

CHEMRING GROUP PLC

Preliminary Results For the Year Ended 31 October 2009

- Revenue up 42% to £503.9 million (2008: £354.2 million)
- Year end order book up 37% at £559.0 million (2008: £409.0 million)
- Net debt of £122.8 million (2008: £116.7 million) up 5%, representing gearing of 45% (2008: 51%)
- Underlying profit before tax* up 38% to £102.6 million (2008: £74.2 million)
- Underlying earnings per share* up 33% at 213p (2008: 160p)
- Profit before tax up 66% to £95.8 million (2008: £57.7 million)
- Basic earnings per share from continuing operations up 62% at 199p (2008: 123p)
- Dividend per ordinary share up 43% at 50p (2008: 35p)

DIVISIONAL HIGHLIGHTS

Both Energetics and Countermeasures performed strongly and achieved record years

- **ENERGETICS**
 - Year end order book of £327 million, up 16% (2008: £281 million)
 - Revenue of £320 million, up 63% (2008: £197 million)
 - Excellent contribution from NIITEK following its acquisition in December 2008
 - Continued strong growth at Simmel
 - Newly formed Chemring Ordnance business unit in USA performed well in first full year
 - Acquisition of Hi-Shear completed in November 2009
 - Conditional acquisition of The Allied Defense Group, Inc. for \$59 million (£36 million) announced today
- **COUNTERMEASURES**
 - Year end order book of £232 million, up 81% (2008: £128 million)
 - Revenue of £184 million, up 17% (2008: £157 million)
 - Record production at Chemring Countermeasures and Alloy Surfaces
 - Commencement of building of new production facilities in the UK and Australia

Ken Scobie, Chemring Group Chairman, commented:

“It is very satisfactory to report another year of substantial growth in earnings, combined with excellent cash generation and a strong balance sheet. During 2009, three significant landmarks were reached - Group revenue exceeded £500 million; underlying profit before tax* exceeded £100 million; and our market capitalisation increased to over £1 billion. All three are major achievements that highlight the growing stature of the Group.

The Group’s success over the last decade has been achieved through a clearly defined policy of organic growth, a focused programme of acquisitions, well-executed post-acquisition integration, and subsequent investment in product and facilities to deliver further expansion. The Board believes that there is ample opportunity to continue this policy in Europe, the USA and other countries around the world, where joint ventures or new start-ups could be the preferred option.

With our wide spread of customers, products and capabilities, and our considerable abilities to respond rapidly to the military’s requirements, I am very confident of our continuing long term success. Our proven strategy, the strength of our order book, the impact of our enlarged sales force, the contribution from our latest acquisitions, and our secure financial fundamentals should ensure that the Group will continue in 2010 with the progress of the last decade.”

** Before goodwill adjustment arising from recognition of tax losses, intangible amortisation arising from business combinations and gain/(loss) on fair value movements on derivatives of £6.8 million (2008: £16.5 million)*

For further information:

Ken Scobie	Chairman, Chemring Group PLC	0207 930 0777
Dr David Price	Chief Executive, Chemring Group PLC	0207 930 0777
Paul Rayner	Finance Director, Chemring Group PLC	0207 930 0777
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RESULTS

Total revenue was £503.9 million (2008: £354.2 million), an increase of 42%. Total underlying operating profit* was £114.7 million (2008: £84.9 million), an increase of 35%.

Revenue, excluding acquisitions, increased 29% to £458.3 million (2008: £354.2 million). Underlying operating profit*, excluding acquisitions, increased 20% to £101.9 million (2008: £84.9 million). Net underlying operating margins*, excluding acquisitions, were 22% (2008: 24%), and decreased slightly due to the significant growth delivered by the Energetics division, whose margins are generally lower than those of the Countermeasures division.

Revenue from businesses acquired in the year was £45.6 million and £12.8 million of underlying operating profit* was generated at a margin of 28%.

An analysis of total revenue and underlying operating profit* by division is set out below:

Division	2009			2008		
	Revenue £m	Underlying operating profit* £m	Margin	Revenue £m	Underlying operating profit* £m	Margin
Energetics						
- Pyrotechnics	173.2	43.8	25%	95.7	22.5	24%
- EOD	61.2	15.6	25%	15.2	4.1	27%
- Munitions	86.0	13.4	16%	85.8	19.1	22%
	<u>320.4</u>	<u>72.8</u>	<u>23%</u>	<u>196.7</u>	<u>45.7</u>	<u>23%</u>
Countermeasures	183.5	53.5	29%	157.5	45.5	29%
Share-based payments	-	(2.1)		-	(1.7)	
Restructuring costs	-	(2.9)		-	-	
Unallocated head office costs	-	(6.6)		-	(4.6)	
Total	<u><u>503.9</u></u>	<u><u>114.7</u></u>	<u><u>23%</u></u>	<u><u>354.2</u></u>	<u><u>84.9</u></u>	<u><u>24%</u></u>

The revenue of the Energetics division grew 63% and the operating profit grew 59%. The revenue of the Countermeasures division grew 17% and the operating profit grew 18%.

