Chemring Group PLC

Interim Report 2010

Energetic growth

A world-leading defence company

Chemring is a global group that specialises in the manufacture of energetic material products and advanced expendable countermeasures. We provide solutions for highly demanding customer requirements in defence, security and safety markets. We are a world-leading defence company involved in advanced development programmes in the UK, USA, Europe and Australia.

Further success for NIITEK's HMDS

The US Army awarded NIITEK a further contract for another 76 Husky Mounted Detection Systems (HMDS) initially worth $106 million but, when fully defined, the contract will increase in value to $217 million including spares, training and support.

Patriot provides orders for Hi-Shear

Hi-Shear received a $10 million order for electronic safety and arming fuze (ESAF) units for the Patriot missile and a further contract for additional special test equipment that is needed to support the increased production for the future.

New acquisition in Europe

On 19 March 2010 Chemring Group acquired the Italian-based Chemring Fuze Technology S.r.l. ("CFT") for a cash consideration of €11.4 million. CFT provides fuzes for Simmel Difesa and other European ammunition suppliers.

Contents

Interim Management Report	
Interim Management Report	1
Statement of Directors' Responsibilities	4

Financial Statements	
Condensed Consolidated Income Statement	5
Condensed Consolidated Statement of Comprehensive Income	6
Condensed Consolidated Statement of Changes in Equity	7
Condensed Consolidated Balance Sheet	8
Condensed Consolidated Cash Flow Statement	9
Notes to the Condensed Consolidated Cash Flow Statement	10
Independent Review Report to Chemring Group PLC	11
Notes to the Condensed Set of Financial Statements	12

Interim Management Report

Results for the half year to 30 April 2010

	2010 £m	2009 £m
Revenue	**255.9**	**233.5**
Underlying operating profit*	**52.3**	**46.1**
Net finance expense	**(10.0)**	**(6.6)**
Underlying profit before tax*	**42.3**	**39.5**
Profit before tax	**25.3**	**29.9**
Underlying earnings per share*	**89p**	**81p**
Basic earnings per share	**52p**	**61p**
Dividend per ordinary share	**17p**	**14p**

* Excludes intangible amortisation arising from business combinations, loss on fair value movements on derivatives and acquisition related costs totalling £17.0 million (2009: £9.6 million)

The first six months of this financial year demonstrated the growing strength and quality of the Group's earnings, with revenue up 10% to £255.9 million (2009: £233.5 million) and underlying profit before tax* up 7% to £42.3 million (2009: £39.5 million). Underlying earnings per share* increased by 10% to 89p (2009: 81p). This performance was achieved in spite of the extreme weather conditions experienced for part of the period in the UK and USA which disrupted production at several of our sites, an explosive incident at our UK countermeasures facility, and delays in the placement of contracts from a number of our European customers. However, our order book grew over the period by a further 16% to £651 million (October 2009: £559 million). As a result, we expect to see a stronger trading performance during the second half of the year and the Group remains on course to meet our full year expectations.

Sales to our US customers increased by 33% to £141.8 million (2009: £106.6 million), reflecting a strong performance from both our US countermeasures businesses and the continued success at NIITEK in the delivery of counter-IED ground penetrating radar systems to the US Army. Sales to our UK and European customers, on the other hand, were down by 25% to £72.7 million (2009: £96.6 million), which reflects the second half bias caused by contract delays and the production stoppage at Chemring Countermeasures in Salisbury.

Our acquisitions of Hi-Shear in California and Chemring Fuze Technology in Italy made an encouraging contribution to earnings in the first half and should deliver their expected profits in the second six months of the year.

Countermeasures

Our Countermeasures businesses performed well, increasing revenue by 7% to £91.9 million (2009: £86.2 million) and operating profit by 3% to £24.4 million (2009: £23.7 million). The year-on-year revenue growth at constant exchange rates was just under 11% and reflects a strong performance from both our US businesses. The operating margin was 27%, slightly below the 2009 performance, reflecting the impact of bad weather earlier in the year and a recent incident at our UK countermeasures facility that stopped production for four weeks in April.

Alloy Surfaces had an excellent first half, with sales 27% higher than 2009 and production volumes reaching record levels. Manufacture of the MJU-50 decoys that protect fixed wing and transport aircraft for the US Air Force increased substantially by 75%, whilst production volumes of MJU-49 decoys, that protect fixed wing and rotary aircraft for the US Navy, almost doubled. This growth was partially offset by a reduction in demand for BOL/IR decoys for Tornado aircraft from the Royal Air Force.

Kilgore also had a strong first half of the year with 23% growth, driven by a 54% increase in production volumes of flares for the F-22 Raptor. Production of two new 36mm flares commenced in the period and will reach full output over the next few months. The order book at Kilgore is now 121% higher than the previous year and provides a very solid foundation for continued growth in the future.

Our UK countermeasures business had a slower start to the year with first half revenue 24% lower than in the first half of 2009. The timing of contracts from the UK Ministry of Defence for aircraft flares and naval countermeasures has made revenue more weighted to the second half of this financial year but the bad weather in January and February also contributed. At the beginning of April, an explosive ignition occurred on the Salisbury site within a small oven used to cure the priming materials that are used in our spectral flares. All production was stopped whilst an in-depth investigation took place. The majority of flare production re-started in May but production of our spectral products is unlikely to resume until July.

