Chemring Group PLC
Annual Report and Accounts 2010

Developing international markets

A world-leading defence company

Chemring is a global group that specialises in the manufacture of energetic material products and 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.

Our existing businesses provide strong organic growth and we are continuing our acquisition strategy in the **fast-growing energetics sector**.

Highlights

Strong sales growth at NIITEK

NIITEK had an outstanding year, increasing its revenue by 124% to £102 million, driven by the urgent demand from the US and Canadian Armies for the Husky Mounted Detection System (HMDS) ground penetrating radars for counter-IED operations.

For more information see page 6

Growth in the Middle East

Our non-NATO customers represent the largest opportunity for growth over the next five years. In 2010, our revenues from Middle East and Far East customers grew by over 60% and we believe that future growth in these regions should be substantial.

For more information see page 5

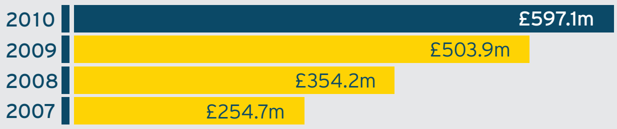
Acquisition of Roke

In September we completed the acquisition of Roke, a leading UK developer of advanced sensors, signal processing, communications and network solutions. The acquisition provides the Group with a very broad range of capabilities and market access across our business segments.

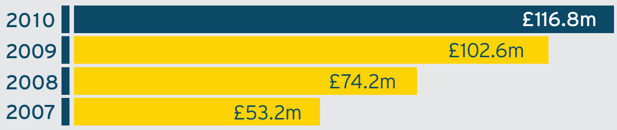
For more information see page 4

2010 Financial highlights

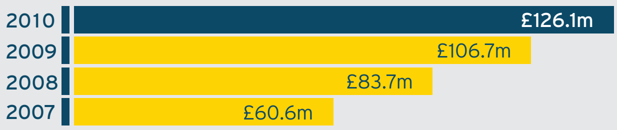
Revenue
£597.1m
+18%



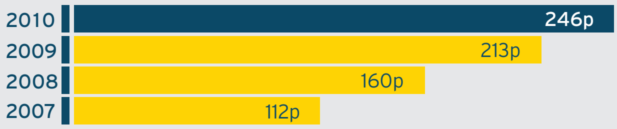
Underlying profit before tax*
£116.8m
+14%



Underlying operating cash flow
£126.1m
+18%



Underlying earnings per ordinary share*
246p
+15%



* Before acquisition related costs, intangible amortisation arising from business combinations and (loss)/gain on fair value movements on derivatives totalling £27.7 million (2009: £6.8 million).

Contents

Chemring at a glance

Chemring operates in four market sectors: Countermeasures, Counter-IED, Pyrotechnics and Munitions. All our products are technically demanding, requiring high reliability and integrity, and the highest level of safety in manufacture and use.

Countermeasures

Chemring is the world leader in the design, development and manufacture of advanced expendable countermeasures and countermeasure suites for protecting air, sea and land platforms against guided missile threats.

- Over 50% world market share
- Largest supplier of airborne decoy countermeasures to the US Department of Defense and the UK Ministry of Defence
- Technology leader in spectral, special material and thrusted flares for fixed-wing and rotary aircraft
- Customers in 35 countries

Revenue

£196.3m

Proportion of Group revenue

33%

For more information see page 12

Counter-IED

Chemring is the leading supplier of vehicle-mounted Ground Penetrating Radar (GPR) detection systems and has advanced technologies in other IED detectors and counter-IED electronic countermeasures. We manufacture high reliability detonators, initiators and disrupters for demolition and explosive ordnance disposal.

- Leader in vehicle-mounted GPR detection
- Leader in anti-IED technology development
- New safer demolition stores developed and undergoing qualification

Revenue

£114.9m

Proportion of Group revenue

19%

For more information see page 14

Pyrotechnics

Chemring is a leading developer and manufacturer of pyrotechnics for space, safety systems, military training, screening, signalling and illumination applications.

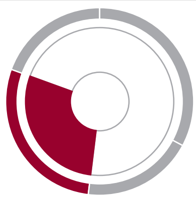
- Leading supplier of low shock satellite separation products and NASA standard initiators
- Largest supplier of pyromechanisms for aircraft egress systems
- Significant supplier of training products to the US Army and other NATO forces
- Growing demand for advanced pyrotechnic rounds and payloads

Revenue

£170.0m

Proportion of Group revenue

29%



For more information see page 16

Munitions

Chemring offers a unique capability in supplying energetic materials, components and sub-systems to leading prime contractors. We also operate as a prime contractor in certain market niches.

- Manufacturer of critical components for PAC-3 anti-ballistic missile system
- Leader in materials development for insensitive munitions
- Market leader in naval ammunition

Revenue

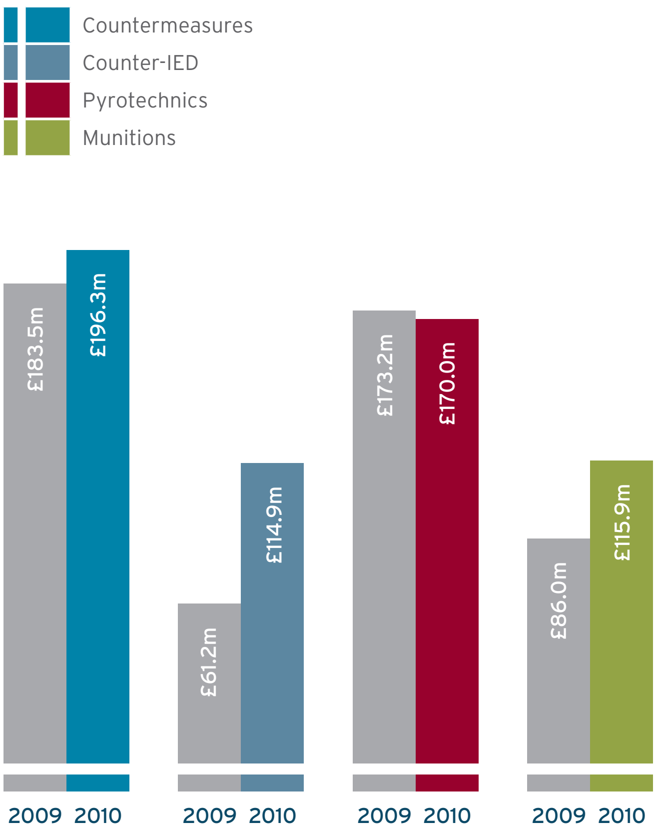
£115.9m

Proportion of Group revenue

19%

For more information see page 18

Group revenue by sector



Statement by the Chairman

Over the last five years, the Group has achieved substantial growth through a well-defined strategy of double digit organic growth together with a focused and well-executed programme of acquisitions.

Highlights

- Revenue up 18% to £597.1 million
- Underlying operating profit* up 18% to £135.6 million
- Underlying profit before tax* up 14% to £116.8 million
- Underlying earnings per share* up 15% at 246p
- Profit before tax £89.1 million
- Basic earnings per share 189p
- Total dividend per share for the year up 18% at 59p

Key information

Underlying profit before tax*

£116.8m

+14%

Underlying earnings per share*

246p

+15%

Dividend per ordinary share

59p

+18%

* Before acquisition related costs, intangible amortisation arising from business combinations and (loss)/gain on fair value movements on derivatives totalling £27.7 million (2009: £6.8 million)

In my first Statement as Chairman, I am delighted to report that the Group increased its revenue by 18% to £597.1 million and generated an underlying operating profit* of £135.6 million, an increase of 18% on last year. Two thirds of the growth was organic. The Group's underlying profit before tax* increased 14% to £116.8 million and its underlying earnings per share* rose 15% to 246p. With the continuing strong growth in earnings, the Board is recommending a final dividend of 42p, which gives a total dividend for the year of 59p, an increase of 18% over last year.

The order intake for the Group increased by 31% to a new annual record of £824.3 million, and we entered the 2011 financial year with an order book of £803.3 million, 44% higher than last year. The order book today has reached a new record high of £902 million 12% higher than at the year end, and this underpins our confidence in the prospects for further growth in 2011.

Since my appointment as Chairman on 1 October 2010, I have taken the opportunity to visit many of our manufacturing operations around the world. I have been most impressed with what I have seen of the Group's technical and manufacturing skills, and it has enabled me to observe the strong profit and growth culture which is at the heart of the Group's excellent performance over many years. I feel confident that this characteristic will enable growth to continue in the future.

The Group invested £177 million in the acquisition of five new businesses during the year; the three most significant were:

- Hi-Shear Technology Corporation – a US-based, leading manufacturer of high reliability energetic products for use in key US space and defence programmes, including satellites, missile defence and aircrew egress;
- Mecar – a manufacturer of medium and large calibre ammunition, particularly for modern, light armoured vehicles, based in Belgium;
- Roke – a leading UK developer of advanced sensors, signal processing, communications and network solutions for the countermeasures, counter-improvised explosive device (counter-IED), counter-terrorism and industrial markets.

These acquisitions greatly enhance the Group's capabilities and market access across our chosen business segments, and are expected to make a significant contribution to our future growth strategy.

Balance sheet, cash flow and debt

The Board is committed to maintaining a solid balance sheet, and the Group has once again produced a healthy underlying operating cashflow of £126.1 million, demonstrating the reliable strong cash generation of the businesses.

We chose to debt-fund our acquisitions during the year, principally utilising our $280 million of private placement loan notes which have a maturity date of 2016 and 2019. Whilst the cost of acquisitions has increased our gearing level to 95%, I am confident that, with our continued strong cash generation, this high level of gearing will reduce in 2011.

Our working capital facilities were due for renewal in March 2012 but recognising the significant corporate refinancing that is due to occur in the UK in the latter part of 2011 and early 2012, we took the opportunity to refinance the Group's facilities early and completed this on 14 January 2011. Our new facilities, which are unsecured, now have an extended maturity to April 2015 and are £55 million higher than before.

Group strategy

Over the last five years, the Group has achieved substantial growth through a well-defined strategy of double digit organic growth together with a focused and well-executed programme of acquisitions. The development of new products is an essential component of this organic growth and the 81% increase in our investment in research and development during the year should provide an exciting foundation for the future. We also intend to pursue further

acquisitions of selected companies that expand our high technology capabilities and market position, including the consolidation of fragmented markets.

Board of directors

Ken Scobie retired as a director at the end of September, after thirteen years as Chairman. During that period, the Group has been transformed as a business and is now a significant worldwide manufacturing organisation, which has delivered substantial shareholder value consistently over a number of years. On behalf of the Board, I would like to pay tribute to Ken's contribution to the Group's development and to thank him for the leadership he has provided to the Board. We shall miss his wisdom and guidance, and wish him well in his retirement.

During the year, Air Marshal Sir Peter Norriss and Mr Much completed their second three year terms as non-executive directors. Their appointments were extended on a rolling basis, pending my appointment, to assist with a smooth transition. I will be considering succession plans for the non-executive directors over the forthcoming year but in the meantime, the knowledge and experience of all my fellow Board members is of considerable benefit as I continue to become more familiar with the Group.

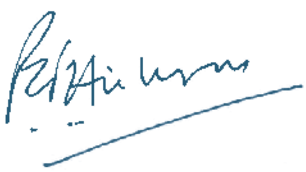
Dividends

In accordance with the Group's established policy of increasing dividends commensurate with the growth in the Group's profitability, the Board is recommending a final dividend for the year of 42p (2009: 36p). With the interim dividend paid of 17p (2009: 14p), this gives a total dividend for 2010 of 59p (2009: 50p), an increase of 18%, in line with the revenue and underlying operating profit* growth of 18% for the full year. The dividend is covered 4.2 times by underlying after tax earnings* and with a solid balance sheet and cash flow, the Group remains well positioned to increase its return to shareholders.

Prospects

Over the last twelve months, the European defence market has weakened considerably with many nations reducing or deferring defence expenditure as they struggle to cope with rising deficit problems. Recent announcements from the US Government on their 2012 budget intentions have provided greater assurance in the future prospects for that market. We remain confident that the USA represents an area of future growth in all of our market segments. However, it is our non-NATO customers that represent the largest opportunity for growth over the next five years. In 2010, our revenues from Middle East and Far East customers grew by over 60% and we believe that future growth in these regions should be substantial.

Our closing order book increased substantially to £803 million and, since the year end, it has increased further to £902 million. This strong order book, our solid balance sheet and our proven strategy provide clear visibility of the prospects for 2011 and should provide the foundation for further growth in the future.



P C F Hickson
Chairman
18 January 2011

Review by the Chief Executive

The Group performed well throughout the year – revenue from continuing operations grew by 18% to a record £597.1 million.

Operational highlights

- Tremendous performance from our US subsidiary, NIITEK, which delivered over one hundred Husky Mounted Detection System (HMDS) ground penetrating radars.
- Our Munitions division also had an excellent year with over 100% growth in order intake to £245.2 million.
- With the acquisition of Roke, the number of qualified engineers and scientists employed by the Group increased to over 600.
- Capital investment in the year grew by 22% to £40.9 million, which represents nearly 7% of Group revenue.

Key information

Year end order book

£803.3m

+44%

Revenue

£597.1m

+18%

Number of employees

4,283

+28%

* Before acquisition related costs, intangible amortisation arising from business combinations and (loss)/gain on fair value movements on derivatives totalling £27.7 million (2009: £6.8 million)

Group results

The Group performed well throughout the year, in spite of the downturn in European defence spending as the majority of governments looked to reduce their fiscal deficits. Revenue from continuing operations grew by 18% to a record £597.1 million. Over two thirds of this growth was organic, with strong contributions from both our Counter-Improvised Explosive Device (IED) and Munitions operations. There was a tremendous performance from our US subsidiary, NIITEK, which delivered over one hundred Husky Mounted Detection System (HMDS) ground penetrating radars to the US Army for counter-IED operations. The Group revenue continued to be second half weighted, with £341.2 million of revenue (57%) generated in the second six months of the year, similar to the average phasing achieved over the last five years.

The order intake for the Group during the year reached a new record of £824.3 million, up 31% on the previous year. Our Counter-IED division generated £178.5 million of order intake, of which £151.5 million related to the provision of ground penetrating radar for the US Army. Our Munitions division also had an excellent year with over 100% growth in order intake to £245.2 million, £145.1 million of which was awarded by Middle Eastern customers. Order intake in our Pyrotechnics division also reached a new record of £181.4 million, up 25% on last year and providing the highest level of order cover we have ever had going into a new financial year. Our Countermeasures division achieved an order intake of £219.2 million, which although lower than last year, did not include any of the large multi-year contracts that were awarded by the US and Australian governments in 2009.

The closing order book for the Group, therefore, reached £803.3 million, an increase of 44% on the previous year end, and this provides a solid foundation for the expected growth in 2011.

Our Counter-IED division had an excellent year, achieving an 88% increase in revenue to a record level of £114.9 million, in spite of delays in the placement of orders. NIITEK had an outstanding year, increasing its revenue by 124% to £102 million, driven by urgent demand from the US and Canadian Armies for the HMDS ground penetrating radar to support peacekeeping operations. A new production facility was opened in July 2010 and production has now increased to twenty HMDS units per month.

Our Munitions division also had a commendable year, with revenue up 35% to a new record of £115.9 million and growing demand for our products in most geographic areas. Deliveries of 40mm grenades and medium and large calibre ammunition to Middle East customers under new multi-year contracts were the main contributor. Sales of sub-systems contributed just over 47% of the revenue, with full round ammunition making up the remainder.

Our Pyrotechnics division generated revenue of £170 million, slightly below last year but still 77% higher than that achieved in 2008. Growth was achieved in aircraft safety systems and space pyrotechnics, which was offset by reduced deliveries of training products because of customer-funded product upgrades and the relocation of some US production.

Our Countermeasures division delivered a steady performance, achieving a 7% increase in revenue to £196.3 million, in spite of the incidents that disrupted production at Kilgore and, earlier in the year, at Chemring Countermeasures in the UK.

The underlying operating margin* achieved for the Group was 23%, similar to that achieved last year, and an underlying operating profit* of £135.6 million was generated, which was 18% higher than last year. Operating margins in the Countermeasures division rose slightly to 30% and those in the Munitions division rose to 18%, reflecting the higher relative proportion of prime contracting (lower margin) business to that of component and sub-system business (higher margin). Pyrotechnics margins reduced slightly compared with the previous year to 24%, reflecting the timing of product improvement in key training products for the US Army. Margins in the Counter-IED division remained constant at 25%. We remain confident that the current level of profitability should be sustainable into the future.

The underlying operating cash inflow during the year was excellent at £126.1 million, equivalent to a cash conversion rate of 93% from underlying operating profit*. Our operating cash inflow in the second half was particularly strong, with an equivalent cash conversion of 117%.

Health and safety

The Board recognises that the highest levels of safety are required to protect our employees, our customers and the general public. We believe that all injuries and incidents are preventable, and we are strengthening our long term strategies to ensure that the Group continually improves its performance and reduces risk.

During the year, we continued with our implementation of formal management systems across the Group. With the exception of our newest acquisitions, all sites are certified to the environment management system ISO14001 and all but one have now been validated as compliant with the health and safety management system OHSAS18001 The remaining site will achieve certification by the end of the first quarter of 2011.

Our lost time incident rate (calculated using the US OSHA rules) continues to improve slowly from 1.13 to 1.06 incidents per 100 employees. Six of our sites reported no lost days in the year, which is an excellent achievement.

Whilst we take all incidents seriously, we pay particular attention to those where employees sustain injury due to an energetic event. We did, unfortunately, have three significant lost time events following unexpected ignitions during the year. One was at the Tennessee site of our US subsidiary, Kilgore; one was at our UK subsidiary, Chemring Countermeasures; and one was at our newly acquired Belgian subsidiary, Mecar. All such events are fully investigated and controls implemented to prevent reoccurrence. In the Kilgore incident, three employees were seriously hurt and continue to receive treatment. We wish them a rapid and complete recovery, and are doing all that we can to support them and their families through this difficult time. As Chief Executive, I am fully aware that it is my responsibility to ensure that every single one of our employees returns safely home at the end of every working day.

Revenue analysis

Revenue from US customers increased by 25% during the year to £293.1 million, which now represents 49% of the total Group revenue. Sales to Middle East countries increased substantially during the year by 153% to £51.6 million, as deliveries on new multi-year supply contracts started. Revenue from UK customers decreased by 11% to £111.6 million, and the UK market now contributes only 19% of the total Group revenue. Revenue from European countries also decreased to £73.0 million during the year, a notable decrease on last year. These reductions were principally caused by the late timing of order placement by our main European customers. Given the weakness in European economies, we expect this trend to continue whilst the Middle East and Far East export markets continue to enjoy more favourable conditions. Revenues from Australia and the Far East increased by 13% to £44.1 million, reflecting increased deliveries of 40mm grenades to the Australian Army.

Acquisitions

The Group made five acquisitions during the year; the three most significant were Hi-Shear Technology Corporation in California, Mecar S.A. in Belgium and Roke Manor Research Limited in the UK.

Hi-Shear was acquired at the start of the financial year and has performed well during its first year of ownership. It provides the Group with some key product technologies and customer relationships that augment the existing pyrotechnics and munitions portfolios. It provides the US space programme with the NASA standard initiators and low-shock separation devices and does, therefore, have a strong relationship with NASA and the main US prime contractors. It also provides advanced electronic safety and arming fuzes for ballistic missile defence applications, which represent a buoyant market at the moment due to widespread concerns about growing threats from rogue states with nuclear missiles.

Mecar was acquired towards the end of the financial year, and will have a significant impact on our Munitions division in 2011. It provides an extensive range of mortar ammunition, and medium calibre and large calibre ammunition for light armoured vehicles (LAVs), including the ammunition used in the CMI 90mm Mk8 gun, which is fitted on the LAVs used by many non-NATO nations.

Roke was also acquired at the end of the financial year, and provides the Group with a very broad range of systems engineering, electronics, software and network design capability. Its electronic warfare capabilities will significantly enhance our Countermeasures division and allow expansion into a wider range of products. Its jamming and communications technology will significantly enhance our offering into the counter-IED market, and its sensor and data fusion capabilities will augment our detection technologies. Finally, Roke plays an important role in the UK cyber market, and the Group intends to develop a niche role in this rapidly expanding market.

Research and development

Our strategy for future growth continues to rely on technology leadership and the rapid development of new products that meet the changing needs of our customers and displace those of our competitors. Our total expenditure on R&D grew by 81% to £34.2 million, which represents nearly 6% of the total Group revenue. Internally-funded R&D grew by 48% to £13.6 million, reflecting the strategic emphasis we continue to place on product innovation.

The two largest areas of funding are in our Countermeasures and Counter-IED divisions, where NIITEK and Chemring Countermeasures have been particularly successful in attracting customer-funded development of new products and technology for ground penetrating radar and naval countermeasures respectively. We also continue to place considerable emphasis on our partnerships with academic institutions. Our long term partnership with Cranfield University continues to expand, and we now have sixteen programmes running across areas of interest relevant to all four of our divisions.

Review by the Chief Executive
continued

I would like to extend my personal thanks to all members of staff for their dedication and hard work in delivering the 2010 results.

Capital investment
Capital investment in the year grew by 22% to £40.9 million, which represents nearly 7% of Group revenue. £18.8 million of the investment was taken up with the continuing build of the new countermeasures manufacturing facilities at Salisbury in the UK, and at Lara in Australia. These facilities will be commissioned in 2011, and will provide automated manufacturing of the full range of our non-US magnesium and spectral flares, greatly reducing the exposure of our staff to risks and improving manufacturing productivity. Both facilities will provide a substantial improvement in operational efficiency and a flexible production surge capability. The Australian facility was recently audited by BAE Systems North America, who gave positive feedback on its suitability for second-source provision on the multi-national Joint Strike Fighter (JSF) programme.

A second principal area of investment was associated with the development of our Chemring Energetics facility in Scotland, where we have authorised an £11 million investment, spread over the 2010 and 2011 financial years. The investment covers four new facilities: primary explosives facilities for the manufacture of detonators and initiators; the plastic explosives pressing facility for the manufacture of demolition stores; the Meccanite expansion facility for the manufacture of propellants; and the high explosive pressing facility for warhead manufacture. All of these facilities provide new manufacturing capabilities to the site and the capacity to meet the substantial growth in revenue that is expected in the future.

Staff and employees
At the end of 2010, the Group employed a total of 4,283 people, 28% higher than the previous year end, although the majority of this increase was attributable to the acquisition of Hi-Shear, Mecar and Roke during the year. 45% of the staff are US-based, which is broadly in line with the geographic revenue profile. With the acquisition of Roke, the number of qualified engineers and scientists employed by the Group increased to over 600, about 14% of the Group.

I would like to extend my personal thanks to all members of staff for their dedication and hard work in delivering the 2010 results.

Future prospects
Market conditions
During 2010, the defence market faced some uncertainty as most NATO nations reviewed total government expenditure to address fiscal deficits built up during the banking crises. In Europe, in particular, the market weakened as the majority of nations announced cut-backs in defence budgets, averaging at least a 10% reduction over the next few years. The majority of these reductions will be achieved by cancellation or cost reduction on specific programmes, such as the termination of the Harrier force announced by the UK Ministry of Defence as part of its recent Strategic Defence and Security Review, rather than a general cut-back across all areas of expenditure. This is particularly true for customers involved in peacekeeping operations overseas, who continue to procure substantial product volumes for both operational use and to replenish their national stockpiles. However, the review process takes time and, even when there remains a clear need, we have seen an average of four to six months delay in the timing of our usual European orders.

Our US market, on the other hand, has been more robust with little sign of any consensus supporting significant cuts in modernisation, force structure, troop numbers or overseas bases. The recent announcement from the US Department of Defense indicates that the FY12 budget proposal will be $553 billion, 3% higher than the FY2011 proposal, and that there is no planned reduction in expenditure over the FY2012 to FY2016 period. Although a number of important programmes have been cancelled, none of these has a major impact on the Group, and the plans to procure additional F-18 aircraft as well as send 1,400 more marines to Afghanistan are likely to increase demand for some of our core products. The US defence market is substantial and there is considerable scope for consolidation at lower tier positions in the supply chain. We believe that there are significant opportunities for growth in this market, both in 2011 and over the longer-term future.

Although 80% of our revenue is currently generated with NATO countries, the fastest growth is taking place in the Middle East and the Far East, where nations continue to achieve double-digit increases in their Gross Domestic Product and regional instability justifies additional defence expenditure. With oil prices moving towards $100 per barrel, Middle East governments are relatively well-funded and should provide opportunities for growth over the next five to ten years.

Countermeasures
In Afghanistan, the US Government has increased the number of troops deployed by 30,000, and taken the NATO deployment above 130,000. The US also deployed an additional two hundred and fifty helicopters and this should strengthen demand for flares to protect these particular platforms. Although the withdrawal of troops will start in 2011, both the US and the UK have indicated that they will maintain a substantial presence until around 2015.

The major growth over the next five years will, however, be associated with the supply of flares and countermeasures to protect fast jets. These are principally used in operations against sophisticated opponents, where war stocks need to be in place for high volume usage during intense battle conditions. The entry-into-service of the Typhoon aircraft is one example, with large numbers of aircraft starting operations shortly within both Europe and the Middle East. The F-35 Joint Strike Fighter (JSF) will probably be the most significant driver of growth over the next ten to fifteen year period. Although aircraft production has been slow, Kilgore has completed development of the JSF flare set and has just been awarded the contract for the low-rate initial production. Over the next five years, production will need to increase rapidly if the aircraft is to achieve the necessary operational protection.

Another major area of growth in the next few years is naval countermeasures. These are designed to protect ships against incoming missiles, particularly in circumstances when rapid-fire gun systems cannot be used, such as in shallow water next to other vessels. The Group is developing a range of new payloads to meet

The order book, healthy cash flow and a solid balance sheet give the Board confidence that the prospects for the Group in 2011 continue to be excellent.

the changing threat and is seeing a growing demand for both its current and next generation products. To satisfy the overall protection requirement, the Group has also developed an innovative new launcher, called Centurion, that will significantly enhance the effectiveness of the rounds. A prototype system has recently been demonstrated to the UK Ministry of Defence in a live-firing exercise, and we believe that it will be selected for qualification on the Type 45 destroyer. The global market for the product is expected to be substantial.

The order book for our Countermeasures division increased by 14% to a new record of £265.4 million, with a 44% increase in the order book for flares used on fast-jet platforms. Our US subsidiary, Kilgore, saw its order book grow by 95% to £115.8 million, a level that is more than twice its 2010 revenues, providing high levels of confidence in achieving further growth in 2011 and 2012.

Counter-IED
Our HMDS ground penetrating radar continues to operate successfully during counter-IED operations in Afghanistan and has saved the lives of many US and coalition soldiers. The US Army has just placed an order for another sixty four systems for delivery by the end of 2011. This contract has a potential maximum value of $78 million and will take the number of HMDS systems delivered to the US and Canadian governments above two hundred and forty. The US Army is expecting to place a multi-year sustainment contract, potentially worth in excess of $70 million per year, on NIITEK for the provision of spares, maintenance and training necessary to support the deployed systems. The acquisition of a next-generation system, involving more advanced multi-sensor technology and data fusion, will probably be announced towards the end of 2011 with a multi-year procurement awarded in 2012.

The year end order book for our Counter-IED division was £99.3 million, 169% higher than the previous year. Most of the current order book is for delivery by the end of July 2011. The latest system order and the multi-year sustainment contract should ensure that the prospects for growth in 2011 continue to be positive.

Pyrotechnics
There continues to be strong interest in illuminating payloads for use in peacekeeping operations. We are currently developing a "black light" payload for the 120mm mortar round, which will then complete our full range of illumination and "black light" mortar products. We have also developed some air-launched "black light" munitions that will be going through qualification in 2011.

We have also seen strong demand for our components and sub-systems used in safety systems on a variety of military platforms. One area of growing interest is egress and fire suppression systems for Mine Resistant Ambush Protected (MRAP) vehicles that are often used in peacekeeping operations. Protection of the crew and easy escape from a vehicle on fire has become a major priority and we are working with a number of partners on satisfying both US and European requirements.

The overall order book for the Pyrotechnics division reduced slightly to £171.9 million but grew substantially in the US market. It provides confidence in the stable prospects for 2011 even if the European market continues to weaken.

Munitions
The naval ammunition market remains stable with a growing number of ships built over the last five years that are fitted with 40mm, 76mm or 127mm guns. There is considerable interest in our products from Middle East and South American customers. The French Navy expects to qualify a 76mm operational round, with an insensitive explosive warhead, in 2011 and is expected to place a multi-year production contract during the second half period.

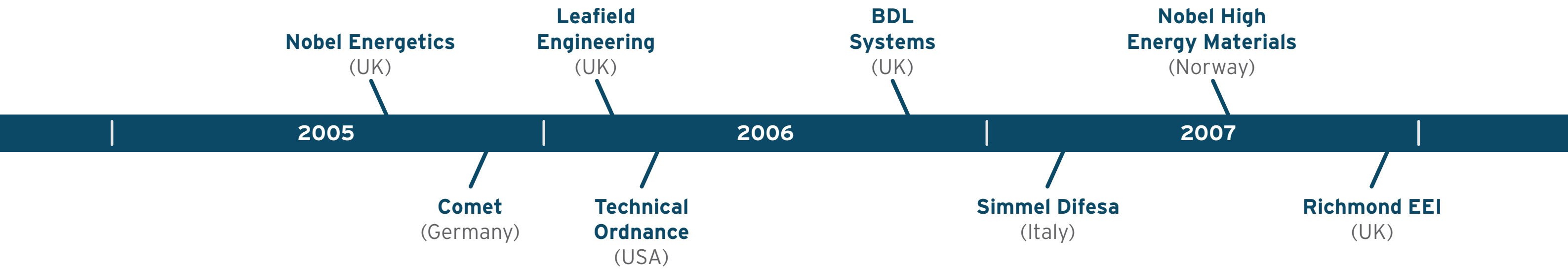
The Middle East and South America are also growing markets for our 90mm, 105mm and 115mm direct-fire ammunition. In particular, the CMI 90mm Mk8 gun is often fitted to the light armoured vehicles prevalent in these regions and offers the Group a substantial opportunity to develop new customer relationships and markets.

The order book for the Munitions division grew by 126% to £266.7 million, more than twice the 2010 revenue. This provides confidence that the business will continue to grow in 2011 and 2012.

Outlook
Overall, the future outlook remains encouraging with many excellent opportunities for growth. The Group has a strong order book, which at the end of the year stood at £803.3 million, up 44% on the previous year. Most of our products are short-cycle consumables with order coverage of between six and twelve months' duration. The order book does, therefore, represent a reliable leading indicator of future revenues. The order book, healthy cash flow and a solid balance sheet give the Board confidence that the prospects for the Group in 2011 continue to be excellent.

D J Price
Chief Executive
18 January 2011

Our strategy



Group strategy

The Group strategy remains focused on our four market segments – Countermeasures, Counter-IED, Pyrotechnics and Munitions. With the growing importance of electronics throughout our business, we have extended our future vision statement to include a broader definition of "protection systems", including electronic countermeasures and IED detection systems.

Our core strategy over the next five years looks to develop our four key core competencies:

- Energetic materials – We will focus the business on products where we can exploit our extensive knowledge and expertise in explosive, pyrotechnic and pyrophoric materials. We will address niche, highly profitable markets with significant value-added manufacture/assembly where barriers to entry are high. We will exploit the commonality of technology and design expertise to generate a broad centre-of-expertise that can be maintained over the long term future.
- High reliability and integrity – The nature of our products requires the highest levels of safety in manufacture and use, and reliability, particularly when their correct operation is life critical, as in ejection seats or IED detection. Manufacturing and product safety must be one of our highest priorities if we are to sustain our position and become leader in the field.
- High volume manufacturing – We currently manufacture IR flares, pyrotechnics, high-explosive pellets, impulse cartridges and detonators in significant quantities and have built up strong expertise in automated manufacturing. Our strategy is to consolidate manufacturing centres, where possible, to produce high volumes. Expertise in automation and flexible manufacture will drive down our cost base and maintain competitive advantage.
- Growing dependence on electronics – We recognise that a growing proportion of our business, either directly or indirectly, is dependent on electronics, from IED detection and jamming through to pyrotechnic delays, advanced fuzing and active expendable decoys.

Geographic strategy

Our geographic strategy has five components:

- Maintain a geographic footprint which reflects the balance of global defence spending.
- Manufacture in the USA for the US market and in Europe for the European market.
- Use our excellent worldwide sales network to export both the Group's and third parties' products to global markets from both Europe and the USA.
- Establish local manufacturing facilities in countries where it provides competitive advantage.
- Increase our regional marketing presence in the Far East and the Middle East.

Vision

Our vision is to be the leading producer of protection systems and energetic products for the global defence market

Countermeasures

Maintain market share

- Exploit lead in special material, spectral and thrusted flares
- Invest in new automated production facilities
- Develop a market lead in naval decoys and launchers

Counter-IED

Establish technological leadership

- Become the world leader in IED detection and neutralisation
- Maintain technological lead in GPR and counter-IED jamming
- Develop a strong position in demilitarisation services

Pyrotechnics

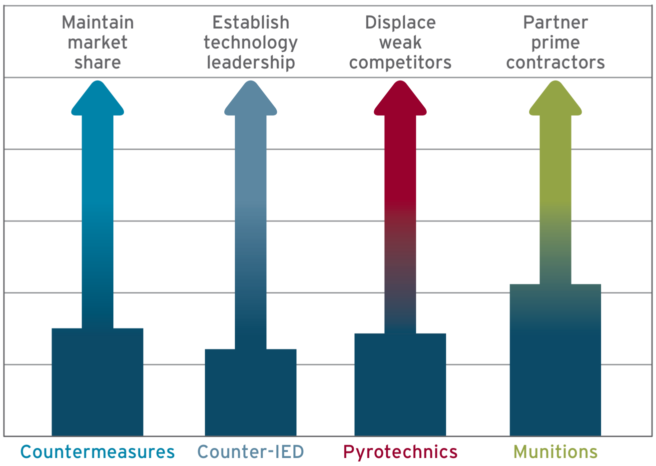
Displace weak competitors

- Consolidate the market through acquisition
- Extend lead in niche technologies
- Develop capability in space applications

Munitions

Partner prime contractors

- Develop position as preferred supplier of energetic materials to key prime contractors
- Develop position as a niche prime contractor
- Maintain position as the world market leader in naval ammunition



Acquisition timeline 2005-2010

Strengths and resources

The Group has core competencies in the design and manufacture of energetic materials; the development of highly reliable and safe products; high volume manufacturing; and specialist electronics.

