



Chemring Group PLC

Annual Report and Accounts 2009

Energetic growth

A world-leading defence company

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

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

Highlights



NIITEK won orders worth over \$120m

NIITEK had an excellent year, successfully delivering its first contract for 30 Husky Mounted Detection Systems (HMDS) in September 2009 to the US Army and subsequently receiving a follow-on contract for a further 50 systems. With over 30 HMDS units now deployed on counter-IED operations, NIITEK has made an impressive contribution to the Group.

For more information see page 16



Strong growth at Simmel Difesa

Simmel Difesa had another excellent year, delivering over £50 million of pyrotechnic products. This was an increase of 96% on the previous year, and included 70% growth in the supply of 81mm illuminating rounds to our UK customers. Orders for a further €42 million have been received this year, and underpin production of our 81mm pyrotechnic mortar rounds until the end of 2011.

For more information see page 18



Acquisition of Hi-Shear

In September, we announced the acquisition of Hi-Shear, which will enhance our capability in the space sector as the sole qualified supplier of initiators to NASA. It also adds a position in the US ballistic missile defence market, as the sole supplier of key components for the PAC-3 missile. The acquisition was completed in November 2009.

For more information see page 18

Total revenue		
£503.9m	+42%	
Underlying profit before tax*		
£102.6m	+38%	
Operating cash flow		
£106.7m	+27%	
Underlying basic earnings per ordinary share*		
213p	+33%	
Profit before tax		
£95.8m	+66%	

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Chemring Group PLC Report and Accounts 2009

Chemring at a glance

Chemring operates in four market sectors: Pyrotechnics, Explosive Ordnance Disposal (EOD), Munitions and Countermeasures. All are technically demanding requiring high reliability and integrity, and the highest level of safety in manufacture and use.



Energetics

Pyrotechnics

Chemring is a leading developer and manufacturer of aerospace, military and marine pyrotechnics to meet the demanding requirements of prime contractors, defence forces and commercial operators all over the world.

- Growing demand for mortar illumination rounds
- Largest supplier of pyromechanisms for aircraft egress systems
- Significant supplier of training products to the US Army and other NATO forces
- Growing provider of products for satellite-launched space exploration

Business revenue

£173.2m

Proportion of Group revenue

34%



For more information see page 14

Explosive ordnance disposal (EOD)

Chemring is an industry-leading designer and manufacturer of high reliability detonators, initiators and disrupters for demolition and EOD. We are also a leading developer of robot and vehicle-mounted mine detection systems.

- Leader in IED neutralisation equipment and consumables
- Leader in anti-IED technology development
- Innovative vehicle mounted anti-mine ground penetrating radar system
- New safer demolition stores developed and undergoing qualification

Business revenue

£61.2m

Proportion of Group revenue

12%



For more information see page 16

Munitions

Chemring offers a unique capability in supplying energetic materials components and complete rounds, based on our advanced technologies in energetic materials, warheads, rocket motors and proximity fuzing.

- Market leader in naval ammunition
- Provider of warheads for PAAMS system
- Manufacturer of NLAW rocket motors
- Leader in materials development for insensitive munitions

Business revenue

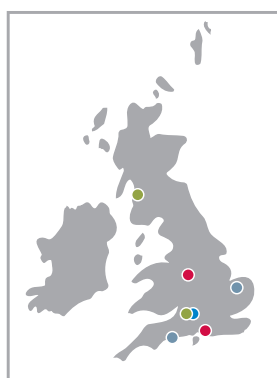
£86.0m

Proportion of Group revenue

17%



For more information see page 18



Business unit locations

- Pyrotechnics
- EOD
- Munitions
- Countermeasures



Countermeasures

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

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

Divisional revenue

£183.5m

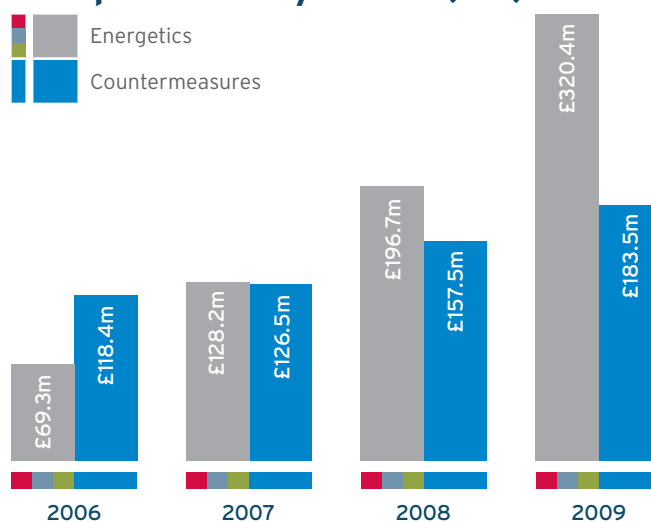
Proportion of Group revenue

37%



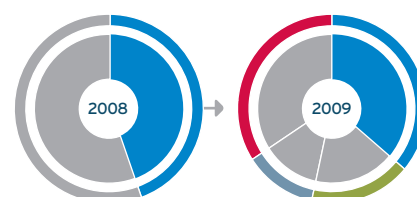
For more information see page 20

Group revenue by sector (£m)



The Energetics sector is now sub-divided

Our Energetics sector consists of Pyrotechnics, EOD and Munitions



Statement by the Chairman

During 2009 three significant landmarks were reached: Group revenue exceeded £500 million, underlying profit before tax* exceeded £100 million and our market capitalisation increased to over £1 billion.

Highlights

- Revenue up 42% to £503.9 million
- Underlying operating profit* from continuing operations up 20% to £101.9 million
- Underlying operating profit* from new acquisitions: £12.8 million
- Underlying profit before tax* up 38% to £102.6 million
- Underlying earnings per share* up 33% at 213p
- Basic earnings per share up 62% at 199p

Key information

Underlying profit before tax*

£102.6m

+38%

Underlying earnings per share*

213p

+33%

Dividend per ordinary share

50p

+43%

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

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

The Group generated an underlying profit before tax* of £102.6 million, an increase of 38% on the previous year. The Board recognises the very significant growth in earnings over recent years and is, therefore, recommending a final dividend of 36p. This gives a total dividend for the year of 50p, an increase of 43% over last year.

The order intake for the Group increased by 55% to a new annual record of £627.6 million, and we finished the 2009 financial year with an order book of £559.0 million, 37% higher than last year. This provides a strong foundation for further growth in 2010.

I am delighted to report that all of our recent acquisitions have performed well. Two of these acquisitions, in particular, delivered outstanding performances during 2009. Simmel Difesa, which we acquired in 2007, had another excellent year, generating a further 54% growth in annual revenue. NIITEK, which we acquired in December 2008, was also a star performer, generating £45.6 million of revenue in just ten months of ownership. NIITEK is the world's leading manufacturer of vehicle-mounted mine detection systems, and its products are gaining considerable momentum in Afghanistan, where its technology is at the forefront of protecting the US military from the threat of improvised explosive devices (IEDs).

In November 2009, we completed the acquisition of Hi-Shear Technology Corporation, a leading manufacturer of high reliability energetic products for use in key US space and defence programmes, including satellites, missile defence and aircrew egress. The business will enhance our position in the space sector, and offers us an entry into the important market for ballistic missile defence.

In the last twelve months, we have reorganised our operational structure into three geographical divisions - Europe, USA and International. The International division will drive our expansion outside Europe and the USA. In addition, we have consolidated the corporate and management structure within these divisions into strong product-focused groupings in Countermeasures and Energetics, in order to enhance the capabilities offered to our military customers. As a further development, significant strengthening of our sales and marketing functions, in terms of both the seniority and number of staff, has taken place across all of the businesses.

Balance sheet, cash flow and debt

The Board has always been aware of the requirements to retain a strong balance sheet, avoid excessive borrowing, generate solid operational cash flow, and structure a debt repayment profile that would ensure that the Group's growth objectives could be achieved, within reason, unhindered by financial limitations. This has been successfully achieved in the past, and the recent issue of \$280 million of new fixed interest loan notes repayable between 2016 and 2019, similar to the issue made in November 2007, will maintain this policy.

Group strategy

The Board reviews the Group's strategy on a continuing basis, and once a year formally meets to discuss, in some detail, the next five years, considering all the main factors as far as can be determined which may impact beneficially, or otherwise, on Group performance. Whilst it is not our intention to produce a financial plan for five years, inevitably the impact of the Board's deliberations is subject to a financial evaluation. The recent annual exercise would suggest that we should be able to maintain our current highly successful growth strategy.

Board of directors

It was announced to shareholders in the November 2009 Interim Management Statement that as I have been your Chairman for twelve years and am now in my seventy second year, provision should commence for my ultimate succession.



That process is now under way and will provide for the new appointee to join the Board for a period of familiarisation prior to assuming the Chairmanship. Shareholders will obviously be advised as further progress is made.

During the year, The Rt Hon Lord Freeman and Mr Evans were both re-appointed as non-executive directors for a further three year term. In 2010, Air Marshal Sir Peter Norriss and Mr Much will reach the end of their second three year terms as non-executive directors. It would be my intention to recommend to the Board that their current appointments be extended until the new incumbent has arrived, to assist in a smooth transfer of responsibilities.

In this era of enormously enhanced corporate governance, the responsibilities and time commitment of non-executive directors serving on the various Board committees has increased significantly, and I would like to thank them for the diligence with which they have fulfilled such obligations, in particular the Chairs of the Audit and Remuneration Committees - The Rt Hon Lord Freeman and Mr Much.

Staff and employees

For a group with revenue of over £500 million, it is surprising that we employ only 3,349 people. I welcome to the Group all those who have joined in the last twelve months, either to take up employment or through being part of an acquired business. I hope that you will have long and rewarding careers with us.

We have had another very successful year which is testament to everyone's dedication and hard work. The Board would like to thank all employees for their efforts in the knowledge that these will continue and will result in a successful 2010.

Pensions

The Group maintains a policy of trying to ensure, through one mechanism or another in all countries, that it contributes to schemes for all employees who wish to make provision for their retirement. In the UK, our defined benefit pension scheme remains open to existing members for future accrual, and to new employees at the discretion of the

Remuneration Committee. However, the proposed penal changes to the taxation of UK occupational pension schemes will mean that continuing to participate in such schemes will be financially disadvantageous for our senior management, and this may well mean further changes to our UK pension arrangements.

The triennial actuarial valuation for the UK defined benefit scheme is currently being progressed. Any deficit on the scheme which is agreed at the end of this process is unlikely to be significant to the Group.

Dividends

For many years the Group has maintained a policy of increasing dividends commensurate with the rise in the Group's profitability. At the half year, with underlying profits* up approximately 40%, the Group paid an interim dividend of 14p (2008: 10p), maintaining this relationship. Although the Group has announced underlying earnings* growth of 33% for the full year, the Board is recommending a final dividend for 2009 of 36p, giving a total for the year of 50p. As the dividend is still covered 4.3 times by underlying after tax earnings* and with a solid balance sheet and cash flow, it is believed that the Group is well positioned to increase the return to shareholders. Shareholders should not assume, however, that this is a change in our dividend policy. In the last five years, the total dividend per share has increased over fivefold from 9p to 50p.

Prospects

In the last decade shareholders have received a substantial total return, with earnings per share growing from 14p in 1999 to 213p in 2009, the dividend per share increasing from 5.5p to 50p over the same period, and the market value of the Group's shares rising dramatically from just under £2 to in excess of £29. This has been achieved through a clearly defined policy of organic growth, a focused programme of acquisitions, well-executed post-acquisition integration, and subsequent investment in product and facilities to deliver further expansion. The Board believes that there is ample opportunity to continue this policy in Europe, the USA and other countries around the world, where joint ventures or new start-ups could be the preferred option.

Although the Group is regularly presented with many opportunities for acquisitions, we continue to be very selective and have refused to bid the asking price or match a competing offer in situations where the quality of earnings, the earnings multiple and minimal asset backing suggest that the return on investment or the risk-reward ratio could not be justified. Shareholders can rest assured that the Board will continue with this policy.

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

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

K C Scobie
Chairman
19 January 2010

Review by the Chief Executive

The Group continued to perform strongly throughout the year with revenue from continued operations increasing substantially by 42% to a record £503.9 million.

Operational highlights

- Excellent contribution from NIITEK following its acquisition in December 2008
- Continued strong growth at Simmel
- Record production at Chemring Countermeasures and Alloy Surfaces
- Commencement of building of new production facilities in the UK and Australia
- Acquisition of Hi-Shear completed in November 2009

Key information

Year end order book

£559.0m

+37%

Revenue

£503.9m

+42%

Number of employees

3,349

+1%

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

Group results

The Group continued to perform strongly throughout the year, in spite of concerns about reduced spending on defence following the global credit crisis. Revenue from continuing operations increased substantially by 42% to a record £503.9 million. Almost half of this growth was achieved by our existing businesses, just under a quarter from the full year trading of acquisitions made in 2008, and the balance from the NIITEK acquisition, which was completed in 2009. The Group's business continues to be second half weighted, with £270.4 million of revenue (54%) generated in the second six months of the year.

The Group's order intake during the year increased by 55% to a new record of £627.6 million. Our Energetics division received orders valued at £345.9 million, 39% higher than last year. This reflects the strong growth in orders in our explosive ordnance disposal (EOD) and munitions business segments, as a result of the growing success of our NIITEK and Simmel Difesa businesses respectively. Our Countermeasures division achieved an order intake of £281.7 million, 81% higher than last year, reflecting strong order capture performances from both Alloy Surfaces and Kilgore in the USA. At the year end, the order book for the Group had reached £559.0 million, an increase of 37% on the previous year end, and this provides a solid foundation for further growth in the future.

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

With over thirty HMDS units now deployed on counter-IED operations, NIITEK has made an impressive contribution to the Group.

Our Countermeasures division also performed well, achieving a 17% increase in revenue to £183.5 million, in spite of the substantial delays in placement of contracts by the US Department of Defense that has particularly affected Kilgore. Strong growth was, however, achieved at our UK subsidiary, Chemring Countermeasures, driven by demand from NATO forces operating in Afghanistan and the growing requirement for flares for the Typhoon, in line with the continued build-up of aircraft deliveries to European and Middle Eastern nations.

Underlying operating margins* for the Group were 23%. This was slightly lower than last year's 24% but this variation really only reflects the increased proportion (63%) of revenue contributed by the Energetics division, which generally has lower levels of margins. Operating margins in the Energetics division remained steady at 23%, whilst those in the Countermeasures division remained at 29%. Overall underlying operating profit* rose by 35% to £114.7 million. We remain confident that this performance should be sustainable into the future.

The operating cash inflow during the year was very good at £106.7 million, equivalent to a cash conversion rate of 93% from underlying operating profit*. Our operating cash inflow in the second half was particularly strong, with an equivalent cash conversion of 110%.

Health and safety

The Board recognises that the health and safety of the Group's employees is an important priority. We believe that all injuries are preventable, and we have adopted a long term strategy to ensure that the Group continually improves its performance and reduces risk.

During the year, we continued with our implementation of formal management systems across the Group, and fourteen out of seventeen of our sites have now been validated as compliant with the health and safety management system OHSAS18001.



Our lost time incident rate (calculated using the US OSHA rules) showed a modest improvement from 1.20 to 1.13 incidents per 100 employees. Six of our sites reported no lost work days in the year, which is an excellent achievement. Whilst we take all incidents seriously, we pay particular attention to those where employees are hurt due to an energetic event. We did have, unfortunately, four lost time events following unexpected initiations during the year; two at Chemring Energetic Devices in the USA, and one each at Chemring Defence in Germany and Chemring Australia. These events were fully investigated and engineering controls implemented to prevent re-occurrence.

Revenue analysis

Our Countermeasures division grew its revenue by 17% to £183.5 million, and represents the largest business segment at 37% of the total Group revenue. Revenue from the pyrotechnics businesses increased by 81% to £173.2 million, and this now represents our second largest business segment at 34% of the total Group revenue. The high growth in this business was generated by sales of illumination mortar rounds and 40mm pyrotechnic rounds, as well as signal and screening grenades used by infantry. The second area of high growth was in our EOD business segment, which increased its revenue by 304% to £61.2 million, principally due to the rapid expansion of NIITEK as its HMDS counter-IED product entered production. Revenue in the munitions segment, on the other hand, remained constant at £86.0 million, with a number of US programmes suffering from delayed order intake and extended entry into production.

Revenue from sales to US customers increased by 66% during the year to £235.4 million, which represents 47% of the total Group revenue. This aligns closely with one of our core strategies to maintain about half of our business focused on the world's largest defence market. Revenue from UK customers also increased by 45% to £125.2 million, and now contributes 25% of the total Group revenue.

Revenue from sales to other European countries also increased to £75.0 million during the year, bringing the total proportion of revenue from sales to NATO countries to 87%, a slight increase on last year. Sales to Middle East countries did, however, decline to £20.4 million, as several multi-year supply contracts came to an end early in the year and follow-on contracts were delayed due to extended national budget timetables. Finally, sales to Australia and the Far East increased substantially (72%) to £39.1 million, reflecting the first year of deliveries under the new long term framework agreement with the Australian Government.

Research and development

Our strategy for future growth is dependent on maintaining technology leadership and rapidly developing key products to displace our competitors. Technology research, product development and the capability of our engineering teams are all vital components in achieving this goal. Our total expenditure more than doubled to £18.9 million during the year, although this still only represents 3.8% of the total Group revenue. Internally-funded research and development increased by 56% to £9.2 million, more accurately reflecting the strategic emphasis we place on product innovation.

The largest proportion of our internal funding remains targeted on maintaining technology leadership in the countermeasures market, with development programmes for new covert decoys, improved spectral and kinematic flare types, and a number of 130mm naval decoy rounds. The largest proportion of customer funded investment is at NIITEK, which continues to receive substantial research funding from the US Department of Defense for a wide range of technologies associated with their vehicle-mounted HMDS products and their robot-mounted equivalents.

We continue to place considerable emphasis on our partnerships with academic institutions. Our long term partnership with Cranfield University is making good progress with seventeen targeted programmes, and has achieved early success in a number of

promising areas. We have also established several collaborative programmes in the USA, although we have been unable to find a single academic establishment to cover the full range of our technical interests.

Capital investment

Capital investment during the year grew 12% to £38.2 million, with substantial investment in new production facilities to support both our Countermeasures and Energetics businesses. The two largest investments are in new countermeasures facilities at Salisbury, UK and at Lara, Australia, which will provide fully automated flow line manufacture of the full range of magnesium and spectral flares. Progress, to date, has been good, with the two main UK facility buildings nearing completion. The design of the automation has taken longer than originally envisaged but both facilities should be completed before the end of 2010. The total cost of the facilities will be around £24 million, of which £11 million has been incurred to date.

Expenditure on production facilities for our Energetics businesses has also increased, with significant investment in automated, safer facilities for the manufacture of primary explosives, such as lead azide, in both the UK and the USA. Both facilities will be in operation during 2010, and represent important strategic assets as they will become a vital source of supply for our two largest customer communities. We have also started construction of a new high explosives pressing and assembly plant at Ardeer in Scotland. This will provide the UK with an important facility for the manufacture of demolition stores and munitions with insensitive characteristics.

We are also nearing completion of the construction of our first demilitarisation plant at Anagni in Italy. This facility is expected to become operational in 2010, and will be used for the destruction and recycling of a wide range of munitions, including grenades, ammunition and missiles.

Review by the Chief Executive

continued

I would like to extend my personal thanks to all members of staff for their dedication and hard work in delivering the 2009 results.

Staff and employees

At the end of 2009, the Group employed a total of 3,349 people, just 1% higher than the previous year end in spite of the 42% growth in revenue. Revenue per employee increased, therefore, to £150,000, compared to £107,000 in 2008. 54% of the staff are US-based and 34% are based in the UK, which is a higher percentage than the national breakdown suggested by our geographic revenue profile. The vast majority (75%) of our staff are involved in our manufacturing operations.

I would like to extend my personal thanks to all members of staff for their dedication and hard work in delivering the 2009 results.

Future prospects

Countermeasures

The market outlook for our expendable countermeasures business continues to be positive, although there are now clear indications that the rate of market growth is slowing. Although the US defence budget appears to be robust, there is growing evidence from the UK and other NATO countries that defence spending will be reduced over the next five years. This will have an impact on the timing of countermeasures orders, with a consequent reduction in the growth rate of that market.

In Afghanistan, the US Government has committed to increasing the number of troops deployed by 30,000, which will take the NATO deployment above 110,000. The US also intends to double its troop transportation capability by adding a further two hundred and fifty helicopters. The UK has also announced a £900 million package to support operations in Afghanistan, including twenty two new Chinook helicopters, although these will only be delivered in 2012 at the earliest. The higher numbers of helicopters and aircraft committed to the mission will inevitably lead to greater demand for our products.

Over the next five years, the entry-into-service of the Typhoon aircraft will have a significant impact on the market. Large numbers of aircraft will start operations within Europe and the

Middle East. Demand for our standard Typhoon flares is growing rapidly, and we have started development of spectral and kinematic variants to maintain our market leading position. During 2009, the BOL/IR special material decoy system was qualified on the Typhoon and we expect growing interest from other nations looking to use its pre-emptive capabilities.

In the USA, the introduction of the F-35 joint strike fighter will also have a major impact on the countermeasures market. Although low rate initial production has been delayed until 2011, the US Government has committed to building five hundred and twelve F-35s over the next five years and will need to rapidly build-up a stock of decoys if they are to become operational. There is also growing interest in fitting the BOL/IR system to the F-18, F-15 and CV-22 aircraft, in order to provide pre-emptive capabilities and to increase mission endurance. It is likely that the BOL product will become our highest volume decoy in the future.

The order book for the Countermeasures division is 81% higher than last year, with Alloy Surfaces up 32% and Kilgore up 95%. Our US subsidiaries now have multi-year contracts for M206, M211 and M212 helicopter flares, MJU-50, MJU-51 and MJU-53 transport flares, MJU-7 and MJU-10 combat aircraft flares, and most recently, for F-22 aircraft flares. Our recent delivery performance, our continued investment in leading-edge technology, and the visibility of our order book gives us confidence that the future outlook remains positive.

Energetics Pyrotechnics

The global market for pyrotechnics is estimated at £1.2 billion, with growth remaining steady at below 10% per annum. The market remains fragmented with a large number of small players, many of whom are nationally focused and with limited product ranges. With the acquisition of Hi-Shear, our current market share is about 14%, a significant increase on last year.

There is strong interest in illuminating payloads for use in peacekeeping operations and to satisfy training requirements.

Demand for our 81mm mortar variants has continued to grow and we have adapted the payload for 60mm and 120mm mortars. We have received the first orders for 60mm variants and we expect demand for these products to increase.

Signalling and screening smokes are used regularly during operational duties and training exercises. There is growing interest in multi-spectral screen payloads, especially for the replacement of white phosphorous technology, which has a significant incendiary problem. Many of our customers are also interested in lighter smoke grenades to minimise the weight problem for the soldier. A number of important US and European contracts will be placed in 2010, which will increase production volumes in the future.