The results of the Energetics division have been subdivided to show the results of Pyrotechnics, Explosive Ordnance Disposal (EOD) and Munitions. This provides more clarity on the way the Group management now reports and plans internally, and it is anticipated that when IFRS 8 *Operating Segments* is adopted next year, this will be the format used for segmental analysis.

The Group incurred non-recurring restructuring costs of £2.9 million in the year. These arise out of the major investment programme at Chemring Countermeasures to develop the UK facilities at the site in Salisbury, which has resulted in a restructuring programme costing £1.7 million, and in addition, £1.2 million is being spent on the closure and transfer of the Titan Dynamic Systems business to Martin Electronics in Florida. This latter project is integral to establishing the Chemring Ordnance business unit in the USA in order to target additional growth and generate the synergies to deliver the strategic plan.

Interest income in the year was £0.7 million (2008: £1.8 million). The interest charge for the year was £12.9 million (2008: £12.6 million). Included within interest is £1.4 million (2008: £0.7 million) for retirement benefit obligations. Net interest was covered 9.4 times (2008: 7.9 times) by underlying operating profit*.

Underlying profit before tax* was £102.6 million (2008: £74.2 million), an increase of 38%.

Tax on the underlying profit before tax* was £27.6 million (2008: £20.7 million), representing a rate of 27% (2008: 28%).

Underlying profit after tax* on continuing operations was £75.0 million (2008: £53.5 million), an increase of 40%.

ENERGETICS

- *Orders: £345.9 million*
- *Revenue: £320.4 million*
- *Operating profit: £72.8 million*
- *Operating margin: 23%*

Our Energetics division had another excellent year, achieving a 63% increase in revenue to a record level of £320.4 million, in spite of numerous delays in the receipt of orders caused by the budgetary constraints of some of our customers. Simmel Difesa, our Italian subsidiary, had an outstanding year, increasing its revenue by 54%, driven by demand from NATO forces for 81mm illumination mortar rounds to support peacekeeping operations. Our most recent US acquisition, NIITEK, also had an excellent year, successfully delivering its first contract for thirty Husky Mounted Detection Systems (HMDS) in September 2009 to the US Army and subsequently receiving a follow-on contract for a further fifty systems. With over thirty HMDS units now deployed on counter-IED operations, NIITEK has made an impressive contribution to the Group.

Pyrotechnics

Revenue from our pyrotechnics businesses grew by 81% year-on-year, with significant growth in a number of areas, driven primarily by our NATO customers. Simmel Difesa delivered over £50 million of pyrotechnic products. This was an increase of 96% on the previous year, and included 70% growth in the supply of 81mm illuminating rounds, particularly to our UK customers. Orders for a further €42 million have been received this year, and underpin production of our 81mm pyrotechnic mortar rounds until the end of 2011.

Chemring Ordnance also had an excellent first year with the Group, with revenue from pyrotechnic products at over £45 million, an increase of 400% on last year. Over four million M228 training grenade fuzes were manufactured in the year. In September 2009, we were awarded a five year Indefinite Delivery, Indefinite Quantity (IDIQ) contract, with a maximum value of \$107.3 million, which included a first production order worth \$5.5 million for production in 2010. Production of our gun-fire and target-hit battlefield effect simulation (BES) cartridges reached a total of 750,000 units, an increase of 130%, reflecting the growing number of launchers installed at US Army training ranges. A new multi-year IDIQ contract, worth up to \$48 million, is currently under negotiation with the US Army and is expected to be received before the end of April. There was also a significant increase in sales of marine location markers used by the US Navy, following a number of upgrades and modifications to the technical data package. A new modification, to generate a particular orange smoke, has also attracted increased interest from the US Coast Guard for search and rescue missions, and we expect to qualify the new product in early 2010.

In September 2009, we announced the conditional acquisition of Hi-Shear Technology Corporation for a cash consideration of \$132 million. The acquisition was successfully completed just after the year end in November. Hi-Shear, based in Los Angeles, USA, is a leading manufacturer of high reliability energetic solutions that perform critical functions in key US space and defence programmes, including satellites, space launch vehicles, missile defence and aircrew egress. Its products include low shock pyrotechnic satellite separation systems, space-qualified initiators, electronic missile safe/arm devices and acoustic initiators for underwater explosive ordnance disposal applications. Its product range, technology and lead market position provides the Group with a solid platform for growth in the space market and will augment our existing capabilities in a number of other sectors as well.