In 2009, the UK business commenced the construction of new state-of-the-art automated manufacturing facilities for the production of our full range of flares at its UK site in Salisbury. These facilities will double our maximum production capacity and meet the surge requirements of our UK Ministry of Defence customer. They will also allow a rapid response to urgent export opportunities. The fully automated, remote operation features incorporated into the design will further improve the safety of working conditions for our production employees. Construction of the buildings has now been completed and installation of the automated equipment is scheduled over the next six months. Commissioning will take place during the first half of 2011 and we expect production to be underway during the second half.

The order book for countermeasures increased by 20% to £279 million (October 2009: £232 million), providing confidence in further growth during the remainder of this financial year and during 2011.

Pyrotechnics

Our Pyrotechnics businesses had a steady first half with revenue at a similar level to last year at £68.3 million (2009: £68.6 million), whilst operating profit was down to £12.8 million (2009: £15.1 million). The year-on-year revenue growth at constant exchange rates was 1% but included a 12% contribution from the acquisition of Hi-Shear. Delays in order intake from the UK, Europe and the Middle East have been the principal issue that has made production more second half weighted. The operating margin achieved in the first half was 19%, nearly 3% below the 2009 performance, reflecting the changes in volumes and the impact of differing margins within the USA versus Europe product mix.

Our US pyrotechnic businesses performed extremely well, with revenues up 70% compared with the previous year.

Interim Management Report
continued

Production of 40mm pyrotechnic rounds for the US prime contractors increased significantly, with production of the M585 white star round 87% higher than in 2009. Factory acceptance of the M661 green star parachute round and the M992 black light round were also achieved in the period, and full production will start shortly. Upgrades to the M228 training grenade and its automated production line also took place during the last six months. Factory acceptance will commence shortly, and production volumes are expected to ramp up quickly during the second half.

During the period, production of our battlefield effects simulation (BES) cartridges was relocated to Chemring Ordnance in Florida, and the BES launchers were relocated to Chemring Energetic Devices in Illinois. Production will re-start in the second half of the year. The US Army placed a multi-year contract, worth up to $74 million, for BES cartridges and a $4.9 million contract for the installation of another 900 launchers at their training ranges. A two year contract for another 1,600 launchers is expected shortly and will double the installed base over the next three years.

Our European pyrotechnic businesses have seen a reduction in revenues. Simmel has reduced its production volumes of 81mm mortar illumination rounds by 25% to a level consistent with the long term demand of the British Army. Chemring Defence had a slow start to the year, with many of its core orders delayed by several months as governments reviewed the impact of current budgetary pressures. Orders from the UK, Europe and the Middle East are now starting to appear, and their order book is up 62% compared with last year. This includes a £39.5 million multi-year order from the UK Ministry of Defence, which will underpin production in the future.

The order book for pyrotechnics increased by 19% to £204 million (October 2009: £172 million) and provides confidence that delayed order intake will deliver future growth.

Explosive ordnance disposal

Our Explosive Ordnance Disposal (EOD) businesses had an excellent first half, significantly increasing its revenue by 92% to £41.3 million (2009: £21.5 million) and doubling its operating profit to £9.9 million (2009: £5.1 million). The operating margin was maintained at 24%, slightly ahead of 2009, with production at NIITEK dominating the performance.

NIITEK had an impressive first half with production of its Husky Mounted Detection System (HMDS) ground penetrating radar growing to 10 systems a month. The US Army has just announced a further contract for another 76 HMDS for delivery by May 2011. This contract is initially worth $106 million but, when fully defined, will increase in value to $217 million, including spares, training and support. A multi-year contract for up to 600 more systems is expected to go out to competition in early 2011. We will have over 150 radar systems in service by that time and are confident that we will retain our incumbent position.

The new contract requires production to increase to in excess of 20 equivalent HMDS systems per month. Consequently a second production facility will start operation in July of this year. The US Marine Corps has also expressed strong interest in HMDS and a contract is expected shortly. Twenty eight personnel are currently deployed in support of the equipment, but this number will be increased steadily over the next nine months to seventy people.

Chemring Energetics continues to make good progress with the development of our range of demolition stores. Qualification programmes are underway with the UK Ministry of Defence for new insensitive demolition stores, such as flexible shaped charges, sheet explosives and obstacle removal. A new plastic explosives assembly facility is under construction at our Ardeer site and will start production of several of these new products in the second half of this year.

The order book for EOD fell by 30% to £26 million (October 2009: £37 million), as production of HMDS continued whilst the placement of follow-on contracts was delayed by the protracted negotiations on final costs on the previous production order. The new contract has now been awarded, and the order book has increased to £98 million, an increase of 165% since October 2009. This gives greater indication of the expected contribution from NIITEK for both the remainder of this year and in the future.

Munitions

Our Munitions businesses had a subdued first half, with a slight drop in revenues to £54.4 million (2009: £57.2 million) but an increase in operating profit of 27% to £10.9 million (2009: £8.6 million). The operating margin improved to 20% with Simmel and Chemring Australia providing the most significant contributions. This margin performance was well ahead of the 2009 level and more representative of our long term expectations.