Production of 40mm pyrotechnic grenades for the US Army has grown significantly over the last few years. Chemring Ordnance is currently bidding for the next five years production. However, there is growing concern about the use of a pyrotechnic payload in 40mm training grenades because of the risk of creating a bush fire in the dry environment of many training grounds. Alloy Surfaces has therefore developed a special material product that matches the signature requirements and qualification should start in 2010.

In November 2009, the Group completed the acquisition of Hi-Shear Technology Corporation, a leading manufacturer of high reliability energetic devices and sub-systems that perform critical functions in key US space and defence programmes, including satellites, space launch vehicles, missile defence and aircrew egress. Its products include low shock pyrotechnic satellite separation systems, space-qualified initiators, electronic missile safe/arm devices and acoustic initiators for underwater explosive ordnance disposal applications. The acquisition of Hi-Shear significantly enhances our market position in the space sector, giving us the lead US position in space and satellite separation, which we can use to access the European satellite market and provide a route-to-market for our other energetic technologies, such as linear explosives for cutting and stage separation.

The Group has a strong order book, which at the end of the year stood at £559.0 million. This, combined with a healthy cash flow and a strong balance sheet gives the Board confidence that the prospects for the Group in 2010 continue to be excellent.

Explosive ordnance disposal

Our addressable global EOD market is estimated to be £800 million and is currently growing rapidly at about 20% per annum. The market is fragmented with most customers looking for tailor made solutions and world class technology. The constant evolution of the threat demands that rapid upgrades of our products are required, in order to deliver best-of-class technology and maintenance of a strong market position.

Our HMDS ground penetrating radar has been a great success in counter-IED operations in Afghanistan. The US Army is looking to place a contract in the next few months for another fifty plus systems under an urgent operational requirement. It would also like to fit the HMDS radar to all of its planned fleet of Husky mine protected vehicles, and is considering placing a competitive five year contract that will have a substantial value. A second new production facility will have to be commissioned by NIITEK in order to meet the production volumes that are likely to be required.

Many of our EOD customers are expressing growing interest in demolition products with insensitive characteristics that will not explode on impact from a bullet or in the presence of a fire. The Group is currently qualifying a number of such products for the UK Government, and expects orders from several of its other customers, when qualification has been successfully completed.

Munitions

The global market for munitions remains relatively stable at about £10 billion per annum and is not expected to change significantly over the next three years. The Group operates as a niche prime contractor, with strong market positions in naval ammunition and 40mm grenades.

Simmel continues to maintain its position as a global leader in naval ammunition, and has won a number of significant orders from Europe, South America and the Far East. Simmel has developed a new 76mm round with a multi-function microwave proximity fuze and an insensitive munition (IM) warhead. There is considerable interest in this round and a number of contracts are likely once qualification is completed in 2010.

The development of fuzing technology continues to be a significant priority for the Group. In addition to the products under development for our naval ammunition, the Group has just completed development of a simple mechanical fuze for US 20mm ammunition and a time fuze for mortar applications. Considerable interest has been shown in both these products and substantial contracts are expected once qualification has been completed.

The acquisition of Hi-Shear also provides us with Electronic Safe/Arm Fuze (ESAF) technology for ballistic missile defence applications. Hi-Shear manufactures the ESAF for the Patriot PAC-3 missile, which provides the short-range ballistic missile defence for the US and its allies. There is growing interest in the deployment of Patriot missiles by Japan, South Korea, Taiwan, India, UAE, Saudi Arabia, Kuwait, Germany, Italy and Turkey. This is expected to provide substantial growth in the Hi-Shear business in the future.

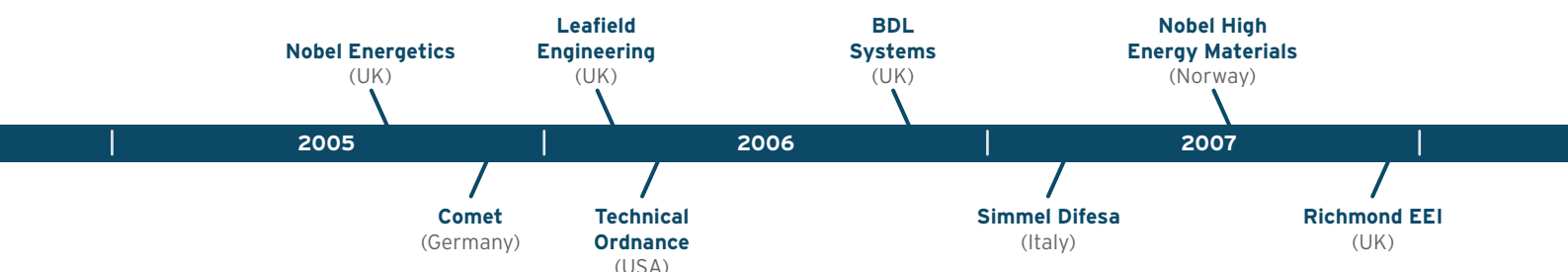
Outlook

Overall, the future outlook remains encouraging with many excellent opportunities for growth. The Group has a strong order book, which at the end of the year stood at £559.0 million, up 37% on the previous year. This large order book, healthy cash flow and a strong balance sheet gives the Board confidence that the prospects for the Group in 2010 continue to be excellent.



D J Price
Chief Executive
19 January 2010

Our strategy



Group strategy

The Group strategy remains focused on our two core sectors of operations - Energetics and Countermeasures.

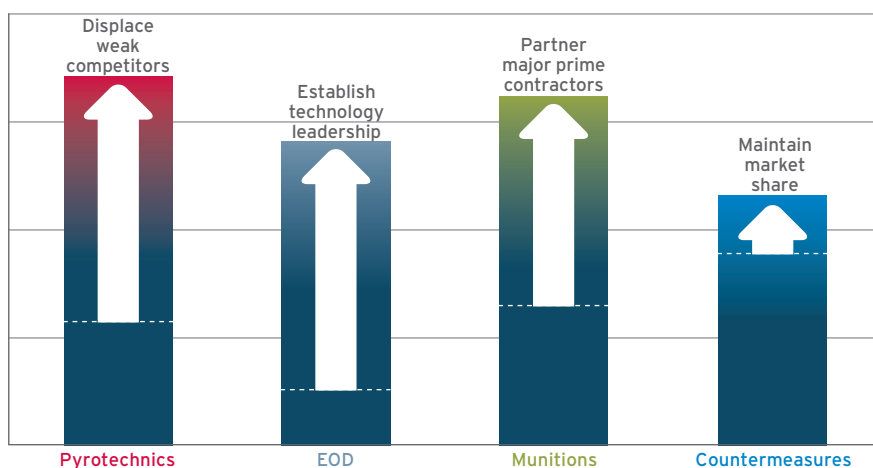
Our core strategy over the next five years looks for the development of excellence within our key three core competencies:

- **Energetic materials** - We will focus the business on products where we can exploit our extensive knowledge and expertise in explosive, pyrotechnic and pyrophoric materials. We will address niche, highly profitable markets with significant value-added manufacture/assembly where barriers to entry are strong.
- **High reliability and integrity** - The nature of our products requires the highest levels of safety in manufacture and use, and reliability, particularly when their correct operation is life critical. Manufacturing and product safety must be one of our highest priorities.
- **High volume manufacturing** - We currently manufacture many of our products in significant quantities and have built up strong expertise in automated manufacturing. Our strategy is to consolidate manufacturing centres, where possible, to give high volumes. Expertise in automation and flexible manufacture will drive down our cost base and maintain competitive advantage.

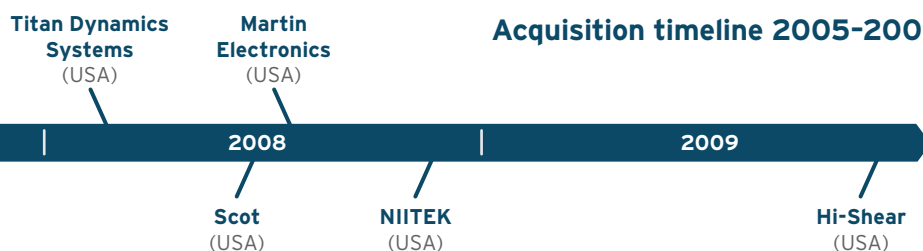
Geographic strategy

Our geographic strategy has five components:

- Maintain our US operations as 50% of the Group.
- Manufacture in the USA for the US market and in Europe for the European market.
- Use our excellent worldwide sales network to export both the Group's and third parties' products to global markets from both Europe and the USA.
- Establish local manufacturing facilities in countries where we need to do so in order to access certain key national markets.
- Increase our regional marketing presence in the Far East and the Middle East.



Acquisition timeline 2005-2009



Strengths and resources

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

Market position and reputation

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

In our growing Energetics business, we are an expert manufacturer of products containing energetic materials, and we are developing a prominent position in several niche market areas, including screening and illumination pyrotechnics, satellite separation systems, aircrew egress components, explosive ordnance disposal equipment, fuzing and naval ammunition.

Customer relationships

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

Manufacturing operations

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

Solid financial base

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

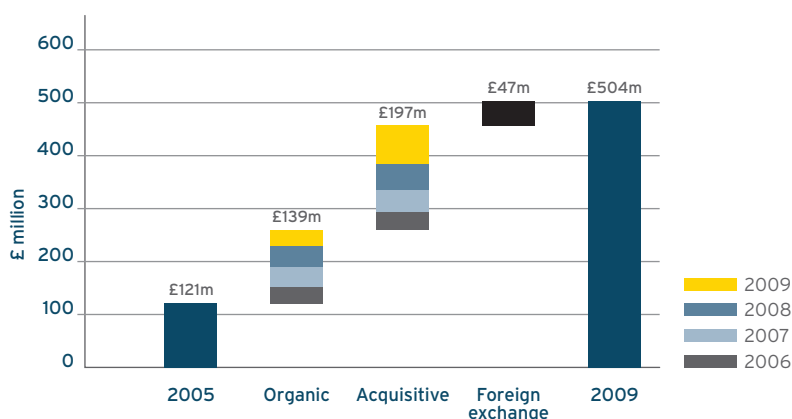
Management

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

Acquisition strategy

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

Components of Group revenue growth 2005-2009

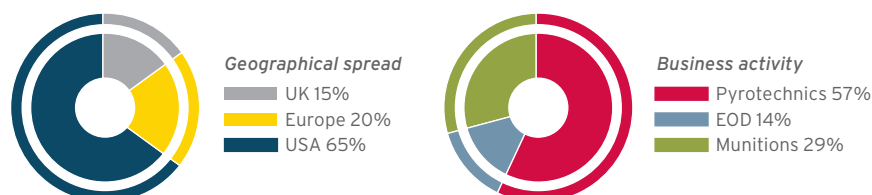


Our strategy for acquisitions is to continue to target opportunities which add capability, technology and market access. We will exploit synergies from such acquisitions by creating centres of excellence, investing in new products and promoting our products through our worldwide channels to market.

We intend to maintain a balance of acquisition investment across pyrotechnics, EOD and munitions, and between Europe and the USA.

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

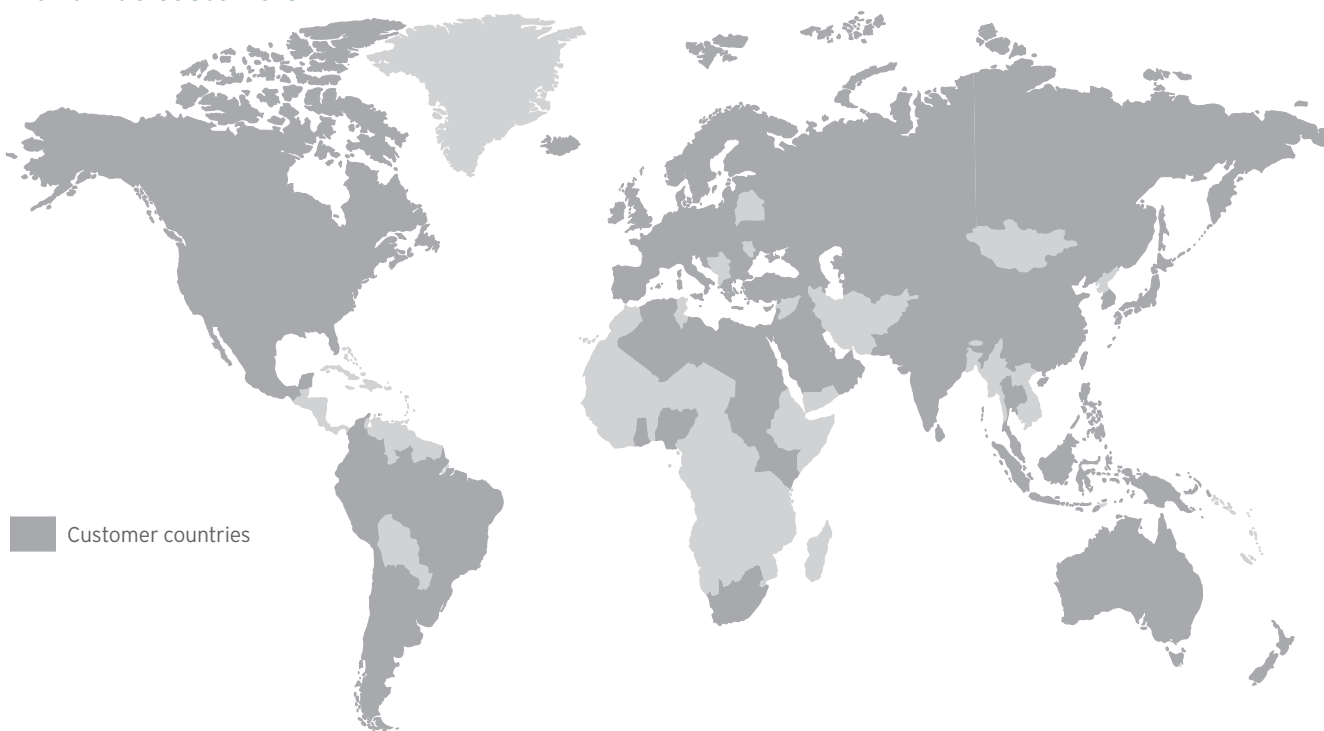
Percentage of total investment in acquisitions 2005-2009



International reach

Our operational structure has been expanded into three regional divisions: USA, Europe and International; formed to better meet the needs of our growing customer base in over 80 countries around the world.

Worldwide customers



Regional balance



Delivering global protection

49% of our Group revenue is derived from our US operations where we are involved with major programmes including the F-22 and F-35 aircraft as well as the PAC-3 missile. We export from the USA to its natural allies including Canada, South America and the Middle East.

International sales



Growth potential in international markets

Chemring's European operations serve their home markets and have strong sales networks in the Middle East, the Indian sub-continent and the Far East. Significant opportunities exist in applying modern technologies to legacy platforms in India and the new NATO countries.

Advanced manufacturing

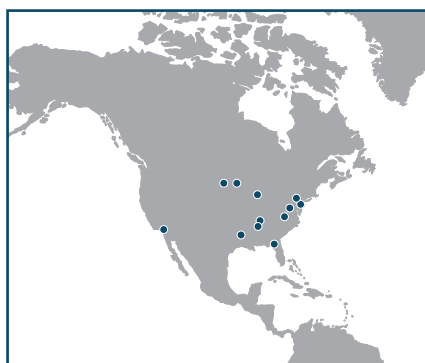


Increasing productivity and safety

We aim to transfer best practices and replicate our state-of-the-art manufacturing facilities in local territories. Our £24 million investment in Salisbury, UK and Lara, Australia will deliver faster and safer production for customers in Europe and the Far East.

Our largest customers are the US Department of Defense and the UK Ministry of Defence but we have significant customers within other NATO countries and a growing presence in Middle Eastern and Far Eastern markets.

Business by regional division



USA

Supplies US Department of Defense and national prime contractors.

Divisional revenue

£249.0m

Proportion of Group revenue

49%



- Alloy Surfaces Company, Inc., Pennsylvania
- **Chemring Energetic Devices**
 - Scot, Inc., Illinois
 - Technical Ordnance, Inc., South Dakota
- **Chemring Ordnance**
 - Kilgore Defense, Tennessee
 - Martin Electronics, Inc., Florida
 - Titan Dynamics Systems, Inc., Texas
- Hi-Shear Technology Corporation, California*
- Kilgore Flares Company LLC, Tennessee
- Non-Intrusive Inspection Technology, Inc. (NIITEK), Virginia

*acquired after 31 October 2009



Europe

Markets to all NATO and non-NATO countries in western and eastern Europe.

Divisional revenue

£187.6m

Proportion of Group revenue

37%



- **Chemring Defence**
 - Chemring Defence Germany GmbH
 - Chemring Defence Spain S.L.
 - Chemring Defence UK Ltd
- Chemring Energetics UK Ltd
- Chemring EOD Ltd, UK
- Chemring Marine Ltd, UK
- Chemring Nobel AS, Norway
- Simmel Difesa S.p.A, Italy



International

Drives our expansion to countries outside Europe and the USA.

Divisional revenue

£67.3m

Proportion of Group revenue

14%



- Chemring Australia Pty Ltd
- Chemring Countermeasures Ltd, UK
- CIRRA SA, France (Associate company)

Pyrotechnics

Revenue from our pyrotechnics businesses grew by 81% year-on-year, with significant growth in a number of areas, driven primarily by our NATO customers.

Highlights in 2009

- Revenue increased by 81% to £173.2 million
- Record production of 81mm mortar and 40mm illumination rounds
- Significant growth in pyromechanisms for aircraft egress systems
- Strong demand for training products from US Army
- Acquisition of Hi-Shear Technology Corporation

Key information

New orders

£145.2m

+4%

Revenue

£173.2m

+81%

Operating profit

£43.8m

+95%

Operating margin

25%

Strategy

Our strategy is to become the world leader in pyrotechnics, through focused investment in new products that displace existing incumbents and better meet our customers' requirements. We also intend to consolidate the market through carefully selected acquisitions in both Europe and the USA.

Activities during the year

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

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

Chemring Australia increased its revenue from the sale of pyrotechnics by 50% during the year, with the restart of production of ASCEND signal smokes and trip flares. The ASCEND products are currently under evaluation by the US Marine Corps, and the initial feedback is that they perform very well.

Chemring Defence also had a good year, with an increase in revenue from pyrotechnics of 12%. Production of screening smoke grenades increased in volume by 58%, and signals and flares increased by 40%, driven by increased demand from NATO countries involved in heavy peacekeeping duties and training. A new lightweight smoke grenade has recently been designed, and will start qualification shortly. With soldiers being asked to carry more and more equipment, the provision of a lighter, more compact product will be attractive to growing numbers of countries around the world.

Our commercial maritime business, **Chemring Marine**, had a good year with revenue growth of 7%, well ahead of inflation. Sales to the North American market showed strong volume growth during the year, aided by sales in the Gulf Region arising out of renewed oil rig business activity post Hurricane Katrina. Sales to the Middle and Far East were also strong. This was a reflection of the repositioning of many commercial fleets from European trading routes to those less affected by the global recession.

The demand for aircraft pyromechanisms is governed by the three year replacement cycle required to meet reliability and aircraft safety standards.

Chemring Energetics benefitted from significant year-on-year growth in the market during 2009, with revenue up nearly 100%, driven by an increased demand for components associated with aircraft egress systems. Part of this growth was derived from the commencement of production of canopy cutting charges, following the transfer of the production line to Ardeer in Scotland. However, demand for our metron actuators also increased significantly, with 30% more products delivered for incorporation within a variety of fire suppression systems.



Photograph by Stuart Bingham; © Crown Copyright/MOD, image from www.photos.mod.uk

Battlefield training

Troops practice their urban warfare skills. Chemring produces a wide range of smokes as well as distraction and screening grenades for training purposes.

In the USA, **Chemring Energetic Devices** also increased its pyrotechnics revenue by 110% more than the previous year. However, some of this growth was attributable to the first full year's contribution from Scot, Inc., which was acquired by the Group in May 2008. On a pro-rated comparison of Scot's full annual revenue, the business has delivered a 50% year-on-year improvement, which is a significant increase in its market penetration. The volume of pyromechanisms sold into the US space market doubled year-on-year, driven by booster sales for the Atlas V heavy launch vehicle and continuing sales of separation devices for the Delta II /IV launch vehicles. Sales of impulse cartridges were also strong in 2009, with a contract to refurbish large numbers of B-2 ejector impulse cartridges. Sales of cartridge actuated devices for the F-15/F-16/FA-18 and Boeing 767 aircraft continued to reflect the robust demand for our products. During the year, we also qualified our first product on the C-17 aircraft, and we anticipate that we will continue to supply these products in 2010 and beyond.

Acquisitions

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

Our business units and companies

Chemring Australia Pty Ltd

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

Chemring Defence (Europe)

Centre-of-excellence for the design, development and production of materials and sub-systems for military, OEM and safety customers.

- Chemring Defence UK Ltd
- Chemring Defence Germany GmbH
- Chemring Defence Spain S.L.

Chemring Energetics UK Ltd

A leading supplier of rocket motors, high explosive filling and pyromechanical sub-assemblies for military applications.

Chemring Energetic Devices (USA)

Two Group companies with a significant share of the pyromechanisms market and strong component sales to missiles, munitions, space and ammunition prime contractors.

- Scot, Inc. (USA)
- Technical Ordnance, Inc. (USA)

Chemring Marine Ltd (UK)

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

Chemring Ordnance (USA)

Three Group businesses that develop and supply ammunition and pyrotechnically activated devices to US and international governments and to munitions prime contractors.

- Kilgore Defense (USA)
- Martin Electronics, Inc. (USA)
- Titan Dynamics Systems, Inc. (USA)

Hi-Shear Technology Corporation (USA)

Develops and produces advanced systems and products used in space exploration vehicles, satellites, launch vehicles and fighter aircraft.

Our products

Military pyrotechnics

- Smokes and flares
- Distraction and screening grenades
- Markers
- Smoke payloads
- Battlefield simulation products
- Impulse cartridges

Marine pyrotechnics

- Smokes and flares
- Rockets
- Line throwers

Aircrew egress

- Rocket propellant
- Canopy cutting charges
- Linear explosives
- Cartridge actuated devices

Space and satellite launch

- Initiators
- Separation sub-systems
- Thrusters and actuators

Explosive ordnance disposal (EOD)

In January 2009, the US Army placed a contract, worth up to \$51 million, for thirty of NIITEK’s Husky Mounted Detection Systems (HMDS) for high reliability route clearance operations in support of US peacekeeping activities around the world.

Highlights in 2009

- Revenue increased by 304% to £61.2 million
- US Army order for 80 NIITEK Husky Mounted Detection Systems (HMDS) - contract value \$125 million
- Highly successful start to production at new HMDS facility
- New IM-variant demolition stores developed and undergoing qualification

Key information

New orders

£80.9m

+515%

Revenue

£61.2m

+304%

Operating profit

£15.6m

+280%

Operating margin

25%

Strategy
We aim to become the world leader in demolition stores, and significantly expand our expertise in EOD. We will become a major European competitor in the demilitarisation of unwanted ammunition and munitions, and we will develop a world-leading position in counter-mine and counter-IED technologies.

