly in Iraq, Afghanistan, Pakistan and the Middle East. The Board does not believe that the proposed partial withdrawal of the US from Iraq, where some reduction in orders has already been experienced, will have any material impact on the Group's profitability.

I am confident therefore that I will be able to report to shareholders in January 2010 on another very successful year.

K C Scobie
CHAIRMAN
23 June 2009

I am confident therefore that I will be able to report to shareholders in January 2010 on another very successful year

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

D J Price
CHIEF EXECUTIVE
23 June 2009

P A Rayner
FINANCE DIRECTOR
23 June 2009

Condensed Consolidated Income Statement

FOR THE HALF YEAR TO 30 APRIL 2009

	Note	Unaudited Half year to 30 April 2009 £m	Unaudited Half year to 30 April 2008 £m	Audited Year to 31 Oct 2008 £m
Continuing operations				
Revenue				
– continuing		**220.5**	150.2	354.2
– acquired		**13.0**	–	–
Total revenue		**233.5**	150.2	354.2
Operating profit				
– continuing		**35.3**	25.3	68.4
– acquired		**1.2**	–	–
Total operating profit	2	**36.5**	25.3	68.4
Operating profit is analysed as:				
Underlying operating profit before intangible amortisation arising from business combinations		**46.1**	28.2	84.9
Goodwill adjustment arising from recognition of tax losses		**–**	–	(1.8)
Intangible amortisation arising from business combinations		**(8.1)**	(2.9)	(6.0)
Loss on fair value movements on derivatives		**(1.5)**	–	(8.7)
Total operating profit	2	**36.5**	25.3	68.4
Share of post-tax results of associate		**–**	0.1	0.1
Finance income		**0.8**	0.6	1.8
Finance expense		**(7.4)**	(5.3)	(12.6)
Profit before tax for the period/year from continuing operations		**29.9**	20.7	57.7
Tax	4	**(8.4)**	(6.2)	(16.5)
Profit after tax for the period/year attributable to equity shareholders of the parent	2	**21.5**	14.5	41.2
Earnings per ordinary share	5			
From continuing operations:				
Underlying		**81p**	52p	160p
Basic		**61p**	45p	123p
Diluted		**61p**	44p	123p

Condensed Consolidated Statement of Recognised Income and Expense

FOR THE HALF YEAR TO 30 APRIL 2009

	Note	**Unaudited Half year to 30 April 2009 £m**	Unaudited Half year to 30 April 2008 £m	Audited Year to 31 Oct 2008 £m
Profit after tax for the period/year		**21.5**	14.5	41.2
Other recognised income and expense				
Losses on cash flow hedges		**(4.3)**	(1.6)	(3.8)
Movement on deferred tax relating to cash flow hedges		**1.4**	0.4	0.8
Exchange differences on translation of foreign operations		**14.7**	5.2	24.8
Actuarial losses on defined benefit pension schemes		**(2.5)**	(2.4)	(0.1)
Movement on deferred tax relating to pension schemes		**0.7**	0.7	–
Current tax on items taken directly to equity		**(2.1)**	0.6	(0.6)
Deferred tax on items taken directly to equity		**–**	–	(4.2)
Total recognised income and expense for the period/year attributable to equity holders of the parent	7	**29.4**	17.4	58.1