Our prime contracting activities continue to represent about 50% of our munitions business. During the period, we experienced significant growth in our sales to Middle East and Far East customers. Deliveries of 40mm naval ammunition were made to Singapore and a new contract was recently received for 76mm ammunition. Deliveries of 40mm HEDP grenades doubled in the period, principally driven by the success of Chemring Australia. The first deliveries were achieved of 125mm tank ammunition to a Middle East customer.

Deliveries of components and sub-systems to US prime contractors increased by 50% compared with last year, principally due to increased demand for fuze components and the surge in detonator production following renewed availability of lead azide, the key primary explosive. This change in availability was the direct result of the completion of our new primary explosives facility in South Dakota. The facility is currently being used to safely screen existing stocks, whilst new material variants undergo age characterisation that is part of the certification process.

Our Hi-Shear business has made a good start following acquisition. It received a $10 million order for electronic safety and arming fuze (ESAF) units for the Patriot missile and a further contract for additional special test equipment that will be needed to support the increased production for the future.

The order book for munitions increased by 20% to £142 million (October 2009: £118 million) with strong growth in Europe, driven principally by the success of our Simmel business in Italy.

Dividend and financial position

The Board is today declaring an interim dividend of 17p per ordinary share (2009: 14p). This represents an increase of 21% over last year's interim dividend and builds on the substantial increases delivered in recent years. The interim dividend will be paid on 6 August 2010 to shareholders on the register at 16 July 2010.

The Group's financial position remains strong, with net assets increasing by 13% to £284 million from £251 million at April 2009. Net debt at the period end was £260 million (2009: £167 million) and gearing was 92% (2009: 66%). The acquisition of Hi-Shear was debt funded and, with the anticipated cash flows in the second half of this year, gearing is expected to fall by the year end.

The Group has a healthy cash balance of £72 million (2009: £42 million), with in excess of £100 million headroom on its main working capital facilities.

On 19 November 2009, the Group completed a private placement of $280 million of fixed interest loan notes with a number of institutional investors. The funding provided acquisition finance and additional working capital. £273 million of the Group's gross debt does not fall due for repayment until 2016 and beyond and, hence, secures finance over the next few years.

Acquisitions

On 25 November 2009, the Group completed the acquisition of Hi-Shear for a cash consideration of $132 million. Hi-Shear is a leading manufacturer of high reliability energetic products for use in key space and defence programmes, including satellites, missile defence and aircrew egress.

On 19 March 2010, the Group acquired the Italian-based Chemring Fuze Technology S.r.l. ("CFT") for a cash consideration of €11.4 million. CFT provides fuzes for Simmel Difesa and other European ammunition suppliers. The acquisition provides Simmel with a significant increase in its electronic design capability and underpins the future development of this key sub-system.

On 19 January 2010, the Group announced the conditional acquisition of The Allied Defense Group, Inc. ("ADG") for a cash consideration of $59 million. On the same day as Chemring's announcement, ADG received a subpoena from the US Department of Justice ("DOJ") requesting that ADG produce documents relating to its dealings with foreign governments. ADG also became aware that day that an employee of its US subsidiary, Mecar USA, Inc. ("Mecar US"), had been indicted by the DOJ for allegedly engaging in schemes to bribe foreign government officials to obtain and retain business. The unsealed indictment of this employee and the DOJ's press release indicated that the alleged criminal conduct was on behalf of another US company unrelated to ADG or Mecar US. Whilst the DOJ initially agreed that ADG could limit its response to the subpoena to matters related to the indicted former employee of Mecar US, the DOJ has recently indicated that it will request additional documents from ADG and expand its review. Against this background, we are currently reviewing our options with regards to ADG, which may include a restructuring of the transactions contemplated by the merger agreement.

The Board continues to review various potential acquisition opportunities as part of the Group's ongoing corporate development.

Board succession

In the November 2009 Interim Management Statement the Group announced that, as I am now in my seventy second year, we had commenced the process to find a suitable candidate as my successor.

I am delighted that we have separately announced today that Peter Hickson will be the next Chairman of Chemring. Peter will join the Board on 1 July 2010, and after a period of familiarisation will assume the Chairmanship on 1 October 2010.

Peter is an extremely experienced individual with a strong track record, and the Board believes that he is the right person to oversee the next stage of the Group's development. I have been your Chairman now for thirteen years, during which time we have seen the Group change beyond recognition and establish itself as a prominent international business. Over this period, the share price has increased from a low of 76p to a high of over £36, and the Group's market capitalisation now stands at £1.2 billion. The Group is in excellent shape to meet the challenges of the future, and I wish both Peter and Chemring's employees good fortune as the Group continues to grow.