Market position and reputation

The Group is the world's leading manufacturer of countermeasure decoys, with over 50% market share. We are currently leading the field in the development and manufacture of advanced countermeasures.

In the counter-IED market, we are the leading supplier of vehicle mounted ground penetrating radar detection systems to the US Army; a recognised UK leader in detection and jamming technologies; and a prominent player in explosive ordnance disposal equipment and consumables.

In our Pyrotechnics segment, we are an expert manufacturer of products containing energetic materials and we are developing a prominent position in several niche market areas, including screening and illumination pyrotechnics, satellite separation systems, and aircrew egress components.

In our Munitions segment, we have successful and long-standing relationships with many of the world's leading missile and ammunition suppliers, and as a niche prime contractor, we are a leader in naval ammunition and specialist ammunition for light armoured vehicles (LAVs).

Customer relationships

The Group has an extensive customer base, comprising governments, armed forces, prime contractors and OEMs across the globe. We have an extensive distribution network and our businesses currently supply to over eighty countries worldwide.

Manufacturing operations

The Group continues to benefit from efficiency improvements achieved through automation and rationalisation of manufacturing across the Group, and we have an ongoing investment plan for new plants and technologies.

Solid financial base

The Group enjoys healthy operating margins across its businesses. Our focus on working capital management in recent years has manifested itself in excellent cash conversion and produced a sound balance sheet for the Group.

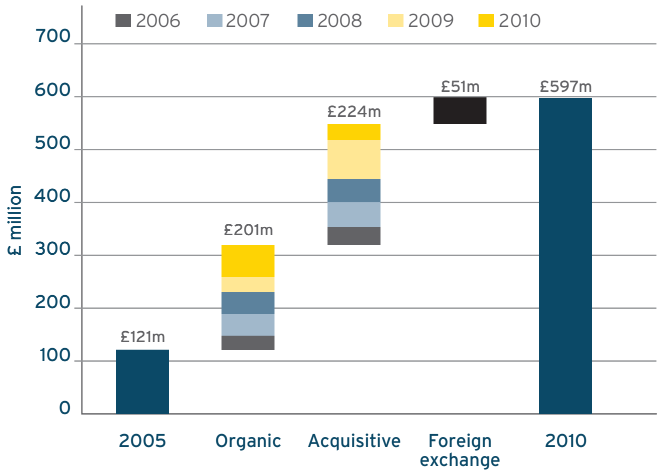
Management

Management resource and expertise have been strengthened at all levels across the Group during recent years, and we continue to develop our operational skills to ensure that we remain a world class manufacturer.

Acquisition strategy

Acquisitions have been an important element of the recent growth of the business. The successful completion of seventeen acquisitions over the last five years has contributed directly to the overall growth of the Group, and has broadened our capabilities.

Components of Group revenue growth 2005–2010



Our strategy for acquisitions is to continue to target opportunities which add capability, technology and market access. We will exploit synergies from such acquisitions by creating centres of excellence, investing in new products and promoting our products though our worldwide channels to market.

We intend to maintain a balance of acquisition investment across Counter-IED, Pyrotechnics and Munitions, and between Europe and the USA.

Our acquisition investments over the last five years can be analysed as follows:

Total investment in acquisitions 2005–2010

Geographical spread

- UK 25%
- Europe 24%
- USA 51%

Business activity

- Pyrotechnics 43%
- Munitions 34%
- Counter-IED 16%
- Countermeasures 7%

Countermeasures

The year end order book for the Countermeasures division was £265.4 million, up 14% on the previous year. This growth is dominated by the order book for decoys used on fast-jet aircraft, which rose 44% compared to 2009.

Highlights in 2010

- Revenue increased by 7% to £196.3 million
- Kilgore Flares order book increased by 95% to £115.8 million
- Sales of decoys for helicopters and transport aircraft rose 6% to £87 million
- Revenue from naval countermeasures grew by 70% to £17 million
- Kilgore Flares revenue rose by 17% to a new record on steady production volumes of around 1.1 million flares

Key information

Orders
£219.2m

Revenue
£196.3m

Operating profit
£58.8m

Operating margin
30%

Strategy

The core strategy for our Countermeasures division is to maintain our share of the expendable countermeasures market and to expand the business in line with the market, which is expected to grow steadily over the next ten to fifteen years. We will invest in new products and technologies that build on our current leadership in special materials, spectral and thrusted flare technologies. We will also invest significantly in both decoy and launcher technologies for the naval market, which we expect to grow rapidly in the future. The acquisition of Roke has enhanced our capabilities in advanced electronics and sensor systems, and we will exploit this capability by developing electronic countermeasures for air, sea and land applications. We will continue to invest in new fully automated production facilities that will improve operator safety and significantly enhance our operational efficiency, and we will maintain our lead role in the development of new products for the next generation of fixed-wing and rotary aircraft, naval ships and land forces.

Analysis

The market in expendable countermeasures is estimated to be £390 million. In 2010, our revenue was £196.3 million, 7% higher than the previous year and equating to a market share of just over 50%. Sales of decoys used on fast-jets increased slightly to £91 million, with increased demand at Kilgore offset by reduced demand elsewhere. Sales of decoys for helicopters and transport aircraft, whose usage is more closely linked to peacekeeping activities, rose 6% to £87 million, driven by increased demand from the US Air Force. Revenue from naval countermeasures grew by 70% to £17 million, driven by an increase in Royal Navy requirements.

The year end order book for the Countermeasures division was £265.4 million, up 14% on the previous year, and should be considered a positive indicator of further steady growth in 2011. This growth is dominated by the order book for decoys used on fast-jet aircraft, which rose 44% compared to 2009. The order book for Kilgore, in particular, increased by 95% to a record level of $186 million, bolstered by $105 million of multi-year orders for the flare sets used to protect the B-52 and F-22 aircraft. A further $50 million of order book is for the M212 spectral flare.

Activities during the year

Kilgore Flares, one of our US subsidiaries, had an encouraging year, with revenue up 17% to a new record on steady production volumes of around 1.1 million flares. This was principally driven by 24% growth in demand for fast-jet flares and, in particular, by a 120% increase in the volume of advanced flares delivered on the F-22 and Joint Strike Fighter (JSF) programmes. Development of the JSF flare set was completed during the year and low rate initial production has now started. Production volumes are expected to gently increase over the next few years before the transition to volume production from 2014 onwards.

On 14 September 2010, there was a serious incident at Kilgore within a specialist assembly facility that undertakes the final assembly on the MJU-7 flare that protects the F-16 and a number of other aircraft. Three of our employees sustained serious injury and our investigations have identified a number of safety improvements that we have implemented across the site. The incident is still under investigation by the US regulatory authorities. There was substantial damage to the facility and it will be several months before it can be returned to operation. The restart of all other production lines was reviewed and a number of important safety improvements implemented. This took several months to complete and resulted in about £7 million of revenue being delayed from 2010 to 2011, which would have added another 15% to Kilgore's full year revenue.

Our other US subsidiary, **Alloy Surfaces**, had a satisfactory year with stable revenue generated from production volumes of just under 1.9 million decoys, 5% lower than the previous year. This was in spite of growth in demand for MJU-50 decoys that are principally used by the US Air Force on transport aircraft. This growth was linked to a specific stockpile requirement and the demand is expected to drop back to normal levels from 2011 onwards. $60 million of new multi-year contracts were awarded during

Dispensing flares

F-22 Raptor aircraft deploys flares.

the year, one by the US Navy for decoys to support their fast-jet and helicopter fleet, and one from the UK Royal Air Force to support their combat aircraft.

Good progress was made during the year on the development of a next generation flare solution for the protection of helicopters. A new covert decoy underwent a number of trials with the US Army and the results, to date, have been very encouraging. The US Army is currently planning to run a competition for its next generation decoy in 2011 and Alloy Surfaces' special material solution is believed to be a strong candidate.

Chemring Countermeasures, our UK subsidiary, also had a good year with stable overall revenue, with aircraft flare volumes 10% lower at 350,000 units, and revenue from naval countermeasures up 95% to a new record level. The reduction in flare volumes was directly related to three months of lost production of spectral flares caused by the oven fire at our site in Salisbury in April 2010. The demand for Typhoon flares did not increase by as much as we expected, as many of the European nations delayed placing orders as a consequence of budget reviews that have been undertaken to solve the fiscal deficit problem. The large numbers of Typhoon aircraft scheduled for delivery to customers over the next few years continues to represent a future growth opportunity.

The UK market was a major component of the growth in the naval countermeasures business in 2010, with significant deliveries of both infra-red and chaff decoy rounds. Orders to the value of £24 million were awarded, including the full development of an advanced technology decoy, which is expected to start production in 2011. However, to make full use of the latest variable range technology, we have developed a new launcher system that will significantly enhance the performance of the decoys against a wide range of threats. The new launcher is called Centurion, and a prototype version has recently been demonstrated to the UK Ministry of Defence in live firing trials involving a range of different types of decoy. The performance demonstration was a success and there is considerable interest in qualifying the launcher for use on the Type 45 Destroyer.

Significant interest has also been shown in the system by overseas customers and we estimate that there could be a global market of 500 systems over the next ten years.

Our business units and companies

Alloy Surfaces Company, Inc. (USA)

The world's only manufacturer of special material decoys for the US Department of Defense and militaries world wide. Alloy's patented technology employs pyrophoric materials to decoy attacking enemy missiles.

Chemring Australia Pty Ltd

Australia's leading manufacturer and supplier of military countermeasures.

Chemring Countermeasures Ltd (UK)

A world leader in the design, development and manufacture of advanced expendable countermeasures for air and sea platforms, and is also developing next generation launchers for deploying naval decoys.

Kilgore Flares Company LLC (USA)

Kilgore Flares develops and produces airborne expendable IR countermeasure decoys and IR naval decoys.

Roke Manor Research Ltd (UK)

A world-class developer of electronic countermeasures, electronic intelligence and threat detection technologies.

Our products

Air countermeasures

- Conventional and advanced flares
- Special material decoys
- Chaff

Naval countermeasures

- RF decoys
- IR decoys
- Naval decoy launchers

Land/EW

- Electronic intelligence equipment
- Electronic countermeasures

Counter-Improvised Explosive Device (IED)

Our revenue in 2010 was £114.9 million, 88% higher than the previous year.

Highlights in 2010

- Sales of our detection products were £102 million, 124% higher than last year
- The closing order book for Counter-IED was £99.3 million, up 169% on 2009
- NIITEK delivered 107 HMDS ground penetrating radars to the US and Canadian Armies for high reliability route clearance in support of peacekeeping operations
- Roke acquisition provides us with a wide range of technologies that will enhance our opportunities in the counter-IED market

Key information

New orders

£178.5m

Revenue

£114.9m

Operating profit

£28.1m

Operating margin

25%

Strategy

Our strategy is to become the world leader in the global counter-IED market with high technology products to detect, disable and defeat the threat posed by either buried or surface IEDs. We will invest in advanced sensor technology for the detection of explosive, biological, chemical and nuclear threats, as well the data fusion necessary for multi-sensor integration. We will develop wide-band adaptive jamming capabilities to disable remotely controlled devices, advanced technology disrupters and the full range of demolition stores needed to defeat them. We will also enhance our secure coded, frequency agile initiation systems needed to reliably control this process. Further acquisitions, focused on complementary technologies to expand our capabilities, also constitute an important element of our counter-IED strategy.

Analysis

The global market for counter-IED equipment is estimated to be £3 billion. Our revenue in 2010 was £114.9 million, 88% higher than the previous year and equating to a market share of 4%. Sales of our detection products were £102 million, 124% higher than last year, principally driven by the demand from the US Army for the Husky Mounted Detection System (HMDS) ground penetrating radar. Revenue from our Defeat products was £12 million, lower than last year and reflecting the delayed order intake from European customers.

The closing order book for Counter-IED was £99.3 million, up 169% on 2009, and a clear indicator of continued revenue growth in 2011. The availability of qualified demolition stores product with Insensitive Munitions (IM) characteristics in 2011 is also expected to enhance this year's prospects.

Activities during the year

Detect

The detection of IEDs continued to dominate the activities of our Counter-IED division during the year, and resulted in the delivery of 107 HMDS ground penetrating radars to the US and Canadian Armies for high reliability route clearance in support of peacekeeping operations. Feedback from customers on the performance of the system has been very positive and has confirmed that it makes an important contribution to the safety of coalition forces. To meet the increased demand, an additional production facility was brought into operation, raising the monthly production rate to over twenty HMDS units. Revenues did, therefore, grow by 124% compared with the previous year.

In August 2010, the US Army placed a new production contract, worth $217 million, on our US subsidiary, **NIITEK**, for the supply of 76 HMDS, together with the necessary spares, in-country maintenance and training. A contract for a further 64 systems has recently been placed, covering both the US Army and US Marine Corps requirements for 2011. This contract will take the number of delivered systems above 240. The US Army intends to place a multi-year, sustainment contract for the support of these systems, which is expected to be worth in excess of $60 million per annum, and will provide the necessary funding to maintain the sixty support staff that are currently located at forward operating bases. A multi-sensor, next generation product is expected to be competitively procured in the second half of 2012.

The number of countries showing interest in acquiring HMDS continues to grow, with Italy, France, Turkey, India and Australia all carefully evaluating its performance. A new hand-held system, with multiple sensors, is under development and initial trials with the US Army have been very encouraging.

Our UK subsidiary, **Chemring EOD**, supplies another advanced detection system, called "VehicleScan", that is used to identify IED packages under vehicles and trains. The system has been used for stadium security at the 2010 World Cup in South Africa, the F1 Grand Prix in the UAE and the G20 conference in Seoul. A large number of the systems are under consideration for installation at the 2012 Olympics in London. Phase 2 of the pilot trials of VehicleScan for railway systems will start in the next few months on the New York subway. A successful demonstration should qualify the system for all Federal-funded rail networks, including subways, in the USA.

Threat detection

Husky Mounted Detection System (HMDS) with VISOR™ 2500

Defeat
Demolition stores, which are used to destroy suspect packages or unwanted ordnance and for forced entry into buildings, are another important product range for the Group. **Chemring Energetics** is currently developing a suite of products, such as the SABREX flexible linear cutting charge, the Bangalore Torpedo and plastic sheet explosive, which all have IM explosive characteristics. These products will shortly complete qualification with the UK Ministry of Defence and are expected to start production in 2011. Strong interest from European and Far Eastern countries has already been evident and this should provide strong export opportunities for the future.

The remote initiation of disrupters and explosives is also a key capability for the Group, and we continue to see a steady market for our BREACH secure-coded RF initiation system. A derivative, called the Forced Rapid Entry Device (FRED), that better meets the needs of Special Forces has been developed, and there is considerable interest in its application to Remote Operating Vehicle counter-IED operation.

Disable
Our recent acquisition of UK-based **Roke** provides us with a wide range of technologies that will enhance our opportunities in the counter-IED market. Their wide-band technology is a key component in UK jamming systems that are used to counter remote initiation. They also provide detection sensors across the full range of the electro-magnetic spectrum for close-range and stand-off applications. They have substantial data fusion and network enabled capabilities to support distributed operation.

Defeat the Network
Roke also produces a range of technologies for cyber warfare, including the Vanguard system that provides a scalable modular lawful intercept product that is deployed on five continents. A new generation system is currently under development and will be launched into the market in 2011.

Our business units and companies

Chemring Energetics UK Ltd

Specialises in the design and manufacture of energetic materials, detonators, and demolition stores.

Chemring EOD Ltd (UK)

Manufactures a range of products for detection, assessment and neutralisation of explosive threats from improvised explosive devices and unexploded ordnance.

Non-Intrusive Inspection Technology, Inc. (USA)

The leading manufacturer of vehicle-mounted ground penetrating radar mine detection systems.

Roke Manor Research Ltd (UK)

A world-class developer of electronic countermeasures, electronic intelligence and threat detection technologies.

Chemring Defence (Europe)

Manufactures Portable Explosive Minefield Breaching Systems (PEMBS) and distributes other demolition products.

Our products

Detect

- Vehicle-mounted detection systems
- Stand-off IED detectors
- Remote IED inspection equipment
- Under-vehicle surveillance systems

Disable

- Electronic countermeasures

Defeat

- Remote initiators
- Detonators
- Explosive charges
- Minefield clearance systems
- Recoilless de-armers/disrupters

Pyrotechnics

We were awarded a multi-year contract, worth over £40 million, which included the supply of the compact smoke grenade, newly qualified by the UK Ministry of Defence.

Highlights in 2010

- A multi-year contract, worth up to $75 million, was awarded to the Group in May 2010 for our BES launchers
- Demand for our 40mm pyrotechnic rounds continued to grow in the USA, with revenue up 22% compared with the previous year
- We successfully demonstrated the 38mm Multiple Effects Rocket System (MERS), which can operate up to 1,000 metres, to a number of UK, US and other international customers
- Growth in safety systems and space product sales

Key information

New orders
£181.4m

Revenue
£170.0m

Operating profit
£40.1m

Operating margin
24%

Strategy

Our strategy is to become the world leader in pyrotechnics, through focused investment in new products that displace existing incumbents and which better meet our customers' requirements. We intend to expand our activities in the space sector by developing improved products for initiation, stage separation, satellite and sub-system deployment for military and commercial customers. This will address the US, European and emerging international markets. We intend to expand our safety systems activities, both in aircraft and Mine Resistant Ambush Protected (MRAP) vehicles. We also intend to consolidate the market through carefully selected acquisitions in both Europe and the USA.

Analysis

The global market for pyrotechnics is currently estimated to be £1.6 billion. Our revenue in 2010 was £170.0 million, which is slightly lower than the previous year and represents a market share of nearly 11%. Sales of smoke and illumination products were £112 million, 7% lower than the previous year, principally due to the timing of order intake from our UK and European customers. Sales of training and simulation products were £16 million, substantially down on the previous year, reflecting reduced US production levels due to the timing of product improvement and manufacturing transfer. These were compensated for by growth in safety systems and space products sales of £34 million and £8 million respectively.

The closing order book was £171.9 million, similar to the previous year, providing a clear indication of the stable outlook for 2011. The resumption of volume production in the USA of training grenades and Battlefield Effects Simulations (BES) cartridges should lead to a recovery in that part of the market, and the growing order book for safety systems and space should ensure growth in the future.

Activities during the year

Smoke and illumination

Deliveries of "black light" and conventional illumination mortar rounds remained fairly stable throughout the year, with reductions in UK deliveries offset by the requirements from other NATO countries. The UK Army had accelerated deliveries of 81mm mortar pyrotechnic rounds in 2009 to ensure security of supply and, in 2010, the volumes reduced down, as expected, to their long term sustainable requirement. However, to augment the UK capability, we developed a "black light" payload for the BAE Systems Bofors 105mm ammunition over a very short period, and the first production units have been delivered for use in peacekeeping operations. Two air-launched "black light" products are also under development for US and European applications, and qualification of these products is expected to begin in 2011.

A new compact smoke grenade completed development during the year and was qualified by the UK Ministry of Defence. A multi-year contract, worth over £40 million, which included the supply of this new grenade, was awarded in March 2010. Production was increased rapidly in the second half of the year and reached its maximum capacity of 150,000 units per month. Efficiency improvements and automated assembly will be incorporated in 2011. We expect the export demand for this product to increase strongly.

Demand for our 40mm pyrotechnic rounds continued to grow in the USA, with revenue up 22% compared with the previous year. Production of the M992 "black light" round commenced during the year and the volumes are expected to quadruple over the next few years. Production of the M661 green parachute round also started, and we expect to begin manufacture of the M662 red parachute round in 2011.

Training

The US Army changed the design of the M67 hand grenade, to include a "confidence clip" that prevents accidental arming of the product. This modification was incorporated into the design of the M228 training grenade during the year and implemented into the automated manufacturing process. This implementation took far longer than expected and production has only just returned to the 20 units per minute rate that is necessary to meet the US Army's delivery requirements. Production volumes in 2010 did, therefore, drop to very low volumes whilst line qualification and factory

Enabling safe ejection

Detonation of twin seat Hawk trainer aircraft's rear canopy taken from high-speed video of a trial.

acceptance testing took place. This will recover in 2011.

At the beginning of 2010, we took the decision to close our **Titan Dynamics Systems** facility in Marshall, Texas, and to transfer the manufacturing of BES launchers to Chicago and the cartridges to Florida. The US Army took the opportunity to upgrade the products, including both the M34 hostile fire and M35 target hit cartridges. The upgrade and the factory acceptance testing were completed but no production of cartridges was possible by the year end. A multi-year contract, worth up to $75 million, was awarded to the Group in May 2010.

A new shoulder-launched missile simulator, based upon our standard lightweight gunnery simulation system, has been developed by our European business, **Chemring Defence**. Trials of the product have recently been conducted for the US Army and a number of European nations. The results were very positive and we expect a number of customers to place orders for the system in 2011. We successfully demonstrated the 38mm Multiple Effects Rocket System, which can operate up to 1,000 metres, to a number of UK, US and other international customers and its "black light" and illumination payloads will become available in 2011.

We also had a number of successes in the European market during the year, with the selection of the Multiple Effects Cartridge System (MECS) by the French Ministry of Defence for force-on-force training, and a contract from the French Army for a training simulator for the Portable Explosive Mine Breaching System (PEMBS).

Safety systems

Military ejector seats continue to use a large number of pyrotechnic devices for propulsion, controlled initiation and sequencing. We continue to be a major supplier of components and sub-systems to the principal manufacturers of such systems. In the UK, there has been a 25% increase in demand for propellant products. In the USA, we have delivered a batch of leg restraint systems for the F-16 ejection system and have just finished qualification of the thermal battery for the F-22 system.

The first production orders have also been received for the Joint Combined Aircraft Systems Testers (JCAST), that are used to test oxygen systems, helmets, noise reduction headsets and chemical defence systems on F-16 and F-22 aircraft.

Our business units and companies

Chemring Australia Pty Ltd

Supplies a range of pyrotechnics, military training and marine safety products.

Chemring Defence (Europe)

Centre-of-excellence for the design, development and production of smoke and illumination pyrotechnics and payloads for military, OEM and safety customers.

Chemring Energetics UK Ltd

A leading supplier of rocket motors, canopy cutting cords and pyromechanisms for safety and aircrew egress.

Chemring Energetic Devices, Inc. (USA)

Supplier of pyrotechnic and electromechanical systems for space, safety and military training applications.

Chemring Marine Ltd (UK)

The world's leading supplier of marine distress signals to commercial and leisure markets, under the brand names Pains Wessex and Comet.

Chemring Ordnance, Inc. (USA)

Leading US manufacturer of military training pyrotechnics and pyrotechnic rounds for 40mm grenade launchers.

Hi-Shear Technology Corporation (USA)

Leading supplier of space qualified initiators and low shock satellite separation systems, and a range of pyromechanisms for aircrew egress.

Simmel Difesa S.p.A. (Italy)

Manufactures pyrotechnic visible and infra-red illumination rounds for mortars.

Our products

Space and satellite launch

- Initiators
- Separation sub-systems
- Thrusters and actuators

Training

- Pyrotechnics and launchers

Smoke and illumination

- Military smokes, flares and rockets
- Distraction and screening products
- Pyrotechnic payloads
- Commercial marine pyrotechnics

Safety systems

- Rocket motors
- Canopy cutting charges
- Cartridge actuated devices

Munitions

The year end order book for the Munitions division was £266.7 million, an increase of 126% on the previous year and a clear indication of further growth in 2011.

Highlights in 2010

- Order book improved with the Middle East growing by 207%
- Steady growth in component sales to £54 million
- Revenue from electronic safety and arming systems for the Mk3 Patriot missile grew by 33% compared to 2009
- Over 100% growth in order intake to £245.2 million

Key information

New orders
£245.2m

Revenue
£115.9m

Operating profit
£20.9m

Operating margin
18%

Strategy

Our principal strategy is to develop our position as a strategic supplier of energetic material components and sub-systems to the key prime contractors for ammunition and missiles in Europe and the USA. This will be achieved by developing and qualifying components for next generation weapon systems, displacing poorly performing incumbents on legacy products, investment in automated manufacturing facilities, and by further complementary acquisitions. As a niche prime contractor we will build on our world leading position in naval ammunition, our strong position in ammunition for light armoured vehicles and our broad range of mortar and 40mm grenade products, through focused product development and investment in new facilities that will allow us to expand our presence in a growing international market.

Analysis

The global market for munitions components is estimated to be £2 billion. In 2010, our revenue from components was £54 million, representing 47% of our total Munitions revenue, an increase of 8% compared with the previous year and equating to a market share of 3%. The global market for ammunition, excluding small calibre, is estimated to be £4 billion. Our total revenue in 2010 was £62 million, a 72% increase on last year and equating to a market share of 2%. This growth was driven by the award of a number of multi-year contracts from Middle East customers, which increased sales volumes by 270%.

The year end order book for the Munitions division was £266.7 million, an increase of 126% on the previous year and a clear indication of further growth in 2011. The improvement in the order book was well-distributed, with the Middle East growing by 207%, the Far East by 127%, Europe by 140% and the USA by 53%.

Activities during the year

Naval
76mm naval ammunition continued to be in demand during the year, with strong interest from Europe, the Middle East, the Far East and South America. A new insensitive explosive round for the French market is under development and will complete qualification in 2011. The training variant did finish qualification during 2010, and an initial production contract was placed by the French Ministry of Defence. A contract for the production of the operational rounds is unlikely to occur until the latter part of this calendar year.

Land
Our Italian subsidiary, **Simmel Difesa**, had an excellent year, with a substantial increase in the number of large calibre tank ammunition rounds sold to a variety of customers. $25 million of 125mm tank ammunition was delivered to a Middle East customer and $10 million of 120mm tank ammunition was supplied to a NATO country. The first production order for 115mm tank ammunition was also awarded at the end of the year for delivery in 2011. However, the strongest demand was for our 90mm ammunition, which is the standard round for the CMI Mk8 gun that is fitted to a large number of light armoured vehicles.

Components and sub-systems
Interest in ballistic missile defence systems continues to grow internationally, with many countries expressing concern about the threat from nuclear, biological or chemical payloads. **Hi-Shear's** revenue from electronic safety and arming systems for the Mk3 Patriot missile grew by 33% compared to 2009, and further growth over the next few years is now expected.

The new lead azide manufacturing facility was completed in South Dakota and a broad set of samples manufactured for qualification testing by the US Army. This should complete in 2011 and we expect to rapidly expand our production to cater for the growing demand for both military and commercial applications.

Hi-Shear ESAF system

Patriot Advanced Capability (PAC-3) missile.

Our business units and companies

Chemring Energetics UK Ltd

A leading supplier of detonators, actuators, rocket motors, high explosive filling and pyromechanical sub-assemblies.

Chemring Energetic Devices, Inc. (USA)

Manufactures a range of materials, components and sub-systems for leading missile and ammunition prime contractors.

Chemring Military Products, Inc. (USA)

Provides load, assemble, pack and procurement services to the US Government and prime contractors.

Chemring Nobel AS (Norway)

Manufactures niche energetic materials with insensitive munitions (IM) characteristics for munition and oil-field applications.

Chemring Ordnance, Inc. (USA)

Niche supplier of 40mm grenade ammunition.

Hi-Shear Technology Corporation (USA)

Develops advanced sub-systems for ballistic missile defence and tactical weapons.

Mecar S.A. (Belgium)

A niche supplier of medium and large calibre ammunition for light armoured vehicles.

Simmel Difesa S.p.A. (Italy)

A leading supplier of naval ammunition, advanced fuzing technology and missile components.

Chemring Fuze Technology S.r.l. (Italy)

Manufactures precision mechanical and electronic sub-systems.

Our products

Naval ammunition

- Medium and large calibre ammunition

Land forces ammunition

- Medium and large calibre ammunition
- 40mm grenades
- Mortar ammunition

Components

- Propellants and rocket motors
- Fuze and safe/arm units
- Pyromechanisms and actuators
- Energetic materials

Review by the Finance Director

Underlying operating profit* was £135.6 million and underlying operating cash flow was £126.1 million, both increased by 18%.

Financial highlights

- Revenue up 18% to £597.1 million
- Underlying profit before tax* up 14% to £116.8 million
- Underlying operating cash flow up 18% to £126.1 million
- Investment in research and development increased 81% to £34.2 million
- £104.6 million of undrawn borrowing facilities at the year end

Key information

Underlying operating profit*

£135.6m

+18%

Underlying operating cash flow

£126.1m

+18%

Operating margin

23%

* Before acquisition related costs, intangible amortisation arising from business combinations and (loss)/gain on fair value movements on derivatives totalling £27.7 million (2009: £6.8 million)

Results

Total revenue was up £93.2 million to £597.1 million, an increase of 18%. £26.5 million of the increased revenue was generated by acquired companies. Revenue excluding acquisitions was 13% up on 2009. Total underlying operating profit* was £135.6 million (2009: £114.7 million), an increase of 18%. The net underlying margin* was 23% (2009: 23%).

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

	2010			2009		
Division	Revenue £m	Underlying operating profit* £m	Underlying operating margin	Revenue £m	Underlying operating profit* £m	Underlying operating margin
Countermeasures	**196.3**	**58.8**	**30%**	183.5	53.5	29%
Counter-IED	**114.9**	**28.1**	**25%**	61.2	15.6	25%
Pyrotechnics	**170.0**	**40.1**	**24%**	173.2	43.8	25%
Munitions	**115.9**	**20.9**	**18%**	86.0	13.4	16%
Share-based payments	**-**	**(2.3)**		-	(2.1)	
Restructuring costs	**-**	**(1.5)**		-	(2.9)	
Incident costs	**-**	**(2.8)**		-	-	
Provision release	**-**	**2.4**		-	-	
Unallocated head office costs	**-**	**(8.1)**		-	(6.6)	
Total	**597.1**	**135.6**	**23%**	503.9	114.7	23%

The Counter-IED division delivered the most significant growth, with revenue increasing 88% and operating profit 80%. Munitions sales increased by 35%, which reflected additional sales through Chemring Australia, our prime contract businesses and £5.2 million from acquisitions. Pyrotechnics had a slight deterioration of 2% on last year. Countermeasures grew 7%, reflecting strong sales by Kilgore Flares.

Restructuring costs

In the second half of the year a decision was taken to restructure the Group's UK counter-IED business at a cost of £1.5 million. As a result, one of the two sites out of which it operated was closed. The benefits of this closure will be seen in the current financial year.

The £2.9 million of restructuring costs in 2009 related to our UK countermeasures business and Chemring Ordnance in the USA.

Incident costs

In September two separate incidents stopped production at our Kilgore Flares facility in Tennessee and our newly acquired subsidiary, Mecar, in Belgium. As a result of these incidents approximately £7 million of revenue and £3 million of underlying operating profit* was deferred into the current financial year. In addition, £2.8 million of non-recurring costs arising out of the incidents were incurred in respect of the write-off of damaged stock and destroyed assets.

Provision release

During the second half of the year, a third party assessment was carried out of the provision held in respect of the environmental liabilities associated with the Chemring Energetic Devices site in Illinois, USA. After taking into account this assessment and the additional insurance coverage that was secured in respect of this exposure during the year, the Group has released part of the provision.

Analysis of underlying profit*

	£m	2010 £m	£m	2009 £m
Underlying operating profit		**135.6**		114.7
Share of post-tax results of associate		**0.1**		0.1
Finance income	**0.5**		0.7	
Finance expense	**(19.4)**		(12.9)	
Net finance expense		**(18.9)**		(12.2)
Underlying profit before tax		**116.8**		102.6
Tax on underlying profit before tax		**(29.9)**		(27.6)
Underlying profit after tax		**86.9**		75.0

Finance income in the year was £0.5 million (2009: £0.7 million). Finance expense for the year was £19.4 million (2009: £12.9 million). Included within finance expense is £1.2 million (2009: £1.3 million) for retirement benefit obligations. Net finance expense was covered 7.2 times (2009: 9.4 times) by underlying operating profit*, with the decrease of cover reflecting the fact that all acquisitions in the year were financed by debt.

Underlying profit before tax* was £116.8 million (2009: £102.6 million), an increase of 14%.

Tax on the underlying profit before tax* was £29.9 million (2009: £27.6 million), representing an underlying rate of 26% (2009: 27%).

Underlying profit after tax* on continuing operations was £86.9 million (2009: £75.0 million), an increase of 16%.

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.

	2010 £m	2009 £m
Statutory operating profit	**107.9**	107.9
Add back:		
Acquisition related costs	**6.7**	-
Intangible amortisation arising from business combinations	**17.0**	13.8
Loss/(gain) on fair value movement on derivatives	**4.0**	(7.0)
Underlying operating profit*	**135.6**	114.7

During 2010 a revision of IFRS 3 *Business Combinations* was adopted relating to the treatment of costs incurred in relation to acquisitions. Accordingly, with effect from 1 November 2009, due diligence and other acquisition related costs have been charged to the Income Statement. In the past these costs have been charged to cost of investment.

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

All references in this report are to underlying operating profit and underlying profit before tax.

Shareholder returns

Underlying earnings per ordinary share* from continuing operations were 246p (2009: 213p), an increase of 15%. Basic earnings per share from continuing operations were 189p (2009: 199p), a decrease of 5%.

The total dividend per ordinary share of 59p (2009: 50p) is covered 4.2 times (2009: 4.3 times) by the underlying earnings per share*.

Shareholders' funds at the year end were £323.2 million (2009: £273.6 million).

Pensions

The deficit on the Group's defined benefit pension schemes before associated tax credits, as defined by IAS 19 *Accounting for pension costs*, was £23.0 million (2009: £28.1 million). The deficit reduced by 18% during the year due largely to the increase in the fair value of scheme assets as a result of the improvement in equity markets during the year.

During the year, the 2009 triennial actuarial valuation for the UK Chemring Group Staff Pension Scheme was concluded.

In accordance with the agreed funding plan, during the year the Group placed an additional £10.0 million in an escrow account (giving a total of £15.0 million) to provide additional funding for the Staff Pension Scheme in the event of a default. The bank guarantee for the Staff Pension Scheme, which may be drawn upon only in certain events of default by the Company, was maintained at £7.2 million during the year. Although the Staff Pension Scheme currently remains open for future accrual for existing members, most of our UK employees are now offered membership of a defined contribution pension scheme. The majority of our overseas pension arrangements are also defined contribution, save in those European countries where certain defined benefit pension arrangements are required.

Review by the Finance Director

continued

The Group continued its commitment to product innovation with research and development expenditure up 81% to £34.2 million.