Munitions

The munitions businesses had a steady year with revenue stable at £86.0 million, with just over 50% of the revenue arising out of sales of sub-systems or components. The profitability of this part of the business was, however, affected by the increased costs incurred because of poor availability of high quality lead azide within the US industrial base and a reduction in exports to the Middle East due to extended delays in the placement of follow-on contracts.

Simmel had a good year in this segment, with revenue up 14% driven by increased sales of 120mm HEAT ammunition to the NATO procurement organisation, NAMSA. A follow-on contract, worth over €8 million was placed by NAMSA in the middle of the year. Our strong position in naval ammunition was also maintained, with €11 million of revenue generated by sales of 40mm and 76mm ammunition to the navies of Italy, France, India, Singapore and Columbia. Simmel is currently qualifying a new generation of 76mm naval ammunition that incorporates a new warhead with insensitive munitions characteristics and an advanced multi-function microwave fuze. The performance enhancement offered by the new product will ensure the Group maintains its lead position in the years to come.

Chemring Energetics, in the UK, continues to expand its component and sub-system business, and revenue in 2009 was 15% higher than last year. The majority of this growth was generated by a 53% increase in revenue from rocket motors, the most important of which are the two motors supplied for the next-generation anti-tank missile, NLAW. These two motors, one for launch and the other for flight, were manufactured consistently throughout the year at more than three hundred units per month.

Explosive Ordnance Disposal (EOD)

In December 2008, we completed the acquisition of NIITEK, a leading developer of robot and vehicle-mounted improvised explosive device (IED) detection systems, incorporating advanced ground penetrating radar (GPR) and metal detection technologies. In January 2009, the US Army placed a contract, worth up to \$51 million, for thirty of NIITEK's HMDS units for high reliability route clearance operations in support of US peacekeeping activities around the world. A new production facility was established in Charlottesville, Virginia, and manufacture and assembly of these advanced detection systems was gradually increased. All thirty systems were delivered to the US Army on schedule and are now being successfully used in operations by US forces. The chief of the counter-IED branch of the NATO-led International Security Assistance Force (ISAF) in Afghanistan has commented that the HMDS is "a great system that is making a real difference in the counter-IED fight".

In July 2009, NIITEK was awarded a second production contract, worth up to \$75 million, for the supply of fifty further HMDS and spares and support to maintain them in the field. As a consequence, the business has deployed a number of staff and contractors at forward operating bases to provide training, maintenance and support in order to ensure that the equipment is available for the maximum amount of time. In December, the US Army announced its intention to procure twenty one additional systems, and has since placed a contract worth up to \$34 million with NIITEK. The strong demand for HMDS and the hard work and dedication of the production team at NIITEK resulted in increased revenue for the year of £45.6 million, which is some 250% higher than its pre-acquisition performance. Furthermore, the US Army has indicated its interest in procuring a further fifty systems in the next few months, and may consider a larger multi-year procurement.

COUNTERMEASURES

- *Orders: £281.7 million*
- *Revenue: £183.5 million*
- *Operating profit: £53.5 million*
- *Operating margin: 29%*

Our Countermeasures division also performed well, achieving a 17% increase in revenue to £183.5 million, in spite of the substantial delays in placement of contracts by the US Department of Defense that has particularly affected Kilgore.

Chemring Countermeasures, our UK subsidiary, had an excellent year with revenue up 17% to a new record. This was driven principally by demand from NATO forces for our conventional magnesium decoys, where annual production hit a new record of 380,000 flares during the year. However, the 200% increase in demand for Typhoon flares and the 130% increase in demand for advanced kinematic flares also made a significant contribution. With the scheduled delivery of additional Typhoon aircraft to NATO and Middle East customers over the next few years, there is ample opportunity for further expansion.

Chemring Australia had a record year, with a 45% increase in revenue following the signature of a long-term framework agreement with the Australian Government.

Alloy Surfaces also had an excellent year, with revenue up 25% to over £85 million and a record level of production of in excess of two million special material decoys. This growth was driven by increased demand from the US Air Force for protection of transport aircraft and the UK Ministry of Defence for protection of combat aircraft. Production of helicopter decoys (M211s and MJU-64s) reduced during the year, from 60,000 per month to 40,000 per month, in line with the US plans for withdrawal from Iraq. However, the spare capacity was transferred over to MJU-50 decoy production, where strong demand from the US Air Force increased production to over 60,000 units per month. A further \$74 million contract for MJU-50 decoys was placed by the US Air Force in the second half of the year, providing firm order coverage for the next two years' production.