Health and safety

In the last ten years the Group has invested substantial funds and effort to improve the safety record of the industry and protect its employees who work, at times, with highly volatile and energetic materials. Significant amounts of capital expenditure have been spent on robotics and other automated processes to isolate operators from the most sensitive processes. This is a continuing process where no matter how diligent one is in assessing risk, incidents can still happen. These assessments are carried out by our own health and safety teams supported, where advantageous, by outside experts. Complacency, however, is the enemy of safe operations, and we continue to train and strengthen our staff in safety procedures 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 have not changed significantly from those set out in the "Principal Risks and Uncertainties" section of the Group's 2009 Annual Report and Accounts. These can be summarised as:

- Health and safety risks
- Risks associated with possible cuts in worldwide defence budgets
- Risks associated with the timing of receipt of orders
- Risks related to the strength and breadth of management resource
- Risks associated with the introduction of new manufacturing facilities
- Risks associated with the introduction of new products
- Political, economic and financial risks
- Competitive risks
- Compliance and corruption risks

Prospects

In recent years, your Group has powered ahead through organic growth and a focused acquisition policy, concentrating on its recognised areas of expertise, many in niche markets. We have balanced this growth with a sound financial basis of strong cash flow, conservative gearing and a long term debt profile. The Group has also been highly responsive to the requirements of shareholders in terms of earnings and dividend growth. This business strategy will continue to serve us well in the future. In spite of many commentators' reservations about the immediate future for the defence industry, the Group's order book has reached record levels across all our businesses, and the Board believes that we have the products, the services and the dynamism to secure continuing success both in the second six months of this year and in the future.

K C Scobie
Chairman
22 June 2010

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

D J Price
Chief Executive
22 June 2010

P A Rayner
Finance Director
22 June 2010

Condensed Consolidated Income Statement

for the half year to 30 April 2010

		Note	Unaudited Half year to 30 April 2010 £m	Unaudited Half year to 30 April 2009 £m	Audited Year to 31 Oct 2009 £m
Continuing operations					
Revenue	– continuing		**247.8**	233.5	503.9
	– acquired		**8.1**	-	-
Total revenue			**255.9**	233.5	503.9
Operating profit	– continuing		**34.9**	36.5	107.9
	– acquired		**0.4**	-	-
Total operating profit		2	**35.3**	36.5	107.9
Operating profit is analysed as:					
Underlying operating profit	– continuing		**48.4**	46.1	114.7
	– acquired		**3.9**	-	-
Total underlying operating profit		2	**52.3**	46.1	114.7
Acquisition related costs		9	**(2.3)**	-	-
Intangible amortisation arising from business combinations			**(7.9)**	(8.1)	(13.8)
(Loss)/gain on fair value movements on derivatives			**(6.8)**	(1.5)	7.0
Total operating profit			**35.3**	36.5	107.9
Share of post-tax results of associate			**-**	-	0.1
Finance income			**0.1**	0.8	0.7
Finance expense			**(10.1)**	(7.4)	(12.9)
Profit before tax for the period/year from continuing operations			**25.3**	29.9	95.8
Tax		4	**(6.9)**	(8.4)	(25.7)
Profit after tax for the period/year attributable to equity shareholders of the parent		2	**18.4**	21.5	70.1
Earnings per ordinary share		5			
From continuing operations:					
Underlying			**89p**	81p	213p
Basic			**52p**	61p	199p
Diluted			**52p**	61p	197p

Condensed Consolidated Statement of Comprehensive Income

for the half year to 30 April 2010

	Unaudited Half year to 30 April 2010 £m	Unaudited Half year to 30 April 2009 £m	Audited Year to 31 Oct 2009 £m
Profit after tax for the period/year	**18.4**	21.5	70.1
Cash flow hedges:			
Gains/(losses) on cash flow hedges	**0.2**	(4.3)	(1.0)
Movement on deferred tax relating to cash flow hedges	**-**	1.4	0.2
Exchange differences on translation of foreign operations	**6.2**	14.7	(3.1)
Actuarial losses on defined benefit pension schemes	**(1.8)**	(2.5)	(14.1)
Movement on deferred tax relating to pension schemes	**0.5**	0.7	4.0
Other comprehensive income:			
Current tax on items taken directly to equity	**-**	(2.1)	(1.2)
Deferred tax on items taken directly to equity	**-**	-	0.3
Total comprehensive income for the period/year attributable to equity holders of the parent	**23.5**	29.4	55.2

Condensed Consolidated Statement of Changes in Equity

for the half year to 30 April 2010

	Share capital £m	Share premium account £m	Special capital reserve £m	Hedging reserve £m	Revaluation reserve £m	Retained earnings £m	Total £m
At 1 November 2009	1.8	120.3	12.9	(3.4)	1.4	145.8	278.8
Profit after tax for the period	-	-	-	-	-	18.4	18.4
Other comprehensive income for the period	-	-	-	0.2	-	4.9	5.1
Total comprehensive income for the period	-	-	-	0.2	-	23.3	23.5
Dividends paid	-	-	-	-	-	(12.7)	(12.7)
Cost of share-based payments (net of settlement)	-	-	-	-	-	(0.5)	(0.5)
Transfers between reserves	-	-	-	0.1	-	(0.1)	-
At 30 April 2010	**1.8**	**120.3**	**12.9**	**(3.1)**	**1.4**	**155.8**	**289.1**