Activities during the year
In December 2008, we completed the acquisition of **NIITEK**, a leading developer of robot and vehicle-mounted improvised explosive device (IED) detection systems, incorporating advanced ground penetrating radar (GPR) and metal detection technologies. In January 2009, the US Army placed a contract, worth up to \$51 million, for thirty of NIITEK’s Husky Mounted Detection Systems (HMDS) for high reliability route clearance operations in support of US peacekeeping activities around the world. A new production facility was established in Charlottesville, Virginia, and manufacture and assembly of these advanced detection systems was gradually increased. All thirty systems were delivered to the US Army on schedule and are now being successfully used in

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





IED neutralisation

An IED is remotely neutralised using a disrupter mounted on a Wheelbarrow Mk8b bomb disposal robot.

Our UK business, **Chemring EOD**, supplies another advanced detection system that is used to identify IED packages under vehicles and trains. The system is currently in operation at many high threat locations around the world. It is used to monitor all vehicles using the Channel Tunnel between the UK and France, at the White House in Washington, and in many embassies around the world. We have also been working with John Hopkins University in the USA on trials of the system in the New York City subway and its security application to railways and subways across the country. In the UK, we are working with the Vehicle and Operator Services Agency (VOSA) and the Highways Agency to adapt the system for the inspection of suspect vehicles.

Chemring EOD has also experienced growing demand for its BREACH secure-coding RF initiation system, particularly from US police departments. The business is working with a number of US and European robot manufacturers to integrate the BREACH technology into the initiation sequencer for demolition and weapon control during EOD operations.

Demolition stores, which are used to destroy suspect packages and unwanted ordnance and for forced building entry, are another important product range for the Group.

Chemring Energetics in Scotland has just completed development of a flexible linear cutting charge with insensitive munitions (IM) explosive characteristics. This product, called SABRE, has been selected by the UK Ministry of Defence and qualification trials will take place in 2010. An IM-compliant design for the Bangalore torpedo, which is used to cut barbed-wire and remove obstacles, has also been completed and will follow a similar qualification programme. The growing interest from France and other NATO countries in IM-compliant explosives, capable of withstanding direct impact from a bullet or ignition from a fuel fire, will provide a strong export opportunity in the future.

Our business units and companies

Chemring Energetics UK Ltd

Based in the Ardeer Peninsula in Scotland and in Corsham, England, specialises in the design and manufacture of energetic materials, detonators, actuated devices and demolition stores.

Chemring EOD Ltd (UK)

Comprising the former BDL Systems and Richmond businesses, the company is based in Dorset and Norfolk, and manufactures a range of products for detection, assessment and neutralisation of explosive threats for improvised explosive device disposal (IEDD) and unexploded ordnance (UXO) clearance.

Non-Intrusive Inspection Technology, Inc. (USA)

NIITEK, based in Virginia, is a leading developer of robot and vehicle-mounted mine detection systems incorporating its advanced ground penetrating radar (GPR) and metal detection technologies.

Our products

Detection

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

Neutralisation

- Radio, acoustic and hard-wired remote initiators
- Percussion initiators
- Detonators
- Explosive charges
- Minefield clearance systems
- Recoilless de-armers/disrupters
- ROV weapon carriers

Munitions

The munitions businesses had a steady year with revenue stable at £86.0 million, with just over 50% of the revenue arising out of sales of sub-systems or components.

Highlights in 2009

- Revenue increased by 0.2% to £86.0 million
- Sales of naval and tank ammunition continue to be strong
- Warhead for Principal Anti-Air Missile System (PAAMS) entered production
- NLAW rocket motors in full production
- New primary explosives facilities under construction in the UK and USA

Key information

New orders

£119.8m
+24%

Revenue

£86.0m
+0.2%

Operating profit

£13.4m
-30%

Operating margin

16%

Strategy

Our strategy is to develop a position as the preferred supplier of energetic materials to the key prime contractors for ammunition and missiles in Europe and the USA. This will be achieved through investment in new products, by targeted competition against existing sole source suppliers, and by further complementary acquisitions. We will maintain our position as the world market leader in naval ammunition, and we will develop our focus as a prime contractor in certain special niche markets that are complementary to those of our principal customers.

Activities during the year

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

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

Simmel had a number of other notable successes in the supply of complex sub-systems to other prime contractors. During the early part of the year, qualification of the dual mode warhead for the Principal Anti-Air Missile System (PAAMS), which will be fitted to the UK Type 45 destroyers

and the Anglo-Italian Horizon frigates, was successfully completed. Full production commenced and in excess of two hundred warheads were delivered to schedule. Production of the motor safety initiator for the IRIS-T air-to-air missile was also successfully increased to its full rate, with over five hundred units delivered during the year. Export potential for the missile, particularly in the Middle East, is looking good and we should maintain production volumes for years to come.

The recent acquisition of **Hi-Shear Technology Corporation** has significantly enhanced our electronic safety and arming capability and given us a much larger presence in the ballistic missile defence market. Hi-Shear is the current supplier of the Electronic Safe/Arm Fuze (ESAF) for the Patriot (PAC-3) missile that forms the short-range component in the US ballistic missile defence structure. The US requirements for Patriot appear firm, and a number of other nations are spending significant sums of money in procuring the system. Over the next five years, the number of missiles required is expected to double and this will have a positive impact on our future revenues.

Chemring Ordnance also made good progress with the development of a number of 40mm HE grenade variants. The Hellhound stand-off breaching round, which is used to open doors during forced entry situations, has completed qualification and production for US special forces has now commenced. Our 40mm medium velocity HEDP round, which offers longer range and higher accuracy than a conventional low velocity round, is under test with US forces and has been demonstrated to a number of European countries, including the UK and Holland. In August 2009, the Australian Government placed an initial contract with us for the supply of both low and high velocity HEDP rounds. These new contracts and the opportunities developing to load, assemble and pack (LAP) products to satisfy future US Army requirements demonstrate the growing importance of the 40mm grenade family within the Group's future strategy.



Anti-armour capability

A soldier aiming a Next Generation Light Anti-Tank Weapon (NLAW). Chemring produces several energetic components including the boost and sustain rocket motors.

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

Our Norwegian subsidiary, **Chemring Nobel**, also had a satisfactory year, with revenue up 15% on last year as a result of increased sales of HMX explosive to the commercial market.

Chemring Energetic Devices had a satisfactory performance during the year, although the lack of availability of one primary explosive used in many of our detonators had a significant impact on production in the second half of the year and on its margins. Consequently, the business saw a 7% growth in demand for high explosive initiation pellets, which was offset by the reduction in detonator production for fuze systems due to a national shortage of lead azide. Given the serious impact this shortage has had on our US business and other parts of the US defence industry, the Board took the decision to invest in the construction of our own primary explosives plant in South Dakota. Significant progress has been made to date, and we are looking to qualify production of lead azide and other primary explosives during the first part of 2010.

Two major new facilities are also being constructed at the Chemring Energetics site in Ardeer, Scotland. Construction of a new primary explosives facility for Europe started in June 2009, and will be completed by the end of the 2010 calendar year. This facility will provide a fully automated manufacturing process, with remote operation, from precipitation to dispatch for our eighteen primary explosives. Primary explosives are highly sensitive energetic materials that can be easily initiated by static, friction, impact or heat. The new facility with its automated, remote operation capability will significantly improve production safety and the yield achieved from fairly difficult processes.

The second new capability under development at Ardeer is the high explosives press and assembly facility that will be used to manufacture 40mm grenades, pressable warheads and to assemble demolition stores, such as our new Bangalore torpedo. The construction will be completed in June 2010, and will provide a flexible facility for a number of products that can be readily adapted to new products and technologies as they are developed or acquired.

Our business units and companies

Chemring Energetics UK Ltd

Based in the Ardeer Peninsula in Scotland and in Corsham, England, a leading supplier of detonators, actuators, rocket motors, high explosive filling and pyromechanical sub-assemblies for military applications.

Chemring Energetic Devices (USA)

Comprising two Group companies with significant component sales to missiles, munitions and ammunition prime contractors.

- Scot, Inc. (USA)
- Technical Ordnance, Inc. (USA)

Chemring Nobel AS (Norway)

Based in Saetre, manufactures and supplies RDX and HMX, and other niche energetic materials for explosives and propellant applications.

Hi-Shear Technology Corporation, (USA)

Develops and produces advanced systems and products that are used in ballistic missile defence systems, tactical weapons and frontline fighter aircraft.

Simmel Difesa S.p.A (Italy)

Based in Colleferro, a leading supplier of naval, medium and large calibre ammunition and components including fuzes, safety and arming devices, warheads and modular charges.

Our products

Energetics sub-systems

- Propellants and rocket motors
- Fuze and safe/arm units
- Flight termination systems
- Pyromechanisms and actuators
- Warheads and charges
- Primers

Ammunition and components

- Medium and large calibre ammunition
- Fuzes
- Propellants
- Manufacture of base high explosives
- Insensitive high explosive compositions

Countermeasures

Chemring Countermeasures, our UK subsidiary, had an excellent year with revenue up 17% to a new record. This was driven principally by demand from NATO forces for our conventional magnesium decoys.

Highlights in 2009

- Revenue increased by 17% to £183.5 million
- Record levels of production at Chemring Countermeasures and Alloy Surfaces
- Demand for Typhoon flares increased by 200%
- Kilgore awarded its largest ever IDIQ contract, with a potential maximum value of \$804 million
- Naval countermeasures up 24%
- New automated manufacturing facilities under construction in the UK and Australia

Key information

New orders

£281.7m

+81%

Revenue

£183.5m

+17%

Operating profit

£53.5m

+18%

Operating margin

29%

Strategy

The core strategy for the Countermeasures business is to maintain our share of the expendable countermeasures market and expand the business in line with the size of that market, which is expected to grow steadily over the next five years. We will increase our investment in new products and technologies, and will build on our current leadership in special material, spectral and thrust flare technologies. We will continue to invest in new fully automated production facilities that will improve operator safety, significantly enhance our operational efficiency, and maintain our lead role in the development of new products for the next generation of fixed wing and rotary aircraft.

Activities during the year

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

There was also strong growth in our naval countermeasures activities, with revenue up 24% from deliveries of various products to Spain, Turkey and Romania. The UK Ministry of Defence placed a multi-year contract for infra-red decoy rounds, and we expect a multi-year contract for radio-frequency decoy rounds to be placed over the next few months once the current upgrade programme has been successfully completed. The growing threat to ships in littoral waters, where weapon protection may endanger adjacent shipping or civilians on-shore, is driving demand for more sophisticated variable range products and a more effective delivery launch system.

Good progress is being made with the construction of our new advanced flare facilities at Salisbury. There is one facility for conventional magnesium flares and one for spectral flares. Each facility will have fully automated flow-line production from mixing to final packaging, in which all steps in the process are remotely operated. This will be a major improvement in safety within the production process, and will result in a 100% increase in capacity to provide a "surge" capability to support our customers' operational needs. The two facilities are expected to be completed over the next six months, in order that commissioning and low-rate production can commence towards the end of the calendar year.

Chemring Australia also had a record year, with a 45% increase in revenue following the signature of a long-term framework agreement with the Australian Government. As part of our commitment to the contract, construction of a new countermeasures facility is underway at our site in Lara, which is near Melbourne. The new facility will be a duplicate of the UK facility, providing the Australian Government with a local responsive capability and the Group with additional global manufacturing capability to meet the rapidly changing demands of some of our customers.

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



Dispensing flares

A US Navy F-18E/F Super Hornet deploys flares whilst on patrol over Afghanistan. Shoulder-launched, IR-guided missiles are the main threat to aircraft in the region.

UK demand for BOL/IR decoys also remained strong, and production remained steady at 40,000 units per month throughout the year. The Australian Government successfully completed flight trials of the BOL system on its F-18 aircraft and there is considerable demand from the F-18 community regarding the early availability of the system. The US Navy is starting to show interest as it should provide a considerable enhancement to the mission duration. The UK also completed qualification of the BOL system on the Typhoon, and export demand for the special material decoys should grow as aircraft gradually become operational.

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

In September, Kilgore was awarded its largest ever Indefinite Delivery, Indefinite Quantity (IDIQ) contract, potentially worth up to a maximum of \$804 million, for the multi-year supply of M206 helicopter flares, and MJU-7 and MJU-10 combat aircraft flares. The initial production order for 2010 was \$42 million, which was higher than expected. This was subsequently followed by a four-year IDIQ contract from the US Air Force for flares for the F-22 aircraft. This contract has a maximum value of \$54 million and the initial production order of \$24 million covers production until 2011. The order book for Kilgore at the year end had increased to a record level of £59.4 million, 95% higher than the previous year, and lays a solid foundation for substantial growth in 2010.

Our business units and companies

Alloy Surfaces Company, Inc. (USA)

Based in Philadelphia, the world's only manufacturer of covert multi-spectral IR decoys fielded today. A major supplier to the US Department of Defense and militaries world wide, Alloy's patented, proprietary technology employs pyrophoric materials that radiate in-band IR energy to decoy the guidance systems of attacking enemy missiles.

Chemring Australia Pty Ltd

Based in Victoria, Australia's leading manufacturer and supplier of military countermeasures.

Chemring Countermeasures Ltd (UK)

Based in Salisbury, a world leader in the design, development and manufacture of advanced expendable countermeasures for air and sea platforms. With more than forty years experience and combined with its in-house technology centre with extensive facilities and equipment, it provides effective and reliable solutions to counter increasingly sophisticated threats.

Kilgore Flares Company LLC (USA)

Based in Toone, Tennessee, Kilgore Flares develops and produces airborne expendable IR countermeasure decoys and IR naval decoys.

Our products

Air countermeasures

- Conventional MTV flares
- Advanced decoys
- Special material decoys
- Chaff

Naval countermeasures

- RF decoys
- IR decoys

Review by the Finance Director

Total underlying operating profit* was £114.7 million, an increase of 35%, with the Energetics division growing 59% and Countermeasures division 18%.

Financial highlights

- Revenue up 42% to £503.9 million
- Underlying profit before tax* up 38% to £102.6 million
- Operating cash flow up 27% to £106.7 million
- Investment in research and development more than doubled to £18.9 million
- The Group had £106.9 million of undrawn borrowing facilities at the year end

Key information

Net assets

£273.6m
+19%

Operating cash flow

£106.7m
+27%

Gearing

45%
-6%

Results

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

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

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

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

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

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

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

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

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



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

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

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

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

Reconciliation of statutory operating profit to underlying operating profit

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

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

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

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

Shareholder returns

Underlying basic earnings per ordinary share* from continuing operations were 213p (2008: 160p), an increase of 33%. Basic earnings per share from continuing operations were 199p (2008: 123p), an increase of 62%.

The total dividend per ordinary share of 50p (2008: 35p) is covered 4.3 times (2008: 4.6 times) by the underlying earnings per share* of the continuing operations.

Shareholders' funds at the year end were £273.6 million (2008: £230.6 million).

Pensions

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

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

On 6 April 2009, the Chemring Group Executive Pension Scheme was merged into the Chemring Group Staff Pension Scheme. As a consequence of the scheme merger, the Group increased the value of its bank guarantee to the Staff Pension Scheme to £7.2 million from £6 million during the year. The guarantee may be drawn upon in certain events of default by the Company. At the year end, the Group had also placed £5.0 million in an escrow account, to provide additional funding for the Staff Pension Scheme in the event of a default. A further £5.0 million payment has been made into the escrow account since the year end in accordance with the agreed funding plan for the scheme.

Although the Staff Pension Scheme currently remains open for future accrual for existing members, most of our UK employees are now offered membership of a defined contribution pension scheme. The majority of our overseas pension arrangements are also defined contribution, save in those European countries where certain defined benefit pension arrangements are required.

Research and development

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

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

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

Review by the Finance Director

continued

Operating cash flow was strong at £106.7 million (2008: £83.7 million), and gearing at the year end reduced to 45% (2008: 51%).

Acquisitions

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

	Date acquired	Consideration (including costs) £m
Non-Intrusive Inspection Technology, Inc. (NIITEK)	12 Dec 2008	26.9
Total consideration		26.9

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

	2009 £m
Intangible assets	15.5
Fixed assets	0.4
Debt assumed	(0.3)
Working capital	(1.7)
Deferred tax	(3.6)
Fair value of assets acquired	10.3
Consideration (including costs)	26.9
Goodwill arising	16.6

Impact of acquisitions on revenue growth

During 2008 the Group acquired Richmond Electronics & Engineering Limited, Titan Dynamics Systems, Inc., Scot, Inc. and Martin Electronics, Inc. The businesses were owned for twelve, seven, four and three months respectively, and contributed £19.6 million to the Group's revenue in 2008.

The table below reconciles the Group's 2008 revenue on a proforma basis, assuming the above four businesses had been owned for a full year, and 2009 revenue.

	£m
Actual revenue 2008	354.2
Additional revenue from acquired businesses if owned for a full year	27.0
Proforma 2008 revenue	381.2
Businesses acquired in 2009	45.6
Growth of businesses acquired in 2008	9.8
Organic growth	67.3
Actual revenue 2009	503.9

Cash flow

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

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

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

A summary of Group cash flow is set out below:

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

Net debt, facilities and going concern

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

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

	2009 £m
Cash	61.3
Term loans	(96.9)
US loan notes	(87.2)
	(122.8)

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

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

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

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

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

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

On 19 November 2009, the Group completed a \$280 million private placement of seven/ten year fixed interest loans with a number of institutional investors. The loan notes, which mature in 2016 and 2019, carry an interest rate of approximately 5.5%. The proceeds were used to purchase Hi-Shear Technology Corporation for \$132 million, repay the existing US dollar and sterling debt, and provide additional working capital facilities for the Group.

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

Foreign exchange

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

Currency denominated net assets are translated at year end rates.

Effective translation rates were as follows:

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

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

Post balance sheet events

Private placement of loan notes

As noted above, on 19 November 2009, the Group completed the private placement of \$280 million of fixed interest loan notes with a number of institutional investors. The proceeds were used to fund the acquisition of Hi-Shear Technology Corporation, repay existing short and medium term debt, and provide additional working capital facilities for the Group.

Acquisition of Hi-Shear Technology Corporation

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

Conditional acquisition of The Allied Defense Group, Inc.

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



P A Rayner
Finance Director
19 January 2010

Key performance indicators

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

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

Orders received and order book

	Orders received		Order book	
	2009 £m	2008 £m	2009 £m	2008 £m
Continuing operations				
Energetics				
Pyrotechnics	145.2	139.5	172.4	186.3
EOD	80.9	13.2	36.9	10.4
Munitions	119.8	96.5	117.7	84.3
	345.9	249.2	327.0	281.0
Countermeasures	281.7	155.2	232.0	128.0
Total	627.6	404.4	559.0	409.0

The closing order book at the year end of £559.0 million represents a 37% increase on the previous year end. This reflects the significant increase in demand for the Group's products during the year, and provides a solid base for performance in the current financial year. Since most of the Group's contracts are annual contracts with delivery periods from six to twelve months following receipt of order, the order book represents a good leading indicator of the minimum revenues that will be traded in the following twelve months.

Operating profit**

	2009 £m	2008 £m
Continuing operations		
Energetics		
Pyrotechnics	43.8	22.5
EOD	15.6	4.1
Munitions	13.4	19.1
	72.8	45.7
Countermeasures	53.5	45.5
Total	126.3	91.2

The operating profit from continuing operations provides a consistent year-on-year measure of the trading performance of the divisions within the Group. It does not include significant non-recurring or exceptional costs that would distort a comparative assessment nor does it include unallocated corporate costs associated with operating a public company. The operating profit from continuing operations for the Group increased by 38% during the year, reflecting the strong operating performance of both divisions. The Countermeasures division improved by 18% and the Energetics division by 59%.

** Operating profits of the divisions are stated before charges for share-based payments, unallocated head office costs, restructuring costs and goodwill adjustment arising from recognition of tax losses, intangible amortisation arising from business combinations and gain/(loss) on fair value movements on derivatives totalling £18.4 million (2008: £22.8 million)

Return on sales**

	2009 %	2008 %
Continuing operations		
Energetics	23	23
Pyrotechnics	25	24
EOD	25	27
Munitions	16	22
Countermeasures	29	29
Total	25	26

The return on sales percentage is a vital measure that provides an assessment of the profitability of the business and allows a comparison to be made of management performance and trading effectiveness independent of revenue size. In a company with a significant rate of growth, such a measure provides a clear indicator of whether revenue growth has occurred at the expense of profit or whether market conditions, such as competitive pressures, have made an impact. The two divisions have maintained their return on sales consistent with last year. However, the higher growth rate of the Energetics division has changed the margin mix at the Group level, resulting in a 1% reduction in the overall return on sales.

Interest cover

	2009	2008
Total	9.4 times	7.9 times

Interest cover provides a clear and simple metric of the ratio between the operating profit generated by trading, compared with the funding requirement to maintain the current debt. It is an important indicator for the Group and forms the basis of one of our specified banking covenants, which requires us to maintain at all times interest cover of at least 4 times. Net finance expense was covered 9.4 times by underlying operating profit* at the year end. The Board aims to keep interest cover at a prudent level.

Operating cash flow

	2009 £m	2008 £m
Total	106.7	83.7

Operating cash flow provides a simple measure of the cash generated by trading within the businesses. It represents the money available to fund capital expenditure, interest payments, tax and shareholder dividends. The Group operating cash flow increased by 27% to £106.7 million during the year. This represents a conversion rate of underlying operating profit* to operating cash of 93%.

Principal risks and uncertainties

As described on page 50 and 51, the Board is responsible for the Group's systems of internal control and its risk management systems. The Board has constituted a Risk Management Committee, which meets quarterly, to review the key risks associated with the achievement of the annual budget and the five year plan for each business; the top five health and safety risks identified at each site; and the risk control procedures implemented. The Committee reports biannually to the Audit Committee and the Board and, through this process, the Board has identified the following principal risks currently facing the Group. The mitigation actions taken by the Group management to address these risks are also set out below. The Group mitigates its risk exposure through an insurance programme that covers property and liability risks, where it is appropriate and cost effective to do so.