Condensed Consolidated Balance Sheet

AS AT 30 APRIL 2009

	Note	Unaudited As at 30 April 2009 £m	Unaudited As at 30 April 2008 £m	Audited As at 31 Oct 2008 £m
Non-current assets				
Goodwill		**154.7**	108.6	128.8
Other intangible assets		**95.7**	42.1	79.8
Development costs		**6.1**	2.2	5.2
Property, plant and equipment		**128.3**	86.7	110.4
Investments		**1.1**	1.1	1.0
Deferred tax		**13.7**	10.1	9.7
		399.6	250.8	334.9
Current assets				
Inventories		**107.7**	65.0	89.1
Trade and other receivables		**93.9**	79.0	87.8
Cash and cash equivalents		**41.8**	36.0	69.6
		243.4	180.0	246.5
Total assets		**643.0**	430.8	581.4
Current liabilities				
Bank loans and overdrafts		**(32.3)**	(13.5)	(19.7)
Obligations under finance leases		**(0.5)**	(1.0)	(0.7)
Trade and other payables		**(106.7)**	(77.9)	(108.5)
Provisions		**(1.7)**	(0.4)	(1.5)
Derivative financial instruments		**(5.2)**	(1.3)	(8.1)
Current tax liabilities		**(12.6)**	(6.0)	(6.3)
		(159.0)	(100.1)	(144.8)
Non-current liabilities				
Bank loans		**(76.7)**	(84.7)	(74.2)
Senior notes		**(96.9)**	(75.5)	(89.4)
Obligations under finance leases		**(2.4)**	(2.6)	(2.2)
Trade and other payables		**(2.6)**	(1.5)	(1.8)
Deferred tax		**(21.0)**	(13.6)	(17.3)
Provisions		**(4.7)**	(1.3)	(4.4)
Preference shares		**(0.1)**	(0.1)	(0.1)
Retirement benefit obligations		**(16.6)**	(15.9)	(13.6)
Derivative financial instruments		**(11.6)**	–	(3.0)
		(232.6)	(195.2)	(206.0)
Total liabilities		**(391.6)**	(295.3)	(350.8)
Net assets		**251.4**	135.5	230.6
Equity				
Share capital		**1.8**	1.6	1.8
Share premium account		**119.8**	61.6	119.8
Special capital reserve		**12.9**	12.9	12.9
Hedging reserve		**(5.4)**	(1.1)	(2.6)
Revaluation reserve		**1.4**	1.5	1.5
Retained earnings		**125.9**	63.7	102.9
		256.4	140.2	236.3
Own shares		**(5.0)**	(4.7)	(5.7)
Equity attributable to equity holders of the parent		**251.4**	135.5	230.6
Total equity	7	**251.4**	135.5	230.6

Condensed Consolidated Cash Flow Statement

FOR THE HALF YEAR TO 30 APRIL 2009

	Note	Unaudited Half year to 30 April 2009 £m	Unaudited Half year to 30 April 2008 £m	Audited Year to 31 Oct 2008 £m
Cash flows from operating activities				
Cash generated from operations	A	**30.8**	8.8	83.7
Tax paid		**(6.8)**	(2.4)	(13.4)
Net cash inflow from operating activities		**24.0**	6.4	70.3
Cash flows from investing activities				
Dividends received from associate		**–**	0.1	0.1
Purchases of property, plant and equipment		**(14.2)**	(16.5)	(31.0)
Purchases of intangible assets		**(2.0)**	(1.9)	(3.2)
Acquisition of subsidiaries (net of cash acquired)	9	**(27.5)**	(11.4)	(68.2)
Net cash outflow from investing activities		**(43.7)**	(29.7)	(102.3)
Cash flows from financing activities				
Dividends paid		**(8.8)**	(5.8)	(9.3)
Interest paid		**(6.4)**	(2.7)	(8.2)
Proceeds on issue of shares		**–**	0.2	58.6
New borrowings		**13.5**	72.7	72.7
Repayment of borrowings		**(6.5)**	(31.7)	(36.4)
(Decrease)/increase of obligations under finance leases		**(0.4)**	1.7	0.4
Purchase of own shares		**(1.4)**	(1.9)	(2.9)
Net cash (outflow)/inflow from financing activities		**(10.0)**	32.5	74.9
(Decrease)/increase in cash and cash equivalents during the period/year		**(29.7)**	9.2	42.9
Cash and cash equivalents at start of the period/year		**69.6**	25.4	25.4
Effect of foreign exchange rate changes		**1.9**	1.4	1.3
Cash and cash equivalents at end of the period/year		**41.8**	36.0	69.6