	Share capital £m	Share premium account £m	Special capital reserve £m	Hedging reserve £m	Revaluation reserve £m	Retained earnings £m	Total £m
At 1 November 2008	1.8	119.8	12.9	(2.6)	1.5	102.9	236.3
Profit after tax for the period	-	-	-	-	-	21.5	21.5
Other comprehensive income for the period	-	-	-	(2.9)	-	10.8	7.9
Total comprehensive income for the period	-	-	-	(2.9)	-	32.3	29.4
Dividends paid	-	-	-	-	-	(8.8)	(8.8)
Cost of share-based payments (net of settlement)	-	-	-	-	-	(0.5)	(0.5)
Transfers between reserves	-	-	-	0.1	(0.1)	-	-
At 30 April 2009	1.8	119.8	12.9	(5.4)	1.4	125.9	256.4

	Share capital £m	Share premium account £m	Special capital reserve £m	Hedging reserve £m	Revaluation reserve £m	Retained earnings £m	Total £m
At 1 November 2008	1.8	119.8	12.9	(2.6)	1.5	102.9	236.3
Profit after tax for the year	-	-	-	-	-	70.1	70.1
Other comprehensive income for the year	-	-	-	(0.8)	-	(14.1)	(14.9)
Total comprehensive income for the year	-	-	-	(0.8)	-	56.0	55.2
Ordinary shares issued	-	0.5	-	-	-	-	0.5
Dividends paid	-	-	-	-	-	(13.8)	(13.8)
Cost of share-based payments (net of settlement)	-	-	-	-	-	0.9	0.9
Deferred tax on share-based payment transactions	-	-	-	-	-	(0.3)	(0.3)
Transfers between reserves	-	-	-	-	(0.1)	0.1	-
At 31 October 2009	1.8	120.3	12.9	(3.4)	1.4	145.8	278.8

Condensed Consolidated Balance Sheet

as at 30 April 2010

	Note	Unaudited As at 30 April 2010 £m	Unaudited As at 30 April 2009 £m	Audited As at 31 Oct 2009 £m
Non-current assets				
Goodwill		**207.9**	154.7	149.5
Other intangible assets		**131.5**	95.7	81.9
Development costs		**10.1**	6.1	8.5
Property, plant and equipment		**154.0**	128.3	135.0
Investments		**1.1**	1.1	1.1
Deferred tax		**17.9**	13.7	17.7
		522.5	399.6	393.7
Current assets				
Inventories		**121.8**	107.7	96.9
Trade and other receivables		**117.2**	93.9	98.8
Cash and cash equivalents	7	**72.1**	41.8	61.3
Derivative financial instruments		**-**	-	0.4
		311.1	243.4	257.4
Total assets		**833.6**	643.0	651.1
Current liabilities				
Bank loans and overdrafts		**(13.3)**	(32.3)	(34.3)
Obligations under finance leases		**(0.5)**	(0.5)	(0.5)
Trade and other payables		**(123.1)**	(106.7)	(115.1)
Current tax liabilities		**(9.4)**	(12.6)	(14.6)
Derivative financial instruments		**(2.6)**	(5.2)	(1.1)
Short term provisions		**(1.7)**	(1.7)	(1.2)
		(150.6)	(159.0)	(166.8)
Non-current liabilities				
Bank loans		**(43.9)**	(76.7)	(61.1)
Loan notes	8	**(274.0)**	(96.9)	(87.2)
Obligations under finance leases		**(0.8)**	(2.4)	(0.9)
Trade and other payables		**(1.3)**	(2.6)	(1.8)
Deferred tax		**(34.1)**	(21.0)	(22.6)
Long term provisions		**(6.2)**	(4.7)	(5.2)
Preference shares		**(0.1)**	(0.1)	(0.1)
Retirement benefit obligations		**(30.1)**	(16.6)	(28.1)
Derivative financial instruments		**(8.7)**	(11.6)	(3.7)
		(399.2)	(232.6)	(210.7)
Total liabilities		**(549.8)**	(391.6)	(377.5)
Net assets		**283.8**	251.4	273.6
Equity				
Share capital		**1.8**	1.8	1.8
Share premium account		**120.3**	119.8	120.3
Special capital reserve		**12.9**	12.9	12.9
Hedging reserve		**(3.1)**	(5.4)	(3.4)
Revaluation reserve		**1.4**	1.4	1.4
Retained earnings		**155.8**	125.9	145.8
		289.1	256.4	278.8
Own shares		**(5.3)**	(5.0)	(5.2)
Equity attributable to equity holders of the parent		**283.8**	251.4	273.6
Total equity		**283.8**	251.4	273.6

