

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.

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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

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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. Bank loans and overdrafts 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				2009			
	Bank loans and overdrafts	Loan notes	Other loans	Total	Bank loans and overdrafts	Loan notes	Other loans	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

	2010 £m	Minimum lease payments 2009 £m	2010 £m	Present value of minimum lease payments 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 AU\$	US\$	Euro	NOK	2009 AU\$
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 AU\$	US\$	Euro	NOK	2009 AU\$
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.

	2010	US dollar impact 2009	2010 £m	Euro impact 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		Currency value m
		From	To	
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:

	2010				2009			
	Derivative payables £m	Derivative receivables £m	Loans and overdrafts £m	Total £m	Derivative payables £m	Derivative receivables £m	Loans and overdrafts £m	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 Mear 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.

	Number of share options	2010 Weighted average exercise price Pence	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	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	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 Mekar 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 Mekar USA, Inc. (now owned by Chemring Military Products, Inc.) were acquired alongside Mekar 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:

	Long term rate of return expected	2010 £m	Long term rate of return expected	2009 £m	Long term rate of return expected	2008 £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)	
			123.4		149.3
Net current assets					
			639.8		297.2
Total assets less current liabilities					
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.