Notes to the Condensed Consolidated Cash Flow Statement

FOR THE HALF YEAR TO 30 APRIL 2009

A. Cash generated from operations

	Note	**Unaudited Half year to 30 April 2009 £m**	Unaudited Half year to 30 April 2008 £m	Audited Year to 31 Oct 2008 £m
Operating profit from continuing operations		**35.3**	25.3	68.4
Operating profit from acquired operations		**1.2**	–	–
Total operating profit		**36.5**	25.3	68.4
Adjustment for:				
Depreciation of property, plant and equipment		**6.6**	4.4	9.7
Amortisation of intangible assets arising from business combinations		**8.1**	2.9	6.0
Amortisation of other intangible assets		**0.6**	0.7	0.7
Loss on fair value movements on derivatives		**1.5**	–	8.7
Goodwill adjustment arising from recognition of tax losses		**–**	–	1.8
Share-based payment expense		**1.1**	0.8	1.7
Difference between pension contributions paid and amount recognised in Income Statement		**(0.1)**	(0.3)	0.1
Decrease in provisions		**(0.5)**	(1.1)	(2.2)
Operating cash flows before movements in working capital		**53.8**	32.7	94.9
Increase in inventories		**(9.3)**	(12.5)	(18.8)
Decrease/(increase) in trade and other receivables		**0.3**	(16.6)	(14.1)
(Decrease)/increase in trade and other payables		**(14.0)**	5.2	21.7
Cash generated from operations		**30.8**	8.8	83.7

Reconciliation of net cash flow to movement in net debt

(Decrease)/increase in cash and cash equivalents during the period/year	**(29.7)**	9.2	42.9
Cash inflow from increase in debt and lease financing	**(6.6)**	(42.7)	(36.7)
Change in net debt resulting from cash flows	**(36.3)**	(33.5)	6.2
Decrease in debt and finance leasing	**0.2**	0.6	0.8
Translation difference	**(14.1)**	(8.6)	(23.6)
Amortisation of debt finance costs	**(0.2)**	(0.3)	(0.5)
Movement in net debt in the period/year	**(50.4)**	(41.8)	(17.1)
Net debt at start of the period/year	**(116.7)**	(99.6)	(99.6)
Net debt at end of the period/year	**(167.1)**	(141.4)	(116.7)

Analysis of net debt

	As at 1 Nov 2008 £m	Cash flow £m	Non-cash changes £m	Exchange movement £m	**As at 30 April 2009 £m**
Cash at bank and in hand	69.6	(29.7)	–	1.9	**41.8**
Debt due within one year	(19.7)	(7.0)	(3.2)	(2.4)	**(32.3)**
Debt due between two and five years	(74.2)	–	3.2	(5.7)	**(76.7)**
Debt due after more than five years	(89.4)	–	–	(7.5)	**(96.9)**
Finance leases	(2.9)	0.4	–	(0.4)	**(2.9)**
Preference shares	(0.1)	–	–	–	**(0.1)**
	(116.7)	(36.3)	–	(14.1)	**(167.1)**

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 2009 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Recognised Income and Expense, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Cash Flow Statement 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 them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the Condensed Set of Financial Statements in the half-yearly financial report for the six months ended 30 April 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditors
Southampton, United Kingdom
23 June 2009

Notes to the Condensed Set of Financial Statements

1. Basis of preparation

The Condensed Consolidated Income Statement for each of the six month periods and the Condensed Consolidated Balance Sheet as at 30 April 2009 do not amount to full accounts within the meaning of 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 23 June 2009. The information for the year ended 31 October 2008 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. Full accounts for the year ended 31 October 2008, which include an unqualified audit report, did not draw attention to any matters by way of emphasis, and did not contain statements under section 237(2) or (3) of the Companies Act 1985, have been delivered to the Registrar of Companies.

The accounting policies applied by the Group in this half-yearly financial report are the same as those applied by the Group in its consolidated financial statements for the year ended 31 October 2008.

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

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.

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.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the half-yearly condensed financial statements.