Research and development

Research and development expenditure totalled £34.2 million (2009: £18.9 million), 81% higher than last year. An analysis of expenditure is set out below:

	2010 £m	2009 £m
Customer funded research and development	**20.6**	9.7
Internally funded research and development	**5.8**	4.4
Capitalised development costs	**7.8**	4.8
Total research and development expenditure	**34.2**	18.9

The Group's policy is to write-off capitalised development costs over a three year period. Amortisation of development costs was £2.4 million (2009: £1.5 million).

Cash flow

Underlying operating cash flow was £126.1 million (2009: £106.7 million), which represents a conversion rate of underlying operating profit* to operating cash of 93% (2009: 93%). Working capital was well controlled in the year and was kept below increases in Group revenues.

Fixed asset expenditure across the Group was £48.7 million (2009: £38.2 million), which includes £18.8 million related to the construction of new facilities at our sites in Salisbury and Australia. These facilities will be completed during 2011, at a further cost of approximately £16 million.

Cash flow before financing activities and acquisitions was £40.7 million (2009: £49.8 million), which represents a conversion rate of underlying operating profit* to cash flow of 30% (2009: 43%).

A summary of Group cash flow is set out below:

	2010 £m	2009 £m
Underlying operating cash flow	**126.1**	106.7
Acquisition related costs	**(6.7)**	-
Fixed asset expenditure	**(48.7)**	(38.2)
Tax	**(30.0)**	(18.7)
Cash flow before financing activities and acquisitions	**40.7**	49.8
Interest	**(14.0)**	(10.5)
Dividends	**(18.7)**	(13.8)
Net cash inflow before acquisitions	**8.0**	25.5

Acquisitions

The following acquisitions were completed during the year:

Name of business acquired	Activity	Date of acquisition	Proportion of shares acquired %	Acquisition consideration £m
Hi-Shear Technology Corporation	●	25 Nov 2009	100	78.7
Mecar S.A.	●	1 Sept 2010	100	29.6
Roke Manor Research Ltd	●●	30 Sept 2010	100	56.7
Other acquisitions	●	Various		19.2
Cash paid for acquisitions in the year				184.2
Net cash acquired with acquisitions				(7.4)
Cash outflow from investing activities				176.8
Acquisition related costs included within cash generated from operations				6.7
Net cash outflow				**183.5**

● = Countermeasures ● = Counter-IED ● = Pyrotechnics ● = Munitions

The combined net assets acquired are shown below:

	Book value £m	Provisional fair value adjustments £m	Fair value £m
Intangible assets	13.5	98.1	111.6
Property, plant and equipment	22.6	(0.6)	22.0
Cash	7.4	-	7.4
Regional development loan	(5.0)	-	(5.0)
Finance leases	(0.2)	(0.2)	(0.4)
Working capital (net of advance payments)	1.1	(11.6)	(10.5)
Deferred tax	0.2	(26.0)	(25.8)
Net assets acquired	39.6	59.7	99.3
Goodwill	-	84.9	84.9
Total	39.6	144.6	184.2
Total cash paid for acquisitions during the year			**184.2**

On 14 January 2011, the Group completed a refinancing of its banking facilities, increasing them to £230 million and extending the term to April 2015.

Net debt, facilities and going concern

Net debt at the year end was £307.5 million (2009: £122.8 million), an increase of 150%, which was predominantly due to the debt-funding of acquisitions during the year. The Group had £104.6 million (2009: £106.9 million) of undrawn borrowing facilities at the year end.

Gearing at the year end was 95% (2009: 45%). A summary of debt is set out below:

	2010 £m
Cash	58.4
Term loans	(104.7)
Loan notes	(261.2)
Net debt	**(307.5)**

In November 2009 the Group completed a $280 million private placement of loan notes. The proceeds were used to fund the acquisitions of Hi-Shear and Mecar.

The Group's two main bank covenants require that interest cover to EBITDA be maintained at not less than four times, and debt to EBITDA be maintained at not more than three times. At the year end, there was in excess of £80 million of headroom on both of these covenants.

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. The going concern assumption is further supported by the recent bank refinancing, as noted in the post balance sheet events section below.

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:

	2010	2009
Average rates		
US dollar	**1.53**	1.55
Euro	**1.16**	1.13
Year end rates		
US dollar	**1.60**	1.65
Euro	**1.15**	1.12

The movements in the currencies against sterling were broadly neutral in the year.

Post balance sheet events

Bank refinancing

On 14 January 2011, the Group completed a refinancing of its bank facilities with a syndicate of five banks. The new Group facilities, which are unsecured, total £230 million, which is a £55 million increase on the previous secured facilities. In addition, the term of the facilities has been extended from April 2012 to April 2015.

The increase in the level of the facility and the tenure, together with the introduction of several new banks to the Group, will provide greater capacity and capability to support the Group's future requirements.

Share split

At the forthcoming Annual General Meeting, shareholder approval will be sought to sub-divide the Company's 5p ordinary shares into ordinary shares of 1p each. Further details are set out in the Notice of the Annual General Meeting.

P A Rayner
Finance Director
18 January 2011

Key performance indicators

The Group's strategy is underpinned by focusing on a number of key financial performance indicators. The key indicators that the Board utilises to assess Group performance are set out below. Similar indicators are used to review performance in each of the Group's businesses. Details of non-financial performance indicators are set out in the Corporate Responsibility Report.

The Board considers that the measurement of underlying and divisional operating profit provides additional useful information for users.

Orders received and order book

	Orders received		Order book	
Continuing operations	2010 £m	2009 £m	2010 £m	2009 £m
Countermeasures	**219.2**	281.7	**265.4**	232.0
Counter-IED	**178.5**	80.9	**99.3**	36.9
Pyrotechnics	**181.4**	145.2	**171.9**	172.4
Munitions	**245.2**	119.8	**266.7**	117.7
Total	**824.3**	627.6	**803.3**	559.0

The closing order book at the year end of £803.3 million represents a 44% increase on the previous year end. This reflects the significant increase in demand for the Group's products during the year, and provides a solid base for performance in the current financial year. Since most of the Group's contracts are annual contracts with delivery periods from six to twelve months following receipt of order, the order book represents a good leading indicator of the minimum revenues that will be traded in the following twelve months.

Operating profit**

Continuing operations	2010 £m	2009 £m
Countermeasures	**58.8**	53.5
Counter-IED	**28.1**	15.6
Pyrotechnics	**40.1**	43.8
Munitions	**20.9**	13.4
Total	**147.9**	126.3

** Operating profits of the divisions are stated before charges for share-based payments, restructuring costs, incident costs, provision release, unallocated head office costs, acquisition related costs, intangible amortisation arising from business combinations and (loss)/gain on fair value movements on derivatives totalling £40.0 million (2009: £18.4 million).

The operating profit from continuing operations provides a consistent year-on-year measure of the trading performance of the divisions within the Group. It does not include significant non-recurring or exceptional costs that would distort a comparative assessment nor does it include unallocated corporate costs associated with operating a public company. The operating profit from continuing operations for the Group increased by 17% during the year, reflecting the strong operating performance of the divisions.

Return on sales

Continuing operations	2010 %	2009 %
Countermeasures	**30**	29
Counter-IED	**25**	25
Pyrotechnics	**24**	25
Munitions	**18**	16
Total	**25**	25

The return on sales percentage is a vital measure that provides an assessment of the profitability of the business and allows a comparison to be made of management performance and trading effectiveness independent of revenue size. In a company with a significant rate of growth, such a measure provides a clear indicator of whether revenue growth has occurred at the expense of profit or whether market conditions, such as competitive pressures, have made an impact. The divisions have largely maintained their return on sales consistent with last year.

Interest cover

	2010	2009
Total	**7.2 times**	9.4 times

Interest cover provides a clear and simple metric of the ratio between the operating profit generated by trading, compared with the funding requirement to maintain the current debt. It is an important indicator for the Group and forms the basis of one of our specified banking covenants, which requires us to maintain at all times interest cover of at least 4 times. Net finance expense was covered 7.2 times by underlying operating profit* at the year end. The Board aims to keep interest cover at a prudent level.

Underlying operating cash flow

	2010 £m	2009 £m
Total	**126.1**	106.7

Operating cash flow provides a simple measure of the cash generated by trading within the businesses. It represents the money available to fund capital expenditure, interest payments, tax and shareholder dividends. The Group underlying operating cash flow increased by 18% to £126.1 million during the year. This represents a conversion rate of underlying operating profit* to underlying operating cash of 93%.

Principal risks and uncertainties

As described on pages 48 and 49, the Board is responsible for the Group's systems of internal control and its risk management systems. The Board has constituted a Risk Management Committee, which meets quarterly, to review the key risks associated with the achievement of the annual budget and the five year plan for each business; the top five health and safety risks identified at each site; and the risk control procedures implemented. The Committee reports biannually to the Audit Committee and the Board and, through this process, the Board has identified the following principal risks currently facing the Group. The mitigating actions taken by the Group management to address these risks are also set out below. The Group mitigates its risk exposure through an insurance programme that covers property and liability risks, where it is appropriate and cost effective to do so.

Risk	Mitigation actions
Health and safety risks The nature of the Group's operations, involving energetic materials, is such that the Board considers health and safety to be a key area of focus in managing risk.	Health and safety is included on the agenda at every Board meeting and is discussed at the monthly Group Executive Committee meeting. The Board believes that responsibility for the delivery of world class safety standards is an integral part of the operational management accountability, and managers are therefore expected to embrace a positive safety culture and to demonstrate leadership and commitment in the workplace. All employees are encouraged to report potential hazards, and to raise any health and safety concerns through the appropriate channels. Our stated aim is to achieve zero injuries and to reduce health and safety risks, where they cannot be eliminated altogether, to a level which is "as low as reasonably practicable". All businesses are expected to proactively manage their own risks but in addition, the top five site risks at each business and their associated mitigation programmes are reviewed on a monthly basis by the Group Executive Committee and quarterly by the Risk Management Committee. Technology and automation roadmaps support the Group's strategy for risk reduction through increased automation and remote operations, and this strategy is reflected in the Group's five year plan. Further details on the Group's approach to health and safety are set out in the Corporate Responsibility Review.
Possible defence budget cuts We recognise that with large budget deficits and the prevailing economic conditions, there will be continued downward pressure on many countries' budgets and defence expenditure could be severely impacted.	Given the largely consumable nature of the Group's products and the fact that we are not generally exposed to very large, long term defence programmes, the Board is currently confident that the Group will not be significantly affected by future cuts in worldwide defence budgets. However, we continually assess whether our proposed product developments align with priorities for future funding. Most of our product development programmes take between six and twelve months to complete, and we believe that this gives the Board the opportunity to quickly re-deploy engineering staff to product areas where funding is secure. We are also focusing our growth strategy on those countries where defence expenditure is forecast to grow over the next five to ten years. We continue to monitor the position very closely.
Timing of orders The Group has a very strong order book but in general, the majority of the Group's contracts are of a relatively short duration and, with the exception of framework contracts with key customers, do not usually cover multi-year requirements. This means that an unmitigated delay in the receipt of key orders could affect the Group's earnings, and achievement of its growth targets, in a given financial year. Maximising order intake is therefore a key priority for the Group.	We continue to address this through the strengthening of our sales and marketing resources within individual businesses and at a divisional level. The development of world class manufacturing facilities, with the ability to transfer manufacture across sites and with an efficient enterprise resource planning system, also provides us with the flexibility to change our manufacturing schedules, if anticipated orders are delayed and need to be replaced at short notice, and to satisfy our customers' surge requirements. We continue to pursue long term, multi-year contracts with our major customers wherever possible.

Principal risks and uncertainties
continued

Risk	Mitigation actions
Management resource The Group requires competent management if it is to achieve its growth expectations, successfully integrate its acquired businesses and meet its order capture targets. The Board has identified, in particular, that the Group needs to strengthen its sales and marketing resources, in order to maximise order intake as explained above, and its engineering resources, in order to undertake the product development activities needed to support the Group's five year plan.	The Group Executive Committee reviews the strengths and weaknesses of the management team at each business twice a year, and the Board undertakes an annual review of future requirements as part of the strategic planning process. We continue to strengthen the management organisation across the Group, and a number of additional senior appointments have been made during the year. We undertake a specific detailed review of our future sales and marketing and engineering resource requirements each year, and we are actively recruiting in each of these areas. During the year, we also undertook a review of the future requirements for our finance and IT functions, and we are now implementing a new long term IT strategy that will respond to the planned future expansion of the Group.
Introduction of new manufacturing facilities We are currently investing significant capital expenditure in the establishment of new manufacturing facilities in the UK, the USA, Italy and Australia. We need to ensure that these facilities are completed within budget and on time, in order to maximise our manufacturing capacity for our future growth expectations.	Progress on all of the significant capital investment projects is being closely monitored by the Group Executive Committee and the Board. A Senior Project Director has been appointed to oversee the design and construction activities for the new countermeasures facilities in the UK and Australia, and dedicated project managers have been appointed to oversee the other major programmes in the USA and continental Europe. The new countermeasures facilities have taken slightly longer to complete than originally expected, due to the significant challenges associated with the new automated processes which are being installed, but both the UK and Australian facilities should be commissioned in 2011.
Introduction of new products The Group's approach to innovation and continued research and development activity ensure that we are continually adding new products to the range. We need to ensure that this new product development is completed in a timely manner to a standard which allows us to undertake volume manufacturing, and to produce products against high reliability and safety criteria to meet our customers' requirements.	As referred to above, we continue to strengthen our engineering resources to ensure that we have the right people to deliver the product development activities in our five year plan. In the UK, we have a five year research partnership with Cranfield University, looking at new technologies and products for future development. We also have smaller partnerships with a number of US universities, including the Georgia Technology & Research Institute, University of Massachusetts, Penn. State University, Duke University, University of Florida, University of Louisville, Missouri University, South Dakota School of Mines, and the New Jersey Institute of Technology. We continue to build new manufacturing facilities to accommodate the production of new products, and to increase capacity on our existing production lines. This necessitates careful management of contractors – where construction work is being undertaken, suppliers – where new components have to be qualified for use in our products, and employees – where training in new skills is required. We continue to introduce Six Sigma techniques as appropriate within the organisation to improve our manufacturing capabilities. This investment in new facilities will continue over the course of our five year plan.
Political risks It is recognised that the nature of the current military operations around the world may change over the next three to five years. It is also recognised that changes in the political structure in certain of the countries to which we currently sell could impact on their future defence expenditure strategy.	We do not believe that the Group's Countermeasures business will be significantly impacted by a change in current military operations, as our products will still be required to provide defensive protection during the continuing peacekeeping activities. Growth in the Countermeasures division will be delivered as our proprietary products are fitted to a range of new platforms in Europe and the USA. The Group's Counter-IED, Pyrotechnics and Munitions businesses are less dependent on these military operations, particularly as the product portfolio continues to grow in areas such as IED-detection, space, safety systems, training, munitions components and naval ammunition. Our businesses strive to maintain relationships at all levels within the political structure of certain key countries, in order to ensure that we are aware of and can counter proposed changes if and when they occur.

Risk	Mitigation actions
Competitive risks Defence is a global industry, which is constantly challenged to counter ever-changing threats. The Group's strategy is to focus on targeted niches in energetic materials and systems, where the nature of the products and the requisite production and qualification processes provide significant barriers to new entrants. However, as threats evolve, new businesses offering new solutions may enter the market.	The nature of the threat from missiles and other weapons is continually changing, particularly as new platforms are introduced in different countries, and countermeasures solutions need to develop on an ongoing basis to meet the enhanced requirements. The number of countermeasures manufacturers is currently small but as technologies change, existing manufacturers compete for new products and new businesses can enter into the market. The Group is currently the world leader in the supply and manufacture of expendable countermeasures, with a number of proprietary products, and we intend to maintain this position through our continued investment in research and development, and world class manufacturing facilities. The competitive threats to our Counter-IED, Pyrotechnics and Munitions businesses are generally lower, as the markets are fragmented and our competitors are generally companies with national market positions and limited product ranges. Our core strategy is to grow our business by taking market share and we are, therefore, strongly focused on our research and development activities to ensure we have new updated product available at the right time. We also invest substantial funds to enhance our manufacturing capabilities, in order to maintain our leading position in our niche technologies and markets.
Compliance and corruption risks The Group operates in over eighty countries worldwide, and is subject to the laws and regulations of each of these countries. The Group must ensure that all of its businesses, its employees and third parties acting on its behalf comply with their legal obligations, and do not expose the Group to financial penalties or reputational damage.	The Group has a central legal and compliance function which assists and monitors all Group businesses, and we have recently strengthened our internal resource in the USA with the appointment of in-house counsel. The Group's internal audit activities have been expanded to incorporate a review of legal risks. The Group has a Code of Business Principles, which stipulates the standard of acceptable business conduct required from all of our employees and third parties acting on our behalf. A significant proportion of the Group's management have received training in relation to ethics and anti-corruption. The Group has committed to adherence with the European Aerospace and Defence Association's Common Industry Standards on Anti-Corruption, and has updated all of its business processes, including arrangements with third party representatives, in order to achieve full compliance.
Financial risks Details of the financial risks to which the Group is potentially exposed are set out in Note 24 of the financial statements.	

Corporate Responsibility Review

Our approach

The Group fully acknowledges its obligation to ensure the responsible operation of its business at all times with due regards to the interests of shareholders, employees, customers, suppliers and the wider community.

The Board has overall responsibility for establishing and maintaining the Group's policies in this area, and the Chief Executive is accountable to the Board for ensuring that the Group's businesses adhere to these policies.

The Board recognises that the long term success of the Group will be enhanced by a positive interaction with all of our stakeholders, and has determined that the Group's corporate responsibility initiatives should be focused on the following key areas:

- Health and safety
- Employee support and development
- Environmental protection
- Ethical business conduct

We intend that our corporate responsibility approach should be fully embedded within our businesses, and our senior management bonus plan incorporates specific objectives in each of the above areas.

Further details of our approach are set out below.

In the workplace

Health and safety

Our policy and practices

The Board recognises that the highest levels of safety are required in order to protect our employees, product end users and the general public, whilst achieving growth and maintaining leadership in the Group's chosen markets. The Board believes that all incidents and injuries are preventable, and long term strategies have been adopted to ensure that we continually improve our performance and reduce risk.

The Chief Executive has overall responsibility for health, safety and environmental matters across the Group. The Group Director of Safety reports directly to the Chief Executive, and is responsible for the effective administration and implementation of the Group's health, safety and environment strategy. The Group Director of Safety is a member of the Group Executive Committee and reports on the performance of all businesses against agreed targets and objectives. The Chief Executive reports monthly to the Board on all key health and safety issues.

The Board requires that all businesses systematically manage their health and safety hazards, set objectives, monitor progress by regular measurement, audit and review, and take additional action where necessary. Each Managing Director is responsible for the management of health and safety within their business and for providing adequate resources to satisfy the Board's requirements. All Managing Directors have health and safety related objectives incorporated within their annual bonus plan. Managers in our businesses are required to enforce procedures, and to provide leadership and commitment to promote and embrace a positive health and safety culture. We emphasise the importance of individual responsibility for health and safety at all levels of the organisation, and expect employees to report potential hazards, to be involved in implementing solutions, and to adhere to rules and procedures.

We recognise that a key element in the continual improvement of health and safety management is sharing best practice and lessons learnt from incidents across all of the Group's companies. An alert system is in place that formally ensures key findings from incidents are quickly communicated to all operational sites and actions taken as appropriate. All accidents, incidents and near misses are investigated with actions generated to prevent recurrence. A Health, Safety and Environment Technical Group, with representatives from across the Group, supports continual improvement through the development and promotion of good health and safety practice.

In 2010, extensive safety compliance audits were conducted at all Group facilities using internationally recognised, external consultancy firms. The audits incorporated a review of process safety management in the USA, and addressed Seveso II requirements in Europe. All findings were subject to corrective action reviews to ensure closure and added to a findings database which is shared across the Group.

We aim to have all of our businesses certified to the international health and safety management system OHSAS18001, with the requirement that all newly acquired businesses are certified within two years post-acquisition. We are fully compliant with this aim, with the exception of the Chemring Ordnance facility, acquired in 2008, in Florida, which is scheduled to be certified by the end of the first quarter of 2011.

Newly-acquired businesses are rapidly introduced to the Group's safety philosophy, with detailed regulatory compliance audits and programme gap analysis.

Safety is a major item for consideration by the Group's Risk Management Committee. All businesses are required to produce a risk register from which the top five health and safety risks and improvement actions to reduce the risks to as low as reasonably practicable are reviewed on a monthly basis.

The Group has committed to substantial investments in manufacturing facilities that will, in addition to improving productivity, improve the safety of the workforce by reducing the levels of risk. We apply particular attention to those facilities that compare unfavourably with their peers, and systems and processes are in place to facilitate the sharing of information across the Group. Our ongoing safety improvement activities are focused on ensuring that our buildings, processes and products are as safe as reasonably practicable for our employees and product users.

The Group has an established relationship with Cranfield University, both for the supply of employee training programmes and for the development of simulation modelling to evaluate blast and thermal effects from the ignition of pyrotechnic and other materials. Additionally, annual training in the handling of energetic materials is conducted by third party experts.

Our performance

Energetic events causing injury

Whilst we take all incidents seriously, we pay particular attention to those where employees sustain injury due to an energetic event.

In November 2009 two contractors working at our Salisbury, UK facility suffered first degree burns during the disassembly of an obsolete extraction unit. Contractor management and permit to work systems have since been examined at all facilities and where potential gaps were observed, improvements were introduced.

In September 2010 a fire at our Kilgore facility in Toone, Tennessee resulted in three employees sustaining serious injury. This incident remains under investigation by the regulatory authorities. Also in September, a small detonator initiated at our Chemring Energetics facility in Ardeer, Scotland, resulting in minor wounds to the hand of an operator.

Energetic events not causing physical injury
In 2010 we had unexpected energetic events at Kilgore, at Chemring Countermeasures in the UK, and at Chemring Defence in Derby, UK.

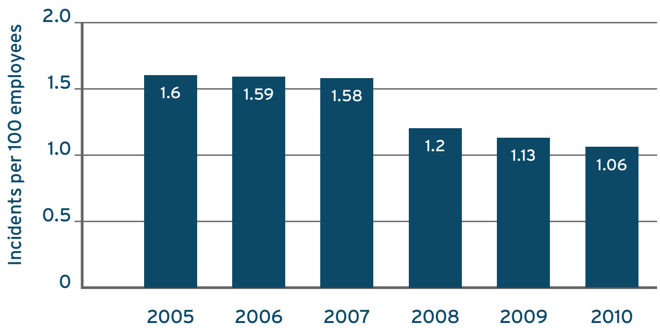
In September 2010 a deflagration at our newly acquired Mecar facility in Belgium resulted in a voluntary stop of all production. Following this incident, an extensive step-by-step improvement programme was implemented, which must be satisfactorily completed for each production process before the process is allowed to restart.

These events caused no physical injuries.

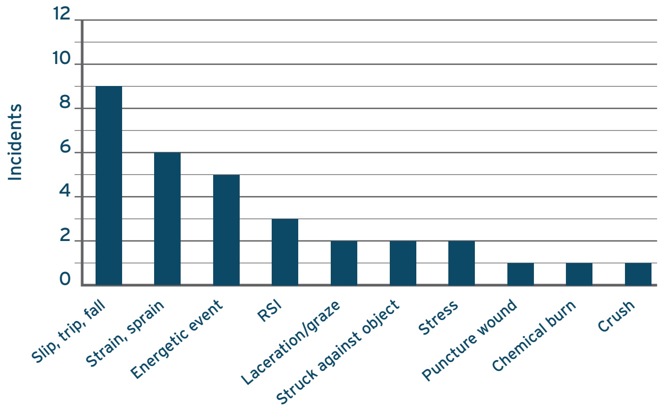
Other lost time events
Excluding the newly acquired Mecar and Roke businesses, the Group lost time incident rate (calculated using the US Occupational Safety and Health Administration rules) showed a modest improvement from 1.13 to 1.06 incidents per 100 employees during the year. Six of our sites reported no lost work days in the year, which is an excellent achievement.

Our historical lost time incident rate performance is shown below:

Lost time incident rate performance



A total of thirty two lost time incidents were recorded in the year, categorised as follows:

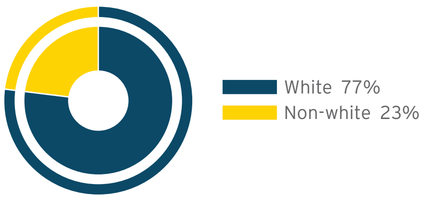


Employees
The Board recognises the valuable contribution that the Group's employees continue to make to its success, and aims to provide a working environment that reflects and rewards this. The Group now has 4,283 (2009: 3,349) employees based in eight countries.

Employment practices
The Group's policy is to provide equal opportunities for all employees, irrespective of race, nationality, gender, sexual orientation, marital status, religion or political belief, disability or age. The Group is committed to meeting, at a minimum, the labour rights and legislation requirements in each country in which it operates, and in practice, often exceeds these. Our employment practices policies are introduced at newly-acquired businesses at the earliest opportunity after they join the Group.

Gender diversity

Ethnic diversity



Development and training
We continue to address training and development requirements for employees at all levels within the organisation. All of our businesses consider training needs for their employees at a local level, in order to ensure that they have the right skill base to deliver their five year strategic plan. The Board also undertakes a detailed review of the future management requirements and succession plans as part of the annual strategic planning process. Specific plans have been developed in relation to sales and marketing and engineering resources, in order to identify the requirements for future recruitment and development of our existing employees in these areas, and to ensure that we have the right capabilities to meet our future growth targets.

Our European businesses fully implemented a new "people capability process" for performance appraisal and management during the year.

Our undergraduate "year in industry" placement scheme continues to be successful, and we aim to extend this programme each year. We are developing our graduate recruitment initiatives, and our acquisition of Roke, which has a well-established and highly successful graduate programme, will be of great benefit in this area.

Corporate Responsibility Review
continued

Benefits
We aim to provide all of our employees with an attractive and competitive benefits package. Almost all of our businesses offer occupational pension scheme arrangements and our US employees receive health care. A number of our businesses offer health screening services and other health-related initiatives such as "stop-smoking" clinics.

The Board is keen to encourage employees to join share schemes in order that they can share in the future success of the Group. We currently offer savings-related share plans to our UK and US employees, and plan to replicate these in the other countries in which we operate in the future.

Communications
The Group pursues a policy of employee communication through meetings (including team briefings and works councils) and in-house magazines by which employees are made aware of the progress of the Group and the companies in which they work. We also engage with our employees through representative bodies and trade unions.

Employee surveys are undertaken in relation to specific matters, such as health and safety, from time to time.

A Group magazine, The Chemring Eye, is published on a quarterly basis and distributed to all of our employees.

In the environment

Our policy and practices
The Board believes that protecting the environment by minimising our environmental impact will help to secure the long term future of our businesses. The Group's Environmental Policy states that we will control pollution, minimise the quantity of material burnt at each site, consume resources efficiently, and use materials that minimise the environmental impact of our operations.

With the exception of the recent acquisitions, all of the Group's businesses are certified to the environmental management system ISO14001, which requires the setting of environmental goals and objectives focused on local aspects and impacts. Additionally, we monitor key environmental data across the Group.

Land quality
The Chemring Energetic Devices (formerly Scot) facility, which is based in Downers Grove, Illinois, USA, is located on a site which has "superfund" status under the US contaminated land (CERCLA) regime. The Group carries a £2.2 million provision in respect of the pre-acquisition environmental liabilities associated with the site, which the Board considers to be adequate (see Note 25 of the financial statements). We continue to work with external consultants and the regulatory authorities to ensure that the legal obligations of the business in relation to this matter are fully satisfied.

During the year, at the request of the Italian authorities, we completed soil sampling at Simmel Difesa's facility in Colleferro as part of an overall regional characterisation exercise. No significant contamination was found.

The newly acquired Mecar business in Belgium has been working with its local regulator for some time to remediate historical contamination. It is anticipated that this will be an ongoing activity.

Incidents
An environmental incident occurred at Chemring Countermeasures in the UK in May 2009, when a corroded pipe led to the spillage of dichloromethane. A soil vapour extraction plant has been installed, which will continue to draw the dichloromethane from the sub-surface until the levels of contamination have been reduced to a level acceptable to the regulator.

Performance
Our environmental performance improved during the year in all of our target areas: energy, emissions, waste and water.

Energy and emissions
During 2008 we collected detailed data on travel within the Group, which revealed that this activity represented less than 3% of our overall carbon footprint. Energy utilisation is therefore our main focus of attention. We do not include emissions from our supply chain, nor use and disposal of products in our carbon footprint calculation.

Chemring Energetics at Ardeer in Scotland is currently the only site that falls under the EU Emissions Trading Scheme. However, all UK facilities participate in the Carbon Reduction Commitment programme.

Our total emissions during the year, excluding those of businesses acquired during the year, in carbon dioxide equivalents were as follows:

Source	2010 (tonnes CO_2)	2009 (tonnes CO_2)	2008 (tonnes CO_2)	2007 (tonnes CO_2)
Electricity	**38,303**	36,334	29,128	21,556
Gas	**14,033**	12,512	12,384	11,931
Oil	**3,111**	2,008	2,351	2,878
Total	**55,447**	50,854	43,863	36,365

The Group's total emissions increased by 9% against a strong increase in revenue, which means that our overall carbon intensity reduced during the year as follows:

	2010	2009	2008	2007
Total emissions (tonnes)	**55,447**	50,854	43,863	36,365
Group revenue (£million)*	**571**	504	354	254
Tonnes of CO_2 per £million of revenue	**97**	101	124	143

* Group revenue for 2010 excludes £26.5 million relating to acquisitions during the year.

We are increasing our efforts to address energy conservation and thus indirect emissions in the future. All UK sites have had independent energy audits and all of our businesses have emissions reduction programmes in place.

The Group participated in the 2010 Carbon Disclosure Project.

Waste
Our total non-recycled waste generated, excluding that generated by businesses acquired during the year, reduced for the second year in a row:

	2010 (tonnes waste)	2009 (tonnes waste)	2008 (tonnes waste)
Non-hazardous	**1,152**	1,576	1,027
Hazardous	**352**	419	1,425
Total	**1,504**	1,995	2,452

Many of our facilities are permitted to burn waste materials on site within closely controlled facilities. We offer a collection service in the UK for time-expired marine pyrotechnics, including those produced by other manufacturers, and these are transferred to an accredited third party disposal service.

The Group is currently investing in a new demilitarisation facility in Italy, which will allow the return of time expired and obsolete munitions for decommissioning and disassembly. The individual materials will then be recycled back into the supply chain.

Water
We consumed a total of 1,550,374 m^3 of water compared to 1,762,000 m^3 last year, an absolute reduction of 13% during a period of strong revenue growth.

In the community

Helping others
The Board recognises that each of the Group's businesses has an important role to play in its local community.

The Board operates a charitable policy, which confirms its commitment to support selected charitable causes with a focus on the military and armed services, and those linked to the local communities in which the Group's businesses operate. At a Group level, charitable donations are considered on a monthly basis by the Executive Committee, and each business has its own locally held charity budget. Examples of support provided during the year include:

- Donations to a range of charities including Help for Heroes, Army Benevolent Fund, Supporting Royal Marines, Royal British Legion, Queen Alexandra Hospital Home, Scottish Veterans Garden City Association, Army Arts Society, various health and cancer charities, local hospitals and schools, and ongoing support for the Mary Rose Appeal and SSAFA.
- Sponsorship of the 7 Air Assault Battalion Royal Electrical and Mechanical Engineers (REME) Royal Navy Field Gun Crew, the Red Devils, the Combined Services Under 23 Rugby Team and the Royal Artillery Gold Cup Day.
- Sponsorship of the UK Aerospace Youth Rocketry Challenge.

In addition to making cash donations, the Group also encourages and supports employees who undertake voluntary work in the local community, where appropriate. During the year, our employees donated their time and services on a wide range of projects, several of which had an educational bias.

The Group is involved with a number of educational initiatives, notably including the sponsorship of various local schools. The Group has a partnership agreement with Cranfield University, under which the Group has committed to the provision of significant funding for students' research activities over a five year period.

With regards to the impact of our manufacturing activities on the local community, at locations where our operations may inconvenience neighbours through product proofing, we liaise with local residents to minimise any impact. We are also cognisant of the potential impact of our operations on the local environment, and we are addressing this through our environmental strategy.

In the marketplace

Policy on the Sale of Goods and Services
The Group's strategy is to become the leading producer of protection systems and energetic products for the global defence market, and we continue to deliver significant growth in this area though a combination of organic development and acquisitions. The scope of the Group's activities has broadened significantly in recent years, particularly with regards to the supply of components and sub-systems for various types of munitions, and there is increasing demand for the supply to our customers of third party products. Consequently, the Board has adopted a Policy on the Sale of Goods and Services, which provides guidance to all stakeholders on the products and services that the Group will supply, to which customers and to which countries, and sets out a clear definition of what we will not supply. All Group businesses are required to comply with this policy, which addresses both legal and ethical considerations with regards to certain products.

Business Conduct
The Group has adopted a Code of Business Principles, which requires our employees, our businesses and all third parties who act on our behalf to comply with our standards of acceptable business conduct and applicable laws and regulations in all of the countries in which we operate.

The managing directors of each business are required to report to the Chief Executive on compliance with the Code of Business Principles on an annual basis.

Ethics and anti-corruption
The Group has committed to adherence with the European Aerospace and Defence Association's Common Industry Standards on Anti-Corruption, and we continued to work towards achieving full compliance during the year. Our ethics and anti-corruption programme now incorporates the following:

- Regular training for management and employees working within commercial, sales and marketing, finance and human resource functions on ethics and anti-corruption.
- A Group-wide policy and procedures on the appointment of agents and other third party representatives, stipulating due diligence and contractual requirements, approval levels and review processes.
- Policies and procedures on the giving and receiving of gifts and hospitality.

Our Code of Business Principles also incorporates the Common Industry Standards.

Our US businesses have adopted an ethical compliance programme to satisfy US Government requirements for ethical training for employees, compliance audits, an employees' "hotline", and related investigation procedures.

The Group has a whistleblowing policy and procedures in place which enable all employees to raise concerns, in confidence, about possible improprieties. These arrangements now reflect the requirements of the Common Industry Standards.

Directors and corporate information




Peter C F Hickson~+

Non-Executive Chairman
Joined the Group as a non-executive director on 1 July 2010 and was appointed Chairman of the Board on 1 October 2010. Currently Chairman of Communisis plc, Senior Independent Director of London & Continental Railways Ltd and a non-executive director of Kazakhymys PLC. He has had senior management experience with a number of large international companies and previous appointments include Chairman of Anglian Water Group, Finance Director of Powergen plc and non-executive directorships of Scottish Power plc, Marconi Corporation plc and RAC plc. He is also a trustee and Board member of Orbis Charitable Trust, the international sight saving charity, and a Fellow of the Institute of Chartered Accountants.