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

Principal risks and uncertainties

continued

Risk	Mitigation actions
Management resource The Group requires competent management if it is to achieve its growth expectations, successfully integrate its acquired businesses and meet its aggressive order capture targets. The Board has identified, in particular, that the Group needs to strengthen its sales and marketing resources, in order to maximise order intake as explained above, and its engineering resources, in order to undertake the product development activities needed to support the Group's five year plan.	The Group Executive Committee reviews the strengths and weaknesses of the management team at each business twice a year. We continue to strengthen the management organisation across the Group, and a number of new senior appointments have been made during the year. A bespoke management development programme for the senior management was delivered by Henley Management College during the year, and we are now considering how this will be rolled out to the next tier of management. We have undertaken a detailed review of our future sales and marketing and engineering resource requirements, and we are actively recruiting in each of these areas. Over the next twelve months, we will focus on future requirements for our finance functions and on implementing a long term IT strategy that will be scalable and able to rapidly encompass additional new businesses as the Group continues to expand.
Introduction of new manufacturing facilities We are currently investing significant capital expenditure in the establishment of new manufacturing facilities in the UK, the USA, Italy and Australia. We need to ensure that these facilities are completed within budget and on time, in order to maximise our manufacturing capacity for our future growth expectations.	Progress on all of the significant capital investment projects is being closely monitored by the Group Executive Committee and the Board. A Senior Project Director has been appointed to oversee the design and construction activities for the new countermeasures facilities in the UK and Australia, and dedicated project managers have been appointed to oversee the other major programmes in the USA and continental Europe. The new countermeasures facility at Salisbury in the UK is currently running slightly behind schedule, due to the challenges associated with the new automated process which is being installed, but both the UK and Australian facilities should still be completed before the end of 2010.
Introduction of new products The Group's approach to innovation and continued research and development activity ensure that we are continually adding new products to the range. We need to ensure that this new product development is completed in a timely manner to a standard which allows us to undertake volume manufacturing, and to produce products against high reliability and safety criteria to meet our customers' requirements.	As referred to above, we are strengthening our engineering resources to ensure that we have the right people to deliver the product development activities in our five year plan. In the UK, we have an established a five year research partnership with Cranfield University, looking at new technologies and products for future development. We also have smaller partnerships with a number of US universities, including the Georgia Technology & Research Institute, University of Massachusetts, Penn. State University, Duke University, University of Florida, University of Louisville, Missouri University, South Dakota School of Mines, and the New Jersey Institute of Technology. We continue to build new manufacturing facilities to accommodate the production of new products, and to increase capacity on our existing production lines. This necessitates careful management of contractors - where construction work is being undertaken, suppliers - where new components have to be qualified for use in our products, and employees - where training in new skills is required. We continue to introduce Six Sigma techniques as appropriate within the organisation to improve our manufacturing capabilities. This investment in new facilities will continue over the course of our five year plan.
Political risks It is recognised that the nature of the current military operations around the world may change over the next three to five years.	The Group's energetics activities are less dependent on these military activities, particularly as the product portfolio continues to grow in areas such as pyrotechnics and explosive ordnance disposal (EOD). We do not believe that the Group's countermeasures business will be significantly impacted by a change in current military operations, as our products will still be required to provide defensive protection during the continuing peacekeeping activities. Growth in the countermeasures business will be delivered as our proprietary products are fitted to a range of new platforms in Europe and the USA.

Risk

Competitive risks

Defence is a global industry, which is constantly challenged to counter ever-changing threats. The Group's strategy is to focus on targeted niches in energetic materials and systems, where the nature of the products and the requisite production and qualification processes provide significant barriers to new entrants. However, as threats evolve, new businesses offering new solutions may enter the market.

Compliance and corruption risks

The Group operates in over eighty countries worldwide, and is subject to the laws and regulations of each of these countries. The Group must ensure that all of its businesses, its employees and third parties acting on its behalf comply with their legal obligations, and do not expose the Group to financial penalties or reputational damage.

Financial risks

Details of the financial risks to which the Group is potentially exposed are set out in Note 24 of the financial statements.

Mitigation actions

The nature of the threat from missiles and other weapons is continually changing, particularly as new platforms are introduced in different countries, and countermeasures solutions need to develop on an ongoing basis to meet the enhanced requirements. The number of countermeasures manufacturers is currently small but as technologies change, existing manufacturers compete for new products and new businesses can enter into the market. The Group is currently the world leader in the supply and manufacture of expendable countermeasures, with a number of proprietary products, and we intend to maintain this position through our continued investment in research and development, and world class manufacturing facilities.

The competitive threat to our energetics businesses is generally lower as the market is fragmented and our competitors are generally smaller companies with national market positions and limited product ranges. Our core strategy is to grow our business by taking market share and we are, therefore, strongly focused on our research and development activities to ensure we have new updated product available at the right time. We also invest substantial funds to enhance our manufacturing capabilities, in order to maintain our leading position in our niche technologies and markets.

The Group has a central legal and compliance function which assists and monitors all Group businesses. The Group's internal audit activities have also been expanded to incorporate a review of legal risks.

The Group has a Code of Business Principles, which stipulates the standard of acceptable business conduct required from all of our employees and third parties acting on our behalf. A significant proportion of the Group's management have received training in relation to ethics and anti-corruption.

The Group has committed to adherence with the European Aerospace and Defence Association's Common Industry Standards on Anti-Corruption, and is reviewing all of its business processes, including arrangements with third party representatives, in order to achieve full compliance.

Corporate Responsibility Review

Our approach

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

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

During the year, the Group Executive Committee steered a focused review of the Group's corporate responsibility performance, recognising that the long term success of the Group will be enhanced by a positive interaction with all of our stakeholders. Our senior management also participated in a workshop on corporate responsibility as part of the Group's management development programme. As a consequence of these initiatives, we have concluded that we should focus in particular on the following key areas:

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

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

Further details of our approach are set out below.

In the workplace

Health and safety Our policy and practices

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

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

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

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

Our programme of health and safety audits continues, supported by external consultants. These audits incorporate a review of process safety management in the US, and, in Europe, address the requirements of the Seveso II Directive.

We continue our successful implementation of formal management systems across the business, and now have fourteen out of seventeen candidate sites validated as compliant with the health and safety management system OHSAS18001. We require all newly-acquired businesses to achieve certification within two years of joining the Group.

Newly-acquired businesses are rapidly introduced to the Group's safety philosophy, with detailed regulatory compliance audits and programme gap analysis. Risk registers are compiled, and businesses are required to reduce their major health and safety risks to as low as reasonably practicable.

The Group has committed to substantial investments in manufacturing facilities that will, in addition to improving productivity, improve the safety of the workforce by reducing the levels of risk. We apply particular attention to those facilities that compare unfavourably with their peers, and have put systems and processes in place to facilitate the sharing of information across the Group.

Our ongoing safety improvement activities are focused on ensuring that our buildings, processes and products are as safe as reasonably practicable for our employees and product users. A "Design for Health, Safety and the Environment" programme was developed during the year, to identify opportunities for improving the safety to users and environmental impact of our products at the concept and design stages. The programme is currently being rolled out to all of the businesses.

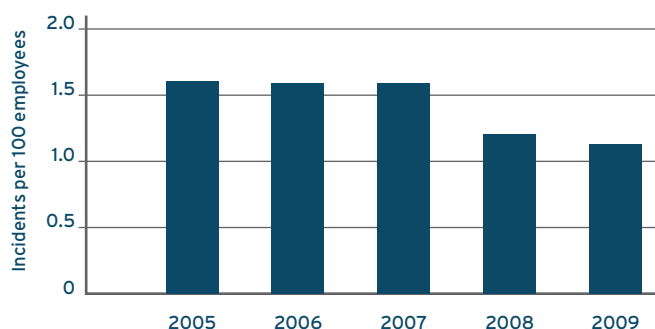
The Group has an established relationship with Cranfield University, both for the supply of employee training programmes and for the development of simulation modelling to evaluate blast and thermal effects from the ignition of pyrotechnic and other materials.

Our performance

Our lost time incident rate (calculated using the US Occupational Safety and Health Administration (OSHA) rules) showed a modest improvement from 1.20 to 1.13 incidents per 100 employees during the year. Six of our sites reported no lost work days in the year, which is an excellent achievement. We are working closely with our other sites whose safety performance was not as satisfactory.

Our historical lost time incident rate performance is shown below:

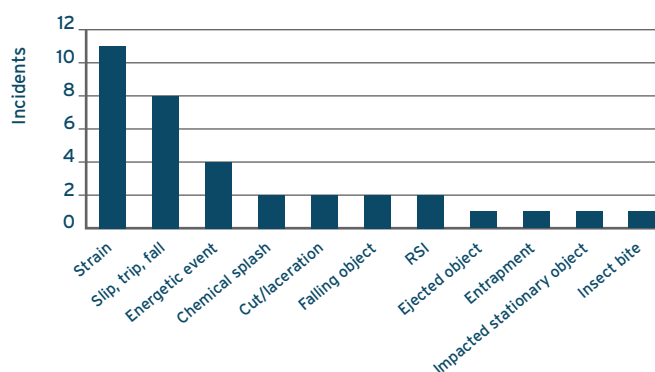
Lost time incident rate performance



Whilst we take all incidents seriously, we pay particular attention to those where employees are hurt due to an energetic event. We had four lost time events following unexpected initiations during the year: two at Technical Ordnance in the USA, and one each at Chemring Defence Germany and Chemring Australia. These events were fully investigated and engineering controls implemented to prevent re-occurrence.

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

Lost time incidents by category



A continued focus on “near misses” during the year resulted in 2,521 near misses being formally reported and acted upon. Employees are encouraged to report issues, however small, which then go through a rigorous corrective action process.

In our most serious accident during the year, an employee suffered the partial amputation of a finger in a press at our Derby, UK facility. The incident was fully investigated and the equipment involved has now been eliminated from the manufacturing process.

Employees

The Board recognises the valuable contribution that the Group’s employees continue to make to its success, and aims to provide a working environment that reflects and rewards this. The Group now has over 3,400 employees based in seven countries.

Employment practices

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

Gender diversity



Ethnic diversity



Development and training

We continue to address training and development requirements for employees at all levels within the organisation. During the year, the Group’s senior management participated in a tailored management development programme, which was delivered by Henley Management College, and we are now considering how this will be rolled-out to the next tier of management. All of our businesses consider training needs for their employees at a local level, in order to ensure that they have the right skill base in order to deliver their five year strategic plan. Group-wide reviews have also been undertaken of our sales and marketing and engineering resources, in order to identify the requirements for future recruitment and development of our existing employees in these areas.

Our European businesses adopted a new “people capability process” for performance appraisal and management during the year, and this will be fully implemented in 2010.

Our first two undergraduate students completed their “year in industry” placement with our UK businesses during 2009, and we are aiming to extend the programme this year. We are also considering how we can develop our graduate recruitment initiatives.

Succession planning, human resource requirements and the future organisational structure of the Group as it continues to grow are reviewed on a regular basis by the Board.

Corporate Responsibility Review

continued

Benefits

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

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

Communications

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

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

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

In the environment

Our policy and practices

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

We now have fifteen out of seventeen candidate sites certified to the environmental management system ISO14001. We require all newly-acquired businesses to achieve ISO14001 certification within two years of joining the Group.

Our ISO14001 programme requires that all sites have their own environmental goals and objectives, which are very much focused on local aspects and impacts. However, we continue to monitor key environmental data across the Group.

Land quality

Our Scot facility, which is based in Downers Grove, Illinois, USA, is located on a site which has "superfund" status under the US contaminated land (CERCLA) regime. A £4.6 million provision has been made in respect of the pre-acquisition environmental liabilities associated with the site, which the Board considers to be adequate (see Note 25 of the financial statements). Whilst there has been little activity during the year, we continue to work with external consultants to ensure that the legal obligations of the business in relation to this matter are fully satisfied.

Incidents

An environmental incident occurred at Chemring Countermeasures in the UK in May 2009, when a corroded pipe led to the loss of approximately 3,000 litres of dichloromethane (methylene chloride) into the ground. The Environment Agency was notified immediately, and a fast response limited the environmental consequences. A soil vapour extraction plant has been installed to protect the local aquifer and the secondary containment arrangements have been updated.

Waste

Our total non-recycled waste generated in the year, excluding that generated by businesses acquired during the year, was as follows:

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

The increase in the non-hazardous waste reflects the growth in the Group during the year and the expansion of our product ranges. The reduction in the hazardous waste reflects the first full year of recycling the caustic wastes generated by Alloy Surfaces, an initiative which we reported on last year.

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

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

Energy and emissions

During 2008 we collected detailed data on travel within the Group, which revealed that this activity represented less than 3% of our overall carbon footprint from energy utilisation. Energy utilisation is therefore now our main focus of attention.

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

Source	2009 (tonnes CO ₂)	2008* (tonnes CO ₂)	2007 (tonnes CO ₂)
Electricity	36,334	29,128	21,556
Gas	12,512	12,384	11,931
Oil	2,008	2,351	2,878
Total	50,854	43,863	36,365

*restated

(Note: We do not include emissions from our supply chain nor use or disposal of our products in these calculations.)

The Group's total emissions increased by 16% during the year, against an increase in revenue (excluding current year acquisitions) of 29%, which means that our overall carbon intensity reduced during the year as follows:

	2009	2008*	2007
Total emissions (tonnes CO ₂)	50,854	43,863	36,365
Group revenue (£million) - continuing operations	458.3	354.2	254.7
Tonnes of CO₂ per £million of revenue	111.0	123.8	142.8

We are increasing our efforts to address energy conservation and thus indirect emissions in the future, and a detailed study on renewable energy options was undertaken during the year. All UK sites have had independent energy audits, and all of our businesses have emissions reduction programmes in place. We have also adopted a greenhouse gas emissions policy, which allocates responsibilities for reducing our direct and indirect emissions, and sets out our objectives in this area.

The Chemring Energetics facility at Ardeer in Scotland is currently the only site that falls under the EU Emissions Trading Scheme. However, the entire UK Group will be required to participate in the Carbon Reduction Commitment programme when it is introduced.

During the year the Group participated in the Carbon Disclosure Project for the first time.

Water

We commenced the detailed monitoring of water consumption during the year. We consumed a total of 1,762,000 m³ of water and will provide a progress report next year.

In the community

Helping others

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

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

- Donations to a range of charities including Help for Heroes, Army Benevolent Fund, Supporting Royal Marines, SAMA & Falklands Veterans Association, Queen Alexandra Hospital Home, various health and cancer charities, local hospitals and schools, and ongoing support for the Mary Rose Appeal.
- Sole sponsorship of the 7 Air Assault Battalion Royal Electrical and Mechanical Engineers (REME) Royal Navy Field Gun Crew. The Group is proud to be associated with the 7 Air Assault Battalion, who provide support to the vehicles, weapons and aircraft of 16 Air Assault Brigade. The soldiers support aircraft in various areas of conflict around the world.
- Sponsorship of the UK Aerospace Youth Rocketry Challenge.
- Continued sponsorship of a UK employee in his efforts to compete in his chosen sport of archery at the 2012 Olympics.

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

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

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

In the marketplace

Policy on the Sale of Goods and Services

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

Business conduct

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

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

Ethics and anti-corruption

The Group has committed to adherence with the European Aerospace and Defence Association's Common Industry Standards on Anti-Corruption, and we have reviewed and updated a number of our business processes across the Group with the aim of achieving full compliance. Significant progress has been made in the following areas during the year:

- The management of our European businesses and employees working within commercial, sales and marketing, finance and human resource functions have received training on ethics and anti-corruption.
- We have adopted a new Group-wide policy and revised procedures on the appointment of agents and other third party representatives.
- Approximately one-third of our agents have been subjected to due diligence by external consultants, and the remainder have been covered by a detailed, internal due diligence review.
- New standard agreements are being entered into with all agents, which reflect the requirements of the Common Industry Standards.
- Policies and procedures on the giving and receiving of gifts and hospitality have been adopted.

Our Code of Business Principles has also been updated to incorporate the Common Industry Standards.

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

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

Directors and professional advisers



Kenneth C Scobie~+

Non-Executive Chairman

Joined the Group as Non-Executive Chairman in June 1997. Former Chairman of Allied Leisure plc. Chairman, Chief Executive and non-executive director of a wide range of industrial companies since 1972.

Aged 71.

Dr David J Price CBE

Chief Executive

Joined the Group in April 2005 as Chief Executive. Formerly Managing Director, Naval Marine at Rolls-Royce plc. Previous appointments in the aerospace sector include Managing Director of Thomson (UK) Holdings Ltd and Chief Executive of Thomson-Thorn Missile Electronics Ltd (both now part of the Thales Group). Fellow of the Institute of Electrical Engineers and the Institute of Marine Engineering, Science & Technology. Member of the Defence Industries Council.

Aged 54.

Paul A Rayner FCA

Finance Director

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

Aged 48.

David R Evans

Non-Executive Director

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

Aged 63.

Professional advisers

Auditors

Deloitte LLP, Southampton

Bankers

Bank of Scotland, London

Stockbrokers

Investec Henderson
Crothwaite, London

Headquarters and registered office

Chemring House, 1500 Parkway,
Whiteley, Fareham, Hampshire,
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Tel: +44 1489 881880
Fax: +44 1489 881123
Website: www.chemring.co.uk

Registration number

86662

Registrars

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



**The Rt Hon
Lord Freeman*~**

Non-Executive Director

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

Aged 67.



Ian F R Much*~+

Non-Executive Director

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

Aged 65.



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

Non-Executive Director

Joined the Group as a non-executive director in May 2004. Currently a non-executive director of Turbomeca UK Limited, Senior Military Adviser of Selex Systems Integration Limited and consultant within the aerospace and defence sectors. Formerly Deputy Chief of Defence Procurement (Operations) and Controller Aircraft. Past President of the Royal Aeronautical Society and Chairman of Turbomeca UK Limited.

Aged 65.



Sarah Ellard FCIS

Company Secretary

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

Directors' Report

The directors present their annual report, together with the audited financial statements of the Group and the Company, for the year ended 31 October 2009.

Principal activities

The principal activities of the Group are the design, manufacture and sale of energetic material products and countermeasures.

Business review

The Statement by the Chairman, the Review by the Chief Executive, the sections of the annual report on each of the business segments, and the Review by the Finance Director, together with the section on key performance indicators and principal risks and the Corporate Responsibility Review, on pages 4 to 33, provide a review of the Group's business development, performance and position during and at the end of the financial year; its strategy and likely future development; key performance indicators; and a description of the principal risks and uncertainties facing the business. Further information regarding financial risk management policies and financial instruments is given in Note 24 of the financial statements. Details of significant events since the balance sheet date are contained in Note 37 of the financial statements.

Results and dividends

The profit attributable to the Group's shareholders for the year was £70.1 million (2008: £41.2 million). The directors recommend a final dividend of 36p per ordinary share, which together with the interim dividend of 14p per ordinary share paid in August 2009 gives a total for the year of 50p (2008: 35p). The final dividend is subject to approval by shareholders at the Annual General Meeting on 17 March 2010, and accordingly has not been included as a liability in these financial statements.

Directors and their interests

The present directors are shown on page 34 and 35.

The Rt Hon Lord Freeman and Mr K C Scobie will be retiring by rotation at the forthcoming Annual General Meeting and will be offering themselves for re-election. Details of the service contract between the Company and Mr Scobie are set out in the Directors' Remuneration Report on page 44. The Rt Hon Lord Freeman does not have a service contract with the Company.

None of the directors had a beneficial interest in any contract of significance to which the Group was a party during the year ended 31 October 2009.

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

Substantial shareholdings

At 19 January 2010 the following substantial holdings in the ordinary share capital of the Company had been notified to the Company in accordance with Chapter 5 of the Disclosure and Transparency Rules of the Financial Services Authority:

Name	% Interest
Standard Life Investments Ltd	8.99
Old Mutual Asset Managers	5.13
JP Morgan Chase & Co.	4.94
AXA S.A and its group of companies	4.84
Legal & General Group PLC	3.97
BT Pension Scheme Trustees Ltd as Trustees of the BT Pension Scheme	3.96

Employees

Details of the Group's employment policies are set out in the Corporate Responsibility Review on page 31.

Charitable and political donations

Charitable donations amounting to £61,166 (2008: £29,306) were made during the year. No political donations were made during the year (2008: £nil).

Contractual arrangements

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

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

Policy on payment of suppliers

It is the policy of the Group that each of the Group companies should agree appropriate terms and conditions for its transactions with suppliers. These will range from standard written terms to individually negotiated contracts. Creditor days of the Group as at 31 October 2009 amounted to 59 days (2008: 60 days).

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

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

Date of award	Total number of shares awarded	Number of participants receiving awards
21 January 2009	150,404	31
24 June 2009	12,653	3
Total	163,057	34

The Chemring 1998 Executive Share Option Scheme (the "1998 ESOS")

No options were granted during the year. Options over 50,000 ordinary shares were exercised during the year. Additional information is set out in Note 32.

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

On 31 July 2009 options were granted over 33,512 ordinary shares. Options over 133 ordinary shares were exercised during the year. During the year options on 6,518 shares lapsed. Additional information is set out in Note 32.

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

On 31 July 2009 options were granted over 10,461 ordinary shares. During the year options on 575 shares lapsed. No options were exercised during the year. Additional information is set out in Note 32.

The Chemring Group PLC Share Based Incentive Scheme (the "ESOP")

No options were granted during the year and there were no options outstanding under the ESOP at 31 October 2009.

Approach to share ownership

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

Share capital and shareholder rights

General

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

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

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

If a shareholder has been properly served with notice under section 793 of the Companies Act 2006 ("the Act") requiring information about interests in shares, and has failed to supply such information within 14 days after the service of the notice, then the shareholder is not entitled to attend and vote at a shareholder meeting.

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

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

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

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

Issue of shares

Under the provisions of section 551 of the Act, the Board is prevented from exercising its powers under the Articles to allot shares without an authority in terms of the Act contained either in the Articles or in a resolution of the shareholders in general meeting.

The authority, when given, can last for a maximum period of five years, but the Board proposes that renewal should be sought at each Annual General Meeting. Such proposal is set out as resolution 8 in the Notice of Annual General Meeting.

Section 561 of the Act requires that an allotment of shares for cash may not be made unless the shares are first offered to existing shareholders on a pre-emptive basis in accordance with the terms of the Act. In accordance with general practice, to ensure that small issues of shares can be made without the necessity of convening a general meeting, the Board proposes that advantage be taken of the provisions of section 570 of the Act to not apply the Act's pre-emptive requirements. Accordingly, a special resolution (set out as resolution 9 in the Notice of Annual General Meeting) will be proposed which, if passed, will have the effect of granting the directors the power to allot not more than 5% of the present issued ordinary share capital free of the requirements of section 561 of the Act. No issue of these shares will be made which would effectively alter the control of the Company without prior approval of the shareholders in general meeting.

Purchase of own shares

During the year the Company purchased 78,301 (2008: 160,000) of its ordinary shares, and 115,170 (2008: nil) ordinary shares were distributed following vesting of awards under the Chemring Group Performance Share Plan. At 31 October 2009, the Company held a total of 273,131 ordinary shares in treasury (representing 0.8% of the ordinary shares in issue on 1 November 2009). All purchases of ordinary shares were by means of market purchases through the London Stock Exchange. Further details can be found in Note 30 of the financial statements.

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

Directors' Report

continued

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable laws and regulations.

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

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

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

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

Directors' Responsibility Statement

We confirm to the best of our knowledge that:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position, and profit and loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Statement by the Chairman, the Review by the Chief Executive, the sections of the annual report on each of the business segments and the Review by the Finance Director, together with the section on key performance indicators and principal risks and the Corporate Responsibility Review, which are cross-referred from the Directors' Report, include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

Provision of information to auditors

Each of the directors at the date of approval of this report confirms that:

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

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

Close company provisions

As far as the directors are aware, the close company provisions of the Taxes Acts do not apply to the Group nor has there been any change in that respect since 31 October 2009.

Auditors

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

Annual General Meeting

The resolutions to be proposed at the Annual General Meeting to be held on 17 March 2010, together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders.