2. Segmental analysis

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

	Unaudited Half year to 30 April 2009 £m	Unaudited Half year to 30 April 2008 £m	Audited Year to 31 Oct 2008 £m
Continuing operations:			
Revenue			
Energetics	**147.3**	79.3	196.7
Countermeasures	**86.2**	70.9	157.5
Total	**233.5**	150.2	354.2
Underlying operating profit			
Energetics	**28.8**	12.4	45.7
Countermeasures	**23.7**	19.0	45.5
Charge for share-based payments	**(1.1)**	(0.8)	(1.7)
Unallocated head office costs	**(5.3)**	(2.4)	(4.6)
Underlying operating profit before intangible amortisation arising from business combinations	**46.1**	28.2	84.9
Goodwill adjustment arising from business combinations	**–**	–	(1.8)
Loss on fair value movements on derivatives	**(1.5)**	–	(8.7)
Intangible amortisation arising from business combinations	**(8.1)**	(2.9)	(6.0)
Operating profit	**36.5**	25.3	68.4
Share of post-tax results of associate	**–**	0.1	0.1
Finance income	**0.8**	0.6	1.8
Finance expense	**(7.4)**	(5.3)	(12.6)
Profit before tax for the period/year	**29.9**	20.7	57.7
Tax	**(8.4)**	(6.2)	(16.5)
Profit after tax for the period/year	**21.5**	14.5	41.2

The Group is conducting a major investment programme at Chemring Countermeasures Limited to develop the facilities at the site in Salisbury and as a result has announced a restructuring programme costing £1.7 million. This charge has been included within unallocated head office costs.

Notes to the Condensed Set of Financial Statements

CONTINUED

3. Seasonality of revenue

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

4. Tax

The estimated tax rate for the Group for continuing operations for the year ending 31 October 2009 is 28% (2008: 30%), representing the best estimate of the average effective income tax rate expected for the full year, applied to the pre-tax income for the six month period.

5. Earnings per share

Earnings per share are based on the average number of shares in issue of 35,232,169 (2008: 32,577,899) and profit on ordinary activities after tax and minority interests of £21.5 million (2008: £14.5 million). Diluted earnings per share has been calculated using a diluted average number of shares in issue of 35,516,735 (2008: 32,785,516) and profit on ordinary activities after tax and minority interests of £21.5 million (2008: £14.5 million).

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

From continuing operations			**2009**			2008
	Earnings £m	**Ordinary shares Number 000s**	**EPS Pence**	Earnings £m	Ordinary shares Number 000s	EPS Pence
Basic	**21.5**	**35,232**	**61**	14.5	32,578	45
Additional shares issuable other than at fair value in respect of options outstanding	**–**	**285**	**–**	–	208	(1)
Diluted	**21.5**	**35,517**	**61**	14.5	32,786	44

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

Underlying earnings has been defined as earnings before intangible amortisation arising from business combinations, goodwill adjustment arising from recognition of tax losses and loss on fair value movements on derivatives. The directors consider this measure of earnings allows a more meaningful comparison of earnings trends.

From continuing operations			**2009**			2008
	Earnings £m	**Ordinary shares Number 000s**	**EPS Pence**	Earnings £m	Ordinary shares Number 000s	EPS Pence
Basic	**21.5**	**35,232**	**61**	14.5	32,578	45
Intangible amortisation arising from business combinations and loss on fair value movements on derivatives (after tax)	**7.0**	**–**	**20**	2.3	–	7
Underlying	**28.5**	**35,232**	**81**	16.8	32,578	52

Full details of earnings per share for the year ended 31 October 2008 are disclosed in the Group's audited 2008 Financial Statements.

Underlying earnings per share from continuing operations was 160p from continuing operations, which was calculated on £53.5 million of earnings and 33,339,754 average shares. Basic earnings per share was 123p from continuing operations, calculated on £41.2 million of earnings and 33,339,754 average shares.

6. Dividends

	2009 £m	2008 £m
Dividends on ordinary shares of 5p each		
Interim dividend for the half year ended 30 April 2008 10p	**–**	3.5
Final dividend for the year ended 31 October 2008 25p (2007: 17.8p)	**8.8**	5.8
Total dividends	**8.8**	9.3

The interim dividend declared by the Board in respect of the half year ended 30 April 2009 of 14p per share will absorb approximately £4.9 million of shareholders' funds. No liability for the interim dividend has been included in these interim financial statements.