Aged 65.

Dr David J Price CBE CEng CSci

Chief Executive
Joined the Group in April 2005 as Chief Executive. Formerly Managing Director, Naval Marine at Rolls-Royce plc and Managing Director of Thomson (UK) Holdings Ltd (now part of the Thales Group). Fellow of the Institute of Engineering & Technology and the Institute of Marine Engineering, Science & Technology. Member of the Defence Industries Council, and appointed member of the Council for Southampton University in 2010.

Aged 55.

Paul A Rayner FCA

Finance Director
Joined the Group in June 1994 and acted as Finance Director to several Group companies before being appointed to the Board in August 1999. Formerly a Senior Audit Manager with Deloitte & Touche.

Aged 49.

David R Evans

Non-Executive Director
Joined the Group in 1987 as Managing Director of the Countermeasures business and appointed to the Board in 1988. He took up his current position as a non-executive director in April 2005, after stepping down as Chief Executive, a position he had held since January 1999. Managing Director of the Marconi torpedo business prior to joining the Group. Currently a non-executive director of Avon Rubber plc. Previously a non-executive director of Whatman PLC.

Aged 64.

Headquarters and registered office

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Fax: +44 1489 881123
Website: www.chemring.co.uk

Registration number

86662

Registrars

Computershare Investor
Services PLC
The Pavilions
Bridgwater Road
Bristol BS13 8AE

The Rt Hon Lord Freeman*~

Non-Executive Director
Joined the Group as a non-executive director in May 2006. Chairman of the Audit Committee. Currently a Consultant (formerly Partner) to PricewaterhouseCoopers, Chairman of Thales UK Advisory Board and a non-executive director of Savile Group PLC. He is also on the main Board of Thales S.A., France. Partner with Lehman Brothers Investment Bankers between 1969 and 1985. Member of Parliament from 1983 to 1997. Made a Privy Councillor in 1993. Minister 1985–1997.

Aged 68.

Ian F R Much*~+

Non-Executive Director
Joined the Group as a non-executive director in December 2004. Senior Independent Director and Chairman of the Remuneration Committee. Previous appointments include Chief Executive of De La Rue plc and T&N plc, and non-executive director of Admiral plc, Camelot plc, Manchester United plc and Simplyhealth Group Ltd. Currently a non-executive director of Senior plc and BTG plc.

Aged 66.

Air Marshal Sir Peter Norriss KBE CB AFC MA FRAeS*~+

Non-Executive Director
Joined the Group as a non-executive director in May 2004. Currently a Consultant to Tessella plc and a Senior Adviser to Newton. He is also a member of major programme review teams for the Office of Government Commerce and an adviser or court member at four universities. Formerly Deputy Chief of Defence Procurement (Operations) and Controller Aircraft on the Air Force Board. Past President of the Royal Aeronautical Society (2003-4).

Aged 66.

Sarah Ellard FCIS

Company Secretary

Membership of Board committees during year: * Audit, ~ Remuneration, + Nomination

Directors' Report

for the year ended 31 October 2010

The directors present their annual report, together with the audited financial statements of the Group and the Company for the year ended 31 October 2010.

Principal activities

The principal activities of the Group are the design, manufacture and sale of countermeasures, counter-IED equipment, pyrotechnics and munitions.

Business review

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 on pages 4 to 33, provide a review of the Group's business development, performance and position during and at the end of the financial year; its strategy and likely future development; key performance indicators; and a description of the principal risks and uncertainties facing the business. Further information regarding financial risk management policies and financial instruments is given in Note 24 of the financial statements. Details of significant events since the balance sheet date are contained in Note 36 of the financial statements.

Results and dividends

The profit attributable to the Group's shareholders for the year was £66.7 million (2009: £70.1 million). The directors recommend a final dividend of 42p per ordinary share, which together with the interim dividend of 17p per ordinary share paid in August 2010 gives a total for the year of 59p (2009: 50p). The final dividend is subject to approval by shareholders at the Annual General Meeting on 24 March 2011, and accordingly has not been included as a liability in these financial statements.

Directors and their interests

The present directors are shown on pages 32 and 33.

Mr P C F Hickson was appointed as a director on 1 July 2010. He will be seeking re-appointment under Article 87.1 of the Company's Articles of Association at the forthcoming Annual General Meeting. Mr Hickson does not have a service contract with the Company.

In accordance with the Company's Articles of Association, all directors are required to submit themselves for re-election every three years. However, in order to ensure compliance with the revised UK Corporate Governance Code during the financial year ending 31 October 2011, all directors will voluntarily submit themselves for re-election at the forthcoming Annual General Meeting.

The non-executive directors do not have service contracts with the Company. Details of the service contracts between the Company and Dr Price and Mr Rayner are set out in the Directors' Remuneration Report on page 42.

Mr K C Scobie retired as a director and Chairman of the Board on 30 September 2010.

None of the directors had a beneficial interest in any contract of significance to which the Group was a party during the year ended 31 October 2010.

Information required as to directors' shareholdings is set out in the Directors' Remuneration Report.

Substantial shareholdings

At 17 January 2011 the following substantial holdings in the ordinary share capital of the Company had been notified to the Company in accordance with Chapter 5 of the Disclosure and Transparency Rules of the Financial Services Authority:

Name	% Interest
Invesco Limited	19.15
Old Mutual Asset Managers	5.13
Ameriprise Financial, Inc.	5.07
JP Morgan Chase & Co.	4.94
AXA S.A. and its group of companies	4.84
Standard Life Investments Ltd	4.57
Legal and General Group PLC	3.97
BT Pension Scheme Trustees Ltd as Trustees of the BT Pension Scheme	3.84

Employees

Details of the Group's employment policies are set out in the Corporate Responsibility Review on page 29.

Charitable and political donations

Charitable donations amounting to £98,400 (2009: £61,200) were made during the year. No political donations were made during the year (2009: £nil).

Contractual arrangements

The Group contracts with a wide range of customers, comprising governments, armed forces, prime contractors and OEMs across the globe. The US Department of Defense is the largest single customer, and procures the Group's products under a significant number of separate contracts placed with individual Group businesses.

The Group's businesses utilise many suppliers across the world, and arrangements are in place to ensure that businesses are not totally reliant on single suppliers for key raw materials or components.

Policy on payment of suppliers

It is the policy of the Group that each of the Group companies should agree appropriate terms and conditions for its transactions with suppliers. These will range from standard written terms to individually negotiated contracts. Creditor days of the Group as at 31 October 2010 amounted to 83 days (2009: 78 days).

The Chemring Group Performance Share Plan (the "PSP")

The following conditional awards were made under the PSP during the year:

Date of award	Total number of shares awarded	Number of participants receiving awards
20 January 2010	105,693	31
18 March 2010	5,115	2
Total	110,808	33

The Chemring Group 2008 UK Sharesave Plan (the "UK Sharesave Plan")

On 30 July 2010 options were granted over 17,921 ordinary shares. Options over 432 ordinary shares were exercised during the year and options on 5,705 shares lapsed. Additional information is set out in Note 31.

The Chemring Group 2008 US Stock Purchase Plan (the "US Stock Purchase Plan")

On 30 July 2010 options were granted over 11,227 ordinary shares. Options over 2,387 ordinary shares were exercised during the year and options on 2,815 shares lapsed. Additional information is set out in Note 31.

Approach to share ownership

The Group actively encourages its employees to share in the future success of the Group. A third grant of options under the UK Sharesave Plan and the US Stock Purchase Plan, which were launched in 2008, took place during the year. The Board is considering the establishment of similar schemes for employees in Group companies outside of the UK and the USA.

Share capital and shareholder rights

General

The Company's share capital consists of ordinary shares of 5p each and preference shares of £1 each, which are fully paid up and quoted on the main market of the London Stock Exchange. Full details of the movements in the issued share capital of the Company during the financial year are provided in Note 27 of the financial statements.

All holders of ordinary shares are entitled to attend, speak and vote at any general meeting of the Company and to appoint a proxy or proxies to exercise these rights. At a general meeting, every shareholder present in person, by proxy or (in the case of a corporate member) by corporate representative has one vote on a show of hands, and on a poll has one vote for every share held.

To decide who can attend or vote at a general meeting, the notice of meeting can give a time, which must not be more than 48 hours before the meeting, by which shareholders must have been entered on the register in order to have the right to attend or vote at the meeting.

If a shareholder has been properly served with notice under section 793 of the Companies Act 2006 requiring information about interests in shares, and has failed to supply such information within fourteen days after the service of the notice, then the shareholder is not entitled to attend and vote at a shareholder meeting.

There are no restrictions on the transfer of ordinary shares in the capital of the Company other than certain restrictions which may from time to time be imposed by law, for example insider trading law. In accordance with the Listing Rules of the Financial Services Authority, certain employees are required to seek the approval of the Company to deal in its shares.

The cumulative preference shares carry an entitlement to a dividend at the rate of 7p per share per annum, payable in equal instalments on 30 April and 31 October each year. Holders of the preference shares have the right on winding-up to receive, in priority to any other classes of shares, the sum of £1 per share together with any arrears of dividends.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

The Company's Articles of Association may only be amended by special resolution at a general meeting of shareholders.

Issue of shares

Under the provisions of section 551 of the Companies Act 2006 ("the Act") the Board is prevented from exercising its powers under the Articles of Association ("the Articles") to allot shares without an authority in terms of the Act contained either in the Articles or in a resolution of the shareholders in general meeting. The authority, when given, can last for a maximum period of five years, but the Board proposes that renewal should be sought at each Annual General Meeting. Such proposal is set out as resolution 12 in the Notice of the Annual General Meeting.

Section 561 of the Act requires that an allotment of shares for cash may not be made unless the shares are first offered to existing shareholders on a pre-emptive basis in accordance with the terms of the Act. In accordance with general practice, to ensure that small issues of shares can be made without the necessity of convening a general meeting, the Board proposes that advantage be taken of the provisions of section 571 of the Act to not apply the Act's pre-emptive requirements. Accordingly, a special resolution (set out as resolution 14 in the Notice of Annual General Meeting) will be proposed which, if passed, will have the effect of granting the directors the power to allot not more than 5% of the present issued ordinary share capital free of the requirements of section 561 of the Act. No issue of these shares will be made which would effectively alter the control of the Company without prior approval of the shareholders in general meeting.

Purchase of own shares

During the year the Company purchased 126,880 (2009: 78,301) of its ordinary shares, and 100,011 (2009: 115,170) ordinary shares were distributed following vesting of awards under the Chemring Group Performance Share Plan. At 31 October 2010, the Company held a total of 300,000 ordinary shares in treasury (representing 0.8% of the ordinary shares in issue on 1 November 2010). All purchases of ordinary shares were by means of market purchases through the London Stock Exchange. Further details can be found in Note 29 of the financial statements.

A special resolution (set out as resolution 15 in the Notice of Annual General Meeting) will be proposed at the forthcoming Annual General Meeting, to renew the Company's authority to purchase its own shares in the market up to a limit of 10% of its issued ordinary share capital. The maximum and minimum prices are stated in the resolution. The directors believe that it is advantageous for the Company to have this flexibility to make market purchases of its own shares. The directors of the Company will consider holding repurchased shares pursuant to the authority conferred by this resolution as treasury shares. This will give the Company the ability to re-issue treasury shares quickly and cost effectively and will provide the Company with additional flexibility in the management of its capital base. Any issues of treasury shares for the purposes of the Company's employee share schemes will be made within the 10% anti-dilution limit set by the Association of British Insurers. The directors will only exercise this authority if they are satisfied that a purchase would result in an increase in expected earnings per share and would be in the interests of shareholders generally.

Directors' Report
continued

Statement of Directors' Responsibilities
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Responsibility Statement
We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, 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
- the Statement by the Chairman, the Review by the Chief Executive, 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 cross-referred from 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 that they face.

Provision of information to auditors
Each of the directors at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Close company provisions
As far as the directors are aware, the close company provisions of the Taxes Acts do not apply to the Group nor has there been any change in that respect since 31 October 2010.

Auditors
A resolution to re-appoint Deloitte LLP as auditors will be proposed at the Annual General Meeting.

Annual General Meeting
The resolutions to be proposed at the Annual General Meeting to be held on 24 March 2011, together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders.

Approved by the Board of Directors on 18 January 2011
Signed on behalf of the Board

S L Ellard
Company Secretary

Directors' Remuneration Report

for the year ended 31 October 2010

This report sets out the information required by the Companies Act 2006 and Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008. The Report also meets the relevant requirements of the Listing Rules of the Financial Services Authority, and describes how the Board has applied the principles and complied with the provisions relating to directors' remuneration in the 2008 Combined Code on Corporate Governance. As required by the Regulations, the Directors' Remuneration Report will be submitted to shareholders for approval at the Annual General Meeting on 24 March 2011.

The Act requires the auditors to report to the Company's members on certain parts of the Directors' Remuneration Report and to state whether, in their opinion, those parts of the report have been properly prepared in accordance with the Accounting Regulations. The report has therefore been divided into separate sections for the audited and unaudited information.

UNAUDITED INFORMATION

Remuneration Committee

During the year under review the Remuneration Committee comprised:

Mr I F R Much (Committee Chairman)

Air Marshal Sir Peter Norriss

The Rt Hon Lord Freeman

Mr P C F Hickson (appointed 1 July 2010)

The Committee's principal responsibilities are:

- determining, agreeing with the Board and reviewing from time to time the overall policy for the remuneration of the Chairman, the executive directors, the Company Secretary and certain other senior executives in the Group, and their individual remuneration packages and any changes thereto;
- reviewing the market competitiveness of the remuneration policy and arrangements;
- overseeing salary levels and remuneration packages for the second and third tiers of management;
- approving the terms and conditions of employment, and any changes thereto, of the executive directors;
- approving any compensation payments for executive directors;
- approving the design of, and determining targets for, any performance-related pay schemes operated by the Group;
- reviewing the design of all share incentive plans for approval by the Board and the Company's shareholders;
- providing oversight of potential remuneration-related risks arising across the Group; and
- overseeing any major changes in employee benefits structures across the Group.

With the exception of Mr Hickson whose remuneration is determined by the Committee, none of the Committee members has any personal financial interest in the matters reserved for the Committee nor do they have any conflicts of interest arising from cross-directorships, and they are not involved in the day to day running of the Group's business. Therefore, they are regarded by the Board as independent. Mr Hickson does not participate in any discussions regarding his own remuneration.

The Committee met six times during the year. The Chief Executive attends meetings by invitation but is not present during any discussions relating to his own remuneration.

The terms of reference of the Committee are available on the Company's website or on request from the Company Secretary.

Advisers

During the year the Committee received advice on remuneration and incentive plan related matters from Hewitt New Bridge Street. The Company received no other services from Hewitt New Bridge Street or any other part of Hewitt Associates during the year. The Committee also received advice from Odgers Berndtson on the remuneration package for the new Chairman during the recruitment process.

The Committee consults internally with the Chief Executive and the Company Secretary.

Remuneration policy for executive directors

The Committee's policy is to provide executive remuneration packages which are competitive, but not excessive, by reference to market rates across comparator companies, reflect the performance of the business against financial objectives, and which take into account the individual contribution and performance of each executive director. Remuneration packages comprise the following elements:

(i) base salary and benefits, including pensions;

(ii) annual bonuses linked to the Group's financial performance and personal objectives; and

(iii) awards of share-based incentives linked to the long term growth of the Group.

The Committee aims to align the interests of executive directors with those of shareholders, by ensuring that a significant proportion of remuneration is performance-related. This is achieved through the performance-related elements of annual bonuses and share-based incentives.

Directors' Remuneration Report

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Key aspects of the remuneration arrangements for the executive directors and changes thereto during the year are summarised below.

Base salary: The Committee had been aware, for some time, that the salaries of the executive directors had not reflected the substantial growth in the Group's revenue, earnings, dividends and market capitalisation in recent years. It had delayed addressing this anomaly during the initial stages of the economic downturn. In early 2010, however, following a year of 33% growth in underlying earnings per share, it was evident that the Group was in a position to continue its strong growth in revenue and earnings. The Committee therefore decided to review the executive directors' salaries in the context of the outstanding Group performance and the need to maintain market competitive salary levels. The Committee also took into account retention issues and the demand for talented executive management with a proven track record in the industry. Against this background, base salaries for the executive directors were increased by just over 14% with effect from 1 April 2010.

Pension provision: The Committee agreed that with effect from 6 April 2010, the executive directors would cease to participate in the Group's defined benefit pension scheme, and would instead, for all future service, receive a salary supplement of 20% of base salary. Whilst these levels of contributions have enhanced the short term fixed costs to the Company relative to the existing defined benefit pension arrangements, there is clearly an advantageous and offsetting transfer of investment risk to the individuals.

As a result of these two changes, the overall level of fixed pay for the executive directors was aligned more closely with the median of the market benchmarks used by the Committee (benchmarks which take into account both market capitalisation and turnover, and which have therefore increased less for the Group than would have arisen if based solely on market capitalisation).

Annual bonus: Executive directors are now required to receive 40% of any bonus earned in the form of deferred shares (an increase from 25% in 2009). All other key aspects of the bonus scheme remain unchanged, save that in accordance with emerging good practice, clawback provisions have now been introduced into the bonus scheme, which will enable the Company to clawback deferred shares prior to vesting in the event of subsequent discovery of material misstatement of the Company's financial results for the financial year in respect of which the deferred shares were awarded.

Share awards: Following approval by the Group's shareholders of the increase in maximum award levels permissible under the Group's performance share plan at the March 2010 Annual General Meeting, share awards worth (at grant) up to 125% of base salary were granted to the executive directors during the year. In accordance with current market norms, and as anticipated at the time of seeking approval for the increased award levels, the normal annual award limit will increase to 150% of base salary for the executive directors from 2011 onwards. The Committee wishes to ensure that the executive directors are appropriately rewarded for exceptional performance and accordingly, the higher award levels will be subject to even more challenging earnings per share growth targets than those which were applied to the 125% awards made in 2010. Further details are set out below.

Comparator groups

The constituents of the sector-based comparator group utilised by the Committee for remuneration benchmarking purposes during the year were as follows:

Charter International plc	Melrose PLC	Spirax-Sarco Engineering plc
Chloride Group PLC	QinetiQ Group PLC	Ultra Electronics Holdings plc
Halma p.l.c.	Rotork PLC	VT Group plc
IMI plc	Spectris plc	The Weir Group PLC
Meggitt PLC		

The Committee also considered general comparator groups based on FTSE250 companies with a similar market capitalisation and turnover.

Base salaries and benefits

The executive directors' base salaries are reviewed annually by the Committee, and adjustments made, if appropriate, taking into account individual performance and comparable salary levels in the comparator groups set out above. The Committee refers to published salary surveys and data provided by its remuneration advisers, Hewitt New Bridge Street, and also reviews the remuneration information presented in the annual reports of companies in the comparator groups.

The executive directors' current base salaries are as follows:

- Dr D J Price £480,000 (2009: £420,000)
- Mr P A Rayner £300,000 (2009: £262,500)

The executive directors' base salaries will next be reviewed on 1 April 2011.

The Committee also considers and approves the base salaries for twenty two other senior executives, and reviews salaries for the next two tiers of management at each of the Group's businesses. In addition, the Committee receives information on general pay levels across the Group. The Committee therefore has due regard to salary levels across the Group in applying its remuneration policy.

The main taxable benefits for executive directors are fully-expensed company cars and private medical insurance.

Annual bonuses

During the year under review, the Company operated an annual performance-related bonus plan for the executive directors, with key characteristics as follows:

- a maximum bonus potential for the executive directors of 100% of base salary;
- three quarters of the bonus potential linked to two separate financial performance conditions, namely earnings per share and cash flow (with equal weighting). The conditions, which are set by the Committee, take into account a number of factors including budget, market expectations, long term growth prospects and the previous year's out-turn. No bonus is payable for achievement of less than 90% of target, with bonuses being earned thereafter on a straight-line basis up to the maximum for 110% or better achievement of target;
- one quarter of the bonus potential may be achieved in connection with the satisfaction of personal objective criteria set at the beginning of the financial year. These comprise a mixture of short term and longer term objectives linked to the delivery of the Company's strategic plan. No part of this element of bonus is payable unless threshold performance of both the financial conditions described above is achieved. The personal objectives set for the executive directors during the year were linked to the following strategic objectives:
  - delivery of improvements in the Group's health, safety and environmental performance
  - growth of the Group's order book, and development of key strategic growth opportunities
  - implementation of the expansion plans for the International Division
  - development of key new products and successful competitive strategies
  - completion of new production facilities
  - improved phasing of cashflow generation and management of working capital;
- 40% of any bonus payable is deferred as a conditional award of the Company's shares, with vesting subject to continued employment (save in good leaver scenarios) three years from the award of bonus; and
- the payment of any bonus remains ultimately at the discretion of the Committee.

Bonuses are non-pensionable.

The table below summarises the bonuses earned by the executive directors, as a percentage of base salary, in respect of the current and last years (the figures in brackets are the maximum percentages that could have been achieved:

	2010				2009			
Bonus percentage received for:	D J Price		P A Rayner		D J Price		P A Rayner	
Earnings per share performance	**17.78**	**(37.5)**	**17.78**	**(37.5)**	35.63	(37.5)	35.63	(37.5)
Cash flow performance	**24.03**	**(37.5)**	**24.03**	**(37.5)**	37.5	(37.5)	37.5	(37.5)
Achievement of personal objectives	**20.0**	**(25.0)**	**19.5**	**(25.0)**	21.0	(25.0)	21.25	(25.0)
Total	**61.81**	**(100.0)**	**61.31**	**(100.0)**	94.13	(100.0)	94.38	(100.0)

The Committee continues to set highly challenging bonus targets for the achievement of maximum bonuses. Despite the outstanding levels of EPS growth and returns to shareholders delivered by the Group in recent years, the executive directors have not received maximum bonuses in any of the last four years as evidenced by the chart below.

Year	2010		2009		2008		2007	
Growth in underlying EPS[1]	**15%**		33%		43%		56%	
Return to shareholders in year	**-5%**		70%		-23%		41%	
Executive	D J Price	P A Rayner	D J Price	P A Rayner	D J Price	P A Rayner	D J Price	P A Rayner
Maximum bonus potential (% of salary)	**100%**		100%		60%		60%	
Bonus paid (% of salary)	**61.81%**	**61.31%**	94.13%	94.38%	52.1%	54.3%	46.1%	44.6%

[1]Source: Statutory accounts for the years ended 31 October 2010, 2009, 2008 and 2007

The basic structure of the bonus scheme will remain unchanged for the current financial year, namely with a maximum bonus potential of 100% of base salary, with 40% of any bonus satisfied by the award of deferred shares. However, clawback provisions have now been introduced into the bonus scheme, which will enable the Company to clawback the deferred shares prior to vesting in the event of subsequent discovery of material misstatement of the Company's financial results for the financial year in respect of which the deferred shares were awarded. Bonuses will continue to be determined by a mixture of earnings per share, cash flow and personal objectives.

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Long term incentives
Performance share plan
The Company operates the Chemring Group Performance Share Plan for the executive directors and other key members of the senior management team who influence the performance and prospects of the Group. The key features of the plan are currently as follows:

- conditional awards can be made of the Company's shares worth no more than 150% of base salary each year under normal circumstances;
- awards will vest three years after grant subject to the extent to which a demanding performance condition has been achieved over a single three year performance period (with no ability to re-test the performance condition). The performance condition is based on the growth of the Company's earnings per share in excess of RPI over three consecutive financial years. The Committee considers an earnings per share condition to most closely align the interests of participants with those of the Company's shareholders;
- the vesting schedules for awards granted to date are as follows:

	Total earnings per share growth per annum (not compounded) over three financial years	
	Threshold vesting	Full vesting
Awards made prior to 23 January 2007	RPI +5% (33% vests)	RPI+15%
Awards made on 24 January 2007	RPI +7.5% (33% vests)	RPI+20%
Awards made on or after 23 January 2008	RPI +10% (25% vests)	RPI+30%
Awards made on or after 20 January 2010	RPI + 10% (25% vests for awards up to 100% of base salary) RPI + 25% (for any additional awards over 100% of base salary)	RPI + 25% (for awards up to 100% of base salary) RPI + 30% (for awards up to 125% of base salary)*

* For awards of up to 125% of base salary, 100% will vest at RPI + 25%, with the additional 25% vesting on a straight-line basis between RPI + 25% and RPI + 30%

No shares vest for growth below the threshold vesting target. Vesting is calculated on a straight-line basis for growth between the threshold and full vesting targets;

- earnings per share is calculated on a fully diluted and normalised basis, as specified by the Committee prior to grant; and
- market purchase shares or new issue shares (including treasury shares) may be used to satisfy awards. To the extent that new issue shares or treasury shares are used, these will count towards the usual share usage dilution limits (10% in ten years for all schemes and 5% in ten years for discretionary (executive) schemes).

Participation in the plan is extended at the discretion of the Committee to the executive directors and senior management of the Group, both in the UK and overseas. The following awards were made under the plan during the year:

Date of award	Total number of shares awarded	Number of participants receiving awards
20 January 2010	105,693	31
18 March 2010	5,115	2
Total	110,808	33

Details of the awards made to executive directors during the year are set out on pages 38 and 39.

Clawback provisions will apply to all awards under the plan from 2011 onwards, which will enable the Company to clawback awards prior to vesting in the event of subsequent discovery of material misstatement of the Company's financial results, and after having first clawed back any unvested deferred shares awarded as part of the annual bonus for the financial year in which the results were misstated.

In considering the performance condition for awards which will be made in 2011, the Committee has acknowledged the continuing strong prospects for the Group, whilst recognising that defence budgets around the world may still come under pressure in the next few years. As a consequence, it is intended that the target for full vesting of awards worth up to 100% of salary will be maintained at RPI + 25%. Higher target growth of up to RPI + 35% will be required for full vesting of any award made above the 100% of base salary limit. This will continue the Committee's policy of setting highly challenging performance targets, which align the interests of shareholders and the executive management, whilst rewarding the management in the event of outstanding performance. The following vesting schedule will therefore apply for awards made in 2011:

Total earnings per share growth per annum (not compounded) over three financial years	Value of award that will vest
Less than RPI + 10%	Nil
RPI + 10%	25% of base salary
RPI + 25%	100% of base salary
RPI + 25% up to RPI + 35%	100% to 150% of base salary

These targets remain among the most demanding performance criteria anywhere and reflect the Committee's ongoing commitment to setting appropriately challenging targets for executives to pursue.

The Committee reviews, from time to time, the basis of the performance condition but continues to believe that the earnings per share metric mostly closely aligns the interests of executives and shareholders, and therefore remains an appropriate metric for the Group.

During the year under review, the Company purchased 126,880 (2009: 78,301) treasury shares at a cost of £3.9 million for use in the plan. 100,011 shares were transferred from treasury to participants in the plan during the year on vesting of the awards made on 27 September 2006 and 24 January 2007.

The executive directors are expected to build-up, over a five year period following appointment, and maintain a shareholding in the Company equivalent to one year's base salary. Both of the executive directors currently hold shares significantly in excess of this requirement. Other participants in the plan are expected to retain a shareholding equivalent to up to 50% of their base salary following vesting of the awards.

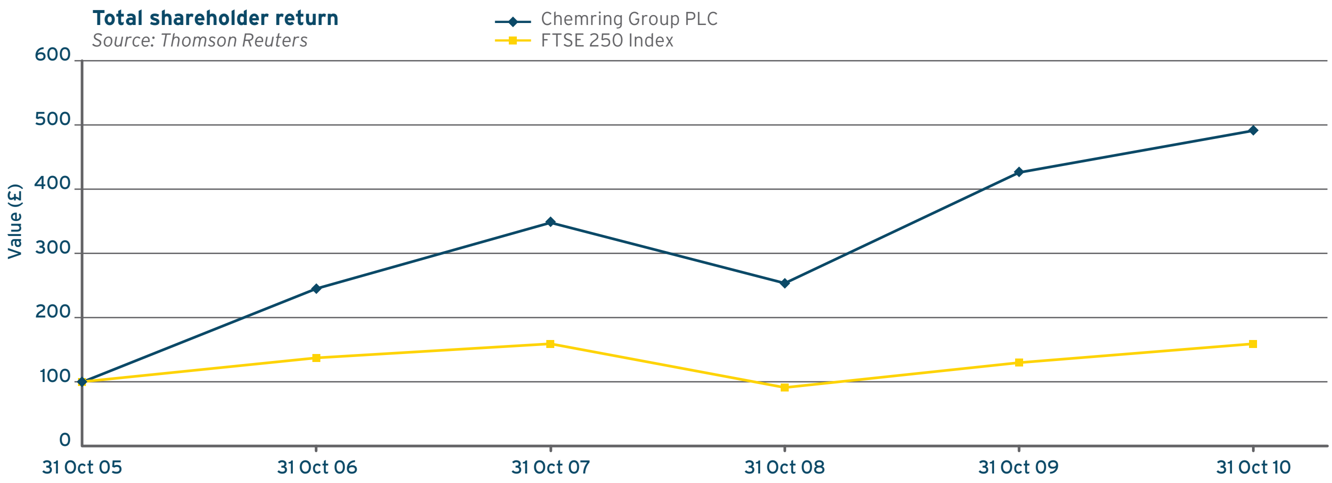
Other schemes

The Company operates all-employee savings-related share schemes in the UK (the Chemring Group 2008 Sharesave Plan) and the USA (the Chemring Group 2008 US Stock Purchase Plan). There are no performance criteria for these arrangements, and options are issued to all participants in accordance with UK HM Revenue and Customs and US Internal Revenue Service regulations.

The Company complies with the dilution guidelines contained within "Executive Remuneration – ABI Guidelines on Policies and Practices". At 31 October 2010, awards outstanding and issued under all share schemes during the previous ten years amounted to 2.98% of the ordinary share capital of the Company. At 31 October 2010, awards outstanding and issued under executive share schemes during the previous ten years amounted to 2.65% of the ordinary share capital of the Company.

Performance graph

The following graph shows a comparison of the Company's total shareholder return (TSR) over the last five financial years against a "broad equity market index", as required by the Regulations. The FTSE 250 Index has been selected by the Committee for this comparison because it provides the most appropriate measure of performance of listed companies of a similar size to the Company.



This graph shows the value, by 31 October 2010, of £100 invested in Chemring Group PLC on 31 October 2005 compared with the value of £100 invested in the FTSE 250 Index. The other points plotted are the values at intervening financial year ends.

Pensions

Dr Price was a member of the Chemring Group Staff Pension Scheme ("the Staff Scheme") until 6 April 2010. This is an approved final salary scheme, which is contracted out of the State Second Pension, and which provides, at retirement, a pension of up to two-thirds of salary, subject to Inland Revenue limits. The Staff Scheme also provides life assurance cover, dependants' pensions and lump sum payments on death-in-service. Members of the Staff Scheme are required to make monthly contributions to the scheme at the rate of 8% of pensionable salary.

Dr Price's pension under the Staff Scheme accrued at 1/80th of final pensionable salary for each year of membership, and he also accrued a cash lump sum at 3/80ths of final pensionable salary for each year of membership. Dr Price was subject to an earnings cap (equivalent to the cap applied by HM Revenue and Customs prior to April 2006) in respect of his membership of the Staff Scheme.

Mr Rayner was also a member of the Staff Scheme until 6 April 2010. Mr Rayner's benefits under the Staff Scheme accrued in an identical manner to that in which Dr Price accrued benefits, as set out above, save that Mr Rayner was not contracted out of the State Second Pension. Mr Rayner was also subject to an earnings cap.

Both Dr Price and Mr Rayner have a normal retirement age of 65.

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The Committee has previously referred to the fact that the pension arrangements for the executive directors under the Staff Scheme (1/80ths accrual rate only as far as the notional earnings cap) were well below market norms, and as explained above, in recent years this was a contributory factor in the relatively low level of their overall fixed pay. The Committee therefore agreed that with effect from 6 April 2010, the executive directors would cease to participate in the Staff Scheme, and would instead, for all future service, receive a salary supplement of 20% of base salary.

Service contracts

Dr Price has a rolling service contract dated 4 April 2005. This provides for termination by either party on twelve months' notice. The Company may however terminate without notice, and make a payment in lieu of notice equal to the sum of the salary due for the unexpired notice period plus the fair value of any contractual benefits. Any such sum may be paid in instalments, and in these circumstances there is a requirement to mitigate loss.

Mr Rayner has a rolling service contract dated 27 August 1999. This provides for termination by either party on twelve months' notice. The Company may however terminate without notice and make a payment in lieu of notice equal to the sum of twelve months' salary plus the value of any contractual benefits. There are no other provisions relating to compensation on early termination.

It is the Committee's general policy that all new executive directors appointed in the future will have service contracts with the Company which are terminable on a maximum of twelve months' notice. The service contracts will contain provisions permitting the Company to make any termination payments by instalments, and will require directors to mitigate their loss in such circumstances.

Policy on outside appointments

With the specific approval of the Board in each case, executive directors may accept external appointments as non-executive directors of other companies, provided that they do not detract from their responsibilities to the Group, and may retain any related fees paid to them. Neither of the executive directors currently holds any such external appointments.

Non-executive directors

Mr Hickson was appointed as a non-executive director on 1 July 2010, and as Chairman on 1 October 2010. This followed an extensive and full external search by the Nomination Committee, chaired by the Senior Independent Director. Mr Hickson's letter of appointment provides for a three year appointment at a fixed fee of £170,000 per annum. The appointment may be terminated on six months' notice by either party. It is anticipated that Mr Hickson will devote four to five days each month to his role, subject to the overriding requirement that he allocates sufficient time to the role as is reasonably necessary for the proper performance of his duties. Ahead of Mr Hickson's appointment as Chairman, both the Remuneration Committee and the Nomination Committee reviewed fee levels for Chairmen in comparable companies and consulted with advisers on the appropriate level of fees for the role.

Mr Scobie had a service contract with the Company which expired at the conclusion of the Company's Annual General Meeting in March 2010. Whilst the Company undertook a search for his successor, his contract was extended on a rolling basis. Mr Scobie's remuneration under the contract, part of which was paid to his company for consultancy services, was £145,000 per annum. Following his retirement as Chairman, the Board approved a payment of £50,000 to Mr Scobie, partly to reflect the fact that the Company did not make a payment in lieu of notice under Mr Scobie's contract but principally in recognition of his outstanding contribution to the Group during his thirteen year tenure.