Our other US subsidiary, Kilgore, also had a good year, with revenue similar to last year but production volumes reduced to 1.1 million flares as some fairly significant product mix changes took place. Delays in the placement of new orders by the US Department of Defense also had an impact, and led to a cessation of production on both sets of flares for the B-52 and F-22 aircraft. Production approval of both the B-52 and C-17 flares was completed at the beginning of the year. Initial production of the flares has gone extremely well, with monthly production steadily breaking new records. The re-design of the M212 spectral flare was also completed during the year, and we have now satisfactorily completed the factory acceptance testing in order that full production can commence in 2010.

In September, Kilgore was awarded its largest ever Indefinite Delivery, Indefinite Quantity (IDIQ) contract, potentially worth up to a maximum of \$804 million, for the multi-year supply of M206 helicopter flares, and MJU-7 and MJU-10 combat aircraft flares. The initial production order for 2010 was \$42 million, which was higher than expected. This was subsequently followed by a four-year IDIQ contract from the US Air Force for flares for the F-22 aircraft. This contract has a maximum value of \$54 million and the initial production order of \$24 million covers production until 2011. The order book for Kilgore at the year end had increased to a record level of £59 million, 95% higher than the previous year, and lays a solid foundation for substantial growth in 2010.

PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results have not changed significantly from those set out in the Group's 2008 Financial Statements and the 2009 Interim Report. These can be summarised as:

- Health and safety risks
- Political, economic and financial risks
- 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
- Competitive risks
- Compliance and corruption risks

ACQUISITIONS

During the year the Group acquired 100% of the issued stock capital of the following business:

	Date acquired	Consideration (including costs) £m
Non-Intrusive Inspection Technology, Inc. (NIITEK)	12 December 2008	<u>26.9</u>
Total consideration		<u>26.9</u>

A summary of the fair value of assets acquired and the goodwill arising on the acquisition is as follows:

	2009 £m
Intangible assets	15.5
Property, plant and equipment	0.4
Debt assumed	(0.3)
Working capital	(1.7)
Deferred tax	<u>(3.6)</u>
Fair value of assets acquired	10.3
Consideration (including costs)	<u>26.9</u>
Goodwill arising	<u>16.6</u>

RESEARCH AND DEVELOPMENT

Research and development expenditure totalled £18.9 million (2008: £9.3 million), more than double last year. An analysis of expenditure is set out below:

	2009 £m	2008 £m
Customer funded research and development	9.7	3.4
Internally funded research and development	4.4	3.3
Capitalised development costs	<u>4.8</u>	<u>2.6</u>
Total research and development expenditure	<u>18.9</u>	<u>9.3</u>

The Group's policy is to write-off capitalised development costs over a three year period. Amortisation of development costs was £1.5 million (2008: £0.7 million).

PENSIONS

The deficit on the Group's defined benefit pension schemes before associated tax credits, as defined by IAS19 *Accounting for pension costs*, was £28.1 million (2008: £13.6 million), more than double the deficit last year. The increase reflects the significant changes in market conditions during the year, particularly corporate bond rates.

During the year, the triennial actuarial valuation as at April 2009 for the UK Chemring Group Staff Pension Scheme was commenced, and is expected to be finalised during the first half of 2010.

FOREIGN EXCHANGE

The results of overseas subsidiary undertakings are translated into sterling at weighted average exchange rates.

Currency denominated net assets are translated at year end rates.

Effective translation rates were as follows:

	2009	2008	% change
Average rates			
US dollar	1.55	1.87	17%
Euro	1.13	1.26	10%
Year end rates			
US dollar	1.65	1.63	(1)%
Euro	1.12	1.27	12%

Revenue and underlying operating profit* improved by approximately £45.6 million and £10.2 million respectively during the year, primarily as a result of the US dollar and Euro appreciation against sterling.

CASH FLOW

Operating cash flow was £106.7 million (2008: £83.7 million), which represents a conversion rate of underlying operating profit* to operating cash of 93% (2008: 99%). Working capital balances were well controlled in the year and were kept below increases in Group revenues.

Fixed asset expenditure across the Group was £38.2 million (2008: £34.2 million), which includes costs related to the commencement of construction of new facilities at our sites in Salisbury and Australia. We adopted IAS23 (Revised) *Borrowing Costs* during the year to appropriately reflect the finance costs associated with these projects.

Cash flow from operating activities was £49.8 million (2008: £36.1 million), which represents a conversion rate of underlying operating profit* to cash flow of 43% (2008: 43%).