Condensed Consolidated Cash Flow Statement

for the half year to 30 April 2010

	Note	Unaudited Half year to 30 April 2010 £m	Unaudited Half year to 30 April 2009 £m	Audited Year to 31 Oct 2009 £m
Cash flows from operating activities				
Underlying cash generated from operations	A	**28.4**	30.8	106.7
Acquisition related costs	9	**(2.3)**	-	-
Cash generated from operations	A	**26.1**	30.8	106.7
Tax paid		**(12.2)**	(6.8)	(18.7)
Net cash inflow from operating activities		**13.9**	24.0	88.0
Cash flows from investing activities				
Dividends received from associate		**0.1**	-	-
Purchases of property, plant and equipment		**(19.5)**	(14.2)	(33.4)
Purchases of intangible assets		**(2.8)**	(2.0)	(4.8)
Acquisition of subsidiaries (including overdraft acquired)	9	**(92.0)**	(27.5)	(27.6)
Net cash outflow from investing activities		**(114.2)**	(43.7)	(65.8)
Cash flows from financing activities				
Dividends paid		**(12.7)**	(8.8)	(13.8)
Interest paid		**(5.8)**	(6.4)	(10.5)
Proceeds on issue of shares		**-**	-	0.5
New borrowings		**171.7**	13.5	14.9
Repayment of borrowings		**(41.2)**	(6.5)	(20.7)
Decrease of obligations under finance leases		**(0.5)**	(0.4)	(1.6)
Purchase of own shares		**(2.0)**	(1.4)	(1.5)
Net cash inflow/(outflow) from financing activities		**109.5**	(10.0)	(32.7)
Increase/(decrease) in cash and cash equivalents during the period/year		**9.2**	(29.7)	(10.5)
Cash and cash equivalents at start of the period/year		**61.3**	69.6	69.6
Effect of foreign exchange rate changes		**1.6**	1.9	2.2
Cash and cash equivalents at end of the period/year		**72.1**	41.8	61.3

Notes to the Condensed Consolidated Cash Flow Statement

for the half year to 30 April 2010

A. Cash generated from operations

	Unaudited Half year to 30 April 2010 £m	Unaudited Half year to 30 April 2009 £m	Audited Year to 31 Oct 2009 £m
Operating profit from continuing operations	**34.9**	36.5	107.9
Operating profit from acquired operations	**0.4**	-	-
Total operating profit	**35.3**	36.5	107.9
Adjustment for:			
Depreciation of property, plant and equipment	**7.7**	6.6	13.3
Impairment charge	**-**	-	1.1
Amortisation of intangible assets arising from business combinations	**7.9**	8.1	13.8
Amortisation of other intangible assets	**1.4**	0.6	1.5
Loss/(gain) on fair value movements on derivatives	**6.8**	1.5	(7.0)
Share-based payment expense	**1.4**	1.1	2.1
Difference between pension contributions paid and amount recognised in income statement	**0.3**	(0.1)	0.1
Increase/(decrease) in provisions	**1.2**	(0.5)	0.5
Operating cash flows before movements in working capital	**62.0**	53.8	133.3
Increase in inventories	**(18.7)**	(9.3)	(8.4)
(Increase)/decrease in trade and other receivables	**(16.3)**	0.3	(10.0)
Decrease in trade and other payables	**(0.9)**	(14.0)	(8.2)
Cash generated from operations	**26.1**	30.8	106.7
Acquisition related costs	**2.3**	-	-
Underlying cash generated from operations	**28.4**	30.8	106.7
Reconciliation of net cash flow to movement in net debt			
Increase/(decrease) in cash and cash equivalents during the period/year	**9.2**	(29.7)	(10.5)
Cash (inflow)/outflow from increase in debt and lease financing	**(130.6)**	(6.6)	7.5
Change in net debt resulting from cash flows	**(121.4)**	(36.3)	(3.0)
Decrease in debt and finance leasing	**0.3**	0.2	0.5
Translation difference	**(15.9)**	(14.1)	(3.1)
Amortisation of debt finance costs	**(0.7)**	(0.2)	(0.5)
Movement in net debt in the period/year	**(137.7)**	(50.4)	(6.1)
Net debt at start of the period/year	**(122.8)**	(116.7)	(116.7)
Net debt at end of the period/year	**(260.5)**	(167.1)	(122.8)

Analysis of net debt

	As at 1 Nov 2009 £m	Cash flow £m	Non-cash changes £m	Exchange movement £m	As at 30 April 2010 £m
Cash at bank and in hand	61.3	9.2	-	1.6	**72.1**
Debt due within one year	(34.3)	32.2	(10.5)	(0.7)	**(13.3)**
Debt due between two and five years	(61.1)	12.0	6.0	(0.8)	**(43.9)**
Debt due after more than five years	(87.2)	(175.3)	4.5	(16.0)	**(274.0)**
Finance leases	(1.4)	0.5	(0.4)	-	**(1.3)**
Preference shares	(0.1)	-	-	-	**(0.1)**
	(122.8)	(121.4)	(0.4)	(15.9)	**(260.5)**

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 2010 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 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 2010 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
22 June 2010

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 2010 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 22 June 2010. The information for the year ended 31 October 2009 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. Full accounts for the year ended 31 October 2009, 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 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.

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.

Changes in 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 2009, except as described below.

In the current financial year, the Group has adopted International Financial Reporting Standard 8 – *Operating Segments*, International Accounting Standard 1 – *Presentation of Financial Statements* (revised 2007), International Financial Reporting Standard 3 – *Business Combinations* (revised 2008) and International Accounting Standard 27 – *Consolidated and Separate Financial Statements* (revised 2008).

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive and the Board of Directors to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 – *Segment Reporting*) required the Group to identify two sets of segments (business and geographical), using a risks and rewards approach, with the Group's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. As a result, the segmental information required by IAS 34 which is included in note 2 below is presented in accordance with IFRS 8. An additional balance sheet as at 31 October 2008 has not been provided as the adoption of the standard has not changed any number on the balance sheet.