The other non-executive directors are all appointed for three year terms under letters of appointment covering, amongst other items, their terms of appointment and expected time commitment. The appointments may be terminated earlier by and at the discretion of either party upon three months' written notice. The Rt Hon Lord Freeman is currently serving his second three year term as a non-executive director, which will expire on 25 May 2012. Mr Evans' current three year appointment as a non-executive director will terminate on 30 March 2012. Mr Much and Air Marshal Sir Peter Norriss have both now served two three year terms, which expired on 30 November 2010 and 30 April 2010 respectively. Their appointments were extended on a rolling basis pending the appointment of the new Chairman, to ensure a smooth transition. They will be reviewed during the forthcoming year.

The basic fee payable to each of the four non-executive directors is £44,000 per annum. The Rt Hon Lord Freeman and Mr Much each receive an additional fee of £8,000 per annum, in respect of their Chairmanship of the Audit Committee and Remuneration Committee respectively. Mr Much also serves as the Senior Independent Director but he receives no additional fee for this role.

Fees for the non-executive directors are determined annually by the Board, having regard to the practice of other companies and the particular demands of the Group.

The Company provides private medical insurance for Mr Evans, Mr Hickson and Air Marshal Sir Peter Norriss, and their respective spouses.

The non-executive directors do not participate in the Company's pension, bonus or share-based incentive schemes. However, Mr Evans does receive a pension from the Chemring Group Staff Pension Scheme, which he accrued during his former employment with the Company.

AUDITED INFORMATION

Directors' emoluments

The emoluments of all the directors who served during the year are shown below:

	Salaries and fees		Bonuses (cash and deferred shares)		Cash pension supplement		Taxable benefits		Total	
	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000	2010 £000	2009 £000
Executives										
D J Price	**455**	412	**297**	396	**56**	-	**35**	36	**843**	844
P A Rayner	**284**	257	**186**	248	**35**	-	**21**	20	**526**	525
Non-executives										
D R Evans	**43**	41	**-**	-	**-**	-	**1**	1	**44**	42
R N Freeman	**51**	48	**-**	-	**-**	-	**-**	-	**51**	48
P C F Hickson (appointed 1 July 2010)	**57**	-	**-**	-	**-**	-	**-**	-	**57**	-
I F R Much	**51**	48	**-**	-	**-**	-	**-**	-	**51**	48
P C Norriss	**43**	41	**-**	-	**-**	-	**2**	1	**45**	42
K C Scobie (resigned 30 Sept 2010)	**128**	129	**50**	-	**-**	-	**3**	3	**181**	132
Total remuneration	**1,112**	976	**533**	644	**91**	-	**62**	61	**1,798**	1,681

Amounts shown above in the salaries and fees column relate to base salary in the case of executive directors and fees in the case of non-executive directors.

Mr Scobie's remuneration includes payments to his company, K C Scobie Limited, in respect of his consultancy services.

Directors' share interests

The interests of the directors in the ordinary shares of the Company at 1 November 2009 and 31 October 2010 are shown below. All are beneficial holdings.

	2010 Number	2009 Number
D R Evans	**15,000**	15,000
R N Freeman	**350**	350
P C F Hickson	**4,000**	-
I F R Much	**5,300**	3,000
P C Norriss	**4,400**	5,400
D J Price	**123,763**	110,867
P A Rayner	**40,000**	35,000

The directors' share interests at 31 October 2010 include shares held by the directors' adult children, as required by the Companies Act 2006.

No movements have taken place between 31 October 2010 and 17 January 2011.

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Performance share plan
Details of awards made to the executive directors under the Chemring Group Performance Share Plan during the year are shown below.

	Number of shares under award						
	At 1 Nov 2009	Awarded during the year	Lapsed during the year	Vested during the year	At 31 Oct 2010	Date of vesting	Share price on date of award (p)
D J Price	17,543	-	-	17,543*	-	24 Jan 2010	1,730
	18,004	-	-	-	18,004	23 Jan 2011	1,895
	20,000	-	-	-	20,000	21 Jan 2012	2,031
	-	14,198	-	-	14,198	20 Jan 2013	3,075
	-	3,148	-	-	3,148	18 Mar 2013	3,339
	55,547	17,346	-	17,543	55,350		
P A Rayner	11,111	-	-	11,111*	-	24 Jan 2010	1,730
	11,316	-	-	-	11,316	23 Jan 2011	1,895
	12,500	-	-	-	12,500	21 Jan 2012	2,031
	-	8,874	-	-	8,874	20 Jan 2013	3,075
	-	1,967	-	-	1,967	18 Mar 2013	3,339
	34,927	10,841	-	11,111	34,657		

* Awards granted on 24 January 2007 vested in full during the year, as the maximum earnings per share growth target was achieved. The share price on the date of vesting was 3,060p. The value of the vested award, and therefore the gain on vesting, to Dr D J Price was £233,322 and to Mr P A Rayner was £147,776.

Awards worth 100% of base salary were granted on 20 January 2010; 25% of the shares under these awards will vest if earnings per share growth is RPI+10% p.a. over the three year performance period, rising on a straight-line basis to full vesting for growth of at least RPI+25% p.a. A subsequent award worth an additional 25% of base salary was granted to the executive directors on 18 March 2010; these awards will vest on a straight-line basis if earnings per share growth over the three year performance period is between RPI+25% p.a and RPI+30% p.a.

Share options
The holdings by the executive directors of share options granted under the Chemring Group 2008 UK Sharesave Plan at 1 November 2009 and 31 October 2010 are shown below.

	Number of share options								
	At 1 Nov 2009	Granted during the year	Lapsed during the year	Exercised during the year	At 31 Oct 2010	Exercise price(p)	Market price at date of exercise (p)	Date from which exercisable	Expiry date
D J Price	503	-	-	-	503	1,868	-	1 Oct 2011	1 Apr 2012
P A Rayner	871	-	-	-	871	1,868	-	1 Oct 2013	1 Apr 2014

The market price of the ordinary shares at 31 October 2010 was 2,998p. During the year, the ordinary shares traded within the range 2,598p to 3,663p.

Deferred shares
Details of awards of deferred shares made to the executive directors under the annual performance-related bonus plan are set out below (the values of these shares at award are included in the bonus figures in the directors' emoluments table):

	Number of deferred shares under award						
	At 1 Nov 2009	Awarded during the year	Lapsed during the year	Vested during the year	At 31 Oct 2010	Date of vesting	Share price on date of award (p)
D J Price	2,566	-	-	2,566	-	16 Jan 2010	1,710
	2,074	-	-	-	2,074	10 Jan 2011	1,944
	2,603	-	-	-	2,603	13 Jan 2012	2,000
	-	3,341	-	-	3,341	12 Jan 2013	2,958
	7,243	3,341	-	2,566	8,018		
P A Rayner	1,625	-	-	1,625	-	16 Jan 2010	1,710
	1,261	-	-	-	1,261	10 Jan 2011	1,944
	1,697	-	-	-	1,697	13 Jan 2012	2,000
	-	2,094	-	-	2,094	12 Jan 2013	2,958
	4,583	2,094	-	1,625	5,052		

Pensions

The following table sets out the pension benefits accrued by the executive directors during the year.

	Total benefit accrued at 31 Oct 2009		Transfer value of accrued benefit at 31 Oct 2009	Increase in accrued benefit during year before inflation		Total benefit accrued at 31 Oct 2010		Transfer value of accrued benefit at 31 Oct 2010	Increase in accrued benefit during year after inflation		Transfer value of increase in accrued benefit after inflation (less members' contributions)	Increase in transfer value during year (less members' contributions)
	Pension (£p.a.)	Cash (£)	(£)	Pension (£p.a.)	Cash (£)	Pension (£p.a.)	Cash (£)	(£)	Pension (£p.a.)	Cash (£)	(£)	(£)
D J Price	6,953	20,858	106,648	772	2,317	7,725	23,175	110,850	472	1,416	1,790	82
P A Rayner	23,819	71,456	393,325	643	1,931	24,462	73,387	368,480	(386)	(1,158)	(13,513)	(28,965)

i) Transfer values represent liabilities of the applicable scheme, and do not represent sums paid to the individuals.

ii) Transfer values have been calculated on the basis of actuarial advice in accordance with actuarial professional guidance.

iii) Both directors left the pension scheme with an entitlement to deferred benefits during the year.

Approval of the Directors' Remuneration Report

The Directors' Remuneration Report was approved by the Board on 18 January 2011.

Signed on behalf of the Board

I F R Much
Chairman of the Remuneration Committee

Statement on Corporate Governance

This statement sets out how the Company has applied the main and supporting principles of good governance set out in Section 1 of the Combined Code on Corporate Governance issued in 2008 by the Financial Reporting Council ("the Combined Code"). Throughout the year ended 31 October 2010, the Company has been in full compliance with the code provisions set out in Section 1 of the 2008 Combined Code.

The Board

The Board currently comprises the Chairman, the Chief Executive, the Finance Director and four non-executive directors. The Board considers that the Chairman and three of the current non-executive directors, The Rt Hon Lord Freeman, Mr Much and Air Marshal Sir Peter Norriss, are independent in character and judgment, and meet the criteria for independence set out in the Combined Code. The directors' biographical details are set out on pages 32 and 33.

The Board, which meets at least ten times a year, approves the Group's long term goals and strategies and provides overall financial and organisational control. The Board has a formal schedule of matters specifically reserved to it for consideration and approval, including: approval of the Group's five year plan; approval of the annual operating budgets; acquisitions, disposals and major capital expenditure; financing and treasury; pensions; ethical policies; health and safety strategy; reviewing the Group's systems of financial control and risk management; approving appointments to the Board and approving policies relating to directors' remuneration; and maintaining an effective dialogue with shareholders. All directors take decisions objectively in the interests of the Company.

The Board delegates certain responsibilities to the Executive Committee, including: implementation of the Group's strategies and policies as determined by the Board; monitoring of operational and financial results against budget; allocation of resources across the Group within the overall plan approved by the Board; capital expenditure within limits imposed by the Board; and developing and implementing risk management systems. Further details of the Executive Committee are set out in the section of this report covering Board Committees.

Procedures are in place covering the content, presentation and timely delivery of papers to the Board for each Board meeting, to ensure that directors have sufficient information to make expedient and considered decisions in fulfilment of their fiduciary duties. Where directors have concerns which cannot be resolved about the running of the Company or a proposed action, such concerns are recorded in the Board minutes.

Each director has full access to the advice and services of the Company Secretary who, under the direction of the Chairman, is responsible for maintaining good information flows within the Board and its committees, assisting with induction and keeping the directors informed about changes to their duties and responsibilities, and advising the Board on all governance matters. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

All directors are entitled to take independent professional advice in furtherance of their duties at the Company's expense, if the need should arise.

An internal induction programme on the Group's operations and its strategic and business plans is provided for newly-appointed directors. The Company Secretary also provides detailed information on directors' legal duties and responsibilities on appointment, and updates the Board on a regular basis with regards to regulatory changes affecting the directors and the Group's operations generally. Directors are continually updated on the Group's businesses and the matters affecting the market in which they operate. The Company meets the cost of appropriate external training for directors, the requirement for which is kept under review by the Chairman.

The Company separates the roles of Chairman and Chief Executive in accordance with the recommendations of the Combined Code. The division of responsibilities between the Chairman and the Chief Executive, and their respective job descriptions, are set out in writing and agreed by the Board.

In addition to chairing the Board, the Chairman is responsible for ensuring that the Board is kept properly informed and is consulted on all decisions reserved to it; promoting constructive relations between the executive and non-executive directors; ensuring that the development needs of directors are identified and the performance of the Board evaluated on a regular basis; ensuring effective communication with shareholders and acting as a conduit to ensure that the views of shareholders are communicated to the Board. The Chairman's other business commitments, which are detailed on page 32, were fully disclosed to the Board prior to his appointment and the Board is comfortable that he has sufficient time available to commit to his role.

The non-executive directors perform an essential role in safeguarding shareholders' interests. They actively participate in the development of strategic objectives and monitor the performance of executive management in achieving these objectives. The non-executive directors also review financial performance, and consider the integrity of the financial information produced by the Group and whether the financial controls and risk management systems are robust and defensible. They meet periodically with the management of the Group's operating companies. In addition to participating in Board meetings, the three independent non-executive directors are the members of the standing committees set up to deal with audit and the remuneration of executive directors and senior management. The Board considers that the current balance of executive and non-executive influence which exists is appropriate for the Company, taking into account its size and status.

Mr Much served as the Senior Independent Director throughout the year.

During the year, both the previous and the current Chairman met regularly with the non-executive directors without the executives present.

The non-executive directors have letters of appointment covering, amongst other items, their terms of appointment and expected time commitment. These letters of appointment provide for a three year appointment, unless terminated earlier by and at the discretion of either party upon three months' written notice. Mr Much and Air Marshal Sir Peter Norriss have both now served two three year terms, and their letters of appointment expired on 30 November 2010 and 30 April 2010 respectively. Their appointments were extended on a rolling basis pending the appointment of the new Chairman, to ensure a smooth transition. They will be reviewed during the forthcoming year. The non-executive directors' letters of appointment are available for inspection on request to the Company Secretary.

In accordance with the Company's Articles of Association, all directors are required to submit themselves for re-election every three years. However, in order to ensure compliance with the revised UK Corporate Governance Code during the financial year ending 31 October 2011, all directors will voluntarily submit themselves for re-election at the forthcoming Annual General Meeting.

The papers accompanying the Notice of Annual General Meeting include a statement from the Chairman confirming that the performance of each non-executive director seeking re-election at the meeting continues to be effective and that each such director continues to demonstrate commitment to their role.

Following his appointment on 1 October 2010, the Chairman undertook an evaluation of the current performance of the Board and its committees, and an assessment of the future requirements. Feedback was sought from all Board members on the perceived strengths and weaknesses of the current Board, and recommendations were made for future improvements. In addition, the Chairman and the non-executive directors considered the individual performance of the Chief Executive and the Finance Director as part of the annual remuneration review. Similarly, the Chairman and the Chief Executive reviewed the performance of the non-executive directors. No significant issues were identified.

The Company maintains directors and officers liability insurance in respect of legal action against its directors.

Meetings attendance

The following table shows the attendance of directors, who served during the year, at meetings of the Board, the Audit Committee, the Nomination Committee and the Remuneration Committee:

	Board (12 meetings)	Audit Committee (3 meetings)	Nomination Committee (6 meetings)	Remuneration Committee (6 meetings)
K C Scobie	10(11)	-	4(5)	-
P C F Hickson	3(3)	-	-	-
D R Evans	11(12)	-	-	-
The Rt Hon Lord Freeman	12(12)	3(3)	-	6(6)
I F R Much	12(12)	3(3)	6(6)	6(6)
Air Marshal Sir Peter Norriss	11(12)	3(3)	6(6)	5(6)
D J Price	12(12)	-	4(5)	-
P A Rayner	12(12)	-	-	-

The maximum number of meetings which each director could have attended is shown in brackets.

Board committees

The terms of reference of the Audit Committee, the Nomination Committee and the Remuneration Committee are posted on the Company's website and are available on request from the Company Secretary.

Audit Committee

The Rt Hon Lord Freeman, Mr Much and Air Marshal Sir Peter Norriss all served as members of the Audit Committee during the year. The Rt Hon Lord Freeman, who is a chartered accountant, is Chairman of the Committee; his full biographical details are set out on page 33. The Committee met three times during the year and operates within formal written terms of reference. As referred to above, the terms of reference are available on the Company's website. Meetings of the Committee are attended, at the invitation of the Chairman of the Committee, by the external auditors, the Chairman of the Board, the Finance Director and representatives from the Group finance and internal audit function. The Committee meets with the auditors on a regular basis without the executive directors present. The Company Secretary acts as secretary to the Committee and minutes of meetings are circulated to all Board members.

The Committee is authorised to seek any information it requires from any employee of the Company in order to perform its duties, and to obtain any outside legal or other professional advice it requires at the Company's expense.

The Committee monitors the integrity of the Group's financial statements and the effectiveness of the external audit process. It is responsible for ensuring that an appropriate relationship between the Group and the external auditors is maintained, including reviewing non-audit services and fees. The Committee keeps under review the effectiveness of the Group's internal controls and financial risk management systems, and on an annual basis, considers the effectiveness of the Group's internal audit function. The Committee reviews annually its terms of reference and its effectiveness, and recommends to the Board any changes required as the result of such review.

During the year, the Committee, operating under its terms of reference, discharged its responsibilities by:

- reviewing the Group's draft 2009 financial statements and 2010 interim results statement prior to Board approval, and reviewing the external auditors' detailed reports thereon;
- reviewing the appropriateness of the Group's accounting policies, and reviewing various accounting matters raised by management and the external auditors in the context of financial disclosures;
- considering and approving changes to the Group's accounting policy manual;
- reviewing the potential impact on the Group's financial statements of certain matters such as impairments of fixed asset values and the adoption of new accounting standards;
- reviewing the external auditors' plan for the 2010 interim review and the 2010 year end audit, including reviewing the key risks on the accounts, confirmation of auditor independence and the proposed audit fee, and approving the terms of engagement for the audit;
- receiving reports from the Risk Committee and reviewing the Group's risk register;
- reviewing the Group's commission policy and arrangements with agents;
- reviewing changes to the corporate structure of the Group and the associated tax implications;
- monitoring the Group's key financial ratios and credit ratings;
- overseeing the application of the Group's whistleblowing policy and procedures for employees;
- reviewing the work undertaken by the Group's internal audit function, assessing the adequacy of the internal audit resource and recommending changes for increasing the scope of the internal audit activities; and
- implementing the Group's policy on the provision of non-audit services by the auditors, taking into account relevant guidance and best practice.

The Group's internal audit programme incorporates an annual rolling review of all businesses, and focuses on both financial and non-financial controls and procedures. Newly acquired businesses are subjected to a detailed review by the internal audit function immediately post-completion. The Committee approves the annual internal audit plan and receives regular reports from the internal auditors. The Group's internal audit function in the USA was strengthened during the year.

The Committee has considered the likelihood of a withdrawal of the current auditors from the market and noted that there are no contractual obligations to restrict the choice of external auditors.

Statement on Corporate Governance
continued

To assess the effectiveness of the external auditors, the Committee reviewed:

- the arrangements for ensuring the external auditors' independence and objectivity;
- the external auditors' fulfilment of the agreed audit plan and any variations from the plan;
- the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements; and
- the content of the external auditors' reporting and internal control.

Deloitte LLP have been the Company's auditors for many years. In the opinion of the Committee, the relationship with the auditors currently works well, and having reviewed their independence and effectiveness, the Committee has not considered it necessary to date to require Deloitte LLP to re-tender for the audit work. Accordingly, the Committee has recommended to the Board that Deloitte LLP be proposed for re-appointment as auditors at the forthcoming Annual General Meeting.

The Committee keeps under review the level of any non-audit services which are provided by the external auditors, to ensure that this does not impair their independence and objectivity. The Committee has adopted a policy which states that the external auditors should not be appointed to provide services in relation to corporate finance matters, unless the Committee agrees that their appointment would be in the best interests of the Company's shareholders in particular circumstances and would not create any direct conflict with their role as external auditors. The Committee, in conjunction with the Finance Director, ensures that the Group maintains a sufficient choice of appropriately qualified audit firms. Details of the amounts paid to the external auditors during the year for audit and other services are set out in the notes to the financial statements on page 64.

Nomination Committee
Mr Scobie, Mr Much and Air Marshal Sir Peter Norriss all served on the Nomination Committee during the year. On his retirement, Mr Scobie was succeeded as Chairman of the Committee by Mr Hickson. In accordance with the Committee's terms of reference, Mr Scobie was not permitted to chair meetings when the Committee was dealing with the appointment of his successor, and the same restriction will apply to Mr Hickson. As referred to above, the Committee's terms of reference are available on the Company's website.

With regards to the recruitment and appointment of new directors to the Board, the Committee considers the specific knowledge and expertise which would be of benefit to the Group's current operations and future strategy, and provides a brief to external search agents based upon its conclusions. The search agents put forward a short list of candidates for the Committee to interview before making its recommendations to the Board. The Board interviews preferred candidates prior to making any formal offers of appointment.

During the year, an external search consultancy was retained to recruit a successor for Mr Scobie on his retirement. A detailed brief for the new appointment, including an assessment of the time commitment expected, was prepared in consultation with all of the Board members. Dr Price was temporarily appointed to the Nomination Committee, which was chaired by Mr Much for this purpose, to assist specifically with the recruitment of the new Chairman. After an extensive search, Mr Hickson was successfully appointed as a non-executive director on 1 July 2010 and as Chairman on 1 October 2010.

Remuneration Committee
The Rt Hon Lord Freeman, Mr Much, and Air Marshal Sir Peter Norriss all served on the Remuneration Committee throughout the year. Mr Hickson was appointed as a member of the Committee on 1 October 2010. Mr Much is Chairman of the Committee. The Committee met six times during the year. Further details on the Committee and the Company's policy on directors' remuneration and long term incentive schemes are included within the Directors' Remuneration Report.

Executive Committee
The Chief Executive, Dr Price, chairs the Executive Committee, which meets monthly. The other members are the Finance Director, the Company Secretary, the Business Development Director, the Group Director of Safety, and the three Divisional Managing Directors. The Executive Committee is responsible for the executive day-to-day running of the Group, submission to the Board of strategic plans and budgets for the Group's operations, and monitoring the day-to-day performance of the Group as a whole.

Relations with shareholders
The Company maintains an active dialogue with institutional shareholders through regular briefing meetings and formal presentations following the release of interim and annual results. Meetings are usually attended by the Chairman, the Chief Executive and the Finance Director. However, the non-executive directors are offered the opportunity to meet with major shareholders and attend meetings if so requested by major shareholders. No such requests were received during the year. Communication with private investors is achieved largely through the medium of the interim report and the financial statements.

The Company's website (**www.chemring.co.uk**) provides financial and business information on the Group.

The directors are provided with reports and other written briefings from the Company's principal shareholders and analysts, and are regularly informed by the Company Secretary about changes to significant shareholdings.

It is the Company's policy that all directors should attend and make themselves available to take questions from shareholders or address any concerns at the Annual General Meeting. At other times of the year, the directors can be contacted via the Company's head office.

All substantial issues, including the adoption of the annual report and financial statements, are proposed on separate resolutions at the Annual General Meeting. The number of proxy votes received for and against each resolution, together with the number of abstentions, are indicated after votes have been dealt with on a show of hands, and are posted on the Company's website following the meeting. The Notice of the Annual General Meeting is sent to shareholders at least twenty working days before the meeting.

Financial reporting
The Statement of Directors' Responsibilities in respect of the financial statements and accounting records maintained by the Company is set out on page 36.

Internal control and risk management
The Board has continued to review the effectiveness of the Group's systems of internal control, including financial, operational and compliance controls, and risk management systems.

The Board acknowledges its responsibility for the Group's systems of internal control and attaches considerable importance to these systems, which are designed to meet the Group's particular needs and identify those risks to which it is exposed. However, the systems can only provide reasonable, not absolute, assurance against material misstatement, loss or mismanagement of the Group's assets.

In carrying out its review of the effectiveness of the Group's systems of internal control in compliance with provision C2.1 of the Combined Code, the Board has taken into consideration the following key features of the Group's risk management systems and control procedures which operated during the year:

- The Board assesses the key risks associated with achievement of the Group's business objectives as part of the annual strategic planning process. Out of this process, each business establishes a five year plan and annual budget, which are subject to approval by the Board. The performance of each business against budget and prior years is reviewed on a monthly basis at both operational level and by the Board. Achievement of strategic business objectives and the associated risks are monitored by the Board on an ongoing basis.
- All businesses hold monthly operating meetings, which are attended by the respective Divisional Managing Directors. In addition, the Chief Executive and the Finance Director attend operational and strategic review meetings with each of the businesses on a quarterly basis. In the case of the US businesses, formal Board meetings are held quarterly, and these are attended by main Board directors and external non-executive directors appointed in the US. The US non-executive directors are available to provide guidance and monitor governance in the US businesses throughout the year. External non-executive directors are also appointed to the Boards of the Group's Italian and Australian subsidiaries.
- Each business is required to comply with the Group's accounting policy manual, which sets out formal procedures for incurring certain types of expenditure and making contractual commitments. Compliance with the accounting policy manual is audited by the internal auditors, who report regularly to the Audit Committee on their findings.
- The Board retains primary responsibility for acquisitions and disposals, and financing arrangements for the Group. Treasury management, IT strategy, insurance and significant legal matters are dealt with centrally from the Group head office, and the Board receives regular reports on each of these items. Reviews of the Group's pensions, insurance and risk management arrangements are carried out by external advisors on a regular basis.
- The Group Director of Safety, supported by divisional Health and Safety Management Committees, co-ordinates and controls the activities of each business in relation to health and safety and environmental matters, which are a key focus for the Board in view of the nature of the Group's operations. The Chief Executive is the Board member nominated with specific responsibility for health and safety. The Chief Executive meets formally with health and safety professionals from each business on an annual basis.
- The Group has committed to adherence with the European Aerospace and Defence Association's Common Industry Standards on Anti-Corruption, and has updated its business policies and procedures to ensure compliance.

The Group's Risk Management Committee meets on a quarterly basis. The Chief Executive, the Finance Director, the Company Secretary, the Business Development Director, the Group Director of Safety, and the three Divisional Managing Directors serve on the Committee. The Committee reviews the key risks associated with the achievement of the annual budget and the five year plan for each business, and the risk control procedures implemented. It also considers the top five health and safety risks which have been identified at each site and agrees the action plan to address these. The Risk Management Committee reports biannually to the Audit Committee and the Board on the top ten risks from a Group perspective, and monitors the actions being taken to mitigate these.

The Board confirms that it has reviewed the effectiveness of the Group's systems of internal control and risk management which were in place during the financial year ended 31 October 2010, and it confirms that systems of internal control and risk management compliant with the Combined Code and the Turnbull Guidance were in place throughout the year and have remained in place up to the date of approval of these financial statements. Notwithstanding this, the Board will continue to take steps to embed internal control and risk management further into the operations of the Group and to deal with any areas of improvement which come to the attention of management and the Board.

Procedures to deal with directors' conflicts of interest

All directors have a duty under the Companies Act 2006 (the "2006 Act") to avoid a situation in which he or she has or can have a direct or indirect interest that conflicts or possibly may conflict with the interests of the Company. The Company's Articles of Association include provisions for dealing with directors' conflicts of interest in accordance with the 2006 Act. The Company has procedures in place to deal with situations where directors may have any such conflicts, which require the Board to:

- consider each conflict situation separately on its particular facts;
- consider the conflict situation in conjunction with the rest of their duties under the 2006 Act;
- keep records and Board minutes as to authorisations granted by directors and the scope of any approvals given; and
- regularly review conflict authorisation.

Going concern

The directors have acknowledged the latest guidance on going concern. They have made appropriate enquiries and taken into account factors, which are further detailed in the Review by the Finance Director, such as:

- the strong order book of £803.3 million as at the year end;
- the Group's underlying operating cash flow of £126.1 million during the year;
- the strong balance sheet at the year end, with net assets of £323.2 million; and
- the Group's available banking facilities, which amount to £230 million with maturities through to April 2015 (see Note 36 of the financial statements).

The Group's banking covenants were all met with a comfortable margin during the year, and the expectation is that this will continue. As a consequence, the directors believe that the Company is well-placed to manage its risks. Details of how the Group manages its liquidity risk can be found in Note 24 of the financial statements.

The long term nature of the Group's business, taken together with the Group's forward order book, provide a satisfactory level of confidence to the Board in respect of trading in the year ahead.

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 financial statements.

Approved by the Board of Directors on 18 January 2011.
Signed on behalf of the Board

S L Ellard
Company Secretary

Independent Auditors' Report to the Members of Chemring Group PLC

We have audited the Group financial statements of Chemring Group PLC for the year ended 31 October 2010 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Notes to the Consolidated Cash Flow Statement, and the related Notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 October 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement contained within the Statement on Corporate Governance in relation to going concern; and
- the part of the Statement on Corporate Governance relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

Other matters

We have reported separately on the parent company financial statements of Chemring Group PLC for the year ended 31 October 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

Mark Mullins (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Reading, United Kingdom
18 January 2011

Consolidated Income Statement

for the year ended 31 October 2010

		Note	2010 £m	2009 £m
Continuing operations				
Revenue	– continuing		**570.6**	503.9
	– acquired		**26.5**	-
Total revenue		4,5	**597.1**	503.9
Operating profit	– continuing		**105.9**	107.9
	– acquired		**2.0**	-
Total operating profit		5,6	**107.9**	107.9
Operating profit is analysed as:				
Underlying operating profit*			**135.6**	114.7
Acquisition related costs		32	**(6.7)**	-
Intangible amortisation arising from business combinations		14	**(17.0)**	(13.8)
(Loss)/gain on fair value movements on derivatives		24	**(4.0)**	7.0
			107.9	107.9
Share of post-tax results of associate		17	**0.1**	0.1
Finance income		8	**0.5**	0.7
Finance expense		9	**(19.4)**	(12.9)
Profit before tax for the year			**89.1**	95.8
Profit before tax for the year is analysed as:				
Underlying profit before tax*			**116.8**	102.6
Acquisition related costs		32	**(6.7)**	-
Intangible amortisation arising from business combinations		14	**(17.0)**	(13.8)
(Loss)/gain on fair value movements on derivatives		24	**(4.0)**	7.0
			89.1	95.8
Tax		10	**(22.4)**	(25.7)
Profit after tax for the year attributable to equity holders of the parent		28	**66.7**	70.1
Earnings per ordinary share		12		
Underlying*			**246p**	213p
Basic			**189p**	199p
Diluted			**187p**	197p

*Before acquisition related costs, intangible amortisation arising from business combinations and (loss)/gain on fair value movements on derivatives

Consolidated Statement of Comprehensive Income

for the year ended 31 October 2010

	Note	2010 £m	2009 £m
Profit after tax for the year attributable to equity holders of the parent		**66.7**	70.1
Other comprehensive income			
Gains/(losses) on cash flow hedges		**1.0**	(1.0)
Movement on deferred tax relating to cash flow hedges		**(0.3)**	0.2
Exchange differences on translation of foreign operations		**0.4**	(3.1)
Actuarial gains/(losses) on defined benefit pension schemes	33	**4.0**	(14.1)
Movement on deferred tax relating to pension schemes		**(1.4)**	4.0
Current tax on items taken directly to equity		**0.2**	(1.2)
Deferred tax on items taken directly to equity		**(0.5)**	0.3
Total comprehensive income for the year attributable to equity holders of the parent		**70.1**	55.2

Consolidated Statement of Changes in Equity

for the year ended 31 October 2010

	Note	2010 £m	2009 £m
Total comprehensive income for the year (see above)		**70.1**	55.2
Dividends paid	11	**(18.7)**	(13.8)
		51.4	41.4
Ordinary shares issued		**-**	-
Share premium arising		**0.1**	0.5
Credit to equity settled share-based payments		**0.1**	0.9
Deferred tax on share-based payment transactions		**-**	(0.3)
Transactions in own shares	29	**(2.0)**	0.5
Net addition to shareholders' funds		**49.6**	43.0
Opening shareholders' funds		**273.6**	230.6
Closing shareholders' funds		**323.2**	273.6

Consolidated Balance Sheet

as at 31 October 2010

	Note	£m	2010 £m	£m	2009 £m
Non-current assets					
Goodwill	13	**236.4**		149.5	
Other intangible assets	14	**195.4**		90.4	
Property, plant and equipment	15	**188.7**		135.0	
Interest in associate	17	**1.1**		1.1	
Deferred tax	26	**16.6**		17.7	
			638.2		393.7
Current assets					
Inventories	18	**142.3**		96.9	
Trade and other receivables	19	**166.3**		98.8	
Cash and cash equivalents	20,24	**58.4**		61.3	
Derivative financial instruments	24	**1.9**		0.4	
			368.9		257.4
Total assets			**1,007.1**		651.1
Current liabilities					
Borrowings	21	**(65.6)**		(34.3)	
Obligations under finance leases	22	**(2.6)**		(0.5)	
Trade and other payables	23	**(219.7)**		(115.1)	
Short term provisions	25	**(1.9)**		(1.2)	
Current tax liabilities		**(8.0)**		(14.6)	
Derivative financial instruments	24	**(1.6)**		(1.1)	
			(299.4)		(166.8)
Non-current liabilities					
Borrowings	21	**(294.6)**		(148.3)	
Obligations under finance leases	22	**(3.0)**		(0.9)	
Trade and other payables	23	**(1.0)**		(1.8)	
Long term provisions	25	**(3.1)**		(5.2)	
Deferred tax	26	**(52.4)**		(22.6)	
Preference shares	27	**(0.1)**		(0.1)	
Retirement benefit obligations	33	**(23.0)**		(28.1)	
Derivative financial instruments	24	**(7.3)**		(3.7)	
			(384.5)		(210.7)
Total liabilities			**(683.9)**		(377.5)
Net assets			**323.2**		273.6
Equity					
Share capital	27		**1.8**		1.8
Share premium account	28		**120.4**		120.3
Special capital reserve	28		**12.9**		12.9
Hedging reserve	28		**(2.7)**		(3.4)
Revaluation reserve	28		**1.4**		1.4
Retained earnings	28		**196.6**		145.8
			330.4		278.8
Own shares	29		**(7.2)**		(5.2)
Equity attributable to equity holders of the parent			**323.2**		273.6
Total equity			**323.2**		273.6

These financial statements of Chemring Group PLC (registered number 86662) were approved and authorised for issue by the Board of Directors on 18 January 2011.