Approved by the Board of Directors on 19 January 2010

Signed on behalf of the Board

S L Ellard

Company Secretary

Directors' Remuneration Report

This report sets out the information required by the Companies Act 2006 and Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008. The Report also meets the relevant requirements of the Listing Rules of the Financial Services Authority, and describes how the Board has applied the principles and complied with the provisions relating to directors' remuneration in the 2008 Combined Code on Corporate Governance. As required by the Regulations, the Directors' Remuneration Report will be submitted to shareholders for approval at the Annual General Meeting on 17 March 2010.

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

UNAUDITED INFORMATION

Remuneration Committee

During the year under review the Remuneration Committee comprised:

Mr I F R Much (Committee Chairman)

Air Marshal Sir Peter Norriss

The Rt Hon Lord Freeman

Mr K C Scobie (resigned 25 March 2009)

The Committee's principal responsibilities are:

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

None of the Committee members has any personal financial interest in the matters reserved for the Committee nor do they have any conflicts of interest arising from cross-directorships, and they are not involved in the day to day running of the Group's business. Therefore, they are regarded by the Board as independent.

The Committee met six times during the year. The Chairman and Chief Executive attend meetings by invitation but are not present during any discussions relating to their own remuneration.

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

Advisers

During the year the Committee received advice on remuneration matters from Hewitt New Bridge Street.

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

Remuneration policy for executive directors

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

- base salary and benefits, including pensions;
- annual bonuses linked to the Group's financial performance; and
- awards of share-based incentives linked to the long term growth of the Group.

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

Directors' Remuneration Report

continued

Key decisions reached by the Committee during the year in relation to ongoing remuneration arrangements for the executive directors are summarised below.

Base salary: The Committee considered, in particular, the performance of the Group, the prevailing economic conditions and the need to maintain market competitive salary levels. Against this background, base salary increases for the executive directors were limited to 5% with effect from 1 April 2009.

Pension provision: The Committee has agreed that with effect from 1 April 2010, the executive directors will cease to participate in the Group's defined benefit pension scheme, and will instead, for all future service, receive a salary supplement of 20% of base salary. Whilst these levels of contributions enhance the short-term fixed costs to the Company relative to the existing defined benefit pension arrangements, there is clearly an advantageous and offsetting transfer of investment risk to the individuals.

As a result of these two changes, the overall level of fixed pay for the executive directors in the forthcoming year will be closer to, but still below, the median of the market benchmarks used by the Committee (benchmarks which take into account both market capitalisation and turnover, and which have therefore increased less for the Group than would have arisen if based solely on market capitalisation).

Annual bonus: Executive directors will be required to receive 40% of any bonus earned in 2010 in the form of deferred shares (an increase from 25% in 2009). All other key aspects of the bonus scheme remain unchanged.

Share awards: Subject to shareholder approval at the Annual General Meeting, share awards worth (at grant) up to 125% of base salary will be granted to the executive directors in 2010 (within an increased normal annual award limit of 150% of salary). Awards will continue to be subject to highly challenging earnings per share growth targets.

More details on each of these changes are outlined below.

Comparator groups

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

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

The Committee also considered general comparator groups based on FTSE 250 companies with a similar market capitalisation and turnover.

Base salaries and benefits

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

The executive directors' current base salaries are as follows:

- Dr D J Price £420,000 (2008: £400,000)
- Mr P A Rayner £262,500 (2008: £250,000)

The executive directors' base salaries will next be reviewed on 1 April 2010.

The Committee also considers and approves the base salaries for nineteen other senior executives, and reviews salaries for the next tier of management at each of the Group's businesses. The Committee therefore has due regard for salary levels across the Group in applying its remuneration policy.

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

Annual bonuses

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

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

Bonuses are non-pensionable.

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

Bonus percentage received for:	2009		2008	
	D J Price	P A Rayner	D J Price	P A Rayner
Earnings per share performance	35.63 (37.5)	35.63 (37.5)	19.1 (22.5)	19.1 (22.5)
Cash flow performance	37.5 (37.5)	37.5 (37.5)	22.5 (22.5)	22.5 (22.5)
Achievement of personal objectives	21.0 (25.0)	21.25 (25.0)	10.5 (15.0)	12.7 (15.0)
Total	94.13 (100.0)	94.38 (100.0)	52.1 (60.0)	54.3 (60.0)

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

Year	2009	2008	2007	2006
Growth in underlying EPS ¹	33%	43%	56%	53%
Return to shareholders in year	70%	-23%	41%	145%

Executive	D J Price	P A Rayner	D J Price	P A Rayner	D J Price	P A Rayner	D J Price	P A Rayner
Maximum bonus potential (% of salary)	100%		60%		60%		60%	
Bonus paid (% of salary)	94.13%	94.38%	52.1%	54.3%	46.1%	44.6%	58.5%	58.5%

¹Source: Statutory accounts for the years ended 31 October 2009, 2008, 2007 and 2006

The basic structure of the bonus scheme will remain unchanged for the current financial year, namely with a maximum bonus potential of 100% of base salary. However, in order to reflect emerging best practice, the proportion of any bonus earned by the executive directors to be satisfied by the award of deferred shares will increase from 25% to 40%. Bonuses will continue to be determined by a mixture of earnings per share, cash flow and personal objectives.

Directors' Remuneration Report

continued

Long term incentives

Performance share plan

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

- conditional awards can be made of the Company's shares worth no more than 100% of base salary each year;
- awards will vest three years after grant subject to the extent to which a demanding performance condition has been achieved over a single three year performance period (with no ability to re-test the performance condition). The performance condition is based on the growth of the Company's earnings per share in excess of RPI over three consecutive financial years. The Committee considers an earnings per share condition to most closely align the interests of participants with those of the Company's shareholders;
- the vesting schedules for awards granted to date are as follows:

	Total earnings per share growth per annum (not compounded) over three financial years	
	Threshold vesting	Full vesting
Awards made prior to 23 January 2007	RPI +5% (33% vests)	RPI+15%
Awards made on 24 January 2007	RPI +7.5% (33% vests)	RPI+20%
Awards made on or after 23 January 2008	RPI +10% (25% vests)	RPI+30%

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

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

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

Date of award	Total number of shares awarded	Number of participants receiving awards
21 January 2009	150,404	31
24 June 2009	12,653	3
Total	163,057	34

Details of the awards made to executive directors during the year are set out on page 46.

The Committee remains committed to ensuring that it offers a suitably attractive pay package to its senior executives, aligned to shareholders' interests through the use of significant levels of potential variable pay triggered by exceptional levels of performance. The performance share plan was originally introduced when the Company was a Small Cap company and the maximum award level was set accordingly. As an established FTSE 250 company, the existing maximum award of 100% of base salary is now below market norms, and the Board will therefore be seeking shareholder approval at the Annual General Meeting on 17 March 2010 for an increase in the potential maximum level of future awards under the plan as follows:

- in normal circumstances, to permit maximum awards over shares worth up to 150% of base salary for an individual; and
- in exceptional circumstances, such as on recruitment, to permit maximum awards over shares worth up to 200% of base salary.

If these changes are approved, the initial grant policy will be for no awards worth more than 125% of base salary to be made in normal circumstances. Any proposed change from this policy in future years will be disclosed by the Committee in the Directors' Remuneration Report.

In considering the performance condition for awards which will be made in 2010, the Committee has considered the forward prospects for the defence industry around the world in the context of possible tightening of Government budgets caused by the recent financial crisis, whilst acknowledging that the outlook for the Group remains good. As a consequence, it is intended that the target for full vesting of awards worth up to 100% of salary will reduce marginally to RPI+25%. However, the Committee will continue to use a target of RPI+30% for full vesting of any award made above the existing 100% of base salary limit. The following vesting schedule will therefore apply for awards made in 2010:

Total earnings per share growth per annum (not compounded) over three financial years	Percentage of the total number of shares under an award that vest
Less than RPI + 10%	Nil
RPI + 10%	25%
RPI + 25%	100% (for awards of up to 100% of base salary)
RPI + 30%	100% (for awards of up to 125% of base salary)

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

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

During the year under review, the Company purchased 78,301 (2008: 160,000) treasury shares at a cost of £1.5 million for use in the plan. 115,170 shares were transferred from treasury to participants in the plan during the year on vesting of the award made on 23 March 2006.

The executive directors are expected to build-up, over a five year period following appointment, and maintain a shareholding in the Company equivalent to one year's base salary. Both of the executive directors currently hold shares significantly in excess of this requirement. Other participants in the plan are expected to retain a shareholding equivalent to 25% of their basic salary following vesting of the awards.

Other schemes

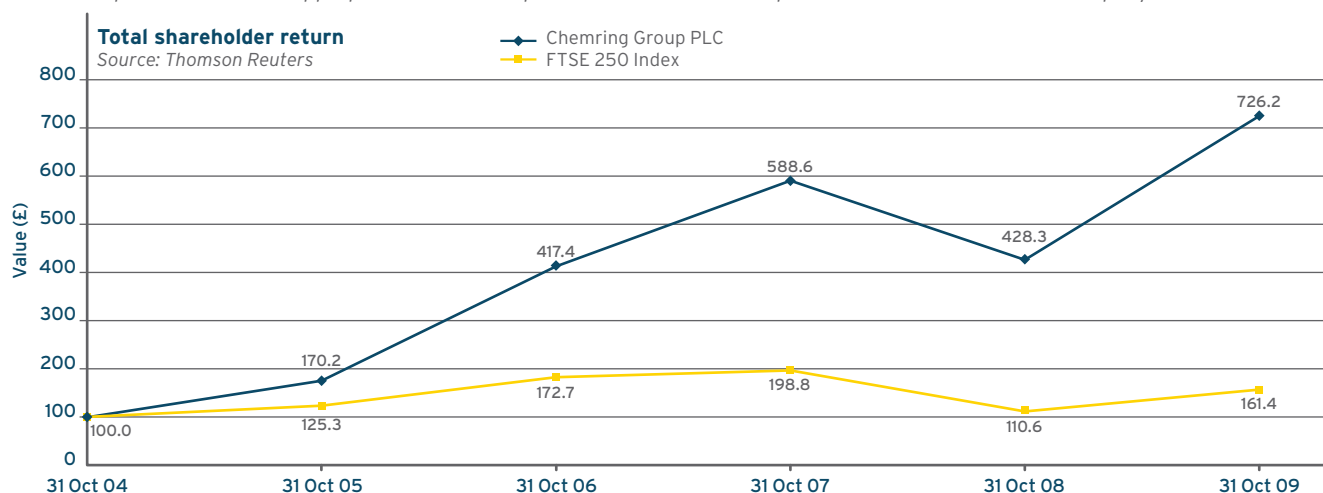
The Company operates all-employee savings-related share schemes in the UK (the Chemring Group 2008 Sharesave Plan) and the USA (the Chemring Group 2008 US Stock Purchase Plan). There are no performance criteria for these arrangements, and options are issued to all participants in accordance with UK HM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

The Company previously operated a long term incentive scheme known as the Chemring Group PLC Share Based Incentive Scheme. This scheme is not being utilised at present.

The Company complies with the dilution guidelines contained within "Executive Remuneration - ABI Guidelines on Policies and Practices". At 31 October 2009, awards outstanding and issued under all share schemes during the previous ten years amounted to 3.43% of the ordinary share capital of the Company. At 31 October 2009, awards outstanding and issued under executive share schemes during the previous ten years amounted to 3.17% of the ordinary share capital of the Company.

Performance graph

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



This graph shows the value, by 31 October 2009, of £100 invested in Chemring Group PLC on 31 October 2004 compared with the value of £100 invested in the FTSE 250 Index. The other points plotted are the values at intervening financial year ends.

Directors' Remuneration Report

continued

Pensions

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

Dr Price's pension under the Staff Scheme accrues at 1/80th of final pensionable salary for each year of membership, and he also accrues a cash lump sum at 3/80ths of final pensionable salary for each year of membership. On death-in-service, Dr Price's dependants would receive a lump sum payment of two times base salary and, in addition, a 50% spouses' pension would be payable. Dr Price is subject to an earnings cap (equivalent to the cap applied by HM Revenue and Customs prior to April 2006) in respect of his membership of the Staff Scheme.

Mr Rayner was a member of the Chemring Group Executive Pension Scheme until it merged with the Staff Scheme on 6 April 2009, at which time he became a member of the Staff Scheme. Mr Rayner's benefits under the Staff Scheme accrue in an identical manner to that in which Dr Price accrues benefits under the Staff Scheme, as set out above, save that Mr Rayner is not contracted out of the State Second Pension and a two-thirds' spouses pension is payable in respect of his service accrued to 31 January 2004, reducing to 50% for service accrued thereafter. Mr Rayner is also subject to an earnings cap.

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

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

Service contracts

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

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

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

Policy on outside appointments

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

Non-executive directors

Mr Scobie has a service contract with the Company which will expire at the conclusion of the Company's Annual General Meeting in March 2010. The Board has previously announced that it has commenced the search for Mr Scobie's successor when he retires, and his current contract will therefore be extended on a rolling-basis until a successor is appointed. Mr Scobie's remuneration under the contract, part of which is paid to his company for consultancy services, is £131,250 per annum. He is required to devote such time to his role as is reasonably necessary for the proper performance of his duties.

Mr Evans, The Rt Hon Lord Freeman, Mr Much and Air Marshal Sir Peter Norriss have letters of appointment covering, amongst other items, their terms of appointment and expected time commitment. These letters of appointment provide for three year appointments, unless terminated earlier by and at the discretion of either party upon three months' written notice. The Rt Hon Lord Freeman, Mr Much and Air Marshal Sir Peter Norriss are currently serving their second three year terms as non-executive directors, which will expire on 25 May 2012, 30 November 2010 and 30 April 2010 respectively. Mr Evans' current three year appointment as a non-executive director will terminate on 30 March 2012.

The basic fee payable to each of the four non-executive directors is £42,000 per annum. The Rt Hon Lord Freeman and Mr Much each receive an additional fee of £7,000 per annum, in respect of their Chairmanship of the Audit Committee and Remuneration Committee respectively. During the year Mr Much was appointed as the Senior Independent Director but he receives no additional fee for this role.

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

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

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

AUDITED INFORMATION

Directors' emoluments

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

	Salaries and fees		Bonuses (cash and deferred shares)		Taxable benefits		Total	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Executives								
D J Price	412	379	396	208	36	31	844	618
P A Rayner	257	238	248	136	20	19	525	393
Non-executives								
D R Evans	41	38	-	-	1	1	42	39
R N Freeman	48	43	-	-	-	-	48	43
I F R Much	48	43	-	-	-	-	48	43
P C Norriss	41	38	-	-	1	1	42	39
K C Scobie	129	123	-	-	3	3	132	126
Total remuneration	976	902	644	344	61	55	1,681	1,301

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

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

Directors' share interests

The interests of the directors in the ordinary shares of the Company at 1 November 2008 and 31 October 2009 are shown below. All are beneficial holdings.

	2009 Number	2008 Number
D R Evans	15,000	15,000
R N Freeman	350	350
I F R Much	3,000	3,000
P C Norriss	5,400	5,400
D J Price	110,867	97,698
P A Rayner	35,000	30,500
K C Scobie	220,173	216,173

The directors' share interests at 31 October 2009 include shares held by the directors' adult children, as required by the Companies Act 2006.

During November 2009 and prior to the start of the Company's close period, Mr Much purchased an additional 2,300 ordinary shares. No other movements have taken place between 31 October 2009 and 19 January 2010.

Directors' Remuneration Report

continued

Performance share plan

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

	Number of shares under award				At 31 Oct 2009	Date of vesting	Share price on date of award (p)
	At 1 Nov 2008	Awarded during the year	Lapsed during the year	Vested during the year			
D J Price	22,321	-	-	(22,321)*	-	23 Mar 2009	1,136
	17,543	-	-	-	17,543	24 Jan 2010	1,730
	18,004	-	-	-	18,004	23 Jan 2011	1,895
	-	20,000	-	-	20,000	21 Jan 2012	2,031
	57,868	20,000	-	(22,321)	55,547		
P A Rayner	14,285	-	-	(14,285)*	-	23 Mar 2009	1,136
	11,111	-	-	-	11,111	24 Jan 2010	1,730
	11,316	-	-	-	11,316	23 Jan 2011	1,895
	-	12,500	-	-	12,500	21 Jan 2012	2,031
	36,712	12,500	-	(14,285)	34,927		

*Awards granted on 23 March 2006 vested in full during the year, as the maximum earnings per share growth target was achieved. The share price on the date of vesting was 2,055p. The value of the vested award, and therefore the gain on vesting, to Dr D J Price was £458,697 and to Mr P A Rayner was £293,557.

Awards were granted during the year on 21 January 2009. 25% of the shares under award will vest if earnings per share growth is RPI+10% p.a. over the three year performance period, rising on a straight-line basis to full vesting for growth of at least RPI+30% p.a.

Share options

None of the directors held any share options granted under the Chemring 1998 Executive Share Option Scheme at 1 November 2008 and 31 October 2009.

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

	Number of share options				Exercise price(p)	Market price at date of exercise (p)	Date from which exercisable	Expiry date
	At 1 Nov 2008	Granted during the year	Lapsed during the year	Exercised during the year				
D J Price	503	-	-	-	503	1,868	-	1 Oct 2011 1 Apr 2012
P A Rayner	871	-	-	-	871	1,868	-	1 Oct 2013 1 Apr 2014

The market price of the ordinary shares at 31 October 2009 was 2,645p. During the year, the ordinary shares traded within the range 1,604p to 2,645p.

Deferred shares

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

	Number of deferred shares under award				At 31 Oct 2009	Date of vesting	Share price on date of award (p)
	At 1 Nov 2008	Awarded during the year	Lapsed during the year	Vested during the year			
D J Price	2,566	-	-	-	2,566	16 Jan 2010	1,710
	2,074	-	-	-	2,074	10 Jan 2011	1,944
	-	2,603	-	-	2,603	13 Jan 2012	2,000
	4,640	2,603	-	-	7,243		
P A Rayner	1,625	-	-	-	1,625	16 Jan 2010	1,710
	1,261	-	-	-	1,261	10 Jan 2011	1,944
	-	1,697	-	-	1,697	13 Jan 2012	2,000
	2,886	1,697	-	-	4,583		

Pensions

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

	Total benefit accrued at 31 Oct 2008		Transfer value of accrued benefit at 31 Oct 2008 (£)	Increase in accrued benefit during year		Total benefit accrued at 31 Oct 2009		Transfer value of accrued benefit at 31 Oct 2009 (£)	Transfer value of increase in accrued benefit (less members' contributions) (£)	Increase in transfer value during year (less members' contributions) (£)
	Pension (£p.a.)	Cash (£)		Pension (£p.a.)	Cash (£)	Pension (£p.a.)	Cash (£)			
D J Price	5,145	15,435	60,693	1,808	5,423	6,953	20,858	106,648	16,586	36,307
P A Rayner	21,192	63,577	254,281	2,627	7,879	23,819	71,456	393,325	20,387	129,396

i) Zero inflation has been assumed for the purpose of the above.

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

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

Approval of the Directors' Remuneration Report

The Directors' Remuneration Report was approved by the Board on 19 January 2010.

Signed on behalf of the Board

I F R Much

Chairman of the Remuneration Committee

Statement on Corporate Governance

This statement sets out how the Company has applied the main and supporting principles of good governance set out in Section 1 of the Combined Code on Corporate Governance issued in 2008 by the Financial Reporting Council ("the Combined Code"). Throughout the year ended 31 October 2009, the Company has been in compliance with the code provisions set out in Section 1 of the Combined Code, with the sole exception that the Board only appointed a Senior Independent Director part way through the year (provision A.3.3).

The Board

The Board currently comprises the Chairman, the Chief Executive, the Finance Director and four non-executive directors. The Board considers that three of the current non-executive directors, The Rt Hon Lord Freeman, Mr Much and Air Marshal Sir Peter Norriss, are independent in character and judgment, and meet the criteria for independence set out in the Combined Code. The directors' biographical details are set out on page 34 and 35.

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

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

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

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

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

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

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

In addition to chairing the Board, the Chairman is responsible for: ensuring that the Board is kept properly informed and is consulted on all decisions reserved to it; promoting constructive relations between the executive and non-executive directors; ensuring that the development needs of directors are identified and the performance of the Board evaluated on a regular basis; and ensuring effective communication with shareholders and acting as a conduit to ensure that the views of shareholders are communicated to the Board. The Chairman has no significant business commitments other than his chairmanship of the Company.

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

With the increase in size of the Group and its position in the FTSE 250, the Board decided during the year that it was an appropriate time to appoint a Senior Independent Director. Mr Much assumed this role.

During the financial year, the Chairman met regularly with the non-executive directors without the executives present.

Mr Evans, The Rt Hon Lord Freeman, Mr Much and Air Marshal Sir Peter Norriss all have letters of appointment covering, amongst other items, their terms of appointment and expected time commitment. These letters of appointment provide for a three year appointment, unless terminated earlier by and at the discretion of either party upon three months' written notice. The non-executive directors' letters of appointment are available for inspection on request to the Company Secretary.

In accordance with the Combined Code and the Company's Articles of Association, all directors submit themselves for re-election every three years. The Chairman offers himself for re-election annually, having passed the age of seventy and having served for more than nine years as a non-executive director.

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

An evaluation of the current performance of the Board and its committees, and an assessment of the future requirements, was undertaken during the year, as part of the succession planning for the Chairman's retirement. This encompassed a review, by all of the directors, of the strengths and weaknesses of the current Board, from which a profile was drawn up for the successor to the current Chairman. The external search consultancy retained to recruit the Chairman's successor assisted in this process. In addition, the Chairman and the non-executive directors considered the individual performance of the Chief Executive and the Finance Director as part of the annual remuneration review. Similarly, the performance of the Chairman was considered by the non-executive directors during the annual review of his remuneration, and the Chairman and the Chief Executive reviewed the performance of the non-executive directors. No significant issues were identified.

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

Meetings attendance

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

	Board (12 meetings)	Audit Committee (3 meetings)	Nomination Committee (0 meetings)	Remuneration Committee (6 meetings)
K C Scobie	12(12)	-	-	4(4)
D R Evans	12(12)	-	-	-
The Rt Hon Lord Freeman	12(12)	3(3)	-	6(6)
I F R Much	12(12)	3(3)	-	6(6)
Air Marshal Sir Peter Norriss	12(12)	3(3)	-	6(6)
D J Price	12(12)	-	-	-
P A Rayner	12(12)	-	-	-

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

Board committees

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

Audit Committee

The Rt Hon Lord Freeman, Mr Much and Air Marshal Sir Peter Norriss all served as members of the Audit Committee during the year. The Rt Hon Lord Freeman, who is a chartered accountant, is Chairman of the Committee; his full biographical details are set out on page 35. The Committee met three times during the year and operates within formal written terms of reference. As referred to above, the terms of reference are available on the Company's website. Meetings of the Committee are attended, at the invitation of the Committee, by the external auditors, the Chairman, the Finance Director and representatives from the Group finance and internal audit function. The Committee meets with the auditors on a regular basis without the executive directors present. The Company Secretary acts as secretary to the Committee and minutes of meetings are circulated to all Board members.