The most significant changes to the Group's previous accounting policies for business combinations are as follows:

- Acquisition related costs which previously would have been included in the cost of a business combination are included in administrative expenses as they are incurred.
- Any changes to the cost of an acquisition, including contingent consideration, resulting from events after the date of acquisition are recognised in profit or loss. Previously, such changes resulted in an adjustment to goodwill.

The revised standards have been applied to both acquisitions that were completed during the period as described in note 9.

Any adjustments to contingent consideration for acquisitions made in the prior year which would result in an adjustment to goodwill continue to be accounted for under IFRS 3 (2004) and IAS 27 (2005), for which the accounting policies can be found in the Group's latest annual audited financial statements.

2. Segmental Analysis

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

Continuing operations:	Unaudited Half year to 30 April 2010 £m	Unaudited Half year to 30 April 2009 £m	Audited Year to 31 Oct 2009 £m
Revenue			
Countermeasures	**91.9**	86.2	183.5
Pyrotechnics	**68.3**	68.6	173.2
EOD	**41.3**	21.5	61.2
Munitions	**54.4**	57.2	86.0
Total	**255.9**	233.5	503.9
Underlying operating profit			
Countermeasures	**24.4**	23.7	53.5
Pyrotechnics	**12.8**	15.1	43.8
EOD	**9.9**	5.1	15.6
Munitions	**10.9**	8.6	13.4
Charge for share-based payments	**(1.4)**	(1.1)	(2.1)
Restructuring costs	**-**	(1.7)	(2.9)
Unallocated head office costs	**(4.3)**	(3.6)	(6.6)
Underlying operating profit	**52.3**	46.1	114.7
Acquisition related costs	**(2.3)**	-	-
Intangible amortisation arising from business combinations	**(7.9)**	(8.1)	(13.8)
(Loss)/gain on fair value movements on derivatives	**(6.8)**	(1.5)	7.0
Operating profit	**35.3**	36.5	107.9
Share of post-tax results of associate	**-**	-	0.1
Finance income	**0.1**	0.8	0.7
Finance expense	**(10.1)**	(7.4)	(12.9)
Profit before tax for the period/year	**25.3**	29.9	95.8
Tax	**(6.9)**	(8.4)	(25.7)
Profit after tax for the period/year	**18.4**	21.5	70.1

Continuing operations:	Unaudited Half year to 30 April 2010 £m	Unaudited Half year to 30 April 2009 £m	Audited Year to 31 Oct 2009 £m
Revenue			
UK	**42.6**	55.2	125.2
USA	**141.8**	106.6	235.4
Europe	**30.1**	41.4	75.0
Australia and Far East	**23.2**	19.1	39.1
Middle East	**15.4**	5.6	20.4
Rest of the world	**2.8**	5.6	8.8
Total	**255.9**	233.5	503.9

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

The directors consider the only countries that are considered significant in accordance with IFRS 8 are the UK and USA as disclosed above.

Notes to the Condensed Set of Financial Statements
continued

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. Therefore, in accordance with *Improvements to IFRSs* issued in April 2009, the Group has adopted this amendment early in order to clarify that the chief operational decision makers do not use this as a key decision tool.

There were no material changes to the numbers disclosed for the year ended 31 October 2009 in arriving at the IFRS 8 – *Operating Segments* disclosure.

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. Margins in the second half of the financial year are anticipated to improve as increased revenue 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 2010 is 27% (2009: 28%) and the underlying estimated effective tax rate is 26% (2009: 28%). This represents 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 35,334,233 (2009: 35,232,169) and profit on ordinary activities after tax and minority interests of £18.4 million (2009: £21.5 million). Diluted earnings per share has been calculated using a diluted average number of shares in issue of 35,666,036 (2009: 35,516,735) and profit on ordinary activities after tax and minority interests of £18.4 million (2009: £21.5 million).

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

From continuing operations			2010			2009
	Earnings £m	Ordinary shares Number 000s	EPS Pence	Earnings £m	Ordinary shares Number 000s	EPS Pence
Basic	**18.4**	**35,334**	**52**	21.5	35,232	61
Additional shares issuable other than at fair value in respect of options outstanding	**-**	**332**	**-**	-	285	-
Diluted	**18.4**	**35,666**	**52**	21.5	35,517	61

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, acquisition related costs 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			2010			2009
	Earnings £m	Ordinary shares Number 000s	EPS Pence	Earnings £m	Ordinary shares Number 000s	EPS Pence
Basic	**18.4**	**35,334**	**52**	21.5	35,232	61
Intangible amortisation arising from business combinations, acquisition related costs and loss on fair value movements on derivatives (after tax)	**12.9**	**-**	**37**	7.0	-	20
Underlying	**31.3**	**35,334**	**89**	28.5	35,232	81

Full details of earnings per share for the year ended 31 October 2009 are disclosed in the Group's audited 2009 Financial Statements.

Underlying earnings per share from continuing operations was 213p from continuing operations, which was calculated on £75.0 million of earnings and 35,266,616 average shares. Basic earnings per share was 199p from continuing operations, calculated on £70.1 million of earnings and 35,266,616 average shares.