Signed on behalf of the Board

D J Price P A Rayner

Consolidated Cash Flow Statement

for the year ended 31 October 2010

	Note	2010 £m	2009 £m
Cash flows from operating activities			
Cash generated from underlying operations	A	**126.1**	106.7
Acquisition related costs	32	**(6.7)**	-
Cash generated from operations		**119.4**	106.7
Tax paid		**(30.0)**	(18.7)
Net cash inflow from operating activities		**89.4**	88.0
Cash flows from investing activities			
Dividends received from associate		**0.1**	-
Purchases of intangible assets	14	**(7.8)**	(4.8)
Purchases of property, plant and equipment	15	**(40.9)**	(33.4)
Acquisition of subsidiary undertakings (net of cash acquired)	32	**(176.8)**	(27.6)
Net cash outflow from investing activities		**(225.4)**	(65.8)
Cash flows from financing activities			
Dividends paid	11	**(18.7)**	(13.8)
Interest paid		**(14.0)**	(10.5)
Proceeds on issue of shares		**0.1**	0.5
New borrowings		**208.8**	14.9
Repayments of borrowings		**(41.7)**	(20.7)
Proceeds from sale and finance leaseback		**4.5**	-
Repayment of finance leases		**(0.7)**	(1.6)
Purchase of own shares	29	**(3.9)**	(1.5)
Net cash inflow/(outflow) from financing activities		**134.4**	(32.7)
Decrease in cash and cash equivalents during the year		**(1.6)**	(10.5)
Cash and cash equivalents at start of the year		**61.3**	69.6
Effect of foreign exchange rate changes		**(1.3)**	2.2
Cash and cash equivalents at end of the year	20,24	**58.4**	61.3

Notes to the Consolidated Cash Flow Statement

for the year ended 31 October 2010

A. Cash generated from operations	2010 £m	2009 £m
Operating profit from continuing operations	**105.9**	107.9
Operating profit from acquired operations	**2.0**	-
	107.9	107.9
Adjustment for:		
Depreciation of property, plant and equipment	**11.6**	13.3
Impairment charge	**-**	1.1
Amortisation of other intangibles	**2.4**	1.5
Loss on disposal of intangible assets	**0.2**	-
Amortisation of intangible assets arising from business combinations	**17.0**	13.8
Loss/(gain) on fair value movements on derivatives	**4.0**	(7.0)
Share-based payment expense	**2.3**	2.1
Difference between pension contributions paid and amount recognised in Income Statement	**0.7**	0.1
(Decrease)/increase in provisions	**(1.4)**	0.5
Operating cash flows before movements in working capital	**144.7**	133.3
Increase in inventories	**(19.2)**	(8.4)
Increase in trade and other receivables	**(44.0)**	(10.0)
Increase/(decrease) in trade and other payables	**37.9**	(8.2)
Cash generated from operations	**119.4**	106.7
Acquisition related costs	**6.7**	-
Cash generated from underlying operations	**126.1**	106.7

Reconciliation of net cash flow to movement in net debt		
Decrease in cash and cash equivalents during the year	**(1.6)**	(10.5)
(Increase)/decrease in debt and lease financing due to cash flows	**(171.1)**	7.5
Change in net debt resulting from cash flows	**(172.7)**	(3.0)
Acquired debt (see Note 32)	**(5.4)**	-
New finance leases	**-**	0.5
Foreign exchange differences	**(5.4)**	(3.1)
Amortisation of debt finance costs	**(1.2)**	(0.5)
Movement in net debt in the year	**(184.7)**	(6.1)
Net debt at start of the year	**(122.8)**	(116.7)
Net debt at end of the year	**(307.5)**	(122.8)

Analysis of net debt	As at 1 Nov 2009 £m	Cash flow £m	Non-cash changes £m	Exchange movement £m	As at 31 Oct 2010 £m
Cash at bank and in hand	61.3	(1.6)	-	(1.3)	**58.4**
Debt due within one year	(34.3)	(10.1)	(20.5)	(0.7)	**(65.6)**
Debt due after one year	(148.3)	(157.2)	14.3	(3.4)	**(294.6)**
Finance leases	(1.4)	(3.8)	(0.4)	-	**(5.6)**
Preference shares	(0.1)	-	-	-	**(0.1)**
	(122.8)	(172.7)	(6.6)	(5.4)	**(307.5)**

Notes to the Group Financial Statements

1. General information

Chemring Group PLC is a company incorporated in England and Wales under registration number 86662. The address of the registered office is Chemring House, 1500 Parkway, Whiteley, Fareham, Hampshire, PO15 7AF. The nature of the Group's operations and its principal activities are set out in Note 5 and in the Directors' Report on pages 34 to 36. These financial statements are the consolidated financial statements of Chemring Group PLC and its subsidiaries ("the Group").

These financial statements are presented in pounds sterling. Foreign operations are included in accordance with the policy set out in Note 3 of the financial statements.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Statement on Corporate Governance on page 49.

2. Adoption of new and revised standards

The IFRIC interpretations, amendments to existing standards and new standards that are mandatory and relevant for the Group's accounting periods beginning on or after 1 November 2009 have been adopted. Adoption of these standards has impacted the disclosures on the results and financial position as follows:

- IAS 1 (revised) *Presentation of Financial Statements*, effective for periods commencing on or after 1 January 2009, requires the presentation of a statement of changes in equity as a primary statement, separate from the Income Statement and Statement of Comprehensive Income. As a result, a Consolidated Statement of Changes in Equity has been included in the primary statements, showing changes in each component of equity for each period presented.
- IAS 23 *Borrowing Costs* amendment became effective for periods commencing on or after 1 January 2009 and requires borrowing costs which meet certain criteria to be capitalised. The standard was early adopted by Chemring Group PLC in 2009.
- IFRS 8 *Operating Segments*, became effective for periods commencing on or after 1 January 2009. 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 included in Note 5 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.
- IFRS 3 (revised 2008) *Business Combinations*, requires that transaction costs shall be expensed for acquisitions on or after 1 November 2009.

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 all the acquisitions that were completed during the year as described in Note 32.

Additionally the following new standards and interpretations have been adopted in the current year but have not impacted the reported results or the financial position:

- Amendments to IFRS 2 *Share-based Payment* and IFRS 7 *Financial Instruments: Disclosures* became effective
- IFRIC 14 IAS 19 *Employee Benefits – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*
- IFRIC 9 and IAS 39 *Embedded Derivatives*
- IFRIC 12 *Service Concession Arrangements*
- IFRIC 15 *Arrangements for the Construction of Real Estate*
- IAS 27 (revised 2008) *Consolidated and Separate Financial Statements*
- IAS 39 (amended) *Eligible Hedged Items*
- IFRS 1 *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- IFRS 2 (amended) *Vesting Conditions and Cancellations*

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 1 (amended) *Additional Exemptions for First-time Adopters*
- IFRS 2 (amended) *Group Cash-settled Share-based Payment Transaction*
- IFRS 9 *Financial Instruments*
- IAS 24 (revised) *Related Party Disclosure*
- IAS 32 (amended) *Classification of Rights Issue*
- IFRIC 14 (amended) *Prepayments of a Minimum Funding Requirement*
- IFRIC 17 *Distributions of Non-cash Assets to Owners*
- IFRIC 18 *Transfer of Assets from Customers*
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
- Improvements to IFRSs 2010 (May 2010) and 2009 (April 2009)

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group, except for:

- IFRS 9 *Financial Instruments* – This will introduce a number of changes in the presentation of financial instruments.

3. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with IFRS adopted for use in the European Union. These will be those IAS, IFRS and related Interpretations (Standing Interpretations Committee (SIC)/International Financial Reporting Interpretations Committee (IFRIC) interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB) that have been endorsed by the

European Commission (collectively referred to as IFRS). These are subject to ongoing review and endorsement by the European Commission or possible amendment by interpretive guidance from the IASB and the IFRIC and are therefore still subject to change.

Basis of accounting
The financial statements have been prepared in accordance with IFRS adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation. The particular accounting policies adopted have been applied consistently throughout the current and previous years and are described below.

Accounting convention
The financial statements are prepared under the historical cost convention, except for the revaluation of certain properties and financial instruments.

Basis of consolidation
The Group financial statements consolidate those of the Company and all of its subsidiaries. A subsidiary undertaking is an entity over which the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired are consolidated from the date on which control passes to the Group and the results of disposed subsidiaries are consolidated up to the date on which control passes from the Group.

All companies within the Group make up their financial statements to the same date. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Operating profit
Operating profit is stated before the share of results of associates and before finance expense. Operating profit excludes the results of discontinued operations.

Revenue recognition
Revenue comprises the fair value of the consideration received or receivable for deliveries made, work completed or services rendered during the year, net of discounts, VAT and other revenue related taxes. Revenue is recognised when title passes, or when the right to consideration, in exchange for performance, has been received. For bill and hold arrangements revenue is recognised when the risks and rewards are transferred to the customer, typically on formal acceptance. Service income is recognised over the life of the contract. An appropriate proportion of total long term contract value, based on the fair value of work performed, is included in revenue and an appropriate level of profit is taken based on the percentage completion method when the final outcome can be reliably assessed. Provision is made in full for foreseeable losses as soon as they are identified.

Investment income
Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Acquisitions
On acquisition of a subsidiary, the cost is measured as the fair value of the consideration. The assets, liabilities and contingent liabilities of a subsidiary that meet the IFRS 3 (Revised 2008) *Business Combinations* recognition criteria are measured at the fair value at the date of acquisition. Where cost exceeds fair value of the net assets acquired the difference is recorded as goodwill.

Where the fair value of the net assets exceeds the cost, the difference is recorded directly in the Income Statement. The accounting policies of subsidiaries are changed where necessary to be consistent with those of the Group.

Acquisition related costs have been recognised in association with acquisitions that have been completed during the year. In accordance with IFRS 3 (Revised 2008) *Business Combinations* acquisition costs have been expensed through the Income Statement with effect from 1 November 2009.

Intangible assets
Goodwill
The purchased goodwill of the Group is regarded as having an indefinite useful economic life and, in accordance with IAS 36 *Impairment of Assets*, is not amortised but is subject to annual tests for impairment. Goodwill arising on acquisition before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Acquired intangibles
For acquisitions after 1 November 2004 the Group recognises separately from goodwill intangible assets that are separable or arise from contractual or other legal rights and whose fair value can be measured reliably. These intangible assets relate to technology, customer relationships and acquired orderbooks and are amortised on a straight-line basis over their useful economic lives, averaging ten years.

Development costs
Development costs that qualify as intangible assets are capitalised as incurred, and once the relevant intangible asset has been completed are amortised on a straight-line basis over their estimated useful lives, averaging three years.

Other intangibles
Other intangibles are patents and trademarks which are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives, averaging ten years.

Property, plant and equipment
Other than historically revalued land and buildings, property, plant and equipment are held at cost less accumulated depreciation and any recognised impairment loss. Borrowing costs on significant capital expenditure projects since 1 November 2008 are capitalised and allocated to the cost of the project. No depreciation is provided on freehold land. On other assets depreciation is provided at rates calculated to write down their cost or valuation to their estimated residual values by equal instalments over their estimated useful economic lives, which are considered to be:

Freehold buildings	– up to 50 years
Leasehold buildings	– the period of the lease
Plant and equipment	– 10 years

Investments in associates
The results and the net assets of associates are accounted for using the equity method of accounting. Any excess of the cost of investment over the Group's share of the fair value of identifiable assets and liabilities within the associate at the date of acquisition is accounted for as goodwill. This is included in the carrying value of the investment and is assessed for impairment as part of that investment.

Impairment of non-current assets
Assets that have indefinite lives are tested for impairment annually. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever changes in circumstances indicate that the carrying value may not be recoverable. To the extent that the carrying value exceeds the recoverable amount an impairment loss

Notes to the Group Financial Statements

3. Accounting policies continued

is recorded for the difference as an expense in the Income Statement. The recoverable amount used for impairment testing is the higher of the value in use and its fair value less costs of disposal. For the purpose of impairment testing assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Inventories
Inventories are recorded at the lower of cost and net realisable value. Cost represents materials, direct labour, other direct costs and related production overheads and is determined using the first-in first-out (FIFO) method. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

Provision is made for slow moving, obsolete and defective items where appropriate.

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are subsequently ready for their intended use or sale.

To the extent that variable rate borrowings are used to finance a qualifying asset and are hedged in an effective cash flow hedge of interest rate risk, the effective portion of the derivative is recognised in other comprehensive income and released to profit or loss when the qualifying asset impacts profit or loss. To the extent that fixed rate borrowings are used to finance a qualifying asset and are hedged in an effective fair value hedge of interest rate risk, the capitalised borrowing costs reflect the hedged interest rate.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants
Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government grants towards staff re-training costs are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Government grants relating to property, plant and equipment are treated as deferred income and released to the Income Statement over the expected useful lives of the assets concerned.

Tax
The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items of income that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the Balance Sheet date.

Deferred tax is expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable taxable profits will be available in the future against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Income Statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Special capital reserve
The special capital reserve was created as part of a capital reduction scheme involving the cancellation of the share premium account which was approved by the Court in 1986, in accordance with the requirements of the Companies Act 1985.

Foreign currencies
The individual financial statements of each Group company are presented in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each Balance Sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the Balance Sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the profit or loss for the period.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and forward currency structures which are accounted for as derivative financial instruments (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the Balance Sheet date. Income and expense items are translated at the average exchange rates for the period.

Financial instruments
Financial assets and liabilities are recognised on the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets
Trade receivables
Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Financial liabilities and equity instruments
Financial liabilities
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings
Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges including premiums payable on settlement or redemption, and direct issue costs are accounted for on an accruals basis to the Income Statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables
Trade payables are not interest bearing and are stated at their nominal value.

Derivative financial instruments and hedge accounting
The Group's activities expose it primarily to the financial risks of interest rate and foreign currency transactions, and it uses derivative financial instruments to hedge its exposure to these transactional risks. The Group uses interest rate swap contracts, foreign exchange forward contracts and other forward currency structures to reduce these exposures and does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are recognised at fair value at the date the derivative contract is entered into and are revalued at fair value at each Balance Sheet date. The method by which any gain or loss is recognised depends on whether the instrument is designated a hedging instrument or not. To be designated as a hedging instrument the instrument must be documented as such at inception and must be assessed at inception and on an ongoing basis to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Hedge accounting principles are used for foreign currency forward contracts and interest rate swaps where movements in fair value are held in equity until such time as the underlying amounts of the contract mature. At maturity or disposal of the net investment the amounts held in equity will be recycled to the Income Statement. Changes in fair value of any ineffective portion of net investment hedges and interest rate swaps are recognised in the Income Statement immediately. The fair values of derivative financial instruments are calculated by independent third party valuers.

Where derivatives do not meet the criteria for hedge accounting the changes in fair value are immediately recognised in the Income Statement.

Hedges of net investments in foreign operations
Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the Statement of Comprehensive Income and accumulated in the foreign currency translation reserve that forms part of the revenue reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Embedded derivatives that are not closely related to the host contract are treated as separate derivatives, with unrealised gains and losses reported in the Income Statement.

Retirement benefit costs
Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. For defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each Balance Sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside of the profit or loss and presented in the Statement of Comprehensive Income.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognised in the Balance Sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost, and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Leased assets
Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the Balance Sheet as property, plant and equipment and is depreciated over the shorter of the estimated useful economic life and the lease term. Future instalments under such leases, net of finance charges, are included in creditors. The finance element of the instalments is charged to the Income Statement at a constant rate of charge on the remaining balance of the obligation.

All other leases are operating leases and the rental charges are taken to the Income Statement on a straight-line basis over the life of the lease.

Share-based compensation
The Group operates equity settled and cash settled share-based compensation schemes.

For grants made under the Group's share-based compensation schemes, the fair value is calculated at the grant date and recognised in the Income Statement on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest. The valuation of the options utilises a methodology based on the Black-Scholes model.

Notes to the Group Financial Statements

3. Accounting policies continued

For equity settled share-based grants, the total amount recognised is based on the fair value of the equity instrument measured at the date the award is made. At each Balance Sheet date the impact of any revision to vesting estimates is recognised in the Income Statement over the vesting period. Proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium.

For cash settled share-based grants, the total amount recognised is based on the fair value of the liability incurred. The fair value of the liability is re-measured at each Balance Sheet date with changes in the fair value recognised in the Income Statement for the period.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the Balance Sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Restructuring provisions

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring and not those associated with the ongoing activities of the entity.

Warranties

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

Post balance sheet events

Following IAS 10 *Events after the Balance Sheet Date*, the Group continues to disclose events that it considers material and non-disclosure of which can influence the economic decisions of users of the financial statements.

Critical accounting judgements and key sources of estimation uncertainty

When applying the Group's accounting policies, management must make assumptions and estimates concerning the future that affect the carrying amounts of assets and liabilities at the Balance Sheet date and the amounts of revenue and expenses recognised during the accounting period. Such assumptions and estimates are based upon factors such as historical experience, the observance of trends in the industries in which the Group operates, and information available from the Group's customers and other outside sources.

The key assumptions concerning the future and other key sources of estimation uncertainty at the Balance Sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

Goodwill impairment review

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to determine such assets, to estimate the future cash flows expected to arise from the cash-generating unit and to determine a suitable discount rate in order to calculate present value (see Note 13). In reviewing the carrying value of goodwill of the various businesses the Board has considered the separate plans and cash flows of these businesses consistent with the requirements of IAS 36 and is satisfied that these demonstrate that no impairment has occurred in respect of continuing operations.

Assets and liabilities acquired under business combinations

Under IFRS 3 *Business Combinations*, it is necessary to separately identify and value any acquired intangible assets. In order to ascertain the values of the separate assets it is necessary for management to estimate the future cash flows attributable to the assets and estimate their useful economic lives (see Note 14). Assets and liabilities are recognised on acquisition when relevant which include deferred tax assets on losses (see Note 26).

Pensions

The liability recognised in relation to retirement benefit obligations is dependent on a number of assumptions, including discount rate, mortality rate, salary increases and inflation. Any change in these assumptions would change the amount recognised (see Note 33).

Legal

The Group is subject to legal proceedings and other claims arising in the ordinary course of business. The Group is required to assess the likelihood of any adverse judgements or outcomes, as well as potential ranges of probable losses. A determination of the amount of reserves required for these matters is based on a careful analysis of each individual issue with the assistance of outside legal counsel. However, actual claims incurred could differ from the original estimates.

4. Revenue

All of the Group's revenue is derived from the sale of goods and provision of services. The following table provides an analysis of the Group's revenue by destination.

Revenue by destination	Continuing operations 2010 £m	Acquisitions 2010 £m	Total 2010 £m	Total 2009 £m
UK	**110.0**	**1.6**	**111.6**	125.2
USA	**274.6**	**18.5**	**293.1**	235.4
Europe	**72.1**	**0.8**	**72.9**	75.0
Australia and Far East	**43.8**	**0.3**	**44.1**	39.1
Middle East	**49.9**	**1.7**	**51.6**	20.4
Rest of the world	**20.2**	**3.6**	**23.8**	8.8
	570.6	**26.5**	**597.1**	503.9

In addition to the revenues shown above there was finance income of £0.5 million (2009: £0.7 million).

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

5. Business segments

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. For management purposes the Group has four operating divisions – Countermeasures, Counter-IED, Pyrotechnics and Munitions. These divisions are the basis on which it reports its segmental information and the principal activities are as follows:

Countermeasures	Expendable active and passive countermeasures for naval and air platforms; land-based electronic warfare (EW) equipment.
Counter-IED:	IED (Improvised Explosive Device) detection equipment; IED electronic countermeasures; explosive ordnance disposal equipment; demilitarisation services.
Pyrotechnics:	Signals and illumination devices and payloads; cartridge/propellant actuated devices; pyrotechnic devices for satellite launch and deployment.
Munitions:	Missile and ammunition components; propellants; warheads; fuzes; energetic materials; medium and large calibre ammunition.

A segmental analysis of revenue and operating profit is set out below:

Business segments	2010 £m	2009 £m
Revenue		
Countermeasures	**196.3**	183.5
Counter-IED	**114.9**	61.2
Pyrotechnics	**170.0**	173.2
Munitions	**115.9**	86.0
Total revenue from third parties	**597.1**	503.9

Notes to the Group Financial Statements

5. Business segments continued

Analysis of operating profit	2010 £m	2009 £m
Countermeasures	**58.8**	53.5
Counter-IED	**28.1**	15.6
Pyrotechnics	**40.1**	43.8
Munitions	**20.9**	13.4
Charge for share-based payments	**(2.3)**	(2.1)
Restructuring costs	**(1.5)**	(2.9)
Incident costs	**(2.8)**	-
Provision release (see Note 25)	**2.4**	-
Unallocated head office costs	**(8.1)**	(6.6)
Total underlying operating profit*	**135.6**	114.7
Acquisition related costs	**(6.7)**	-
Intangible amortisation arising from business combinations	**(17.0)**	(13.8)
(Loss)/gain on fair value movements on derivatives	**(4.0)**	7.0
Total operating profit (see Note 6)	**107.9**	107.9

*Before acquisition related costs, intangible amortisation arising from business combinations and (loss)/gain on fair value movements on derivatives

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3.

Intra-group transactions
There are no intra-group transactions included within the above figures for revenue and profit.

Information about major customers
Included in revenues arising from the segments are revenues of approximately £236.7 million (2009: £195.4 million) which arose from sales to the Group's largest customer, the US Department of Defense. This was the only individual customer where direct sales account for more than 10% of the total Group revenue for the year.

Restructuring costs
In the second half of the year a decision was taken to restructure the Group's UK counter-IED business at a cost of £1.5 million. As a result, one of the two sites out of which it operated was closed. The benefits of this closure will be seen in the current financial year.

The £2.9 million of restructuring costs in 2009 related to the UK countermeasures business and Chemring Ordnance in the USA.

Incident costs
In September 2010 two separate incidents stopped production at the Kilgore Flares facility in Tennessee and the Group's newly acquired subsidiary Mecar in Belgium. As a result of these incidents approximately £7.0 million of revenue and £3.0 million of underlying operating profit was deferred into the current financial year. In addition, £2.8 million of non-recurring costs arising out of the incidents were incurred in respect of the write-off of damaged stock and destroyed assets.

Provision release
During the second half of the year, a third party assessment was carried out of the provision held in respect of the environmental liabilities associated with the Chemring Energetic Devices site in Illinois, USA. After taking into account this assessment and the additional insurance coverage that was secured in respect of this exposure during the year, the Group has released part of the provision.

The Group does not disclose assets or liabilities by segment in the monthly management accounts provided to the Executive Committee or the Board of Directors. The *Improvements to IFRSs* issued in April 2009 only requires information provided to the chief operating decision maker as a key decision making tool to be disclosed. The Group has adopted this amendment 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, in which the additional information was disclosed.

6. Operating profit

The following table shows a reconciliation of cost by function:

	2010 £m	2009 £m
Total revenue	**597.1**	503.9
Cost of sales	**(386.8)**	(329.9)
Administrative expenses*	**(74.7)**	(59.3)
Acquisition related costs	**(6.7)**	-
Intangible amortisation arising from business combinations	**(17.0)**	(13.8)
(Loss)/gain on fair value movements on derivatives	**(4.0)**	7.0
Total administrative expenses	**(102.4)**	(66.1)
Total operating profit	**107.9**	107.9

* Before acquisition related costs, intangible amortisation arising from business combinations and (loss)/gain on fair value movements on derivatives

Operating profit is stated after charging/(crediting):

		2010 £m	2009 £m
Research and development costs	- customer funded	**20.6**	9.7
	- internally funded	**5.8**	4.4
Amortisation	- arising from business combinations	**17.0**	13.8
	- development costs	**2.1**	1.1
	- other intangible assets	**0.3**	0.4
Depreciation	- property, plant and equipment	**11.5**	13.0
	- leased assets	**0.1**	0.3
Impairment charge		**-**	1.1
Operating lease rentals	- plant and machinery	**1.2**	1.1
	- other	**0.7**	1.1
Government grant		**(0.1)**	(0.4)
Foreign exchange losses		**2.0**	3.1
Staff costs (see Note 7)		**133.0**	108.9
Cost of inventories recognised as an expense		**254.7**	204.1
Restructuring costs (see Note 5)		**1.5**	2.9
Incident costs (see Note 5)		**2.8**	-
Provision release (see Note 5)		**(2.4)**	-
Auditors' remuneration (see over)		**1.4**	0.9

Notes to the Group Financial Statements

6. Operating profit continued

A more detailed analysis of auditors' remuneration on a worldwide basis is provided below:

Auditors' remuneration:	2010 £m	2009 £m
Fees payable to the Company's auditor and its associates for:		
The audit of the Company's annual accounts	**0.4**	0.3
The audit of the Company's subsidiaries, pursuant to legislation	**0.3**	0.3
	0.7	0.6
Other services:		
Tax services - compliance	**0.1**	0.1
Tax services - advisory	**0.3**	0.1
Corporate finance services	**0.3**	0.1
	0.7	0.3
	1.4	0.9

Corporate finance services relate to fees for acquisitions and disposals. Included in the Group audit fees is £0.1 million (2009: £0.1 million) paid in respect of the parent company.

A description of the work of the Audit Committee is set out in the Statement on Corporate Governance on pages 47 and 48 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

During the year the Group incurred professional fees with other accountancy firms for the provision of corporate finance services of £0.4 million (2009: £0.3 million).

7. Staff costs

The average monthly number of employees within each category (including executive directors) was:

	2010 Number	2009 Number
Production	**3,234**	2,660
Administration, sales and marketing	**754**	719
	3,988	3,379

At the year end the number of employees was 4,283 (2009: 3,349).

The costs incurred in respect of these employees were:

	2010 £m	2009 £m
Wages and salaries	**113.0**	88.8
Social security costs	**15.3**	15.0
Other pension costs	**4.7**	5.1
	133.0	108.9

8. Finance income

	2010 £m	2009 £m
Bank interest	**0.5**	0.7

9. Finance expense

	2010 £m	2009 £m
Bank overdraft and loan interest	**0.3**	0.3
Loan notes interest	**15.5**	5.8
Medium term loan interest	**2.8**	5.2
Finance lease interest	**0.3**	0.2
Amortisation of debt finance costs	**1.2**	0.5
Unwinding of discount on provisions (see Note 25)	**0.3**	-
Interest cost of retirement benefit obligations (see Note 33)	**1.2**	1.3
Amounts included in the cost of qualifying assets	**(2.2)**	(0.4)
	19.4	12.9

Borrowing costs included in the cost of qualifying assets during the year are calculated by applying a capitalisation rate of 7% (2009: 6%) to expenditure on such assets.

10. Tax

	2010 £m	2009 £m
Current tax charge	**(19.5)**	(26.5)
Deferred tax (charge)/credit (see Note 26)	**(2.9)**	0.8
Total current year tax charge	**(22.4)**	(25.7)

Income tax in the UK is calculated at 28% (2009: 28%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The total charge for the year can be reconciled to the Income Statement as follows:

	2010 £m	2009 £m
Profit before tax for the year	**89.1**	95.8
Tax at the UK corporation tax rate of 28% (2009: 28%)	**(24.9)**	(26.8)
Income not chargeable for tax purposes	**2.2**	0.6
Utilisation of tax losses	**0.2**	0.9
Changes in tax rates	**1.3**	-
Other	**-**	0.1
Prior year adjustments	**0.6**	(0.2)
Overseas profits taxed at rates different to the standard rate	**(1.8)**	(0.3)
Total current year tax charge	**(22.4)**	(25.7)

In addition to the income tax expense charged to the Income Statement, a tax debit of £2.0 million (2009: tax credit of £3.3 million) has been recognised in equity in the year and is included in the Statement of Comprehensive Income.

The effective rate of tax incurred by the Group is 25.1% (2009: 26.8%), and the underlying* effective rate of tax incurred by the Group is 25.6% (2009: 26.9%).

* Before acquisition related costs, intangible amortisation arising from business combinations and (loss)/gain on fair value movements on derivatives.

11. Dividends

	2010 £m	2009 £m
Dividends on ordinary shares of 5p each		
Final dividend for the year ended 31 October 2009 36.0p (2008: 25.0p)	**12.7**	8.8
Interim dividend for the year ended 31 October 2010 17.0p (2009: 14.0p)	**6.0**	5.0
Total dividends	**18.7**	13.8

The proposed final dividend in respect of the year ended 31 October 2010 of 42p per share will, if approved, absorb approximately £14.8 million of shareholders' funds. The dividend is subject to approval by shareholders at the Annual General Meeting and accordingly has not been included as a liability in these financial statements.

Notes to the Group Financial Statements

12. Earnings per share

Earnings per share are based on the average number of shares in issue of 35,320,445 (2009: 35,266,616) and profit on ordinary activities after tax of £66.7 million (2009: £70.1 million). Diluted earnings per share has been calculated using a diluted average number of shares in issue of 35,677,687 (2009: 35,601,379) and profit on ordinary activities after tax of £66.7 million (2009: £70.1 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	**66.7**	**35,320**	**189**	70.1	35,267	199
Additional shares issuable other than at fair value in respect of options outstanding	**-**	**358**	**(2)**	-	334	(2)
Diluted	**66.7**	**35,678**	**187**	70.1	35,601	197

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. Further information on the treasury share holding is given in Note 29.

Reconciliation from basic earnings per share to underlying earnings per share:
Underlying basic earnings are defined as earnings before acquisition related costs, intangible amortisation arising from business combinations and (loss)/gain on fair value movements on derivatives. The directors consider this measure of earnings allows a more meaningful comparison of earnings trends.

			2010			2009
	Earnings £m	Ordinary shares Number 000s	EPS Pence	Earnings £m	Ordinary shares Number 000s	EPS Pence
Basic	**66.7**	**35,320**	**189**	70.1	35,267	199
Acquisition related costs, intangible amortisation arising from business combinations and (loss)/gain on fair value movements on derivatives (after tax)	**20.2**	**-**	**57**	4.9	-	14
Underlying	**86.9**	**35,320**	**246**	75.0	35,267	213

13. Goodwill

	£m
Cost	
At 1 November 2008	128.8
Recognised on acquisition of subsidiary undertakings	17.0
Foreign exchange adjustments	3.7
At 1 November 2009	149.5
Recognised on acquisition of subsidiary undertakings	84.9
Foreign exchange adjustments	2.0
At 31 October 2010	236.4
Accumulated impairment losses	
At 1 November 2008, 1 November 2009 and 31 October 2010	-
Carrying amount	
At 31 October 2010	236.4
At 31 October 2009	149.5

Additions to goodwill since 1 November 2008 can be split as follows:

	£m
Non-Intrusive Inspection Technology, Inc.	16.6
Goodwill arising from fair value adjustments on prior year acquisitions	0.4
At 31 October 2009	17.0
Hi-Shear Technology Corporation*	47.3
Mecar S.A.*	3.8
Roke Manor Research Limited *	27.5
Other acquisitions*	6.3
At 31 October 2010	84.9

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of the goodwill has been allocated to our principal CGUs. An analysis of goodwill as at 31 October 2010 by principal CGU is shown below:

	2010 £m	2009 £m
Hi-Shear Technology Corporation	**49.2**	-
Simmel Difesa S.p.A.**	**48.5**	47.1
Chemring Energetic Devices, Inc.	**28.7**	28.0
Roke Manor Research Limited	**27.5**	-
Chemring Energetics UK Limited	**18.1**	18.1
Non-Intrusive Inspection Technology, Inc.	**15.5**	15.1
Other	**48.9**	41.2
Total goodwill	**236.4**	149.5

* See Note 32
** Includes £2.8 million goodwill from the acquisition of Chemring Fuze Technology S.r.l. in 2010.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGU are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, the growth rates and expected changes to selling prices and direct costs during the period for which management have detailed plans. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU being measured (the weighted average cost of capital "WACC").

The discount rate used is based on the Group pre-tax WACC of 7.4% (2009: 7.8%) and adjusted for a premium specific to each CGU. The calculation has used the Group's budgeted figures for the next five years. At the end of five years, it assumes the performance of the Group companies will continue in perpetuity at the fifth year level. The growth rates are based on management's view of industry growth forecasts, adjusted for a premium associated with the high technological nature of the businesses. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows after that period based on growth as described above.

Following a detailed review, no impairment losses for continuing operations have been recognised in the year and no prior impairment losses reversed.

There was significant headroom within all the value in use calculations. Additionally, sensitivity analysis has indicated that no reasonably possible change in the key assumptions used would result in a significant impairment charge being recorded in the financial statements.

Notes to the Group Financial Statements

14. Other intangible assets

	Acquired intangibles £m	Development costs £m	Other* £m	Total £m
Cost				
At 1 November 2008	90.5	7.4	1.6	99.5
Additions	-	4.6	0.2	4.8
Recognised on acquisition of subsidiary undertakings	15.5	-	-	15.5
Foreign exchange adjustments	0.1	(0.1)	-	-
At 1 November 2009	106.1	11.9	1.8	119.8
Additions	-	7.5	0.3	7.8
Disposals	-	(0.6)	(0.2)	(0.8)
Recognised on acquisition of subsidiary undertakings**	111.2	0.2	0.2	111.6
Foreign exchange adjustments	4.8	-	-	4.8
At 31 October 2010	222.1	19.0	2.1	243.2
Amortisation				
At 1 November 2008	10.7	3.0	0.8	14.5
Charge for the year	13.8	1.1	0.4	15.3
Foreign exchange adjustments	(0.3)	(0.1)	-	(0.4)
At 1 November 2009	24.2	4.0	1.2	29.4
Charge for the year	17.0	2.1	0.3	19.4
Disposals	-	(0.5)	(0.1)	(0.6)
Foreign exchange adjustments	(0.4)	-	-	(0.4)
At 31 October 2010	40.8	5.6	1.4	47.8
Carrying amount				
At 31 October 2010	181.3	13.4	0.7	195.4
At 31 October 2009	81.9	7.9	0.6	90.4

Acquired intangible assets represents acquired order book £35.2 million (2009: £10.4 million), technology £33.0 million (2009: £13.5 million), and customer relationships £113.1 million (2009: £58.0 million). These are recognised at fair value on acquisition and are amortised over their estimated useful lives. Fair values for acquired intangible assets are assessed by reference to future estimated cash flows discounted at an appropriate rate to present value, or by reference to the amount that would have been paid in an arm's length transaction between two knowledgeable and willing parties. Other intangible assets are recognised at cost and are amortised over their estimated useful lives (see Note 3).

* Other intangibles comprise patents and licences.
** See Note 32.

15. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost or valuation			
At 1 November 2008	60.3	93.0	153.3
Additions	6.0	27.4	33.4
Transfer	-	2.3	2.3
Acquired on acquisition of subsidiary undertakings	-	0.4	0.4
Disposals	-	(0.8)	(0.8)
Foreign exchange adjustments	2.8	2.0	4.8
At 1 November 2009	69.1	124.3	193.4
Additions	14.4	26.5	40.9
Acquired on acquisition of subsidiary undertakings	13.5	8.5	22.0
Disposals	-	(6.2)	(6.2)
Foreign exchange adjustments	1.0	3.4	4.4
At 31 October 2010	98.0	156.5	254.5
Accumulated depreciation			
At 1 November 2008	7.2	35.7	42.9
Charge for the year	2.5	10.8	13.3
Impairment charge	1.1	-	1.1
Disposals	-	(0.2)	(0.2)
Foreign exchange adjustments	(0.2)	1.5	1.3
At 1 November 2009	10.6	47.8	58.4
Charge for the year	0.5	11.1	11.6
Disposals	-	(6.1)	(6.1)
Foreign exchange adjustments	(0.6)	2.5	1.9
At 31 October 2010	10.5	55.3	65.8
Carrying amount			
At 31 October 2010	87.5	101.2	188.7
At 31 October 2009	58.5	76.5	135.0

The carrying amount of the Group's plant and equipment includes an amount of £5.4 million (2009: £2.1 million) in respect of assets held under finance leases. £2.2 million (2009: £0.4 million) of interest has been capitalised (see Note 9) in the year, bringing the cumulative cost to £2.6 million (2009: £0.4 million) since 1 November 2008.