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

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

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

- reviewing the Group's draft 2008 financial statements and 2009 interim results statement prior to Board approval, and reviewing the external auditors' detailed reports thereon;
- reviewing the appropriateness of the Group's accounting policies, and reviewing various accounting matters raised by management and the external auditors in the context of financial disclosures;
- considering and approving changes to the Group's accounting policy manual;
- reviewing the potential impact in the Group's financial statements of certain matters such as impairments of fixed asset values and the adoption of new accounting standards;
- reviewing the external auditors' plan for the 2009 interim review and the 2009 year end audit, including reviewing the key risks on the accounts, confirmation of auditor independence and the proposed audit fee, and approving the terms of engagement for the audit;
- receiving reports from the Risk Committee and reviewing the Group's risk register;
- reviewing the Group's commission policy and arrangements with agents;
- reviewing changes to the corporate structure of the Group and the associated tax implications;
- monitoring the Group's key financial ratios and credit ratings;
- overseeing the application of the Group's whistleblowing policy and procedures for employees;
- reviewing the work undertaken by the Group's internal audit function, assessing the adequacy of the internal audit resource and recommending changes for increasing the scope of the internal audit activities; and
- implementing the Group's policy on the provision of non-audit services by the auditors, taking into account relevant guidance and best practice.

The Group's internal audit programme incorporates an annual rolling review of all businesses, and focuses on both financial and non-financial controls and procedures. Newly acquired businesses are subjected to a detailed review by the internal audit function immediately post-completion. The Committee approves the annual internal audit plan and receives regular reports from the internal auditors. The Group's internal audit function in the US will be strengthened in 2010.

Statement on Corporate Governance

continued

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

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

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

Following the above, the Committee has recommended to the Board that Deloitte LLP be proposed for re-appointment as auditors at the forthcoming Annual General Meeting.

The Committee keeps under review the level of any non-audit services which are provided by the external auditors, to ensure that this does not impair their independence and objectivity. The Committee has adopted a policy which states that the external auditors should not be appointed to provide services in relation to corporate finance matters, unless the Committee agrees that their appointment would be in the best interests of the Company's shareholders in particular circumstances and would not create any direct conflict with their role as external auditors. The Committee, in conjunction with the Finance Director, ensures that the Group maintains a sufficient choice of appropriately qualified audit firms. Details of the amounts paid to the external auditors during the year for audit and other services are set out in the notes to the financial statements on page 65.

Nomination Committee

Mr Scobie, Mr Much and Air Marshal Sir Peter Norriss all served on the Nomination Committee during the year. Mr Scobie is Chairman of the Committee but, in accordance with the Committee's terms of reference, is not permitted to chair meetings when the Committee is dealing with the appointment of his successor. As referred to above, the Committee's terms of reference are available on the Company's website.

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

Following the year end, the Committee appointed an external search consultancy to recruit a successor for Mr Scobie when he retires. A detailed brief for the new appointment, including an assessment of the time commitment expected, has been prepared in consultation with all of the Board members, and the identification of potential candidates is now underway. Dr Price has been temporarily appointed to the Committee to assist specifically with the recruitment of the new Chairman.

Remuneration Committee

The Rt Hon Lord Freeman, Mr Much, and Air Marshal Sir Peter Norriss all served on the Remuneration Committee throughout the year. Mr Scobie stepped down from the Committee on 25 March 2009. Mr Much is Chairman of the Committee. The Committee met six times during the year.

Further details on the Committee, the Company's policy on directors' remuneration and long term incentive schemes are included within the Directors' Remuneration Report.

Executive Committee

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

Relations with shareholders

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

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

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

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

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

Financial reporting

The Statement of Directors' Responsibilities in respect of the financial statements and accounting records maintained by the Company is set out on page 38.

Internal control and risk management

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

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

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

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

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

The Board confirms that it has reviewed the effectiveness of the Group's systems of internal control and risk management which were in place during the financial year ended 31 October 2009, and it confirms that systems of internal control and risk management compliant with the Combined Code and the Turnbull Guidance were in place throughout the year and have remained in place up to the date of approval of these financial statements. Notwithstanding this, the Board will continue to take steps to embed internal control and risk management further into the operations of the Group and to deal with any areas of improvement which come to the attention of management and the Board.

Procedures to deal with directors' conflicts of interest

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

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

Going concern

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

- the strong order book of £559.0 million as at the year end;
- the Group's operating cash flow of £106.7 million during the year;
- the strong balance sheet at the year end of £273.6 million; and
- the Group's available banking facilities, which amount to £106.9 million with maturities through to March 2012 (see Note 21 of the financial statements).

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

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

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the financial statements.

Approved by the Board of Directors on 19 January 2010

Signed on behalf of the Board

S L Ellard
Company Secretary

Independent Auditors' Report to the Members of Chemring Group PLC

We have audited the Group financial statements of Chemring Group PLC for the year ended 31 October 2009 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the related Notes 1 to 37. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements 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, 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 financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and 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 Group's affairs as at 31 October 2009 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

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

Other matters

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

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

Andrew Gordon (Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Southampton, United Kingdom
19 January 2010

Consolidated Income Statement

for the year ended 31 October 2009

	Note	2009 £m	2008 £m
Continuing operations			
Revenue - continuing		458.3	354.2
- acquired		45.6	-
Total revenue	4,5	503.9	354.2
Operating profit - continuing		98.0	68.4
- acquired		9.9	-
Total operating profit	5,6	107.9	68.4
Operating profit is analysed as:			
Underlying operating profit*		114.7	84.9
Goodwill adjustment arising from recognition of tax losses		-	(1.8)
Intangible amortisation arising from business combinations	14	(13.8)	(6.0)
Gain/(loss) on fair value movements on derivatives	24	7.0	(8.7)
		107.9	68.4
Share of post-tax results of associate		0.1	0.1
Finance income	8	0.7	1.8
Finance expense	9	(12.9)	(12.6)
Profit before tax for the year		95.8	57.7
Profit before tax for the year is analysed as:			
Underlying profit before tax*		102.6	74.2
Goodwill adjustment arising from recognition of tax losses		-	(1.8)
Intangible amortisation arising from business combinations	14	(13.8)	(6.0)
Gain/(loss) on fair value movements on derivatives	24	7.0	(8.7)
		95.8	57.7
Tax	10	(25.7)	(16.5)
Profit after tax for the year attributable to equity holders of the parent	28	70.1	41.2
Earnings per ordinary share	12		
Underlying*		213p	160p
Basic		199p	123p
Diluted		197p	123p

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

Consolidated Statement of Recognised Income and Expense

for the year ended 31 October 2009

	Note	2009 £m	2008 £m
Profit after tax for the year attributable to equity holders of the parent		70.1	41.2
Other recognised income and expense			
Losses on cash flow hedges		(1.0)	(3.8)
Movement on deferred tax relating to cash flow hedges		0.2	0.8
Exchange differences on translation of foreign operations		(3.1)	24.8
Actuarial losses on defined benefit pension schemes	34	(14.1)	(0.1)
Movement on deferred tax relating to pension schemes		4.0	-
Current tax on items taken directly to equity		(1.2)	(0.6)
Deferred tax on items taken directly to equity		0.3	(4.2)
Total recognised income and expense for the year attributable to equity holders of the parent	29	55.2	58.1

Consolidated Balance Sheet

as at 31 October 2009

	Note	£m	2009 £m	£m	2008 £m
Non-current assets					
Goodwill	13	149.5		128.8	
Other intangible assets	14	90.4		85.0	
Property, plant and equipment	15	135.0		110.4	
Interest in associate	17	1.1		1.0	
Deferred tax	26	17.7		9.7	
			393.7		334.9
Current assets					
Inventories	18	96.9		89.1	
Trade and other receivables	19	98.8		87.8	
Cash and cash equivalents	20,24	61.3		69.6	
Derivative financial instruments	24	0.4		-	
			257.4		246.5
Total assets			651.1		581.4
Current liabilities					
Bank loans and overdrafts	21	(34.3)		(19.7)	
Obligations under finance leases	22	(0.5)		(0.7)	
Trade and other payables	23	(115.1)		(108.5)	
Short term provisions	25	(1.2)		(1.5)	
Current tax liabilities		(14.6)		(6.3)	
Derivative financial instruments	24	(1.1)		(8.1)	
			(166.8)		(144.8)
Non-current liabilities					
Borrowings	21	(148.3)		(163.6)	
Obligations under finance leases	22	(0.9)		(2.2)	
Trade and other payables	23	(1.8)		(1.8)	
Long term provisions	25	(5.2)		(4.4)	
Deferred tax	26	(22.6)		(17.3)	
Preference shares	27	(0.1)		(0.1)	
Retirement benefit obligations	34	(28.1)		(13.6)	
Derivative financial instruments	24	(3.7)		(3.0)	
			(210.7)		(206.0)
Total liabilities			(377.5)		(350.8)
Net assets			273.6		230.6
Equity					
Share capital	27		1.8		1.8
Share premium account	28		120.3		119.8
Special capital reserve	28		12.9		12.9
Hedging reserve	28		(3.4)		(2.6)
Revaluation reserve	28		1.4		1.5
Retained earnings	28		145.8		102.9
			278.8		236.3
Own shares	30		(5.2)		(5.7)
Equity attributable to equity holders of the parent			273.6		230.6
Total equity			273.6		230.6

These financial statements of Chemring Group PLC (registered number 86662) were approved and authorised for issue by the Board of Directors on 19 January 2010.

Signed on behalf of the Board

D J Price

P A Rayner

Consolidated Cash Flow Statement

for the year ended 31 October 2009

	Note	2009 £m	2008 £m
Cash flows from operating activities			
Cash generated from operations	A	106.7	83.7
Tax paid		(18.7)	(13.4)
Net cash inflow from operating activities		88.0	70.3
Cash flows from investing activities			
Dividends received from associate		-	0.1
Purchases of property, plant and equipment	15	(33.4)	(31.0)
Purchases of intangible assets	14	(4.8)	(3.2)
Acquisition of subsidiary undertakings (net of cash acquired)	33	(27.6)	(68.2)
Net cash outflow from investing activities		(65.8)	(102.3)
Cash flows from financing activities			
Dividends paid		(13.8)	(9.3)
Interest paid		(10.5)	(8.2)
Proceeds on issue of shares		0.5	58.6
New borrowings		14.9	72.7
Repayments of borrowings		(20.7)	(36.4)
(Repayments of)/proceeds from finance leases		(1.6)	0.4
Purchase of own shares	30	(1.5)	(2.9)
Net cash (outflow)/inflow from financing activities		(32.7)	74.9
(Decrease)/increase in cash and cash equivalents during the year		(10.5)	42.9
Cash and cash equivalents at start of the year		69.6	25.4
Effect of foreign exchange rate changes		2.2	1.3
Cash and cash equivalents at end of the year		61.3	69.6

Notes to the Consolidated Cash Flow Statement

for the year ended 31 October 2009

A. Cash generated from operations	2009 £m	2008 £m			
Operating profit from continuing operations	98.0	68.4			
Operating profit from acquired operations	9.9	-			
Adjustment for:					
Depreciation of property, plant and equipment	13.3	9.7			
Impairment charge	1.1	-			
Amortisation of intangible assets arising from business combinations	13.8	6.0			
Amortisation of other intangibles	1.5	0.7			
(Gain)/loss on fair value movements on derivatives	(7.0)	8.7			
Goodwill adjustment arising from recognition of tax losses	-	1.8			
Share-based payment expense	2.1	1.7			
Difference between pension contributions paid and amount recognised in Income Statement	0.1	0.1			
Increase/(decrease) in provisions	0.5	(2.2)			
Operating cash flows before movements in working capital	133.3	94.9			
Increase in inventories	(8.4)	(18.8)			
Increase in trade and other receivables	(10.0)	(14.1)			
(Decrease)/increase in trade and other payables	(8.2)	21.7			
Cash generated from operations	106.7	83.7			
Reconciliation of net cash flow to movement in net debt					
(Decrease)/increase in cash and cash equivalents during the year	(10.5)	42.9			
Cash inflow/(outflow) from movement in debt and lease financing	7.5	(36.7)			
Change in net debt resulting from cash flows	(3.0)	6.2			
New finance leases	0.5	0.8			
Translation difference relating to loans	(3.1)	(23.6)			
Amortisation of debt finance costs	(0.5)	(0.5)			
Movement in net debt in the year	(6.1)	(17.1)			
Net debt at start of the year	(116.7)	(99.6)			
Net debt at end of the year	(122.8)	(116.7)			
Analysis of net debt					
	As at 1 Nov 2008 £m	Cash flow £m	Non-cash changes £m	Exchange movement £m	As at 31 Oct 2009 £m
Cash at bank and in hand	69.6	(10.5)	-	2.2	61.3
Debt due within one year	(19.7)	5.8	(19.4)	(1.0)	(34.3)
Debt due after one year	(163.6)	-	19.4	(4.1)	(148.3)
Finance leases	(2.9)	1.7	-	(0.2)	(1.4)
Preference shares	(0.1)	-	-	-	(0.1)
	(116.7)	(3.0)	-	(3.1)	(122.8)

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 36 to 38. 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 51.

2. Adoption of new and revised standards

In the year under review two Interpretations issued by the International Financial Reporting Interpretations Committee were effective. These are IFRIC11 *IFRS2 Group and Treasury Share Transactions* and IFRIC14/*IAS19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

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:

- IFRS1 (amended)/IAS27 (amended) *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (effective from 1 July 2009)
- IFRS2 (amended) *Share-based Payment – Vesting Conditions and Cancellations* (effective from 1 July 2009)
- IFRS3 (revised 2008) *Business Combinations* (effective from 1 July 2009)
- IFRS8 *Operating Segments* (effective from 1 January 2009)
- IAS1 (revised 2007) *Presentation of Financial Statements* (effective from 1 January 2009)
- IAS27 (revised 2008) *Consolidated and Separate Financial Statements* (effective from 1 July 2009)
- IAS28 (revised 2008) *Investments in Associates* (effective from 1 July 2009)
- IAS32 (amended)/IAS1 (amended) *Puttable Financial Instruments and Obligations Arising on Liquidation* (effective from 1 January 2009)
- IFRIC12 *Service Concession Arrangements* (effective from 1 January 2009)
- IFRIC15 *Agreements for the Construction of Real Estate* (effective from 1 January 2009)
- IFRIC16 *Hedges of a Net Investment in a Foreign Operation*
- IFRIC17 *Distribution of Non-cash Assets to Owners* (effective from 1 July 2009)
- IFRIC18 *Transfers of Assets from Customers* (effective from 1 July 2009)
- Improvements to IFRS (May 2008)

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:

- IFRS8 *Operating Segments* – Additional segment disclosures will be required.
- IFRS3 (revised 2008) *Business Combinations* – Transaction costs will be expensed for acquisitions on or after 1 November 2009.
- IAS1 (revised 2007) *Presentation of Financial Statements* – This will introduce a number of changes in the format and content of the financial statements.

The directors have opted to adopt the amended IAS23 *Borrowing Costs* early. The original adoption date is for accounting periods commencing on or after 1 January 2009. The early adoption in accordance with IAS23 is prospective and all significant projects since 1 November 2008 have had interest costs at the Group's average cost of borrowing capitalised. In the year £0.4 million has been capitalised.

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 year 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 given plus any directly attributable costs. The assets, liabilities and contingent liabilities of a subsidiary that meet the IFRS3 *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.

Intangible assets

Goodwill

The purchased goodwill of the Group is regarded as having an indefinite useful economic life and, in accordance with IAS36 *Impairment of Assets*, is not amortised but is subject to annual tests for impairment. 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 IAS36 and is satisfied that these demonstrate that no impairment has occurred in respect of continuing operations. 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.

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 are amortised on a straight-line basis over their useful economic lives, averaging ten years.

Patents and trademarks

Patents and trademarks are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives.

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

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 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 the 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.

Notes to the Group Financial Statements

3. Accounting policies continued

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 (net investment hedge) and interest rate swaps (cash flow hedge) 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.

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 Recognised Income and Expense (SORIE).

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 with

changes in the fair value 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.

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.

Restructurings

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 *IAS10 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.

Notes to the Group Financial Statements

3. Accounting policies continued

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

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.

Intangible assets acquired in business combinations

Under IFRS3 *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 asset and estimate their useful economic lives. A deferred tax asset is recognised on acquisition when relevant.

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 34).

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 2009 £m	Acquisitions 2009 £m	Total 2009 £m	Total 2008 £m
UK	125.2	-	125.2	86.4
USA	189.8	45.6	235.4	142.1
Europe	75.0	-	75.0	66.5
Australia and Far East	39.1	-	39.1	22.7
Middle East	20.4	-	20.4	31.5
Rest of the world	8.8	-	8.8	5.0
	458.3	45.6	503.9	354.2

5. Business and geographical segments

For management purposes the Group has two operating divisions - Energetics and Countermeasures. These divisions are the basis on which it reports its primary segment information.

Principal activities are as follows:

Energetics	Pyrotechnics:	Signals and illumination devices and payloads; cartridge/propellant actuated devices; pyrotechnic devices for satellite launch and deployment.
	Explosive ordnance disposal (EOD):	Explosive ordnance disposal equipment; demilitarisation services; IED (improvised explosive device) detection equipment.
	Munitions:	Ammunition; missile components; propellants; warheads; fuzes and energetic materials.
Countermeasures		Expendable countermeasures

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

Business segments	2009 £m	2008 £m
Revenue		
Pyrotechnics	173.2	95.7
EOD	61.2	15.2
Munitions	86.0	85.8
Total Energetics	320.4	196.7
Countermeasures	183.5	157.5
Total revenue from third parties	503.9	354.2

	2009 £m	2008 £m
Analysis of operating profit		
Pyrotechnics	43.8	22.5
EOD	15.6	4.1
Munitions	13.4	19.1
Total Energetics	72.8	45.7
Countermeasures	53.5	45.5
Charge for share-based payments	(2.1)	(1.7)
Restructuring costs	(2.9)	-
Unallocated head office costs	(6.6)	(4.6)
Total underlying operating profit*	114.7	84.9
Goodwill adjustment arising from recognition of tax losses	-	(1.8)
Intangible amortisation arising from business combinations	(13.8)	(6.0)
Gain/(loss) on fair value movements on derivatives	7.0	(8.7)
Total operating profit	107.9	68.4

Included within the charge for share-based payments are net costs of £2.1 million (2008: £1.7 million) for equity settled share-based payments.

Restructuring costs

The Group is conducting a major investment programme at Chemring Countermeasures Limited to develop the facilities at the site in Salisbury, and as a result has announced a restructuring programme costing £1.7 million. In addition, £1.2 million is being spent on the closure and transfer of the Titan Dynamics Systems business to Martin Electronics, Inc.. This project is integral to establishing the Chemring Ordnance business unit in the USA in order to target additional growth and generate the synergies to deliver the strategic plan.

	2009 £m	2008 £m
Balance sheet		
Assets		
Energetics	434.8	403.5
Countermeasures	183.9	137.2
Interest in associate	1.1	1.0
Unallocated assets	31.3	39.7
Consolidated total assets	651.1	581.4
Liabilities		
Energetics	(239.7)	(239.0)
Countermeasures	(92.7)	(66.0)
Unallocated liabilities	(45.1)	(45.8)
Consolidated total liabilities	(377.5)	(350.8)
Group net assets	273.6	230.6

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

	2009 £m	2008 £m
Other information		
Capital additions		
Energetics	15.9	21.5
Countermeasures	22.3	12.7
Depreciation and amortisation		
Energetics	14.9	10.2
Countermeasures	13.7	6.2

Notes to the Group Financial Statements

5. Business and geographical segments continued

Geographical segments

The Group's Energetics division operates in the UK, other EU countries, Australia and the USA. The Group's operations in the Countermeasures division are located in the UK, Australia and the USA.

The following is an analysis of the carrying amount of net segment assets and additions to property, plant and equipment and intangible assets, analysed by the geographical area in which the assets are located. Net segment assets include continuing operations with associates and unallocated segment assets and liabilities (shown within the UK).

	2009 £m	Carrying amount of net segment assets 2008 £m	2009 £m	Additions to property, plant and equipment and intangible assets 2008 £m
UK	130.0	108.9	20.1	11.4
USA	87.0	72.8	10.5	11.3
Rest of the world	56.6	48.9	7.6	11.5
	273.6	230.6	38.2	34.2

6. Operating profit

The following table shows a reconciliation of cost by function:

	2009 £m	2008 £m
Total revenue	503.9	354.2
Cost of sales	(329.9)	(227.1)
Administrative expenses*	(59.3)	(42.2)
Goodwill adjustment arising from recognition of tax losses	-	(1.8)
Intangible amortisation arising from business combinations	(13.8)	(6.0)
Gain/(loss) on fair value movements on derivatives	7.0	(8.7)
Total administrative expenses	(66.1)	(58.7)
Total operating profit	107.9	68.4

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

Operating profit is stated after charging/(crediting):

	2009 £m	2008 £m
Research and development costs	14.1	6.7*
Depreciation		
- property, plant and equipment	13.0	9.1
- leased assets	0.3	0.6
Impairment charge	1.1	-
Amortisation		
- other intangibles	1.5	0.7
- arising from business combinations	13.8	6.0
Operating lease rentals		
- plant and machinery	1.1	0.7
- other	1.1	1.1
Government grant	(0.4)	-
Foreign exchange losses	3.1	9.3
Staff costs (see Note 7)	108.9	84.8
Cost of inventories recognised as an expense	204.1	140.2
Restructuring costs (see Note 5)	2.9	-
Auditors' remuneration for audit services (see over)	0.6	0.4

* Prior year comparative has been restated from £9.3 million to £6.7 million as it included disclosure of research and development costs capitalised. No restatement of the Income Statement is required.

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

	2009 £m	2008 £m
Audit fees	0.3	0.2
Auditing accounts of subsidiary companies	0.3	0.2
	0.6	0.4
Other services:		
Tax services - compliance	0.1	0.1
Tax services - advisory	0.1	0.3
Corporate finance services	0.1	0.4
	0.3	0.8
	0.9	1.2

Corporate finance services above relate to fees for acquisitions and disposals. Included in the Group audit fees is £0.1 million (2008: £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 page 49 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 £0.3 million (2008: £0.1 million).

7. Staff costs

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

	2009 Number	2008 Number
Production	2,660	2,529
Administration, sales and marketing	719	541
	3,379	3,070

At the year end the number of employees was 3,349 (2008: 3,312).