A summary of Group cash flow is set out below:

	2009 £m	2008 £m
Operating cash flow	106.7	83.7
Capital expenditure	(38.2)	(34.2)
Tax	(18.7)	(13.4)
Cash flow from operating activities	49.8	36.1
Interest	(10.5)	(8.2)
Dividends	(13.8)	(9.3)
Net cash inflow before acquisitions and disposals	25.5	18.6

NET DEBT, FACILITIES AND GOING CONCERN

Net debt at the year end was £122.8 million (2008: £116.7 million), an increase of 5%. The Group had £106.9 million (2008: £107.1 million) of undrawn borrowing facilities at the year end.

Gearing at the year end was 45% (2008: 51%). A summary of debt is set out below:

	2009 £m
Cash	61.3
Term loans	(96.9)
US loan notes	<u>(87.2)</u>
	<u>(122.8)</u>

A summary of the Group's main committed bank facilities and repayment dates is set out below:

Facility type	Total facility £m	Repayment dates	Required repayments £m	Renewal dates
Working capital	50.0			2012
Term loans	91.8	2010 2011 2012	32.9 35.5 <u>23.4</u> <u>91.8</u>	
US loan notes	87.2	2017	87.2	

At the end of October 2009 the working capital facility was unutilised, due to the availability of net cash balances. Terms loans and the US loan notes were fully drawn.

At the year end the Group comfortably met its two main bank covenants, as outlined below:

	Covenant	Actual	Headroom
Interest cover to EBITDA	4.0	11.2	7.2
Debt to EBITDA	3.0	1.4	1.6

The directors have acknowledged the latest guidance on going concern. Whilst the current volatility in financial markets has created general uncertainty, the Group has significant working capital headroom, strong covenant compliance and a record order book. Accordingly, the directors have a reasonable expectation that adequate financial resources will continue to be available for the foreseeable future.

POST BALANCE SHEET EVENTS

Private Placement of Loan Notes

On 19 November 2009, the Group completed the private placement of \$280 million of fixed interest loan notes with a number of institutional investors. 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.

Acquisition of Hi-Shear Technology Corporation

On 25 November 2009, the Group purchased the entire stock capital of Hi-Shear Technology Corporation for a cash consideration of \$132 million. The consideration was funded from the private placement of loan notes referred to above.

Conditional Acquisition of The Allied Defense Group, Inc.

On 19 January 2010, the Group announced the conditional acquisition of The Allied Defense Group, Inc. for a cash consideration of \$59 million. The consideration for this acquisition will also be funded from the recent loan note issue.

DIVIDENDS

The Board is recommending a final dividend of 36p per ordinary share, a 44% increase on the final dividend for 2008. This, together with the interim dividend of 14p paid in August 2009, gives a total dividend for the year of 50p, a 43% increase over 2008. The dividend is over 4.3 times covered on underlying profits after tax of the continuing operations. The shares will be marked "ex dividend" on 17 March 2010 and the dividend is payable on 1 April 2010 to shareholders on the register at the close of business on 19 March 2010.

PROSPECTS

The Group's success over the last decade has been achieved through a clearly defined policy of organic growth, a focused programme of acquisitions, well-executed post-acquisition integration, and subsequent investment in product and facilities to deliver further expansion. The Board believes that there is ample opportunity to continue this policy in Europe, the USA and other countries around the world, where joint ventures or new start-ups could be the preferred option.

Shareholders inevitably will wish to know the Board's views on two major topics - the war in Afghanistan and future defence budgets. The Board believes that substantial forces will be required in Afghanistan for many years to come. The US and UK defence budgets appear to be under threat and this will have an impact on the global defence market. However, the Board believes that the majority of our niche markets will be unaffected and our strategy for growth remains unchanged.

With our wide spread of customers, products and capabilities, and our considerable abilities to respond rapidly to the military's requirements, we are very confident of our continuing long term success. Our proven strategy, the strength of our order book, the impact of our enlarged sales force, the contribution from our latest acquisitions, and our secure financial fundamentals should ensure that the Group will continue in 2010 with the progress of the last decade.

RESPONSIBILITY STATEMENT OF THE DIRECTORS ON THE ANNUAL REPORT AND ACCOUNTS

The responsibility statement below has been prepared in connection with the Company's full Annual Report and Accounts for the year ended 31 October 2009. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

1. The financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. The Statement by the Chairman, the Review by the Chief Executive and the Review by the Finance Director, together with the sections of the Annual Report on each of the business segments, key performance indicators and principal risks, and the Corporate Responsibility Review, which are incorporated into the Directors' Report, include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of Directors on 19 January 2010 and has been signed on its behalf by Dr D J Price and Mr P A Rayner.