Land and buildings were revalued at 30 September 1997 by Chestertons Chartered Surveyors, independent valuers not connected with the Group, on the basis of depreciated replacement cost for two pyrotechnic sites, and on open market for the remainder.

	2010 £m	2009 £m
30 September 1997 depreciated replacement cost	**5.8**	5.8
Freehold at cost	**92.2**	63.3
	98.0	69.1

If stated under historical cost principles the comparable amounts for the total of land and buildings would be:

	2010 £m	2009 £m
Cost	**96.0**	67.1
Accumulated depreciation	**(9.9)**	(10.0)
Historical cost value	**86.1**	57.1

All other tangible fixed assets are stated at historical cost.

Notes to the Group Financial Statements

15. Property, plant and equipment continued

At 31 October 2010 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £18.8 million (2009: £14.0 million). Included within this figure were commitments totalling £16.3 million to be spent on conducting two major investment programmes for new countermeasures facilities at Salisbury, UK and Lara, Australia.

16. Subsidiary undertakings

All subsidiary undertakings have been included in the consolidation. The undertakings held at 31 October 2010 which, in the opinion of the directors, principally affected the results for the year or the net assets of the Group are shown below:

Subsidiary undertaking	Country of incorporation (or registration) and operation	% of issued ordinary share capital controlled by Chemring Group PLC	Activity
Chemring Countermeasures Ltd	England	100	Countermeasures
Chemring Defence UK Ltd	England	100	Pyrotechnics/Counter-IED
Chemring Marine Ltd	England	100	Pyrotechnics
Chemring EOD Ltd	England	100	Counter-IED
Chemring Prime Contracts Ltd	England	100	Munitions
Roke Manor Research Ltd	England	100	Countermeasures/Counter-IED
Chemring Energetics UK Ltd	Scotland	100	Munitions/Pyrotechnics/Counter-IED
Chemring Defence Germany GmbH	Germany	100	Pyrotechnics/Counter-IED
Alloy Surfaces Company, Inc.	USA	100	Countermeasures
Kilgore Flares Company LLC	USA	100	Countermeasures
Technical Ordnance, Inc.	USA	100	Munitions/Pyrotechnics
Chemring Energetic Devices, Inc.	USA	100	Munitions/Pyrotechnics
Chemring Ordnance, Inc.	USA	100	Munitions/Pyrotechnics
Chemring Military Products, Inc.	USA	100	Munitions
Non-Intrusive Inspection Technology, Inc.	USA	100	Counter-IED
Hi-Shear Technology Corporation	USA	100	Pyrotechnics
Chemring Australia Pty Ltd	Australia	100	Countermeasures/Munitions/ Pyrotechnics/Counter-IED
Chemring Defence Spain S.L.	Spain	100	Pyrotechnics
Simmel Difesa S.p.A.	Italy	100	Pyrotechnics/Munitions/Counter-IED
Chemring Fuze Technology S.r.l.	Italy	100	Munitions
Chemring Nobel AS	Norway	100	Munitions
Mecar S.A.	Belgium	100	Munitions
Associated undertaking			
CIRRA S.A.	France	49	Countermeasures

17. Interest in associate

	2010 £m	2009 £m
Interest in associate (including goodwill of £0.5 million (2009: £0.5 million))	**1.1**	1.1

Amounts relating to associate:

	2010 £m	2009 £m
Total assets	**1.6**	1.6
Total liabilities	**(0.4)**	(0.4)
Net assets	**1.2**	1.2
Group's share of net assets (excluding goodwill)	**0.6**	0.6

The results of the associated undertaking for the year ended 30 September 2010 relate to the Group's share of CIRRA S.A.

	2010 £m	2009 £m
Total revenue	**1.9**	1.7
Profit after tax	**0.2**	0.1
Group's share of profit of associate	**0.1**	0.1

18. Inventories

	2010 £m	2009 £m
Raw materials	**53.1**	41.7
Work in progress	**68.4**	32.0
Finished goods	**20.8**	23.2
	142.3	96.9

There are no significant differences between the replacement costs and the fair values shown above.

19. Trade and other receivables

	2010 £m	2009 £m
Current		
Trade receivables	**141.1**	85.0
Allowance for doubtful debts	**(2.0)**	(1.0)
	139.1	84.0
Other debtors	**14.8**	7.5
Prepayments and accrued income	**12.4**	7.3
	166.3	98.8

All amounts shown above are due within one year.

The average credit period taken on sales of goods, based on a rollback basis, is 47 days (2009: 46 days). No interest is charged on the receivables from the date of invoice to payment.

The Group's policy is to provide in full for debtors greater than 120 days beyond agreed terms, unless extenuating circumstances exist. Due to the nature of the customer base the Group does not experience significant bad debt write-offs and hence no movement schedule for the allowance for doubtful debts has been provided due to its immaterial level in 2010 and 2009. The increase in the year is due to acquisitions. An ageing analysis has not been shown as all significant overdue receivables are covered by the allowance for doubtful debts provision above. The vast majority of the trade debtor balance is not yet due based on the average credit terms provided to customers.

The directors consider that the carrying amount of trade and other receivables approximates to their fair values.

20. Cash and cash equivalents

Bank balances and cash comprise cash held by the Group and short term deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

Included within cash is £31.2 million of restricted cash (2009: £5.5 million), of which £15.0 million (2009: £5.0 million) is held in escrow in relation to the Chemring Group Staff Pension Scheme (see Note 33) and £13.1 million (2009: £nil) held as security against performance related bonds at Mecar S.A..

21. Borrowings

		2010 £m	2009 £m
Bank loans and overdrafts		**62.1**	34.3
UK medium term bank loans	- sterling denominated	**1.1**	13.3
	- euro denominated	**28.0**	42.8
	- other denominated	**2.2**	3.6
Overseas medium term bank loans	- US dollar denominated	**0.3**	1.4
Other loans	- euro denominated	**5.3**	-
Loan notes	- sterling denominated	**12.5**	12.5
	- US dollar denominated	**248.7**	74.7
		360.2	182.6

Notes to the Group Financial Statements

21. Borrowings continued

Analysis of borrowings by currency:

	2010 £m	2009 £m
Sterling	**43.6**	38.0
US dollar	**254.9**	89.4
Euro	**58.0**	51.6
Other	**3.7**	3.6
Total	**360.2**	182.6

The weighted average interest rates paid were as follows:

		2010 %	2009 %
Bank overdrafts		**4.9**	4.9
UK medium term loans	- sterling denominated	**4.9**	4.9
	- US dollar denominated	**-**	4.9
	- euro denominated	**5.0**	5.0
	- other denominated	**5.5**	6.8
Overseas medium term loans	- US dollar denominated	**4.2**	4.2
Other loans	- euro denominated	**5.0**	-
Loan notes	- sterling denominated	**6.8**	6.8
	- US dollar denominated	**5.3 – 6.3**	6.3

	2010 Bank loans and overdrafts	2010 Loan notes	2010 Other loans	2010 Total	2009 Bank loans and overdrafts	2009 Loan notes	2009 Other loans	2009 Total
Borrowings falling due within:								
One year	**62.1**	**-**	**3.5**	**65.6**	34.3	-	-	34.3
Borrowings falling due within:								
One to two years	**30.5**	**-**	**1.8**	**32.3**	36.4	-	-	36.4
Two to five years	**1.1**	**-**	**-**	**1.1**	24.7	-	-	24.7
After five years	**-**	**261.2**	**-**	**261.2**	-	87.2	-	87.2
	31.6	**261.2**	**1.8**	**294.6**	61.1	87.2	-	148.3
Total borrowings	**93.7**	**261.2**	**5.3**	**360.2**	95.4	87.2	-	182.6

Bank loans and overdrafts held with Lloyds Banking Group were secured by a debenture over the assets of certain of the Group's subsidiaries and are also subject to cross guarantees between subsidiaries. Bank loans held with Citizens Bank of Pennsylvania (USA) were secured on the related assets purchased with these loans by Alloy Surfaces Company, Inc. The security over the loan notes ranked pari passu with that held by Lloyds Banking Group.

As described in Note 36, the Group refinanced its facilities with Lloyds Banking Group with a new syndicate of five banks on 14 January 2011. The new facilities are unsecured, and the security over the loan notes has therefore also now been released.

Other loans represent the regional development loan which was acquired on the acquisition of Mecar S.A. (see Note 32). The movement in the loan represents foreign exchange movements since acquisition.

The directors do not believe the fair value of the Group's borrowings to be materially different to the book values.

There have been no breaches of the terms of the loan agreements or defaults during the current or previous year.

The Group had the following undrawn borrowing facilities in various currencies available in respect of which all conditions precedent have been met. These facilities are at floating interest rates.

	2010 £m	2009 £m
Undrawn borrowings		
Cash and gross facilities	**219.3**	163.6
Bonds and guarantees	**(114.7)**	(56.7)
Total undrawn borrowings	**104.6**	106.9

22. Obligations under finance leases

	Minimum lease payments 2010 £m	2009 £m	Present value of minimum lease payments 2010 £m	2009 £m
Amounts payable under finance leases:				
Within one year	**2.8**	0.6	**2.6**	0.5
In the second to fifth years	**3.3**	1.1	**3.0**	0.9
Less future finance charges	**(0.5)**	(0.3)	**-**	-
Present value of lease obligations	**5.6**	1.4	**5.6**	1.4
Less amounts due within twelve months shown under current liabilities			**(2.6)**	(0.5)
Amount due for settlement after twelve months			**3.0**	0.9

Finance lease obligations attract interest rates of between 2% and 3% above base rate. Lease obligations are denominated in sterling, US dollars, Euro and Australian dollars.

The fair value of the Group's leases approximates to their carrying amounts.

The Group's obligations under finance leases are secured by the lessors' title to the underlying leased assets (see Note 15).

23. Trade and other payables

	2010 £m	2009 £m
Current		
Trade creditors	**100.1**	62.4
Other creditors	**40.5**	10.6
Other tax and Social Security	**4.6**	3.9
Advanced payments	**52.8**	7.8
Accruals and deferred income	**21.7**	30.4
	219.7	115.1
Non-current – Other creditors	**1.0**	1.8

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. Advance payments are amounts received from customers on larger contracts to fund working capital. £18.9 million of these advance payments were assumed on the acquisition of Mecar S.A. (see Note 32). The directors consider that the carrying amount of payables approximates to their fair value.

The average credit period taken on purchases of goods, based on a rollback basis, is 83 days (2009: 78 days). No interest is charged on the payables from the date of invoice to payment.

24. Financial instruments and risk management

The Group uses financial instruments to manage financial and commercial risk wherever it is appropriate to do so. The main risks addressed by the financial instruments of the Group are interest rate risk, foreign exchange risk and liquidity risk. The Group's policies in respect of the management of these risks, which remained unchanged throughout the year, were as follows:

The Group's multi-national activities expose it to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk, including:

- Forward foreign exchange contracts to hedge the exchange rate risk arising on translation of the Group's investments in overseas businesses which have currencies other than sterling as their functional currency.
- Interest rate swaps to mitigate the risk of rising interest rates.
- Forward currency structures to hedge the exchange risk arising on translation of the overseas business profits.

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise. Foreign currency exchange risk can be subdivided into two components, transactional risk and translation risk:

Transactional risk: The Group policy is to hedge significant transactional currency exposures via the use of forward foreign exchange contracts. The measurement and control of this risk is closely monitored on a Group-wide basis.

Translation risk: The Group translates overseas results and net assets in accordance with the accounting policy in Note 3. The translation risk on net assets is mitigated by the transfer of currencies between Group companies and the appropriate use of foreign currency borrowings.

Notes to the Group Financial Statements

24. Financial instruments and risk management continued

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the year end were as follows:

	US$	Euro	NOK	2010 AUS$	US$	Euro	NOK	2009 AUS$
Monetary assets (million)	**154.6**	**69.2**	**48.7**	**10.5**	100.9	34.1	36.8	4.8
Monetary liabilities (million)	**312.5**	**105.1**	**17.5**	**6.9**	185.3	84.7	42.1	2.0

Currency denominated net assets are partially hedged by currency borrowings. The borrowings detailed below were designated as hedging instruments in net investment hedges.

	US$	Euro	NOK	2010 AUS$	US$	Euro	NOK	2009 AUS$
Borrowings (million)	**405.0**	**53.1**	**35.0**	**-**	147.1	57.6	33.9	-

The Group uses foreign exchange contracts to hedge its currency risk, most with a maturity of less than one year from the year end. When necessary, forward exchange contracts are rolled over at maturity. The most significant exchange rate to manage as far as the Group is concerned is the sterling: US dollar exchange rate.

The following table details the forward foreign currency contracts for sales of foreign currencies outstanding as at the year end:

	Average exchange rate		Expiring within one year	
	2010	2009	2010 £m	2009 £m
US dollar	**1.65**	1.66	**84.2**	39.4
Euro	**Nil**	1.01	**Nil**	1.2

At the year end, there was one US dollar structure in place which was set up to protect the Income Statement from currency fluctuations during 2010 and through to October 2011, which provides an economic hedge. The structure involves a cap and a collar, which lock in the exchange rates to give the Group the appropriate protection. However, the structure does not give linear relationships with the gain or loss from re-translation of future profits and hence hedge accounting has not been adopted for this financial instrument.

A loss for the year ended 31 October 2010 has arisen due to the continual fluctuation of foreign currency markets since the new structure was implemented in January 2010. The Group continues to protect its foreign currency position with a fixed rate of $1.64 in the year to October 2011 and $1.57 in the year to 31 October 2012.

The principal amounts of the Group's Euro, NOK and US dollar bank loans and loan notes have been accounted for as net investment hedges on the European, Norwegian and US businesses. These hedges are effective throughout the year and the losses arising on translation have been offset against the gains on re-translation of the subsidiaries in reserves.

Interest on borrowing is denominated in currencies that match the cash flows generated by the underlying operations of the Group. This provides an economic hedge and no derivatives are entered into except for interest rate swaps to hedge the interest rate risks.

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 10 cents movement in the relevant foreign currencies against sterling. 10 cents represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10 cents change in foreign currency rates. A negative number indicates a decrease in profit and equity where sterling strengthens against the relevant currency.

	US dollar impact		Euro impact	
	2010	2009	2010 £m	2009 £m
Loss	**(15.2)**	(9.8)	**(3.0)**	(4.6)
Other equity	**(15.2)**	(9.8)	**(3.0)**	(4.6)

The Group's sensitivity to foreign currency increased during the year, mainly due to the growth of the US and European subsidiaries. These potential losses arising on the year end foreign currency monetary assets and liabilities would be more than offset by future translation and transaction gains.

As such, in management's opinion the sensitivity analysis above is unrepresentative of the inherent foreign exchange risk, as the year end exposure does not reflect the lower exposure during the year.

Interest rate risk

The Group finances its operations through a mixture of retained profits, bank borrowings and leasing lines of credit. The UK borrowings are denominated in sterling, Euro, US dollar and Norwegian Kroner, and during the year were subject to floating rates of interest linked to the Lloyds Banking Group base rate. In order to protect against the risk of higher interest rates, the Group has entered into amortising interest rate swaps for the majority of its UK borrowings. The overseas borrowings are denominated in local currency and are predominantly subject to fixed rates of interest.

During 2007, the Group refinanced part of its Lloyds Banking Group borrowing facilities with a private placement of ten year fixed interest loan notes in the US. The arrangement provides a natural hedge against the Group's investment structure in its US businesses. These loan notes are repayable in full in 2017.

During 2009, the Group undertook another refinancing of part of its Lloyds Banking Group borrowing facilities with private placements of seven and ten year fixed interest loan notes in the US. This arrangement also provides a natural hedge against the Group's investment structure in its US businesses. These loan notes are repayable in full in 2016 and 2019.

Euro, NOK and sterling floating rate borrowings have interest rate swaps which mitigate the exposure arising on the floating rate debt and were all designated as cash flow hedges. The sterling loan was repaid in November 2009 and as such the interest rate hedge was de-recognised at the year end. The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the reporting date.

	Fixed rate %	Period of swap contracts From	To	Currency value m
Sterling bank loans	3.6–4.76	November 2007	April 2014	23.9
Euro bank loans	3.67–4.35	November 2007	April 2014	58.1
NOK bank loans	5.495	November 2007	April 2012	35.0

As the Group has predominantly fixed interest rate loans, the Income Statement is not sensitive to a small change in interest rates. The range represents the two applicable interest rates incurred during the swap contracts. The swap instruments match the interest payment profiles of the medium term debt.

Liquidity risk

The table below details the maturity profiles of the Group's derivative financial instruments and loans as at the year end:

	Derivative payables £m	Derivative receivables £m	Loans and overdrafts £m	2010 Total £m	Derivative payables £m	Derivative receivables £m	Loans and overdrafts £m	2009 Total £m
Falling due within:								
One year	**84.2**	**(86.0)**	**65.6**	**63.8**	59.4	(59.0)	34.3	34.7
One to two years	**44.9**	**(45.8)**	**32.3**	**31.4**	32.8	(32.5)	36.4	36.7
Two to five years	**-**	**-**	**1.1**	**1.1**	-	-	24.7	24.7
After five years	**-**	**-**	**261.2**	**261.2**	-	-	87.2	87.2
	129.1	**(131.8)**	**360.2**	**357.5**	92.2	(91.5)	182.6	183.3

The profile of the Group's financial assets and liabilities is as follows:

Financial assets

	2010 Total £m	2009 Total £m
Sterling	**-**	23.9
US dollar	**47.0**	17.3
Australian dollar	**0.7**	2.6
Euro	**30.1**	16.0
Other currencies	**2.4**	1.5
	80.2	61.3
Overdraft offset in the UK	**(21.8)**	-
Cash at bank and in hand	**58.4**	61.3

Financial assets held in the UK enjoy a right of interest offset against overdraft balances. Overseas financial assets have a weighted average interest rate of 0.5% (2009: 0.5%). The financial assets for both years are at floating rate.

Included within cash is £31.2 million of restricted cash (2009: £5.5 million), of which £15.0 million (2009: £5.0 million) is held in escrow in relation to the Chemring Group Staff Pension Scheme (see Note 33) and £13.1 million (2009: £nil) is held as security against performance related bonds at Mecar S.A..

Notes to the Group Financial Statements

24. Financial instruments and risk management continued

Financial liabilities

	Floating rate £m	Fixed rate £m	2010 Total £m	Floating rate £m	Fixed rate £m	2009 Total £m
Sterling	**(25.8)**	**(43.7)**	**(69.5)**	-	(38.7)	(38.7)
US dollar	**(1.3)**	**(254.9)**	**(256.2)**	(12.2)	(78.0)	(90.2)
Euro	**(0.3)**	**(58.0)**	**(58.3)**	-	(51.6)	(51.6)
Other currencies	**-**	**(3.7)**	**(3.7)**	-	(3.6)	(3.6)
	(27.4)	**(360.3)**	**(387.7)**	(12.2)	(171.9)	(184.1)
Overdraft offset in the UK			**21.8**			-
			(365.9)			(184.1)
Bank loans and overdrafts			**(62.1)**			(34.3)
UK medium term loans			**(31.3)**			(59.7)
Loan notes			**(261.2)**			(87.2)
Overseas medium term loans			**(0.3)**			(1.4)
Other loans			**(5.3)**			-
			(360.2)			(182.6)
Preference shares (see Note 27)			**(0.1)**			(0.1)
Obligations under finance leases			**(5.6)**			(1.4)
			(365.9)			(184.1)

A right of offset exists for currency amounts held within the UK by Lloyds Banking Group. These are used to offset the interest charged on the UK overdraft which bears interest at 0.5% above LIBOR. Cash at bank and in hand consists primarily of overseas funds which are used as short term intra-group financing as well as an internal exchange rate hedge.

The maturity profile for other financial assets and financial liabilities consisting of receivables and payables can be considered less than one year, as identified from the Balance Sheet.

The weighted average interest rate of fixed rate financial liabilities at 31 October 2010 was 5.6% (2009: 5.5%) and the weighted average period of funding was six years (2009: five years).

Derivative financial instruments

The Group has three amortising interest rate swaps, from floating to fixed rate: one that expires in 2014 at a rate of 3.6-4.76% (sterling); one that expires in 2014 at a rate of 3.67-4.35% (Euro) and one that expires in 2012 at a rate of 5.495% (NOK). The fair value of interest rate swaps recognised on the Balance Sheet at 31 October 2010 was £5.7 million liability (2009: £4.8 million liability). The Group also has two forward exchange contracts with a fair value of £3.2 million liability (2009: £nil) and £1.9 million asset (2009: £0.2 million asset). The total of these financial instruments is a £7.0 million liability (2009: £4.6 million liability).

The following table details the fair value of derivative financial instruments recognised in the Balance Sheet at the year end:

	2010 Total £m	2009 Total £m
Interest rate swaps	**(5.7)**	(4.8)
Forward exchange contracts	**(1.3)**	0.2
Forward currency structure derivatives	**-**	0.2
	(7.0)	(4.4)

Analysed as:

	2010 Total £m	2009 Total £m
Included in current assets	**1.9**	0.4
Included in current liabilities	**(1.6)**	(1.1)
Included in non-current liabilities	**(7.3)**	(3.7)
	(7.0)	(4.4)

Hedge accounting has been applied on the forward exchange contracts and two of the interest rate swaps. The values are recorded in reserves. A third swap ceased to be hedge accounted due to the hedge becoming ineffective, and so all gains and losses from September 2010 are recorded in the Income Statement. The £3.0 million loss (2009: £8.9 million gain) on currency structures is recorded in the Income Statement as part of the reconciliation to underlying operating profit.

The following table details the (loss)/gain on fair value movements on derivatives recognised in the Income Statement:

	2010 Total £m	2009 Total £m
Change in fair value of currency structures	**(3.0)**	8.9
Amortisation	**(1.0)**	(0.5)
Charge arising on de-recognition of hedge accounting	**-**	(1.4)
	(4.0)	7.0

Credit risk
The Group's principal financial assets are bank balances and cash, and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets. The Group does not have any significant credit risk exposure to any single counterparty. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the Balance Sheet are net of allowances for doubtful receivables, based on prior experience and an assessment of the current economic environment. Trade receivable consists of a small number of customers spread across diverse geographical areas. Customers are mainly multi-national organisations or government agencies with whom the Group has long term business relationships. The majority of the Group's business is with the US Department of Defense and the UK Ministry of Defence, and as such the credit risk on debtors is considered to be very low. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, when appropriate, action is taken to minimise the credit risk to the Group.

The Group's price risk is principally in relation to the cost of raw materials and is not considered significant. Price risk is managed through negotiations with suppliers and, where appropriate, the agreement of fixed price supply contracts.

Capital management
The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors both the demographic spread of shareholders, as well as the return on capital, which the Group defines as total shareholders' equity, excluding non-redeemable preference shares and minority interests, and the level of dividends to ordinary shareholders.

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on the market prices. Primarily, the shares are intended to be used for satisfying awards under the Group's share-based incentive schemes. Buy and sell decisions are made on a specific transaction basis by the Board. The Group does not have a defined share buy back plan.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

25. Provisions

	Environmental provisions £m	Warranty provisions £m	Restructuring provisions £m	Total £m
At 1 November 2009	4.6	0.6	1.2	6.4
Unwinding of discount	0.3	-	-	0.3
Provided for in the year	-	0.2	1.5	1.7
Effect of foreign exchange movements	-	0.2	-	0.2
Utilised in the year	(0.3)	(0.1)	(0.8)	(1.2)
Released in the year (see Note 5)	(2.4)	-	-	(2.4)
At 31 October 2010	2.2	0.9	1.9	5.0

Analysed as:

	2010 £m	2009 £m
Included in current liabilities	**1.9**	1.2
Included in non-current liabilities	**3.1**	5.2
	5.0	6.4

Notes to the Group Financial Statements

25. Provisions continued

During the second half of the year, a third party assessment was carried out of the provision held in respect of the environmental liabilities associated with the Chemring Energetic Devices site in Illinois, USA. After taking into account this assessment and the additional insurance coverage that was secured in respect of this exposure during the year, the Group has released part of the provision. This is expected to be utilised over a period of greater than five years.

The warranty provisions at 31 October 2010 are held by Simmel Difesa S.p.A. and represent management's best estimate of the Group's liability under six year warranties, based on past experience for defective products.

The restructuring provisions at 31 October 2010 relate to Chemring Countermeasures Limited and Chemring EOD Limited. The provisions represent management's best estimates of the costs to be incurred on the restructuring programmes during 2011.

26. Deferred tax

The following are the major deferred tax liabilities/(assets) recognised by the Group and movements thereon during the year.

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Tax losses £m	Acquired intangibles £m	Other £m	Total £m
At 1 November 2008	9.4	(3.8)	(1.6)	7.9	(4.3)	7.6
Charge/(credit) to income	1.7	(0.1)	-	(3.9)	1.5	(0.8)
(Credit)/charge to equity	(0.1)	(4.0)	-	0.1	(0.5)	(4.5)
Amounts arising on acquisition of subsidiary undertakings	-	-	(0.5)	4.3	(0.8)	3.0
Foreign exchange movements	(0.1)	-	-	-	(0.3)	(0.4)
At 1 November 2009	10.9	(7.9)	(2.1)	8.4	(4.4)	4.9
Charge/(credit) to income	2.9	0.1	0.1	(5.9)	5.7	2.9
Charge/(credit) to equity	-	1.4	-	0.9	(0.1)	2.2
Amounts arising on acquisition of subsidiary undertakings	-	-	-	28.6	(2.8)	25.8
At 31 October 2010	13.8	(6.4)	(2.0)	32.0	(1.6)	35.8

The Finance Act 2010, which provided for a reduction in the main rate of corporation tax from 28% to 27% effective from 1 April 2011, was substantively enacted on 27 July 2010. The impact of the rate reduction has been reflected in the calculation of the UK deferred tax liability provided at 31 October 2010. Therefore, a credit of £1.3 million has been included within the deferred tax charge for the year.

The Government has also indicated that it intends to enact future reductions in the main tax rate of 1% each year down to 24% by 1 April 2014. The future 1% main tax rate reductions are expected to have a similar impact on the Group's financial statements as outlined above, subject to the impact of other developments in the Group's tax position which may reduce the beneficial effect of this in the Group's tax rate. As the further reductions in UK Corporate tax rates have not been substantially enacted at the Balance Sheet date, this is considered a non-adjusting event in accordance with IAS 10 and no adjustments have been made. The impact of any further reduction will be taken into account at subsequent reporting dates, once the change has been substantively enacted.

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. Deferred tax balances after offset, for balance sheet purposes, and are analysed as follows:

	2010 £m	2009 £m
Deferred tax liabilities	**52.4**	22.6
Deferred tax assets	**(16.6)**	(17.7)
	35.8	4.9

At the Balance Sheet date the Group had unrecognised tax losses of £72.6 million (2009: £4.9 million) potentially available for offset against future profits in certain circumstances, with the majority arising from recent acquisitions. No deferred tax asset has been recognised in respect of this amount either because of the unpredictability of short term future qualifying profit streams or, as explained in Note 32, because the initial measurement period was incomplete as at the Balance Sheet date and so the fair values stated are provisional.

27. Share capital

	2010 £m	2009 £m
Issued and fully paid		
35,588,651 (2009: 35,585,832) ordinary shares of 5p each	**1.8**	1.8

2,819 ordinary shares (2009: 133) were issued under the Group's savings-related share schemes during the year. No ordinary shares (2009: 50,000) were issued under the Group's executive share option scheme.

The Company's share capital also includes 62,500 7% cumulative preference shares of £1 each, which are all issued and fully paid-up, and are classified for accounting purposes within non-current liabilities. The cumulative preference shares carry an entitlement to a dividend at the rate of 7p per share per annum, payable in equal instalments on 30 April and 31 October each year. Holders of the preference shares have the right on winding-up to receive, in priority to any other classes of shares, the sum of £1 per share together with any arrears of dividends.

28. Reserves

	Share premium account £m	Special capital reserve £m	Hedging reserve £m	Revaluation reserve £m	Retained earnings £m	Total £m
At 1 November 2008	119.8	12.9	(2.6)	1.5	102.9	234.5
Ordinary shares issued	0.5	-	-	-	-	0.5
Profit after tax for the year	-	-	-	-	70.1	70.1
Dividends paid	-	-	-	-	(13.8)	(13.8)
Cost of share-based payments (net of settlements)	-	-	-	-	0.9	0.9
Deferred tax on share-based payment transactions	-	-	-	-	(0.3)	(0.3)
Actuarial loss	-	-	-	-	(14.1)	(14.1)
Deferred tax credit on actuarial loss	-	-	-	-	4.0	4.0
Decrease in fair value of cash flow hedging derivatives	-	-	(1.0)	-	-	(1.0)
Deferred tax on decrease of cash flow hedges	-	-	0.2	-	-	0.2
Foreign exchange translation loss	-	-	-	-	(3.1)	(3.1)
Transfers between reserves	-	-	-	(0.1)	0.1	-
Tax on items taken direct to reserves	-	-	-	-	(0.9)	(0.9)
At 1 November 2009	120.3	12.9	(3.4)	1.4	145.8	277.0
Ordinary shares issued	0.1	-	-	-	-	0.1
Profit after tax for the year	-	-	-	-	66.7	66.7
Dividends paid	-	-	-	-	(18.7)	(18.7)
Cost of share-based payments (net of settlements)	-	-	-	-	0.1	0.1
Actuarial gain	-	-	-	-	4.0	4.0
Deferred tax credit on actuarial gain	-	-	-	-	(1.4)	(1.4)
Increase in fair value of cash flow hedging derivatives	-	-	1.0	-	-	1.0
Deferred tax on decrease of cash flow hedges	-	-	(0.3)	-	-	(0.3)
Foreign exchange translation gain	-	-	-	-	0.4	0.4
Tax on items taken direct to reserves	-	-	-	-	(0.3)	(0.3)
At 31 October 2010	120.4	12.9	(2.7)	1.4	196.6	328.6

The share premium account, the special capital reserve and the revaluation reserve are not distributable.

Included within retained earnings are £1.1 million of retained profits (2009: £1.1 million) relating to the associated undertaking and £0.1 million (2009: £0.1 million) of the Company's own shares held by the Group's ESOP trustee and £12.4 million relating to the translation reserve (2009: £11.7 million).

Notes to the Group Financial Statements

29. Own shares

	2010 £m	2009 £m
Balance at 1 November 2009	**5.2**	5.7
Acquired in the year	**3.9**	1.5
Issued in the year to satisfy employee share awards	**(1.9)**	(2.0)
Balance at 31 October 2010	**7.2**	5.2

The own shares reserve represents the cost of shares in Chemring Group PLC purchased in the market and held by the Group to satisfy awards under the Group's share-based incentive schemes (see Note 31). During the year 126,880 (2009: 78,301) ordinary shares were acquired, and 100,011 (2009: 115,170) ordinary shares were distributed following the vesting of awards under the Chemring Group Performance Share Plan. The total number of ordinary shares held in treasury at 31 October 2010 was 300,000 (2009: 273,131) with an average cost of £24.14 (2009: £18.17) per share. This represents 0.8% of the total issued and fully-paid ordinary share capital.

30. Obligations under non-cancellable operating leases

	2010 £m	2009 £m
Minimum lease payments under operating leases recognised in the Income Statement in the year	**1.9**	2.2

At the Balance Sheet date the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2010 £m	2009 £m
Within one year	**0.9**	0.9
Two to five years	**0.6**	1.3
	1.5	2.2

Operating lease payments represent rentals payable by the Group. Leases are negotiated for an average term of three years and rentals are fixed for the lease period with an option to extend for a further period at the then prevailing market rate.

31. Share-based payments

The Group operates share-based compensation arrangements to provide incentives to the Group's senior management and other eligible employees.

Details of the four schemes which operated during the year are as follows:

The Chemring Group Performance Share Plan (the "PSP")

Under the PSP, conditional awards of ordinary shares are made at nil cost. Awards vest on the third anniversary of the award date. The scheme commenced in March 2006.

	Number of conditional shares awarded	
	2010	2009
Outstanding at the beginning of the year	**358,630**	310,743
Awarded during the year	**110,808**	163,057
Vested during the year	**(100,011)**	(115,170)
Lapsed during the year	**(21,208)**	-
Outstanding at the end of the year	**348,219**	358,630
Subject to vesting at the end of the year	**-**	-

The Group has applied a discount to the share-based awards, to reflect the anticipated achievement of the stipulated targets for each PSP award, based on the predicted figures within the Group's five year plan as well as the expected number of leavers over the life of the PSP awards.

As there is no option element the share price is discounted based on the following assumptions:

- dividend growth at 5% per annum (2009: growth at 5% per annum);
- weighted average cost of capital 7.5% (2009: 8%).

The weighted average fair value of awards made during the year was 2,920.1p (2009: 2,004.7p)

The Chemring 1998 Executive Share Option Scheme (the "1998 ESOS")

Under the 1998 ESOS options were granted at a price not less than the market value of the Group's ordinary shares on the date the options were granted.

	2010 Number of share options	2010 Weighted average exercise price Pence	2009 Number of share options	2009 Weighted average exercise price Pence
Outstanding at the beginning of the year	-	-	50,000	973.0
Exercised during the year	-	-	(50,000)	973.0
Outstanding at the end of the year	-	-	-	-

There were no share options exercised during the year and the average share price was nil (2009: 2,089.5p). There were no options outstanding at the end of the year, and this scheme has now terminated.

The compensation expense recognised in respect of share options is based on their fair value at the grant date calculated using the Black-Scholes option pricing model.

The Group recognised net costs of £2.3 million (2009: £2.1 million) in respect of share-based payment transactions during the year.

The Chemring Group 2008 UK Sharesave Plan (the "UK Sharesave Plan")

Options were granted during the year on 30 July 2010.