The costs incurred in respect of these employees were:

	2009 £m	2008 £m
Wages and salaries	88.8	69.0
Social security costs	15.0	11.6
Other pension costs	5.1	4.2
	108.9	84.8

8. Finance income

	2009 £m	2008 £m
Interest income	0.7	1.8

9. Finance expense

	2009 £m	2008 £m
Bank overdraft and loan interest	0.3	0.2
US loan notes interest	5.8	5.1
Medium term loan interest	5.1	6.0
Finance lease interest	0.2	0.1
Amortisation of debt finance costs	0.5	0.5
Interest cost of retirement benefit obligations (see Note 34)	1.4	0.7
Amounts included in the cost of qualifying assets	(0.4)	-
	12.9	12.6

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

Notes to the Group Financial Statements

10. Tax

	2009 £m	2008 £m
Current tax charge	(26.5)	(15.2)
Deferred tax credit/(charge) (see Note 26)	0.8	(1.3)
Total current year tax charge	(25.7)	(16.5)

Income tax in the UK is calculated at 28% (2008: 28.83%) 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:

	2009 £m	2008 £m
Profit before tax for the year	95.8	57.7
Tax at the UK corporation tax rate of 28% (2008: 28.83%)	(26.8)	(16.6)
Income not allowable for tax purposes net of tax credits	0.6	1.4
Utilisation of tax losses	0.9	1.1
Other	0.1	0.6
Prior year adjustments	(0.2)	0.4
Overseas profits taxed at rates different to the standard rate	(0.3)	(3.4)
Total current year tax charge	(25.7)	(16.5)

In addition to the income tax expense charged to the Income Statement, a tax debit of £0.9 million (2008: tax debit of £4.8 million) has been recognised in equity in the year and is included in the Consolidated Statement of Recognised Income and Expense.

The effective rate of tax incurred by the Group is 26.8% (2008: 28.6%), and the underlying* effective rate of tax incurred by the Group is 26.9% (2008: 27.9%).

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

11. Dividends

	2009 £m	2008 £m
Dividends on ordinary shares of 5p each		
Final dividend for the year ended 31 October 2008 25.0p (2007: 17.8p)	8.8	5.8
Interim dividend for the year ended 31 October 2009 14.0p (2008: 10.0p)	5.0	3.5
Total dividends	13.8	9.3

The proposed final dividend in respect of the year ended 31 October 2009 of 36p per share will, if approved, absorb approximately £12.7 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.

12. Earnings per share

Earnings per share are based on the average number of shares in issue of 35,266,616 (2008: 33,339,754) and profit on ordinary activities after tax of £70.1 million (2008: £41.2 million). Diluted earnings per share has been calculated using a diluted average number of shares in issue of 35,601,379 (2008: 33,514,169) and profit on ordinary activities after tax of £70.1 million (2008: £41.2 million).

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

From continuing operations

	2009			2008		
	Earnings £m	Ordinary shares Number 000s	EPS Pence	Earnings £m	Ordinary shares Number 000s	EPS Pence
Basic	70.1	35,267	199	41.2	33,340	123
Additional shares issuable other than at fair value in respect of options outstanding	-	334	(2)	-	174	-
Diluted	70.1	35,601	197	41.2	33,514	123

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 shares is given in Note 30.

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

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

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

13. Goodwill

	£m
Cost	
At 1 November 2007	94.8
Recognised on acquisition of subsidiary undertakings	24.1
Recognition of tax assets in respect of losses	(1.8)
Foreign exchange adjustments	11.7
At 1 November 2008	128.8
Recognised on acquisition of subsidiary undertakings	17.0
Foreign exchange adjustments	3.7
At 31 October 2009	149.5
Accumulated impairment losses	
At 1 November 2007, 1 November 2008 and 31 October 2009	-
Carrying amount	
At 31 October 2009	149.5
At 31 October 2008	128.8

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units ("CGU") that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

Energetics	£m
Chemring EOD Limited	7.1
Titan Dynamics Systems, Inc.	1.0
Scot, Inc.	10.4
Martin Electronics, Inc.	4.2
Goodwill arising from fair value adjustments on prior year acquisitions *	1.4
At 31 October 2008	24.1
Non-Intrusive Inspection Technology, Inc. (see Note 33)	16.6
Goodwill arising from fair value adjustments on prior year acquisitions *	0.4
At 31 October 2009	17.0

* In accordance with IFRS3 fair value adjustments have been made within twelve months of the acquisition dates which has resulted in additional goodwill being recognised in the year (2009: Scot, Inc. and Martin Electronics, Inc. - £0.4 million (2008: Simmel Difesa S.p.A. and Technical Ordnance, Inc. - £1.4 million)).

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

Notes to the Group Financial Statements

13. Goodwill continued

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 for both divisions is 7.5% (2008: 10.0%). The calculation has used the Group's plan 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 a prudent 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.

The Group has conducted sensitivity analysis on the impairment test of each CGU's carrying value. The sensitivity testing involved varying the discount rate and the forecasted growth during the next five years. Even with an assumption of zero growth, both CGU's would not require an impairment.

	Goodwill £m	Intangible assets £m	Net asset value £m
Energetics	136.4	81.9	195.1
Countermeasures	13.1	-	91.2
	149.5	81.9	286.3

14. Other intangible assets

	Acquired intangibles £m	Other* £m	Total £m
Cost			
At 1 November 2007	38.7	4.7	43.4
Additions	-	3.2	3.2
Recognised on acquisition of subsidiary undertakings	37.6	0.3	37.9
Foreign exchange adjustments	14.2	0.8	15.0
At 1 November 2008	90.5	9.0	99.5
Additions	-	4.8	4.8
Recognised on acquisition of subsidiary undertakings**	15.5	-	15.5
Foreign exchange adjustments	0.1	(0.1)	-
At 31 October 2009	106.1	13.7	119.8
Amortisation			
At 1 November 2007	3.7	2.6	6.3
Charge for the year	6.0	0.7	6.7
Foreign exchange adjustments	1.0	0.5	1.5
At 1 November 2008	10.7	3.8	14.5
Charge for the year	13.8	1.5	15.3
Foreign exchange adjustments	(0.3)	(0.1)	(0.4)
At 31 October 2009	24.2	5.2	29.4
Carrying amount			
At 31 October 2009	81.9	8.5	90.4
At 31 October 2008	79.8	5.2	85.0

Acquired intangible assets 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.

* Other intangibles comprise development costs, patents and licences.

** See Note 33.

15. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost or valuation			
At 1 November 2007	37.2	61.0	98.2
Additions	11.6	19.4	31.0
Acquired on acquisition of subsidiary undertakings	5.9	2.1	8.0
Disposals	-	(2.7)	(2.7)
Foreign exchange adjustments	5.6	13.2	18.8
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 31 October 2009	69.1	124.3	193.4
Accumulated depreciation			
At 1 November 2007	4.4	24.0	28.4
Charge for the year	1.8	7.9	9.7
Disposals	-	(2.6)	(2.6)
Foreign exchange adjustments	1.0	6.4	7.4
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 31 October 2009	10.6	47.8	58.4
Carrying amount			
At 31 October 2009	58.5	76.5	135.0
At 31 October 2008	53.1	57.3	110.4

The carrying amount of the Group's plant and equipment includes an amount of £2.1 million (2008: £2.4 million) in respect of assets held under finance leases. £0.4 million (2008: nil) of interest has been capitalised (see Note 9).

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 the two pyrotechnic sites, and on open market for the remainder.

	2009 £m	2008 £m
30 September 1997 depreciated replacement cost	5.8	5.8
Freehold at cost	63.3	54.5
	69.1	60.3

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

	2009 £m	2008 £m
Cost	67.1	58.3
Accumulated depreciation	(10.0)	(6.7)
Historical cost value	57.1	51.6

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 2009 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £14.0 million (2008: £1.1 million). The Group is conducting two major investment programmes for new countermeasures facilities at Salisbury, UK and Lara, Australia. The Group has committed to spending £13.0 million in respect of these projects.

The £1.1 million impairment charge on land and buildings arose in connection with the restructuring of the Titan Dynamics Systems, Inc. site in Texas, USA (see Note 5).

16. Subsidiary undertakings

All subsidiary undertakings have been included in the consolidation. The undertakings held at 31 October 2009 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	Energetics
Chemring Marine Ltd	England	100	Energetics
Chemring EOD Ltd	England	100	Energetics
Chemring Energetics UK Ltd	Scotland	100	Energetics
Chemring Defence Germany GmbH	Germany	100	Energetics
Alloy Surfaces Company, Inc.	USA	100	Countermeasures
Kilgore Flares Company LLC	USA	100	Countermeasures and energetics
Technical Ordnance, Inc.	USA	100	Energetics
Titan Dynamics Systems, Inc.	USA	100	Energetics
Scot, Inc.	USA	100	Energetics
Martin Electronics, Inc.	USA	100	Energetics
Non-Intrusive Inspection Technology, Inc.	USA	100	Energetics
Chemring Australia Pty Ltd	Australia	100	Countermeasures and energetics
Chemring Defence Spain S.L.	Spain	100	Energetics
Simmel Difesa S.p.A.	Italy	100	Energetics
Chemring Nobel AS	Norway	100	Energetics
Associated undertaking			
CIRRA S.A.	France	49	Countermeasures

17. Interest in associate

	2009 £m	2008 £m
Interest in associate (including goodwill of £0.5 million (2008: £0.5 million))	1.1	1.0
Amounts relating to associate:		
	2009 £m	2008 £m
Assets	0.8	0.9
Liabilities	(0.2)	(0.4)
Revenue	0.8	0.7
Profit after tax	0.1	0.1

The results of the associated undertaking relate to the Group's share of CIRRA S.A.

18. Inventories

	2009 £m	2008 £m
Raw materials	41.7	36.4
Work in progress	32.0	30.1
Finished goods	23.2	22.6
	96.9	89.1

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

19. Trade and other receivables

	2009 £m	2008 £m
Current		
Trade receivables	85.0	77.2
Allowance for doubtful debts	(1.0)	(1.2)
	84.0	76.0
Other debtors	7.5	8.1
Prepayments and accrued income	7.3	3.7
	98.8	87.8

All amounts shown above are due within one year.

The average credit period taken on sales of goods, adjusted for Group revenue had the acquisitions taken place on the first day of the financial year, is 61 days (2008: 77 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. 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 2009 and 2008. An ageing analysis has not been shown as all significant overdue receivables are covered by the allowance for doubtful debts provision above.

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 £5.5 million of restricted cash (2008: £5.4 million), of which £5.1 million (2008: 5.0 million) is held in escrow in relation to the Chemring Group Staff Pension Scheme (see Note 34).

21. Bank loans and overdrafts

	2009 £m	2008 £m
Bank loans and overdrafts	34.3	19.7
UK medium term loans		
- sterling denominated	13.3	22.9
- euro denominated	42.8	45.0
- other denominated	3.6	3.2
Overseas medium term loans	1.4	3.1
US loan notes		
- sterling denominated	12.5	12.5
- US dollar denominated	74.7	76.9
	182.6	183.3
	2009 £m	2008 £m
Borrowings falling due within:		
One year	34.3	19.7
One to two years	36.4	21.2
Two to five years	24.7	34.9
After five years	87.2	107.5
	148.3	163.6
	182.6	183.3
Analysis of borrowings by currency:		
Sterling	38.0	45.1
US dollar	89.4	81.1
Euro	51.6	53.8
Other	3.6	3.3
Total	182.6	183.3

Notes to the Group Financial Statements

21. Bank loans and overdrafts continued

The weighted average interest rates paid were as follows:

	2009 %	2008 %
Bank loans and overdrafts	4.9	6.1
UK medium term loans		
- sterling denominated	4.9	6.7
- US dollar denominated	4.9	6.3
- euro denominated	5.0	5.6
- other denominated	6.8	6.8
Overseas medium term loans		
- US dollar denominated	4.2	4.2
US loan notes		
- sterling denominated	6.8	6.8
- US dollar denominated	6.3	6.3

Bank loans and overdrafts held with Bank of Scotland are 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) are secured on the related assets purchased with these loans by Alloy Surfaces Company, Inc.. The security over the US loan notes ranks pari passu with that held by Bank of Scotland.

As the loans are re-translated to the year end exchange rates, 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 has 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.

	2009 £m	2008 £m
Undrawn borrowings		
Cash and gross facilities	163.6	140.6
Bonds and guarantees	(56.7)	(33.5)
Total undrawn borrowings	106.9	107.1

After the Balance Sheet date, the Group repaid £23.9 million of its Sterling medium term loan facility and £12.2 million of its US dollar borrowings. The repayment of these facilities followed a new fundraising by the private placement of \$280 million of fixed interest loan notes. For further information see Note 37.

22. Obligations under finance leases

	2009 £m	Minimum lease payments 2008 £m	Present value of minimum lease payments 2009 £m	2008 £m
Amounts payable under finance leases:				
Within one year	0.6	0.8	0.5	0.7
In the second to fifth years	1.1	2.2	0.9	1.8
After five years	-	0.4	-	0.4
Less future finance charges	(0.3)	(0.5)	-	-
Present value of lease obligations	1.4	2.9	1.4	2.9
Less amounts due within twelve months shown under current liabilities			(0.5)	(0.7)
Amount due for settlement after twelve months			0.9	2.2

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

	2009 £m	2008 £m
Current		
Trade creditors	62.4	58.6
Other creditors	10.6	9.6
Other tax and Social Security	3.9	3.2
Accruals and deferred income	38.2	37.1
	115.1	108.5
Non-current	1.8	1.8

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The directors consider that the carrying amount of trade payables approximates to their fair value.

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:

Market risk

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.

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

	US\$	Euro	NOK	2009 AUS\$	US\$	Euro	NOK	2008 AUS\$
Monetary assets (million)	100.9	34.1	36.8	4.8	83.9	55.0	32.6	5.3
Monetary liabilities (million)	185.3	84.7	42.1	2.0	168.2	105.0	45.6	1.1

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	2009 AUS\$	US\$	Euro	NOK	2008 AUS\$
Borrowings (million)	147.1	57.6	33.9	-	125.0	66.9	35.0	-

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 31 October:

	Average exchange rate 2009	2008	Expiring within one year 2009 £m	2008 £m
US dollar	1.66	2.04	39.4	9.0
Euro	1.01	1.39	1.2	2.0

Notes to the Group Financial Statements

24. Financial instruments and risk management continued

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 2009 and through to October 2011, and 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.

At 31 October 2009, a £0.2 million loss is shown as an adjustment to underlying operating profit and represents the fair value of the structure. The significant change arises due to the appreciation of the US dollar since the new structure was implemented in March 2009. The appreciation of the dollar has locked the structure into a fixed rate of 1.66 on a currency amount of \$72 million in the year to October 2010 and \$54 million in the year to October 2011.

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.

	2009	US dollar impact 2008	2009 £m	Euro impact 2008 £m
Loss	(9.8)	(7.8)	(4.6)	(3.5)
Other equity	(9.8)	(7.8)	(4.6)	(3.5)

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.

In the management's opinion the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the 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 are subject to floating rates of interest linked to the Bank of Scotland 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 Bank of Scotland 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. The US loan notes are repayable in full in 2017.

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.

As a result of restructuring the interest rate swap for the euro loan, a mark to market loss of £3.5 million was rolled up into the new hedge agreement, effective from May 2009. This cost is being amortised over the life of the original hedge relationship, with £0.5 million charged during the year (2008: nil).

Liquidity risk

The table below details the maturity profiles of the Group's derivative financial instruments and loans as at 31 October:

	2009				2008			
	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	59.4	(59.0)	34.3	34.7	47.7	(41.2)	19.7	26.2
One to two years	32.8	(32.5)	36.4	36.7	22.1	(19.4)	21.2	23.9
Two to five years	-	-	24.7	24.7	-	-	34.9	34.9
After five years	-	-	87.2	87.2	-	-	107.5	107.5
	92.2	(91.5)	182.6	183.3	69.8	(60.6)	183.3	192.5

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

Financial assets	2009 Total £m	2008 Total £m
Sterling	23.9	38.5
US dollar	17.3	14.6
Australian dollar	2.6	1.8
Euro	16.0	21.0
Other currencies	1.5	1.7
	61.3	77.6
Offset in the UK	-	(8.0)
Cash at bank and in hand	61.3	69.6

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% (2008: 2.0%). The financial assets for both years are at floating rate.

Included within cash is £5.5 million of restricted cash (2008: £5.4 million), of which £5.1 million (2008: 5.0 million) is held in escrow in relation to the Chemring Group Staff Pension Scheme (see Note 34).

Financial liabilities	Floating rate £m	Fixed rate £m	2009 Total £m	Floating rate £m	Fixed rate £m	2008 Total £m
Sterling	-	(38.7)	(38.7)	(3.1)	(53.1)	(56.2)
US dollar	(12.2)	(78.0)	(90.2)	(4.2)	(76.9)	(81.1)
Euro	-	(51.6)	(51.6)	(0.8)	(53.0)	(53.8)
Other currencies	-	(3.6)	(3.6)	-	(3.2)	(3.2)
	(12.2)	(171.9)	(184.1)	(8.1)	(186.2)	(194.3)
Offset in the UK			-			8.0
			(184.1)			(186.3)
Bank loans and overdrafts			(34.3)			(19.7)
Medium term loans UK			(59.7)			(71.1)
US loan notes			(87.2)			(89.4)
Medium term loans overseas			(1.4)			(3.1)
Obligations under finance leases			(1.4)			(2.9)
Preference shares			(0.1)			(0.1)
			(184.1)			(186.3)

A right of offset exists for currency amounts held within the UK by Bank of Scotland. These are used to offset the interest charged on the UK overdraft which bears interest at 1.0% 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 weighted average interest rate of fixed rate financial liabilities at 31 October 2009 was 5.5% (2008: 6.2%) and the weighted average period of funding was five years (2008: six years).

Notes to the Group Financial Statements

24. Financial instruments and risk management continued

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 2009 was £4.8 million liability (2008: £1.2 million liability). The Group also has two forward exchange contracts with a fair value of £0.2 million asset (2008: £1.2 million liability). The total of these financial instruments is £4.6 million liability (2008: £2.4 million liability) and is recorded in reserves.

The following table details the fair value of derivative financial instruments recognised in the Balance Sheet at 31 October:

	2009 Total £m	2008 Total £m
Interest rate swaps	(4.8)	(1.2)
Forward exchange contracts	0.2	(1.2)
Forward currency structure derivatives	0.2	(8.7)
	(4.4)	(11.1)

Analysed as:

	2009 Total £m	2008 Total £m
Included in current assets	0.4	-
Included in current liabilities	(1.1)	(8.1)
Included in non-current liabilities	(3.7)	(3.0)
	(4.4)	(11.1)

Hedge accounting has been applied on the forward exchange contracts and interest rate swaps. The values are recorded in reserves. The £8.9 million gain (2008: £8.7 million loss) on currency structures is recorded in the Income Statement as part of the reconciliation to underlying operating profit.

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

	2009 Total £m	2008 Total £m
Change in fair value of currency structures	8.9	(8.7)
Amortisation (see interest rate risk section above)	(0.5)	-
Charge arising on de-recognition of hedge accounting	(1.4)	-
	7.0	(8.7)

Due to the early repayment of the sterling loan in November 2009 (see Note 37) the sterling interest rate swap was de-recognised in the year, and a charge of £1.4 million (2008: nil) has been recognised.

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	Other provisions £m	Total £m
At 1 November 2008	5.0	0.8	-	0.1	5.9
Provided for in the year	-	0.3	2.9	-	3.2
Effect of foreign exchange movements	(0.2)	-	-	-	(0.2)
Utilised in the year	(0.2)	(0.5)	(1.7)	(0.1)	(2.5)
At 31 October 2009	4.6	0.6	1.2	-	6.4

Analysed as:

	2009 £m	2008 £m
Included in current liabilities	1.2	1.5
Included in non-current liabilities	5.2	4.4
	6.4	5.9

The warranty provisions at 31 October 2009 are held by Simmel Difesa S.p.A. and represent management's best estimate of the Group's liability under six year warranties granted, based on past experience for defective products.

The environmental provisions at 31 October 2009 relate to Scot, Inc. and represent management's best estimate of the liability based on certain environmental liabilities pre-dating the acquisition of the business.

The restructuring provisions at 31 October 2009 relate to Chemring Countermeasures Limited and Titan Dynamics Systems, Inc. (see Note 5). The provision represents managements' best estimates of the costs to be incurred on the restructuring programmes during 2010.

Notes to the Group Financial Statements

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	Other £m	Total £m
At 1 November 2007	6.4	(3.5)	(0.7)	0.8	3.0
Charge/(credit) to income	3.1	(0.3)	(0.9)	(0.7)	1.2
Charge to equity	0.5	-	-	3.0	3.5
Amounts arising on acquisition of subsidiary undertakings	0.1	-	-	(0.5)	(0.4)
Foreign exchange movements	(0.7)	-	-	1.0	0.3
At 1 November 2008	9.4	(3.8)	(1.6)	3.6	7.6
Charge/(credit) to income	1.7	(0.1)	-	(2.4)	(0.8)
Credit to equity	(0.1)	(4.0)	-	(0.4)	(4.5)
Amounts arising on acquisition of subsidiary undertakings	-	-	(0.5)	3.5	3.0
Foreign exchange movements	(0.1)	-	-	(0.3)	(0.4)
At 31 October 2009	10.9	(7.9)	(2.1)	4.0	4.9

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:

	2009 £m	2008 £m
Deferred tax liabilities	22.6	17.3
Deferred tax assets	(17.7)	(9.7)
	4.9	7.6

At the Balance Sheet date the Group had unrecognised tax losses of £4.9 million (2008: £8.4 million) potentially available for offset against future profits in certain circumstances. No deferred tax asset has been recognised in respect of this amount because of the unpredictability of future qualifying profit streams. These losses can be carried forward indefinitely.

27. Share capital

	2009 £m	2008 £m
Authorised		
43,000,000 ordinary shares of 5p each	2.2	2.2
Issued and fully paid		
35,585,832 (2008: 35,535,699) ordinary shares of 5p each	1.8	1.8

133 ordinary shares (2008: nil) were issued under the Group's sharesave scheme during the year. A further 50,000 ordinary shares (2008: 127,798) were issued for a cash consideration of £0.5 million under the Group's executive share option scheme.

The Company's authorised 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 2007	60.5	12.9	0.4	1.6	49.8	125.2
Ordinary shares issued	59.3	-	-	-	-	59.3
Profit after tax for the year	-	-	-	-	41.2	41.2
Dividends paid	-	-	-	-	(9.3)	(9.3)
Cost of share-based payments (net of settlements)	-	-	-	-	1.7	1.7
Deferred tax on share-based payment transactions	-	-	-	-	(0.5)	(0.5)
Actuarial gain	-	-	-	-	(0.1)	(0.1)
Decrease in fair value of cash flow hedging derivatives	-	-	(3.8)	-	-	(3.8)
Deferred tax on decrease of cash flow hedges	-	-	0.8	-	-	0.8
Foreign exchange translation gain	-	-	-	-	24.8	24.8
Transfers between reserves	-	-	-	(0.1)	0.1	-
Tax debits on items taken direct to reserves	-	-	-	-	(4.8)	(4.8)
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 debits on items taken direct to reserves	-	-	-	-	(0.9)	(0.9)
At 31 October 2009	120.3	12.9	(3.4)	1.4	145.8	277.0

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 (2008: £1.1 million) relating to the associated undertaking and £0.1 million (2008: £0.1 million) of the Company's own shares held by the Group's ESOP trustee.