** Before goodwill adjustment arising from recognition of tax losses, intangible amortisation arising from business combinations and gain/(loss) on fair value movements on derivatives of £6.8 million (2008: £16.5 million) - see Note 2 below*

SUMMARY FINANCIAL INFORMATION

Continuing operations

	2009	2008	2007
	£m	£m	£m
Revenue			
Energetics - continuing operations	274.8	196.7	128.2
- acquired	<u>45.6</u>	-	-
Energetics total	<u>320.4</u>	<u>196.7</u>	<u>128.2</u>
Countermeasures	<u>183.5</u>	<u>157.5</u>	<u>126.5</u>
Total revenue	<u>503.9</u>	<u>354.2</u>	<u>254.7</u>
Underlying operating profit*			
- continuing operations	101.9	84.9	61.2
- acquired	<u>12.8</u>	-	-
Total underlying operating profit*	<u>114.7</u>	<u>84.9</u>	<u>61.2</u>
Underlying profit before tax*	102.6	74.2	53.2
Underlying basic earnings per ordinary share*	213p	160p	112p
Operating profit	107.9	68.4	57.8
Profit before tax	95.8	57.7	49.8
Basic earnings per ordinary share	199p	123p	105p
Diluted earnings per ordinary share	197p	123p	104p
Dividend per ordinary share	50p	35p	25p
Net debt (£m)	122.8	116.7	99.6
Shareholders' funds (£m)	273.6	230.6	124.0

* Before goodwill adjustment arising from recognition of tax losses, intangible amortisation arising from business combinations and gain/(loss) on fair value movements on derivatives of £6.8 million (2008: £16.5 million)

CONSOLIDATED INCOME STATEMENT

for the year ended 31 October 2009

	Note	2009 £m	2008 £m
Continuing operations			
Revenue		458.3	354.2
	- continuing		
	- acquired	<u>45.6</u>	-
Total revenue		<u>503.9</u>	<u>354.2</u>
Operating profit		98.0	68.4
	- continuing		
	- acquired	<u>9.9</u>	-
Total operating profit	2	<u>107.9</u>	<u>68.4</u>
Operating profit is analysed as:			
Underlying operating profit*		114.7	84.9
Goodwill adjustment arising from recognition of tax losses		-	(1.8)
Intangible amortisation arising from business combinations		(13.8)	(6.0)
Gain/(loss) on fair value movements on derivatives		<u>7.0</u>	<u>(8.7)</u>
		<u>107.9</u>	<u>68.4</u>
Share of post-tax results of associate		0.1	0.1
Finance income		0.7	1.8
Finance expense		<u>(12.9)</u>	<u>(12.6)</u>
Profit before tax for the year	2	95.8	57.7
Profit before tax is analysed as:			
Underlying profit before tax*		102.6	74.2
Goodwill adjustment arising from recognition of tax losses		-	(1.8)
Intangible amortisation arising from business combinations		(13.8)	(6.0)
Gain/(loss) on fair value movements on derivatives		<u>7.0</u>	<u>(8.7)</u>
		<u>95.8</u>	<u>57.7</u>
Tax		<u>(25.7)</u>	<u>(16.5)</u>
Profit after tax for the year attributable to equity holders of the parent		<u>70.1</u>	<u>41.2</u>
Earnings per ordinary share	3		
Underlying*		<u>213p</u>	<u>160p</u>
Basic		<u>199p</u>	<u>123p</u>
Diluted		<u>197p</u>	<u>123p</u>

* Before goodwill adjustment arising from recognition of tax losses, intangible amortisation arising from business combinations and gain/(loss) on fair value movements on derivatives.

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

for the year ended 31 October 2009

	2009 £m	2008 £m
Profit after tax for the year	70.1	41.2
Other recognised income and expense		
Losses on cash flow hedges	(1.0)	(3.8)
Movement on deferred tax relating to cash flow hedges	0.2	0.8
Exchange differences on translation of foreign operations	(3.1)	24.8
Actuarial losses on defined benefit pension schemes	(14.1)	(0.1)
Movement on deferred tax relating to pension schemes	4.0	-
Current tax on items taken directly to equity	(1.2)	(0.6)
Deferred tax on items taken directly to equity	<u>0.3</u>	<u>(4.2)</u>
Total recognised income and expense for the year attributable to equity holders of the parent	<u>55.2</u>	<u>58.1</u>