7. Statement of changes in equity

	Unaudited Half year to 30 April 2009 £m	Unaudited Half year to 30 April 2008 £m	Audited Year to 31 Oct 2008 £m
Total recognised income and expense for the period/year	**29.4**	17.4	58.1
Dividends	**(8.8)**	(5.8)	(9.3)
Retained profit for the period/year	**20.6**	11.6	48.8
Ordinary shares issued	**–**	–	0.2
Share premium arising	**–**	1.1	59.3
Net cost of share-based payments	**(0.4)**	0.7	1.2
Own shares	**0.6**	(1.9)	(2.9)
Net addition to shareholders' funds	**20.8**	11.5	106.6
Opening shareholders' funds	**230.6**	124.0	124.0
Closing shareholders' funds	**251.4**	135.5	230.6

During the period the Group issued 115,170 treasury shares into The Chemring Group Performance Share Plan in satisfaction of the vesting of conditional awards made on 23 March 2006. The Group also purchased 68,301 treasury shares in the period.

8. Bank loans and overdrafts

In the six month period ended 30 April 2009, the Group borrowed $20 million from Bank of Scotland to assist with the funding of the acquisition of NIITEK.

In the six month period ended 30 April 2008, the Group refinanced the previous Bank of Scotland loan facilities with a private placement of senior loan notes in the USA, resulting in a part reduction of the Bank of Scotland facilities. The revised financing arrangements reflect the Group's investment structure in overseas businesses. Senior loan notes (repayable in full in 2017) of £72.7 million were issued and £31.7 million of existing loans were repaid.

9. Acquisitions

On 12 December 2008, the Group acquired the entire stock capital of Non-Intrusive Inspection Technology, Inc. (NIITEK) for a total consideration of £26.8 million.

A summary of the assets acquired and consideration paid in respect of this acquisition is set out below:

	Book value £m	Provisional fair value adjustments £m	Provisional fair value £m
Intangible assets	–	15.5	15.5
Property, plant and equipment	0.6	(0.2)	0.4
Bank overdraft	(0.3)	–	(0.3)
Working capital	(0.1)	(1.6)	(1.7)
Deferred tax	0.1	(3.7)	(3.6)
Net assets acquired	0.3	10.0	10.3
Goodwill	16.5	–	16.5
Total	16.8	10.0	26.8

	£m
Consideration	
Cash	26.3
Directly attributable costs	0.5
Total consideration	26.8

Notes to the Condensed Set of Financial Statements

CONTINUED

9. Acquisitions continued

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

At 30 April 2009 the estimated fair value of assets and liabilities are provisional and will be updated as necessary within the twelve month period following the acquisition.

Summary of cash flows:

	£m
Cash paid for acquisition in the period	(26.8)
Cash paid for acquisitions acquired in prior period	(0.4)
Bank overdraft acquired	(0.3)
Net cash outflow	(27.5)

The acquisition during the period contributed £13.0 million of revenue and £1.2 million to the Group's operating profit for the period between the date of acquisition and the Balance Sheet date.

If the acquisition had been completed on the first day of the current period, Group revenues and operating profit for continuing operations for the period would have been approximately £237.8 million and £36.9 million respectively. This information is not necessarily indicative of the results of operations that would have occurred had the operations been acquired at the start of the current period, nor of the future results of the combined operations.

10. Pensions

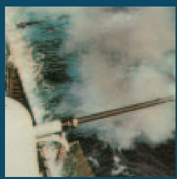
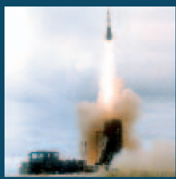
The defined benefit obligation is calculated using an actuarial valuation as at 30 April 2009. The deficit has increased as a result of changes to the scheme asset values from falling equity markets and from the adjustment in assumptions to reflect current market conditions. The difference between the expected return on assets and the actual return on assets has been recognised as an actuarial loss in the Condensed Consolidated Statement of Recognised Income and Expense in accordance with the Group's accounting policy.

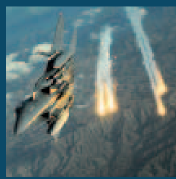
11. Related party transactions

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

12. Corporate website

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



CHEMRING GROUP PLC
Chemring House, 1500 Parkway, Whiteley,
Fareham, Hampshire PO15 7AF, United Kingdom

Tel: +44 (0)1489 881880
Fax: +44 (0)1489 881123

www.chemring.co.uk