	Number of share options 2010	Number of share options 2009
Outstanding at the beginning of the year	**78,036**	51,175
Granted during the year	**17,921**	33,512
Exercised during the year	**(432)**	(133)
Lapsed during the year	**(5,705)**	(6,518)
Outstanding at the end of the year	**89,820**	78,036
Subject to exercise at the end of the year	**-**	-

The Chemring Group 2008 US Stock Purchase Plan (the "US Stock Purchase Plan")

Options were granted during the year on 30 July 2010. This plan provides US employees with the opportunity to share in the future success of the Group and mirrors the UK Sharesave Plan subject to certain legal and tax differences due to the differing jurisdictions.

	Number of share options 2010	Number of share options 2009
Outstanding at the beginning of the year	**16,846**	6,960
Granted during the year	**11,227**	10,461
Exercised during the year	**(2,387)**	-
Lapsed during the year	**(2,815)**	(575)
Outstanding at the end of the year	**22,871**	16,846
Subject to exercise at the end of the year	**1,925**	-

Notes to the Group Financial Statements

32. Acquisitions

The following acquisition was completed during the year ended 31 October 2010:

Name of business acquired	Activity	Date of acquisition	Proportion of shares acquired %	Acquisition consideration including costs £m
Hi-Shear Technology Corporation	Pyrotechnics	25 Nov 2009	100	78.7
Mecar S.A.	Munitions	1 Sep 2010	100	29.6
Roke Manor Research Limited	Countermeasures/Counter-IED	30 Sep 2010	100	56.7
Other acquisitions	Munitions	Various		19.2
Cash paid for acquisitions in the year				184.2
Net cash acquired with acquisitions				(7.4)
Cash outflow from investing activities				176.8
Acquisition related costs included within cash generated from operations				6.7
Net cash outflow				183.5

The combined net assets acquired are shown below:

		Book value £m	Provisional fair value adjustments £m	Provisional fair value £m
Intangible assets		13.5	98.1	111.6
Property, plant and equipment		22.6	(0.6)	22.0
Bank and cash balances		7.4	-	7.4
Debt	- regional development loan	(5.0)	-	(5.0)
	- finance leases	(0.2)	(0.2)	(0.4)
Advance payments		(18.9)	-	(18.9)
Working capital		20.0	(11.6)	8.4
Deferred tax		0.2	(26.0)	(25.8)
Net assets acquired		39.6	59.7	99.3
Goodwill				84.9
Total				184.2
Total cash consideration				184.2

An analysis of the net assets acquired of Hi-Shear Technology Corporation is shown below:

		Book value £m	Provisional fair value adjustments £m	Provisional fair value £m
Intangible assets		-	42.3	42.3
Property, plant and equipment		1.6	-	1.6
Bank overdraft		(3.1)	-	(3.1)
Debt	- finance leases	(0.2)	-	(0.2)
Working capital		7.7	(5.3)	2.4
Deferred tax		0.2	(11.8)	(11.6)
Net assets acquired		6.2	25.2	31.4
Goodwill				47.3
Total				78.7
Total cash consideration				78.7

An analysis of the net assets acquired of Mecar S.A. is shown below:

		Book value £m	Provisional fair value adjustments £m	Provisional fair value £m
Intangible assets		0.7	38.7	39.4
Property, plant and equipment		7.6	(0.1)	7.5
Bank and cash balances		8.4	-	8.4
Debt	- regional development loan	(5.0)	-	(5.0)
Advance payments		(18.9)	-	(18.9)
Working capital		9.2	(5.6)	3.6
Deferred tax		-	(9.2)	(9.2)
Net assets acquired		2.0	23.8	25.8
Goodwill				3.8
Total				29.6
Total cash consideration				29.6

An analysis of the net assets acquired of Roke Manor Research Limited is shown below:

	Book value £m	Provisional fair value adjustments £m	Provisional fair value £m
Intangible assets	3.1	16.8	19.9
Property, plant and equipment	11.6	(0.7)	10.9
Bank and cash balances	2.1	-	2.1
Working capital	1.8	(0.2)	1.6
Deferred tax	-	(5.3)	(5.3)
Net assets acquired	18.6	10.6	29.2
Goodwill			27.5
Total			56.7
Total cash consideration			56.7

Chemring Fuze Technology S.r.l., which was acquired by way of a cash purchase on 19 March 2010, provides fuzes to Simmel Difesa S.p.A, 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 (subsequently revised to £2.8 million due to additional deferred tax assets identified within the company) and acquired intangibles of £7.2 million.

The trade and assets of Mecar USA, Inc. (now owned by Chemring Military Products, Inc.) were acquired alongside Mecar S.A. on 1 September 2010, by way of a cash purchase of £9.0 million. This resulted in goodwill of £3.5 million and acquired intangibles of £2.8 million.

The acquisitions during 2010 were completed in order to give the Group increased access into markets such as space, as well as allowing synergies from the combined companies. Further information can be found in the Review by the Chief Executive.

For the above acquisitions the initial measurement period was incomplete as at the Balance Sheet date and so the fair values stated are all provisional. The only measurement period adjustment related to the identification of additional deferred tax assets in Chemring Fuze Technology S.r.l. as noted above.

Adjustments from book value to provisional fair value arise principally from the application of Group accounting policies on working capital and the recognition of intangible assets under IFRS 3 *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 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 and future profits from new markets.

The acquisitions during the year contributed £26.5 million of revenue and £2.0 million to the Group's profit before interest and tax for the period between the dates of acquisition and the Balance Sheet date.

If the acquisitions had been completed on the first day of the financial year, Group revenue and profit before tax for the year would have been approximately £649.0 million and £92.5 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 year, nor of the future results of the combined operations.

Notes to the Group Financial Statements

32. Acquisitions continued

Acquisition related costs

With effect from 1 November 2009, a total of £6.7 million of costs relating to the acquisitions detailed above have been recognised in the Income Statement in line with IFRS 3 (Revised 2008). Previously these costs would have been capitalised as part of the investment.

	2010 £m	2009 £m
Hi-Shear Technology Corporation	**2.0**	-
Mecar S.A.	**3.4**	-
Roke Manor Research Limited	**0.9**	-
Other acquisitions	**0.4**	-
Total acquisition related costs	**6.7**	-

33. Pensions

Within the UK, the Group operates a defined benefit scheme (the "Chemring Group Staff Pension Scheme"). In Germany, Chemring Defence Germany GmbH operates a defined benefit scheme (the "Chemring Defence Germany Scheme") and in Norway, Chemring Nobel AS operates a defined benefit scheme (the "Chemring Nobel Scheme"). The other UK and overseas arrangements are all defined contribution schemes with a combined cost of £5.3 million (2009: £4.5 million).

The Chemring Group Staff Pension Scheme is a funded scheme and the assets of the scheme are held in a separate trustee administered fund. A full actuarial valuation for the Chemring Group Staff Pension Scheme as at 6 April 2009 has been prepared and updated to 31 October 2010 by a qualified actuary, using the projected unit credit method. The main assumptions for the scheme are detailed below.

The Group has given a bank guarantee to the Chemring Group Staff Pension Scheme of £7.2 million. The guarantee may be drawn upon in certain events of default by the Company. The Group has also placed £15.0 million in an escrow account to provide additional funding for the Chemring Group Staff Pension Scheme in the event of a default (see Note 20).

The Chemring Defence Germany Scheme is an unfunded scheme. The actuarial liability has been calculated at 31 October 2010 by a qualified actuary using the projected unit credit method. The main assumptions used were a discount rate of 5.3%, inflation rate of 1.8% and rate of increase in deferred pensions of nil%. The net deficit of the Chemring Defence Germany Scheme was £1.3 million at 31 October 2010 (2009: £1.2 million).

The Chemring Nobel Scheme is an unfunded scheme. The actuarial liability has been calculated at 31 October 2010 by a qualified actuary using the projected unit credit method. The main assumptions used were a discount rate of 3.2%, inflation rate of 2.5% and rate of increase in deferred pensions of 0.5%. The net deficit of the Chemring Nobel Scheme was £0.8 million at 31 October 2010 (2009: £1.5 million).

The amount recognised in the Balance Sheet in respect of the Group's defined benefit schemes is as follows:

	2010 £m	2009 £m	2008 £m
Present value of funded and unfunded obligations	**(61.9)**	(63.0)	(42.0)
Fair value of scheme assets	**38.9**	34.9	28.4
Net liability recognised in the Balance Sheet	**(23.0)**	(28.1)	(13.6)

An analysis of the net liabilities recognised is as follows:

	2010 £m	2009 £m	Change £m
Chemring Group Staff Pension Scheme	**(20.9)**	(25.4)	4.5
Chemring Defence Germany Pension Scheme	**(1.3)**	(1.2)	(0.1)
Chemring Nobel AS Pension Scheme	**(0.8)**	(1.5)	0.7
Net liability recognised in the Balance Sheet	**(23.0)**	(28.1)	5.1

Amounts recognised in the Income Statement in respect of the Group's defined benefit schemes are as follows:

	2010 £m	2009 £m
Amounts included within operating profit:		
Current service credit/(cost)	**0.6**	(0.6)
Amounts included as other finance costs:		
Expected return on scheme assets	**2.3**	1.8
Discount on scheme liabilities	**(3.5)**	(3.1)
	(1.2)	(1.3)
Net charge	**(0.6)**	(1.9)

Amounts recognised in the Statement of Comprehensive Income are as follows:

	2010 £m	2009 £m
Actual return less expected return on pension scheme assets [(i)]	**1.4**	4.0
Changes in assumptions underlying the present value of the scheme liabilities [(ii)]	**2.6**	(18.1)
Actuarial gain/(loss) recognised in the Statement of Comprehensive Income	**4.0**	(14.1)

(i) scheme assets at the Balance Sheet date;
(ii) present value of the scheme liabilities at the Balance Sheet date.

Changes in the present value of the defined benefit obligations are as follows:

	2010 £m	2009 £m
Opening defined benefit obligations	**(63.0)**	(42.0)
Service credit/(cost)	**0.6**	(0.6)
Interest cost	**(3.5)**	(3.1)
Contributions from scheme members	**(0.6)**	(0.6)
Actuarial gains and losses	**2.6**	(18.1)
Benefits paid	**2.0**	1.4
Closing defined benefit obligations	**(61.9)**	(63.0)

Movements in the fair value of the schemes' assets were as follows:

	2010 £m	2009 £m
Opening fair value of schemes' assets	**34.9**	28.4
Expected return on scheme assets	**2.3**	1.8
Actuarial gains	**1.4**	4.0
Contributions from scheme members	**0.6**	0.6
Contributions from sponsoring companies	**1.7**	1.5
Benefits paid	**(2.0)**	(1.4)
	38.9	34.9

The total scheme assets updated to 31 October along with the expected rates of return on assets were as follows:

	2010		2009		2008	
	Long term rate of return expected	£m	Long term rate of return expected	£m	Long term rate of return expected	£m
Equities	**7.65%**	**27.7**	8.4%	24.7	8.4%	19.9
Bonds	**4.2%**	**11.2**	4.9%	10.2	4.9%	8.5
Total fair value of assets		**38.9**		34.9		28.4

Notes to the Group Financial Statements

33. Pensions continued

The expected rates of return are determined by reference to relevant published indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the scheme's investment portfolio.

History of experience gains and losses:

	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Present value of funded and unfunded obligations	**(61.9)**	(63.0)	(42.0)	(48.3)	(48.5)
Fair value of scheme assets	**38.9**	34.9	28.4	35.0	32.2
Deficit in the schemes	**(23.0)**	(28.1)	(13.6)	(13.3)	(16.3)
Experience gains on scheme liabilities	**3.8**	-	-	-	5.5
Percentage of scheme liabilities	**6.1%**	-	-	-	11.2%
Experience gains/(losses) on scheme assets	**1.4**	4.2	(9.9)	0.3	2.2
Percentage of scheme assets	**3.6%**	12.0%	(34.9)%	0.9%	6.9%

Analysis of movement in the deficit in the schemes during the year:

	2010 £m	2009 £m
Opening deficit in schemes	**(28.1)**	(13.6)
Current service credit/(cost)	**0.6**	(0.6)
Contributions	**1.7**	1.5
Other finance costs	**(1.2)**	(1.3)
Actuarial gain/(loss)	**4.0**	(14.1)
Closing deficit in the schemes	**(23.0)**	(28.1)

The principal assumptions used in the actuarial valuation of the Staff Scheme were as follows:

		2010 £m	2009 £m
Discount rate		**5.35%**	5.6%
Rate of increase in salaries		**4.45%**	4.5%
Rate of increase in deferred pensions		**3.4%**	3.45%
Rate of increase in pensions in payment (where applicable)		**3.4%**	3.45%
Inflation assumption	- RPI	**3.45%**	3.5%
	- CPI	**2.75%**	-
Expected return on scheme assets		**6.6%**	7.3%

In determining the pension liabilities the Group uses mortality assumptions which are based on published mortality tables. For the Staff Scheme, the actuarial table currently used is SAPS Year of Birth Tables with a medium cohort and 1% underpin.

Life expectancy at 65:

		2010	2009
Future pensioners	- male	**88.5**	88.2
	- female	**91.9**	91.0
Current pensioners	- male	**86.6**	86.3
	- female	**89.8**	89.1

The assumption considered to be the most significant is the discount rate adopted. If the discount rate in the scheme were to change by 0.1% then it is predicted that the deficit in the scheme would change by approximately £1.1 million. A change in the rate of inflation by 0.1% is predicted to change the deficit by approximately £0.6 million and a one year change to longevity assumption would change the deficit by approximately £1.7 million.

The Group anticipates contributions to the defined benefit schemes for the year ending 31 October 2011 will be £2.0 million (2010: £1.9 million).

34. Contingent liabilities

During the year the Group was self insured through its captive insurance company CHG Insurance Limited, based in Guernsey. The Group has been self insured for the first £2.5 million of material damage and business interruption cover, subject to a maximum liability of £3.5 million in any one year, since 31 October 2001. Insurance cover in respect of this risk at a level over that disclosed here was placed with external insurers. From 1 November 2010, the Group ceased to utilise CHG Insurance Limited and has instead taken a £2.5 million deductible for its material damage and business interruption cover, subject to a maximum liability of £3.5 million in any one year.

The Group enters into contracts which sometimes have offset commitments. These requirements are valued at the time of the contract being awarded. The cost of the offsets is reviewed throughout the contract life and provided to the extent of the potential liability.

35. Related party transactions

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

Trading transactions

There are no trading activities between the Group and its associate.

Remuneration of key management personnel

The remuneration of the executive directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS24 *Related Party Disclosures*. Further information on the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 37 to 45.

The directors of the Company had no material transactions with the Company during the year other than as a result of service agreements.

The remuneration of the executive directors is determined by the Remuneration Committee having regard to the performance of the individuals and market trends.

	2010 £m	2009 £m
Remuneration of the executive directors	**1.4**	1.3
Share-based payments	**0.5**	0.1
Total	**1.9**	1.4

36. Post balance sheet events

New bank facilities

On 14 January 2011, the Group completed a refinancing of its bank facilities with a syndicate of five banks. The new Group facilities, which are unsecured, total £230 million, which is a £55 million increase on the previous secured facilities. In addition, the term of the facilities has been extended from April 2012 to April 2015.

The increase in the level of the facility and the tenure, together with the introduction of several new banks to the Group, will provide greater capacity and capability to support the Group's future requirements.

Share split

The Board will be proposing a resolution to the Company's shareholders at the forthcoming Annual General Meeting that the Company's ordinary shares of 5p each be sub-divided into five new ordinary shares of 1p each. Further details can be found in the Notice of Meeting.

Independent Auditors' Report on the Parent Company Financial Statements

We have audited the parent company financial statements of Chemring Group PLC for the year ended 31 October 2010 which comprise the Parent Company Balance Sheet, the Parent Company Statement of Total Recognised Gains and Losses, the Reconciliation of Movements in Shareholders' Funds and the related Notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 October 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matters

We have reported separately on the Group financial statements of Chemring Group PLC for the year ended 31 October 2010.

Mark Mullins (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Reading, United Kingdom
18 January 2011

Parent Company Balance Sheet (under UK GAAP)

as at 31 October 2010

	Note	£m	2010 £m	£m	2009 £m
Fixed assets					
Tangible assets	2		**0.8**		0.7
Investments	3		**515.6**		147.2
			516.4		147.9
Current assets					
Debtors - due within one year	5	**5.9**		9.2	
- due after more than one year	5	**246.9**		222.8	
Creditors due within one year	6	**(129.4)**		(82.7)	
Net current assets			**123.4**		149.3
Total assets less current liabilities			**639.8**		297.2
Creditors due after more than one year	7		**(417.1)**		(160.0)
			222.7		137.2
Capital and reserves					
Called-up share capital	8		**1.8**		1.8
Reserves					
Share premium account	9	**120.4**		120.3	
Special capital reserve	9	**12.9**		12.9	
Hedge reserve	9	**(1.5)**		(2.1)	
Profit and loss account	9	**96.3**		9.5	
		228.1		140.6	
Own shares	10	**(7.2)**		(5.2)	
			220.9		135.4
Shareholders' funds			**222.7**		137.2

These financial statements were approved and authorised for issue by the Board of Directors on 18 January 2011.
Signed on behalf of the Board of Chemring Group PLC (registered number 86662)

D J Price

P A Rayner

Parent Company Statement of Total Recognised Gains and Losses

for the year ended 31 October 2010

	Note	2010 £m	2009 £m
Profit for the financial year	9	**106.1**	2.1
Own shares	10	**(2.0)**	0.5
Gains/(losses) on cash flow hedges	9	**0.6**	(0.4)
Tax charge on items taken directly to reserves		**(0.1)**	(0.7)
Additional charge due to treasury shares		**(0.6)**	(0.7)
Total recognised gains and losses for the year		**104.0**	0.8

Reconciliation of Movements in Parent Company Shareholders' Funds

for the year ended 31 October 2010

	Note	2010 £m	2009 £m
Profit for the financial year		**106.1**	2.1
Dividends		**(18.7)**	(13.8)
Profit/(loss) for the year		**87.4**	(11.7)
Other recognised losses		**(0.1)**	(1.8)
Ordinary shares issued	8	**-**	-
Share premium arising	9	**0.1**	0.5
Share-based payments (net of deferred tax)		**0.1**	0.6
Own shares	10	**(2.0)**	0.5
Net addition to/(reduction in) shareholders' funds		**85.5**	(11.9)
Opening shareholders' funds		**137.2**	149.1
Closing shareholders' funds		**222.7**	137.2

Profit attributable to shareholders
In accordance with the concession granted under the Companies Act 2006, section 408, the profit and loss account of Chemring Group PLC has not been presented separately in these financial statements. There is no material difference between the results disclosed and the results on an unmodified historical cost basis.

During the year the Group carried out a restructuring which resulted in the transfer of ownership of Simmel Difesa S.p.A. to CHG Overseas Limited, a fully owned subsidiary of the Company, which generated a profit on disposal of £63.5 million. In addition, dividends of £45.4 million were received from the Company's subsidiaries which, together with the profit generated from the restructuring, accounted for the substantial increase in profit compared to 2009.

Cash flow statement
In accordance with the exemption under FRS 1 the Company's cash flow statement has not been presented separately in these financial statements.

Notes to the Parent Company Financial Statements

1. Chemring Group PLC accounting policies

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted have been applied consistently throughout the current and previous year and are described below.

Accounting convention

The financial statements are prepared under the historical cost convention, as modified by the revaluation of property, in accordance with the Companies Act 2006 and applicable accounting standards (UK GAAP).

Revenue recognition

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to its net carrying amount.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

Tangible fixed assets

Other than revalued land and buildings, property, plant and equipment are held at cost less accumulated depreciation and any recognised impairment loss. No depreciation is provided on freehold land. On other assets depreciation is provided at rates calculated to write down their cost or valuation to their estimated residual values by equal instalments over their estimated economic useful lives, which are considered to be:

Freehold buildings	- up to 50 years
Leasehold buildings	- the period of the lease
Plant and equipment	- 10 years

Investment in Group undertakings

Investments are stated at cost less any provision for impairment in value.

Operating leases

Operating lease rental charges are taken to the profit and loss account on a straight-line basis over the life of the lease.

Provisions

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event and it is probable that settlement will be required of an amount that can be reliably estimated. Long term liabilities and provisions are discounted when the impact is material.

Current tax

Current tax, including UK corporation tax and foreign tax, is provided for at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted, or substantially enacted, by the Balance Sheet date.

Deferred tax

Deferred tax is provided in full at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. Deferred tax assets and liabilities are not discounted.

Special capital reserve

The special capital reserve was created as part of a capital reduction scheme involving the cancellation of the share premium account which was approved by the Court in 1986, in accordance with the requirements of the Companies Act 1985.

Foreign currencies

The functional currency of the Company is sterling. Transactions in foreign currencies are translated into sterling at the rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the Balance Sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the Company's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account, or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been reflected in the Company's financial statements.

For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting new interest payable over the periods of the contracts.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

Pensions

The Company operates a defined benefit pension scheme. The defined benefit scheme is a multi-employer scheme including employees of other Group companies. It is not considered possible to allocate scheme assets and liabilities between the various companies and accordingly the scheme is accounted for as though it were a defined contribution scheme. The amount charged to the profit and loss account is the contribution payable in the year. Differences between amounts payable and actually paid are shown as accruals or prepayments in the Balance Sheet.

Share-based compensation

For grants made under the Company's share-based remuneration schemes, amounts which reflect the fair value of options awarded at the time of grant are charged to the profit and loss account. The valuation of the options utilises a methodology based on the Black-Scholes model. Further details can be found within Note 3 of the Group's financial statements.

Notes to the Parent Company Financial Statements

2. Tangible assets

	Land and buildings £m	Plant and equipment £m	Total £m
Cost	£m	£m	£m
At 1 November 2009	0.4	1.0	1.4
Additions	-	0.3	0.3
At 31 October 2010	0.4	1.3	1.7
Depreciation			
At 1 November 2009	-	0.7	0.7
Charge for the year	0.1	0.1	0.2
At 31 October 2010	0.1	0.8	0.9
Net book value			
At 31 October 2010	0.3	0.5	0.8
At 31 October 2009	0.4	0.3	0.7

The Company had no capital commitments at 31 October 2010 (2009: nil).

Land and buildings represent leasehold improvements.

3. Investments

	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
Cost			
At 1 November 2009	160.1	6.3	166.4
Acquisitions of subsidiary undertakings	86.4	-	86.4
Capital contribution to subsidiary undertakings	352.9	-	352.9
Transfer to another Group company*	(70.5)	-	(70.5)
Foreign exchange	(0.4)	-	(0.4)
At 31 October 2010	528.5	6.3	534.8
Provision for impairment			
At 1 November 2009 and 31 October 2010	19.2	-	19.2
Net book value			
At 31 October 2010	509.3	6.3	515.6
At 31 October 2009	140.9	6.3	147.2

* The Company transferred ownership of Simmel Difesa S.p.A. on 1 April 2010 to CHG Overseas Limited, a fully owned subsidiary of the company. A profit on disposal of £63.5 million has been recognised in the year.

4. Investments in Group undertakings

The trading subsidiary undertakings held at 31 October 2010 were:

Trading subsidiary undertaking	Country of incorporation (or registration) and operation	% of issued ordinary share capital controlled by Chemring Group PLC	Activity
Chemring Countermeasures Ltd	England	100	Countermeasures
Chemring Defence UK Ltd	England	100	Pyrotechnics/Counter-IED
Chemring Marine Ltd	England	100	Pyrotechnics
*Chemring EOD Ltd	England	100	Counter-IED
Chemring Prime Contracts Ltd	England	100	Munitions
Roke Manor Research Ltd	England	100	Countermeasures/Counter-IED
Chemring Energetics UK Ltd	Scotland	100	Munitions/Pyrotechnics/Counter-IED
*Chemring Defence Germany GmbH	Germany	100	Pyrotechnics/Counter-IED
*Alloy Surfaces Company, Inc.	USA	100	Countermeasures
*Kilgore Flares Company LLC	USA	100	Countermeasures
*Technical Ordnance, Inc.	USA	100	Munitions/Pyrotechnics
*Chemring Energetic Devices, Inc.	USA	100	Munitions/Pyrotechnics
*Chemring Ordnance, Inc.	USA	100	Munitions/Pyrotechnics
*Chemring Military Products, Inc.	USA	100	Munitions
*Non-Intrusive Inspection Technology, Inc.	USA	100	Counter-IED
*Hi-Shear Technology Corporation	USA	100	Pyrotechnics
*Chemring Australia Pty Ltd	Australia	100	Countermeasures/Munitions/ Pyrotechnics/Counter-IED
*Chemring Defence Spain S.L.	Spain	100	Pyrotechnics
*Simmel Difesa S.p.A.	Italy	100	Pyrotechnics/Munitions/Counter-IED
*Chemring Fuze Technology S.r.l.	Italy	100	Munitions
*Chemring Nobel AS	Norway	100	Munitions
Mecar S.A.	Belgium	100	Munitions
Associated undertaking			
CIRRA S.A.	France	49	Countermeasures

* Investments held by a subsidiary company

The directors consider that the carrying value of the investments does not exceed their fair value.

5. Debtors

Amounts due within one year:	2010 £m	2009 £m
Group relief receivable	**0.6**	4.9
Deferred tax asset (see Note 11)	**1.2**	1.4
Other debtors	**3.1**	2.9
Prepayments and accrued income	**1.0**	-
	5.9	9.2
Amounts due after more than one year: Amounts owed by subsidiary undertakings	**246.9**	222.8

A financial instrument asset of £1.9 million (2009: £0.4 million) is recognised within other debtors in respect of the fair value of interest rate swaps (see Note 24 of the Group financial statements). The directors consider that the carrying value of the debtors approximates to their fair value.

Notes to the Parent Company Financial Statements

6. Creditors due within one year

	2010 £m	2009 £m
Bank overdrafts	**58.2**	36.5
Bank loans	**53.4**	32.9
Trade creditors	**1.6**	2.1
Amounts owed to subsidiary undertakings	**5.1**	1.4
Other creditors	**1.8**	1.5
Other taxation and Social Security	**0.7**	0.3
Accruals and deferred income	**8.6**	8.0
	129.4	82.7

A financial instrument liability of £1.6 million (2009: £1.1 million) is recognised in other creditors in respect of the fair value of derivative financial instruments (see Note 24 of the Group financial statements).

Bank loans and overdrafts held with Lloyds Banking Group during the year were secured by a debenture over the assets of certain of the Group's subsidiaries and were also subject to cross guarantees between subsidiaries. Further information on the borrowing facilities can be found in Note 21 of the Group financial statements.

7. Creditors due after more than one year

	2010 £m	2009 £m
Derivative financial instruments (see Note 24 of the Group financial statements)	**7.3**	3.7
Medium term loan	**26.6**	53.6
Loan notes	**261.2**	88.5
Preference shares (62,500 shares of £1 each)	**0.1**	0.1
Amounts owed to subsidiary undertakings	**121.9**	14.1
	417.1	160.0

The cumulative preference shares carry an entitlement to a dividend at the rate of 7p per share per annum, payable in equal instalments on 30 April and 31 October each year. Holders of the preference shares have the right on winding-up to receive, in priority to any other classes of shares, the sum of £1 per share together with any arrears of dividends.

	2010 £m	2009 £m
Borrowings falling due within:		
One year	**111.6**	69.4
One to two years	**26.6**	36.0
Two to five years	**-**	20.8
After five years	**261.2**	88.5
	399.4	214.7

The interest incurred on the above borrowings is detailed within Note 21 of the Group financial statements. The medium term loans are denominated in Euro and Norwegian Kroner. All short term borrowings incur interest at 4.9% (2009: 4.9%).

8. Called-up share capital

	2010 £m	2009 £m
Issued, allotted and fully paid		
35,588,651 (2009: 35,585,832) ordinary shares of 5p each	**1.8**	1.8

2,819 ordinary shares (2009: 133) were issued under the Group's savings-related share schemes during the year. No ordinary shares (2009: 50,000) were issued under the Group's executive share option scheme.

The preference shares are presented as a liability (see Note 7) and accordingly are excluded from called-up share capital in the Balance Sheet.

Share-based incentive schemes

The following awards and options granted under the Group's share-based incentive schemes were outstanding at 31 October 2010:

The Chemring Group Performance Share Plan

Date of award	Number of ordinary shares under award	Vesting price per share £	Date when awards will vest
23 Jan 2008	91,371	Nil	23 Jan 2011
21 Jan 2009	137,934	Nil	21 Jan 2012
24 Jun 2009	11,179	Nil	24 Jun 2012
20 Jan 2010	102,620	Nil	20 Jan 2013
18 Mar 2010	5,115	Nil	18 Mar 2013

The Chemring Group 2008 UK Sharesave Plan

Date of grant	Number of ordinary shares under option	Exercise price per share £	Dates between which options may be exercised
1 Aug 2008	18,836	18.68	1 Oct 2011 – 1 Apr 2012
1 Aug 2008	23,239	18.68	1 Oct 2013 – 1 Apr 2014
31 Jul 2009	18,049	17.22	1 Oct 2012 – 1 Apr 2013
31 Jul 2009	11,775	17.22	1 Oct 2014 – 1 Apr 2015
30 Jul 2010	9,373	23.92	1 Oct 2013 – 1 Apr 2014
30 Jul 2010	8,548	23.92	1 Oct 2015 – 1 Apr 2016

The Chemring Group 2008 US Stock Purchase Plan

Date of grant	Number of ordinary shares under option	Exercise price per share £	Dates between which options may be exercised
16 Sep 2008	1,925	18.49	16 Sep 2010 – 15 Dec 2010
31 Jul 2009	9,765	17.12	31 Jul 2011 – 30 Oct 2011
30 Jul 2010	11,181	24.94	30 Jul 2012 – 29 Oct 2012

Full details of the schemes are disclosed in Note 31 of the Group financial statements.

Notes to the Parent Company Financial Statements

9. Reserves

	Share premium account £m	Special capital reserve £m	Hedging reserve £m	Profit and loss account £m	Total £m
At 1 November 2009	120.3	12.9	(2.1)	9.5	140.6
Ordinary shares issued	0.1	-	-	-	0.1
Profit for the year	-	-	-	106.1	106.1
Decrease in fair value of hedging reserve	-	-	0.6	(0.6)	-
Dividends paid	-	-	-	(18.7)	(18.7)
Other recognised losses	-	-	-	(0.1)	(0.1)
Cost of share-based payments	-	-	-	0.1	0.1
At 31 October 2010	120.4	12.9	(1.5)	96.3	228.1

The share premium account and special capital reserve are not distributable. The Company generated a profit for the financial year of £106.1 million (2009: £2.1 million). Dividends from subsidiary undertakings of £45.4 million (2009: £1.6 million) were received in the year.

The proposed final dividend in respect of the year ended 31 October 2010 of 42p per share will, if approved, absorb approximately £14.8 million of shareholders' funds. The dividend is subject to approval by shareholders at the Annual General Meeting and accordingly has not been included as a liability in these financial statements.

10. Own shares

	2010 £m	2009 £m
Balance at 1 November 2009	**5.2**	5.7
Acquired in the year	**3.9**	1.5
Issued in the year to satisfy employee share awards	**(1.9)**	(2.0)
Balance at 31 October 2010	**7.2**	5.2

The own shares reserve represents the cost of shares in Chemring Group PLC purchased in the market and held by the Group to satisfy awards under the Group's share-based incentive schemes (see Note 31 of the Group financial statements). During the year 126,880 (2009: 78,301) ordinary shares were acquired, and 100,011 (2009: 115,170) ordinary shares were distributed following the vesting of awards under the Chemring Group Performance Share Plan. The total number of ordinary shares held in treasury at 31 October 2010 was 300,000 (2009: 273,131) with an average rate of £24.14 (2009: £18.17) per share. This represents 0.8% of the total issued and fully-paid ordinary share capital.

11. Deferred tax

	2010 £m	2009 £m
Movements in deferred assets are as follows:		
At 1 November 2009	**(1.4)**	(1.5)
Charge to profit and loss account	**0.2**	0.1
At 31 October 2010	**(1.2)**	(1.4)
The amount provided represents:		
Other timing differences	**(1.2)**	(1.4)

12. Staff costs

	2010 Number	2009 Number
The average monthly number of employees (including executive directors) was:		
Total	**34**	31

	2010 £m	2009 £m
The costs incurred in respect of these employees were:		
Wages and salaries	**3.3**	3.2
Social security costs	**0.4**	0.3
Other pension costs	**0.2**	0.6
	3.9	4.1

Disclosures in respect of directors' emoluments can be found in the Directors' Remuneration Report on pages 37 to 45 of the Group financial statements.

13. Post balance sheet events

New bank facilities

On 14 January 2011, the Group completed a refinancing of its bank facilities with a syndicate of five banks. The new Group facilities, which are unsecured, total £230 million, which is a £55 million increase on the previous secured facilities. In addition, the term of the facilities has been extended from April 2012 to April 2015.

The increase in the level of the facility and the tenure, together with the introduction of several new banks to the Group, will provide greater capacity and capability to support the Group's future requirements.

Share split

The Board will be proposing a resolution to the Company's shareholders at the forthcoming Annual General Meeting that the Company's ordinary shares of 5p each be sub-divided into five new ordinary shares of 1p each. Further details can be found in the Notice of Meeting.

Other information

Glossary of terms

BES	Battlefield effects simulation
EBITDA	Earnings before interest, tax, depreciation and amortisation
EOD	Explosive ordnance disposal
FRED	Forced Rapid Entry Device
GPR	Ground Penetrating Radar
HMDS	Husky Mounted Detection System
IDIQ	Indefinite Delivery/Indefinite Quantity
IED	Improvised explosive device
IM	Insensitive munitions
IR	Infra-red
JCAST	Joint Combined Aircraft Systems Tester
JSF	Joint Strike Fighter
LAP	Load, assemble and pack
LAV	Light Armoured Vehicle
MECS	Multiple Effects Cartridge System
MRAP	Mine Resistant Ambush Protected
NASA	National Aeronautics and Space Administration
NATO	North Atlantic Treaty Organization
OEM	Original equipment manufacturer
PAC-3	Patriot Advanced Capability 3
PEMBS	Portable explosive minefield breaching systems
RF	Radio frequency

Find out more online

For more information about Chemring Group PLC, please visit **www.chemring.co.uk** where you can access the latest shareholder information:

- Current share price
- Key financial information
- Financial calendar
- Shareholder services and notices
- Corporate governance
- RSS news feeds
- Results and presentations
- Analysts' forecasts
- Regulatory news

Chemring Group PLC's Annual Report and Accounts 2010 can also be viewed online at **www.chemring.co.uk/investors** in a choice of formats:

- Fully-functional micro-site
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You can also view and download the Notice for our Annual General Meeting.

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