CONSOLIDATED BALANCE SHEET

as at 31 October 2009

	2009	2008
	£m	£m
Non-current assets		
Goodwill	149.5	128.8
Other intangible assets	90.4	85.0
Property, plant and equipment	135.0	110.4
Interest in associate	1.1	1.0
Deferred tax	<u>17.7</u>	<u>9.7</u>
	393.7	334.9
Current assets		
Inventories	96.9	89.1
Trade and other receivables	98.8	87.8
Cash and cash equivalents	61.3	69.6
Derivative financial instruments	<u>0.4</u>	<u>-</u>
	<u>257.4</u>	<u>246.5</u>
Total assets	651.1	581.4
Current liabilities		
Bank loans and overdrafts	(34.3)	(19.7)
Obligations under finance leases	(0.5)	(0.7)
Trade and other payables	(115.1)	(108.5)
Short term provisions	(1.2)	(1.5)
Current tax liabilities	(14.6)	(6.3)
Derivative financial instruments	<u>(1.1)</u>	<u>(8.1)</u>
	(166.8)	(144.8)
Non-current liabilities		
Borrowings	(148.3)	(163.6)
Obligations under finance leases	(0.9)	(2.2)
Trade and other payables	(1.8)	(1.8)
Long term provisions	(5.2)	(4.4)
Deferred tax	(22.6)	(17.3)
Preference shares	(0.1)	(0.1)
Retirement benefit obligations	(28.1)	(13.6)
Derivative financial instruments	<u>(3.7)</u>	<u>(3.0)</u>
	<u>(210.7)</u>	<u>(206.0)</u>
Total liabilities	<u>(377.5)</u>	<u>(350.8)</u>
Net assets	<u>273.6</u>	<u>230.6</u>
Equity		
Share capital	1.8	1.8
Share premium account	120.3	119.8
Special capital reserve	12.9	12.9
Hedging reserve	(3.4)	(2.6)
Revaluation reserve	1.4	1.5
Retained earnings	<u>145.8</u>	<u>102.9</u>
	278.8	236.3
Own shares	<u>(5.2)</u>	<u>(5.7)</u>
Equity attributable to equity holders of the parent	<u>273.6</u>	<u>230.6</u>
Total equity	<u>273.6</u>	<u>230.6</u>

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 October 2009

	Note	2009 £m	2008 £m
Cash flows from operating activities			
Cash generated from operations	A	106.7	83.7
Tax paid		<u>(18.7)</u>	<u>(13.4)</u>
Net cash inflow from operating activities		<u>88.0</u>	<u>70.3</u>
Cash flows from investing activities			
Dividends received from associate		-	0.1
Purchases of property, plant and equipment		(33.4)	(31.0)
Purchases of intangible assets		(4.8)	(3.2)
Acquisition of subsidiary undertakings (net of cash acquired)		<u>(27.6)</u>	<u>(68.2)</u>
Net cash outflow from investing activities		<u>(65.8)</u>	<u>(102.3)</u>
Cash flows from financing activities			
Dividends paid		(13.8)	(9.3)
Interest paid		(10.5)	(8.2)
Proceeds on issues of shares		0.5	58.6
New borrowings		14.9	72.7
Repayments of borrowings		(20.7)	(36.4)
(Repayments of)/proceeds from finance leases		(1.6)	0.4
Purchase of own shares		<u>(1.5)</u>	<u>(2.9)</u>
Net cash (outflow)/inflow from financing activities		<u>(32.7)</u>	<u>74.9</u>
(Decrease)/increase in cash and cash equivalents during the year			
Cash and cash equivalents at start of the year		69.6	25.4
Effect of foreign exchange rate changes		<u>2.2</u>	<u>1.3</u>
Cash and cash equivalents at end of the year		<u>61.3</u>	<u>69.6</u>

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 October 2009

	2009 £m	2008 £m
A. Cash generated from operations		
Operating profit from continuing operations	98.0	68.4
Operating profit from acquired operations	9.9	-
Adjustment for:		
Depreciation of property, plant and equipment	13.3	9.7
Impairment charge	1.1	-
Amortisation of intangible assets arising from business combinations	13.8	6.0
Amortisation of other intangibles	1.5	0.7
(Gain)/loss on fair value movements on derivatives	(7.0)	8.7
Goodwill adjustment arising from recognition of tax losses	-	1.8
Share-based payment expense	2.1	1.7
Difference between pension contributions paid and amount recognised in Income Statement	0.1	0.1
Increase/(decrease) in provisions	<u>0.5</u>	<u>(2.2)</u>
Operating cash flows before movements in working capital	133.3	94.9
Increase in inventories	(8.4)	(18.8)
Increase in trade and other receivables	(10.0)	(14.1)
(Decrease)/increase in trade and other payables	<u>(8.2)</u>	<u>21.7</u>
Cash generated from operations	<u>106.7</u>	<u>83.7</u>
Reconciliation of net cash flow to movement in net debt		
(Decrease)/increase in cash and cash equivalents during the year	(10.5)	42.9
Cash inflow/(outflow) from movement in debt and lease financing	<u>7.5</u>	<u>(36.7)</u>
Change in net debt resulting from cash flows	(3.0)	6.2
New finance leases	0.5	0.8
Translation difference relating to loans	(3.1)	(23.6)
Amortisation of debt finance costs	<u>(0.5)</u>	<u>(0.5)</u>
Movement in net debt in the year	(6.1)	(17.1)
Net debt at start of the year	<u>(116.7)</u>	<u>(99.6)</u>
Net debt at end of the year	<u>(122.8)</u>	<u>(116.7)</u>