The number of shares in issue differs from the number held by third parties due to the fact that the Group holds Chemring Group PLC shares in treasury. The total number of ordinary shares held in treasury at 30 April 2010 was 235,000 (2009: 263,131) with an average cost of £22.44 (2009: £18.86) per share. This represents 0.7% of the total issued and fully paid ordinary share capital.

During the period the Group issued 100,011 of treasury shares following the vesting of conditional awards made on 27 September 2006 and 24 January 2007 under the Chemring Group Performance Share Plan. The Group also purchased 71,880 shares for treasury in the period.

6. Dividends

	2010 £m	2009 £m
Dividends on ordinary shares of 5p each		
Interim dividend for the half year ended 30 April 2009 14.0p	**-**	5.0
Final dividend for the year ended 31 October 2009 36.0p (2008: 25.0p)	**12.7**	8.8
Total dividends	**12.7**	13.8

The proposed interim dividend in respect of the half year ended 30 April 2010 of 17p per share will, if approved, absorb approximately £6.0 million of shareholders' funds. No liability for the proposed interim dividend has been included in these interim financial statements.

7. Cash and cash equivalents

Included within cash is £10.4 million of restricted cash (2009: £5.4 million), of which £10.1 million (2009: £5.1 million) is held in escrow in relation to the Chemring Group Staff Pension Scheme.

8. Loan notes

During the period, the Group issued $280 million of fixed interest loan notes to a number of institutional investors. $80 million of the loan notes will mature in November 2016, and $200 million will mature in November 2019. The total issue carries an interest rate of approximately 5.5%, a more favourable rate than the Group previously enjoyed. The proceeds were used to fund the acquisition of Hi-Shear Technology Corporation, repay existing short and medium term debt, and provide additional working capital facilities for the Group.

9. Acquisitions

The following acquisitions were completed during the period:

Name of business acquired	Activity	Date of acquisition	Proportion of shares acquired %	Acquisition consideration £m
Hi-Shear Technology Corporation	Pyrotechnics	25 November 2009	100%	78.7
Chemring Fuze Technology S.r.l	Munitions	19 March 2010	100%	10.2
Cash paid for acquisitions in the period				88.9
Bank overdraft acquired				3.1
Cash outflow from investing activities				92.0
Acquisition related costs included within cash generated from operations				2.3
Net cash outflow				94.3

Hi-Shear was acquired, by way of a cash purchase, to enhance the Group's pyrotechnic offerings.

An analysis of the net assets acquired and consideration paid in respect of the acquisition of Hi-Shear is set out below:

	Book value £m	Provisional fair value adjustments £m	Fair value £m
Intangible assets	-	42.3	42.3
Property, plant and equipment	1.6	-	1.6
Bank overdraft	(3.1)	-	(3.1)
Working capital	7.5	(4.0)	3.5
Deferred tax	0.2	(11.8)	(11.6)
Net assets acquired	6.2	26.5	32.7
Goodwill	-	46.0	46.0
Total	6.2	72.5	78.7
Total cash consideration			**78.7**

Notes to the Condensed Set of Financial Statements
continued

9. Acquisitions continued
Chemring Fuze Technology S.r.l. was acquired through a cash purchase on 19 March 2010 and provides fuzes to Simmel Difesa, a fellow Group company. The acquisition is designed to provide synergies from vertical integration and security in the continued supply of fuzes. The company was acquired for £10.2 million, which resulted in goodwill of £4.9 million and acquired intangibles of £7.2 million. The only significant provisional fair value adjustment was to remove pre-existing goodwill resulting from a previous transaction.

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 (Revised) – *Business Combinations and Fair Value Adjustments to Inventories, Receivables, Property, Plant and Equipment*. Intangible assets relate principally to customer relationships and technology.

All intangible assets were recognised at their respective provisional fair values. The residual excess of total cost over the fair value of net assets acquired is recognised as goodwill in the financial statements. Goodwill represents the value of synergies and assembled workforces acquired.

The acquisitions during the period contributed £8.1 million of revenue, £3.9 million to the Group's underlying operating profit and £0.4 million to the Group's statutory operating profit for the period between the date of acquisition and the balance sheet date.

If the acquisitions had been completed on the first day of the current period, Group revenues, underlying operating profit and statutory operating profit for continuing operations for the period would have been approximately £257.5 million, £53.1 million and £35.4 million respectively. This information is not necessarily indicative of the results of operations that would have occurred had the operations been acquired at the start of the current period, nor of the future results of the combined operations.

10. Pensions
The defined benefit obligations are calculated using an actuarial valuation as at 30 April 2010. The deficit has increased as a result of changes to the schemes' asset values from falling equity markets and from the adjustment in assumptions to reflect current market conditions. The difference between the expected return on assets and the actual return on assets have been recognised as an actuarial loss in the Condensed Consolidated Statement of Comprehensive Income in accordance with the Group's accounting policy.

The Chemring Group Staff Pension Scheme 2009 triennial valuation has now been completed and full details will be disclosed in the Group's 2010 Annual Report.

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 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

Delivering global protection