Analysis of net debt

	As at 1 Nov 2008 £m	Cash flow £m	Non-cash Changes £m	Exchange movement £m	As at 31 Oct 2009 £m
Cash at bank and in hand	69.6	(10.5)	-	2.2	61.3
Debt due within one year	(19.7)	5.8	(19.4)	(1.0)	(34.3)
Debt due after one year	(163.6)	-	19.4	(4.1)	(148.3)
Finance leases	(2.9)	1.7	-	(0.2)	(1.4)
Preference shares	<u>(0.1)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(0.1)</u>
	<u>(116.7)</u>	<u>(3.0)</u>	<u>-</u>	<u>(3.1)</u>	<u>(122.8)</u>

Notes

1. ACCOUNTS AND AUDITORS' REPORT

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 October 2009 or 31 October 2008 but is derived from those accounts. Statutory accounts for 2008 have been delivered to the Registrar of Companies, and those for 2009 will be delivered following the company's Annual General Meeting. The auditors have reported on these accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis; and did not contain any statements required under either s237(2) or s237(3) of the Companies Act 1985 or s498(2) or s498(3) of the Companies Act 2006.

The preliminary announcement has been prepared on the basis of the accounting policies as stated in the financial statements for the year ended 31 October 2009.

Whilst the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to publish full financial statements that comply with IFRSs on 15 February 2010 (see Note 6 below).

2. RECONCILIATION OF STATUTORY OPERATING PROFIT TO UNDERLYING OPERATING PROFIT

Underlying profit is used by the Board to measure and monitor the underlying performance of the Group. Set out below is a reconciliation of statutory operating profit and underlying operating profit.

	2009	2008
	£m	£m
Statutory operating profit	107.9	68.4
Add back:		
Goodwill adjustment arising from recognition of tax losses	-	1.8
Intangible amortisation arising from business combinations	13.8	6.0
(Gain)/loss on fair value movements on derivatives	<u>(7.0)</u>	<u>8.7</u>
Underlying operating profit	<u>114.7</u>	<u>84.9</u>

Profit before tax and underlying profit before tax also vary by the above amounts.

3. EARNINGS PER ORDINARY SHARE

Earnings per share are based on the average number of shares in issue of 35,266,616 (2008: 33,339,754) and profit on ordinary activities after tax of £70.1 million (2008: £41.2 million). Diluted earnings per share has been calculated using a diluted average number of shares in issue of 35,601,379 (2008: 33,514,169) and profit on ordinary activities after tax of £70.1 million (2008: £41.2 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	70.1	35,267	199	41.2	33,340	123
Additional shares issuable other than at fair value in respect of options outstanding	<u>-</u>	<u>334</u>	<u>(2)</u>	<u>-</u>	<u>174</u>	<u>-</u>
Diluted	<u>70.1</u>	<u>35,601</u>	<u>197</u>	<u>41.2</u>	<u>33,514</u>	<u>123</u>

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.

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

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

	2009			2008		
	Earnings £m	Ordinary shares Number 000s	EPS Pence	Earnings £m	Ordinary shares Number 000s	EPS Pence
Basic	70.1	35,267	199	41.2	33,340	123
Intangible amortisation arising from business combinations, goodwill adjustment and gain/(loss) on fair value movements on derivatives (after tax)	<u>4.9</u>	<u>-</u>	<u>14</u>	<u>12.3</u>	<u>-</u>	<u>37</u>
Underlying	<u>75.0</u>	<u>35,267</u>	<u>213</u>	<u>53.5</u>	<u>33,340</u>	<u>160</u>

4. DIVIDEND

The final dividend of 36p per ordinary share will be paid on 1 April 2010 to all shareholders registered at the close of business on 19 March 2010. The ex-dividend date will be 17 March 2010. The total dividend for the year will be 50p (2008: 35p). The final dividend is subject to approval by the shareholders at the Annual General Meeting, and accordingly, has not been included as a liability in the financial statements for the year ended 31 October 2009.

5. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed.

6. 2009 FINANCIAL STATEMENTS

The financial statements for the year ended 31 October 2009 will be posted to shareholders on 15 February 2010. They will also be available from that date at the registered office, Chemring House, 1500 Parkway, Whiteley, Fareham, Hampshire PO15 7AF and will be posted on the Company's website at www.chemring.co.uk the following morning.