Notes to the Group Financial Statements

29. Statement of changes in equity

	2009 £m	2008 £m
Total recognised income and expense for the year (see page 54)	55.2	58.1
Dividends	(13.8)	(9.3)
	41.4	48.8
Ordinary shares issued	-	0.2
Share premium arising	0.5	59.3
Credit to equity settled share-based payments	0.9	1.7
Deferred tax on share-based payment transactions	(0.3)	(0.5)
Transactions in own shares	0.5	(2.9)
Net addition to shareholders' funds	43.0	106.6
Opening shareholders' funds	230.6	124.0
Closing shareholders' funds	273.6	230.6

Equity comprises share capital, share premium and retained earnings.

30. Own shares

	2009 £m	2008 £m
Balance at 1 November 2008	5.7	2.8
Acquired in the year	1.5	2.9
Issued in the year to satisfy employee share awards	(2.0)	-
Balance at 31 October 2009	5.2	5.7

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 32). During the year 78,301 (2008: 160,000) ordinary shares were acquired, and 115,170 (2008: nil) 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 2009 was 273,131 (2008: 310,000) with an average rate of £18.17 (2008: £18.19) per share. This represents 0.8% of the total issued and fully paid ordinary share capital.

31. Obligations under non-cancellable operating leases

	2009 £m	2008 £m
Minimum lease payments under operating leases recognised in the Income Statement in the year	2.2	1.8
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:		
	2009 £m	2008 £m
Within one year	0.9	1.1
Two to five years	1.3	1.5
	2.2	2.6

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.

32. 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	
	2009	2008
Outstanding at the beginning of the year	310,743	228,096
Awarded during the year	163,057	98,771
Vested during the year	(115,170)	-
Lapsed during the year	-	(16,124)
Outstanding at the end of the year	358,630	310,743
Subject to vesting at the end of the year	-	-

The Group assumes that all the conditions of the PSP will be met.

As there is no option element the share price is discounted based on the following assumptions:

- dividend growth at 5% per annum (2008: growth at 5% per annum);
- weighted average cost of capital 8% (2008: 10%).

The weighted average fair value of awards made during the year was 2,004.7p (2008: 1,813.8p)

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	2009 Weighted average exercise price Pence	Number of share options	2008 Weighted average exercise price Pence
Outstanding at the beginning of the year	50,000	973.0	177,798	598.5
Exercised during the year	(50,000)	973.0	(127,798)	451.8
Outstanding at the end of the year	-	-	50,000	973.0

Share options were exercised during the year and the average share price was 2,089.5p (2008: 2,324.5p). 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 £2.1 million (2008: £1.7 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 31 July 2009.

	Number of share options	
	2009	2008
Outstanding at the beginning of the year	51,175	-
Granted during the year	33,512	51,416
Exercised during the year	(133)	-
Lapsed during the year	(6,518)	(241)
Outstanding at the end of the year	78,036	51,175
Subject to exercise at the end of the year	-	-

Notes to the Group Financial Statements

32. Share-based payments continued

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

Options were granted during the year on 31 July 2009. 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	
	2009	2008
Outstanding at the beginning of the year	6,960	-
Granted during the year	10,461	6,960
Lapsed during the year	(575)	-
Outstanding at the end of the year	16,846	6,960
Subject to exercise at the end of the year	-	-

33. Acquisitions

The following acquisition was completed during the year ended 31 October 2009:

Name of business acquired	Activity	Date of acquisition	Proportion of shares acquired %	Acquisition consideration including costs £m
Non-Intrusive Inspection Technology, Inc. (NIITEK)	Energetics	12 Dec 2008	100	26.9
				26.9

Reconciliation to cash flow statement:

	£m
Cash paid for acquisitions in the year	(26.9)
Cash paid for acquisitions acquired in prior year	(0.4)
Bank overdraft acquired	(0.3)
Net cash outflow	(27.6)

An analysis of the net assets acquired of Non-Intrusive Inspection Technology, Inc. is shown below:

	Book value £m	Fair value adjustments £m	Fair value £m
Intangible assets	-	15.5	15.5
Property, plant and equipment	0.6	(0.2)	0.4
Bank overdraft	(0.3)	-	(0.3)
Working capital	(0.1)	(1.6)	(1.7)
Deferred tax	0.1	(3.7)	(3.6)
Net assets acquired	0.3	10.0	10.3
Goodwill arising on acquisition of Non-Intrusive Inspection Technology, Inc.			16.6
Total			26.9

Consideration

	£m
Cash	26.3
Directly attributable costs	0.6
Total	26.9

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

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.

The acquisition during the year contributed £45.6 million of revenue and £9.9 million to the Group's profit before tax for the period between the date of acquisition and the Balance Sheet date.

If the acquisition had been completed on the first day of the financial year, Group revenues and profits before tax for the year would have been approximately £510.4 million and £97.2 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.

34. Pensions

Within the UK, the Group formerly operated two defined benefit schemes, the Chemring Group Staff Pension Scheme (the "Staff Scheme") and the Chemring Group Executive Pension Scheme (the "Executive Scheme") for part of the year. The schemes were merged on 6 April 2009. All assets (£5.3 million) and liabilities (£6.8 million) of the Executive Scheme were transferred to the Staff Scheme on this date. The Executive Scheme was wound up on 28 July 2009. No members of either scheme were adversely affected by this merger.

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.

The Staff 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 Staff Scheme as at 6 April 2006 has been prepared and updated to 31 October 2009 by a qualified actuary, using the projected unit credit method. The main assumptions for the scheme are detailed below.

The Staff Scheme triennial valuation at 6 April 2009 is currently being progressed, and is expected to be signed-off in the coming months. The Group increased the value of its bank guarantee to the Staff Scheme from £6.0 million to £7.2 million during the year as a consequence of the merger of the Staff Scheme and the Executive Scheme on 6 April 2009. The guarantee may be drawn upon in certain events of default by the Company. The Group has also placed £5.0 million in an escrow account to provide additional funding for the Staff Scheme in the event of a default (see Note 20). Since the year end, the Company has placed an additional £5.0 million in the escrow account in accordance with the agreed funding plan for the Staff Scheme.

The Chemring Defence Germany Scheme is an unfunded scheme. The actuarial liability has been calculated at 31 October 2009 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 £1.2 million at 31 October 2009 (2008: £1.1 million).

The Chemring Nobel Scheme is an unfunded scheme. The actuarial liability has been calculated at 31 October 2009 by a qualified actuary using the projected unit credit method. The main assumptions used were a discount rate of 4.4%, inflation rate of 2.75% and rate of increase in deferred pensions of 1.3%. The net deficit of the Chemring Nobel Scheme was £1.5 million at 31 October 2009 (2008: £1.4 million).

The amount recognised in the Balance Sheet in respect of the Group's defined benefit schemes is as follows:

	2009 £m	2008 £m	2007 £m
Present value of funded obligations	(63.0)	(42.0)	(48.3)
Fair value of scheme assets	34.9	28.4	35.0
Net liability recognised in the Balance Sheet	(28.1)	(13.6)	(13.3)

An analysis of the net liabilities recognised is as follows:

	2009 £m	2008 £m	Change £m
Chemring Group Staff Pension Scheme	(25.4)	(9.7)	(15.7)
Chemring Group Executive Pension Scheme*	-	(1.4)	1.4
Chemring Defence Germany Pension Scheme	(1.2)	(1.1)	(0.1)
Chemring Nobel AS Pension Scheme	(1.5)	(1.4)	(0.1)
Net liability recognised in the Balance Sheet	(28.1)	(13.6)	(14.5)

* Transferred to the Staff Scheme on 6 April 2009

Notes to the Group Financial Statements

34. Pensions continued

Amounts recognised in the Income Statement in respect of the Group's defined benefit schemes are as follows:

	2009 £m	2008 £m
Amounts included within operating profit:		
Current service cost	(0.6)	(0.9)
Amounts included as other finance costs:		
Expected return on scheme assets	1.8	2.0
Discount on scheme liabilities	(3.1)	(2.7)
	(1.3)	(0.7)
Net charge	(1.9)	(1.6)

Amounts recognised in the Consolidated Statement of Recognised Income and Expense are as follows:

(i) scheme assets at the Balance Sheet date;

(ii) present value of the scheme liabilities at the Balance Sheet date.

	2009 £m	2008 £m
Actual return less expected return on pension scheme assets (i)	4.0	(9.9)
Changes in assumptions underlying the present value of the scheme liabilities (ii)	(18.1)	9.8
Actuarial loss recognised in the Consolidated Statement of Recognised Income and Expense	(14.1)	(0.1)

Changes in the present value of the defined benefit obligations are as follows:

	2009 £m	2008 £m
Opening defined benefit obligations	(42.0)	(48.3)
Opening adjustment to Chemring Nobel defined benefit obligations	-	(0.7)
Service cost	(0.6)	(0.9)
Interest cost	(3.1)	(2.7)
Contributions from scheme members	(0.6)	(0.6)
Actuarial gains and losses	(18.1)	9.8
Benefits paid	1.4	1.4
Closing defined benefit obligations	(63.0)	(42.0)

Movements in the fair value of the schemes' assets were as follows:

	2009 £m	2008 £m
Opening fair value of schemes' assets	28.4	35.0
Opening adjustment of Chemring Nobel scheme assets	-	0.7
Expected return on scheme assets	1.8	2.0
Actuarial gains and losses	4.0	(9.9)
Contributions from scheme members	0.6	0.6
Contributions from sponsoring companies	1.5	1.4
Benefits paid	(1.4)	(1.4)
	34.9	28.4

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	2009 £m	Long term rate of return expected	2008 £m	Long term rate of return expected	2007 £m
Equities	8.4%	24.7	8.4%	19.9	6.8%	24.5
Bonds	4.9%	10.2	4.9%	8.5	4.8%	10.5
Total fair value of assets		34.9		28.4		35.0

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:

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of funded obligations	(63.0)	(42.0)	(48.3)	(48.5)	(47.6)
Fair value of scheme assets	34.9	28.4	35.0	32.2	27.4
Deficit in the schemes	(28.1)	(13.6)	(13.3)	(16.3)	(20.2)
Experience gains/(losses) on scheme liabilities	-	-	-	5.5	(0.3)
Percentage of scheme liabilities	-	-	-	11.2%	0.7%
Experience gains/(losses) on scheme assets	4.2	(9.9)	0.3	2.2	2.2
Percentage of scheme assets	12.0%	(34.9)%	0.9%	6.9%	8.0%

Analysis of movement in the deficit in the schemes during the year:

	2009 £m	2008 £m
Opening deficit in schemes	(13.6)	(13.3)
Current service cost	(0.6)	(0.9)
Contributions	1.6	1.4
Other finance costs	(1.4)	(0.7)
Actuarial loss	(14.1)	(0.1)
Closing deficit in the schemes	(28.1)	(13.6)

The principal assumptions used in the actuarial valuation of the Staff Scheme were as follows:

	2009 £m	2008 £m
Discount rate	5.6%	7.4%
Rate of increase in salaries	4.5%	4.95%
Rate of increase in deferred pensions	3.45%	3.4%
Rate of increase in pensions in payment (where applicable)	3.45%	3.4%
Inflation assumption	3.5%	3.45%
Expected return on scheme assets	7.3%	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 PA92(YOB)MC+1, with a 1% underpin.

The assumption considered to be the most significant is the discount rate adopted. If the discount rate in the scheme was to change by 0.1% then it is predicted that the deficit in the scheme would change by approximately £1.3 million. A change in the rate of inflation by 0.1% is predicted to change the deficit by approximately £1.0 million.

The Group anticipates contributions to the defined benefit schemes for the year ending 31 October 2010 will be £1.9 million (2008: £1.7 million).

Notes to the Group Financial Statements

35. Self insurance

The Group is 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 is placed with external insurers.

36. 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 39 to 47.

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.

	2009 £m	2008 £m
Remuneration of the executive directors	1.2	0.9
Share-based payments	0.1	0.1
Total	1.3	1.0

37. Post balance sheet events

Private placement of loan notes

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

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

Acquisition of Hi-Shear Technology Corporation ("Hi-Shear")

On 25 November 2009 the Group completed the purchase of the entire stock capital of Hi-Shear for a cash consideration of \$132 million. As a technology business the net book value of the assets acquired was minimal therefore a significant intangible asset is expected. The fair values of the acquisition are currently being calculated.

Full disclosure of the acquisition and the analysis of assets acquired will be included in the 2010 Interim Report.

Conditional acquisition of The Allied Defense Group, Inc.

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

Independent Auditors' Report on the Parent Company Financial Statements

for the year ended 31 October 2009

Independent Auditors' Report to the Members of Chemring Group PLC

We have audited the parent company financial statements of Chemring Group PLC for the year ended 31 October 2009 which comprise the Balance Sheet, the 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, 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 2009;
- 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
- 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.

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

Andrew Gordon (Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Southampton, United Kingdom
19 January 2010

Parent Company Balance Sheet (under UK GAAP)

as at 31 October 2009

	Note	£m	2009 £m	£m	2008 £m
Fixed assets					
Tangible assets	2		0.7		0.5
Investments	3		147.2		114.0
			147.9		114.5
Current assets					
Debtors	5	232.0		237.4	
Creditors due within one year	6	(82.7)		(39.2)	
Net current assets			149.3		198.2
Total assets less current liabilities			297.2		312.7
Creditors due after more than one year	7		(160.0)		(163.6)
			137.2		149.1
Capital and reserves					
Called-up share capital	8		1.8		1.8
Reserves					
Share premium account	9	120.3		119.8	
Special capital reserve	9	12.9		12.9	
Hedge reserve	9	(2.1)		(1.7)	
Profit and loss account	9	9.5		22.0	
		140.6		153.0	
Own shares	10	(5.2)		(5.7)	
			135.4		147.3
Shareholders' funds			137.2		149.1

These financial statements were approved and authorised for issue by the Board of Directors on 19 January 2010.

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 2009

	Note	2009 £m	2008 £m
Profit for the financial year	9	2.1	11.5
Own shares	10	0.5	(2.9)
Losses on cash flow hedges	9	(0.4)	(3.4)
Deferred tax on cash flow hedges	11	-	0.7
Tax debits on items taken directly to reserves		(0.7)	-
Additional charge due to treasury shares		(0.7)	-
Total recognised gains and losses for the year		0.8	5.9
Reconciliation of movements in shareholders' funds			
	Note	2009 £m	2008 £m
Profit for the financial year		2.1	11.5
Dividends		(13.8)	(9.3)
(Loss)/profit for the year		(11.7)	2.2
Other recognised losses	9	(1.8)	(2.7)
Ordinary shares issued	8	-	0.2
Share premium arising	9	0.5	59.3
Share-based payments (net of deferred tax)		0.6	1.0
Own shares	10	0.5	(2.9)
Net (reduction in)/addition to shareholders' funds		(11.9)	57.1
Opening shareholders' funds		149.1	92.0
Closing shareholders' funds		137.2	149.1

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.

Cash flow statement

In accordance with the exemption under FRS1 the Company's cash flow statement has not been presented separately in these financial statements.

Notes to the Parent Company Financial Statements

for the year ended 31 October 2009

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.

Derivative financial instruments

The Company uses derivative financial instruments to reduce exposure to foreign exchange risk and interest rate movements. The Company does not hold or issue derivative financial instruments for speculative purposes.

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 defined benefit pension schemes. The defined benefit schemes are multi-employer schemes including employees of other Group companies. It is not considered possible to allocate scheme assets and liabilities between the various companies and accordingly schemes are accounted for as though they were defined contribution schemes. 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.

2. Tangible assets

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 November 2008	0.2	0.9	1.1
Additions	0.2	0.1	0.3
At 31 October 2009	0.4	1.0	1.4
Depreciation			
At 1 November 2008	-	0.6	0.6
Charge for the year	-	0.1	0.1
At 31 October 2009	-	0.7	0.7
Net book value			
At 31 October 2009	0.4	0.3	0.7
At 31 October 2008	0.2	0.3	0.5

The Company had no capital commitments at 31 October 2009 (2008: 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 2008	126.9	6.3	133.2
Acquisitions of subsidiary undertakings	24.8	-	24.8
Foreign exchange*	8.4	-	8.4
At 31 October 2009	160.1	6.3	166.4
Provision for impairment			
At 1 November 2008 and 31 October 2009	19.2	-	19.2
Net book value			
At 31 October 2009	140.9	6.3	147.2
At 31 October 2008	107.7	6.3	114.0

* The Company has Euro-denominated borrowings which it has designated as a hedge of the net investment in its Italian subsidiary, Simmel Difesa S.p.A.

Notes to the Parent Company Financial Statements

for the year ended 31 October 2009

4. Investments in Group undertakings

The trading subsidiary undertakings held at 31 October 2009 are:

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	Energetics
Chemring Marine Ltd	England	100	Energetics
*Chemring EOD Ltd	England	100	Energetics
Chemring Energetics UK Ltd	Scotland	100	Energetics
*Chemring Defence Germany GmbH	Germany	100	Energetics
*Alloy Surfaces Company, Inc.	USA	100	Countermeasures
*Kilgore Flares Company LLC	USA	100	Countermeasures and energetics
*Technical Ordnance, Inc.	USA	100	Energetics
*Titan Dynamics Systems, Inc.	USA	100	Energetics
*Scot, Inc.	USA	100	Energetics
*Martin Electronics, Inc.	USA	100	Energetics
*Non-Intrusive Inspection Technology, Inc.	USA	100	Energetics
*Chemring Australia Pty Ltd	Australia	100	Countermeasures and energetics
*Chemring Defence Spain S.L.	Spain	100	Energetics
Simmel Difesa S.p.A.	Italy	100	Energetics
*Chemring Nobel AS	Norway	100	Energetics
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

	2009 £m	2008 £m
Amounts owed by subsidiary undertakings	222.8	231.5
Group relief receivable	4.9	2.2
Deferred tax asset (see Note 11)	1.4	1.5
Other debtors	2.9	1.6
Prepayments and accrued income	-	0.6
	232.0	237.4

A financial instrument asset of £0.4 million (2008: £nil) 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. Only the amounts owed by subsidiary undertakings are due after more than one year.

6. Creditors due within one year

	2009 £m	2008 £m
Bank overdrafts	36.5	1.1
Bank loans	32.9	17.7
Trade creditors	2.1	1.1
Amounts owed to subsidiary undertakings	1.4	6.4
Other creditors	1.5	8.5
Other tax and Social Security	0.3	0.1
Accruals and deferred income	8.0	4.3
	82.7	39.2

A financial instrument liability of £1.1 million (2008: £8.1 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 Bank of Scotland are secured by a debenture over the assets of certain of the Group's subsidiaries and are 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

	2009 £m	2008 £m
Derivative financial instruments (see Note 24 of the Group financial statements)	3.7	3.0
Medium term loan	53.6	71.1
US loan notes	88.5	89.4
Preference shares (62,500 shares of £1 each)	0.1	0.1
Amounts owed to subsidiary undertakings	14.1	-
	160.0	163.6

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.

	2009 £m	2008 £m
Borrowings falling due within:		
One year	69.4	18.8
One to two years	36.0	19.8
Two to five years	20.8	33.1
After five years	88.5	107.6
	214.7	179.3

Notes to the Parent Company Financial Statements

for the year ended 31 October 2009

8. Called-up share capital

	2009 £m	2008 £m
Authorised		
43,000,000 ordinary shares of 5p each	2.2	2.2
Issued, allotted and fully paid		
35,585,832 (2008: 35,535,699) ordinary shares of 5p each	1.8	1.8

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 options

The following options to subscribe for the Company's ordinary shares granted under the Group's share-based incentive schemes were outstanding at 31 October 2009:

The Chemring Group Performance Share Plan

Date of award	Number of ordinary shares under award	Vesting price per share £	Date when awards will vest
27 Sep 2006	7,256	nil	27 Sep 2009
24 Jan 2007	92,755	nil	24 Jan 2010
23 Jan 2008	95,562	nil	23 Jan 2011
21 Jan 2009	150,404	nil	21 Jan 2012
24 Jun 2009	12,653	nil	24 Jun 2012

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	20,240	18.68	1 Oct 2011-1 Apr 2012
1 Aug 2008	24,284	18.68	1 Oct 2013-1 Apr 2014
31 Jul 2009	19,826	17.22	1 Oct 2012-1 Apr 2013
31 Jul 2009	13,686	17.22	1 Oct 2014-1 Apr 2015

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	6,501	18.49	16 Sep 2010-15 Dec 2010
31 Jul 2009	10,345	17.12	31 Jul 2011-30 Oct 2011

Full details of the schemes are disclosed in Note 32 of the Group 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 2008	119.8	12.9	(1.7)	22.0	153.0
Ordinary shares issued	0.5	-	-	-	0.5
Profit for the year	-	-	-	2.1	2.1
Decrease in fair value of hedging reserve	-	-	(0.4)	0.4	-
Dividends paid	-	-	-	(13.8)	(13.8)
Other recognised losses	-	-	-	(1.8)	(1.8)
Cost of share-based payments	-	-	-	0.9	0.9
Deferred tax on share-based payment transactions	-	-	-	(0.3)	(0.3)
At 31 October 2009	120.3	12.9	(2.1)	9.5	140.6

The share premium account and special capital reserve are not distributable. The Company generated a profit for the financial year of £2.1 million (2008: £11.5 million). Dividends from subsidiary undertakings of £1.6 million (2008: £11.2 million) were received in the year.

The proposed final dividend in respect of the year ended 31 October 2009 of 36p per share will, if approved, absorb approximately £12.7 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. Since the year end, the company has received dividends from subsidiaries, totalling £20 million to allow payment of the dividend.

10. Own shares

	2009 £m	2008 £m
Balance at 1 November 2008	5.7	2.8
Acquired in the year	1.5	2.9
Issued in the year to satisfy employee share awards	(2.0)	-
Balance at 31 October 2009	5.2	5.7

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 32 of the Group financial statements). During the year 78,301 (2008: 160,000) ordinary shares were acquired, and 115,170 (2008: nil) 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 2009 was 273,131 (2008: 310,000) with an average rate of £18.17 (2008: £18.19) per share. This represents 0.8% of the total issued and fully-paid ordinary share capital.

11. Deferred tax

	2009 £m	2008 £m
Movements in deferred tax liabilities/(assets) are as follows:		
At 1 November 2008	(1.5)	(1.3)
Charge to profit and loss account	0.1	0.5
Credit to Statement of Total Recognised Gains and Losses	-	(0.7)
At 31 October 2009	(1.4)	(1.5)
The amount provided represents:		
Other timing differences	(1.4)	(1.5)

Notes to the Parent Company Financial Statements

for the year ended 31 October 2009

12. Staff costs

	2009 Number	2008 Number
The average monthly number of employees (including executive directors) was:		
Total	31	25
	2009 £m	2008 £m
The costs incurred in respect of these employees were:		
Wages and salaries	3.2	2.4
Social security costs	0.3	0.3
Other pension costs	0.6	0.3
	4.1	3.0

Disclosures in respect of directors' emoluments can be found in the Directors' Remuneration Report on pages 39 to 47 of the Group financial statements.

13. Post balance sheet events

On 19 November 2009 the Company completed a private placement of \$280 million of fixed interest loan notes with a number of institutional investors. Further details are included in Note 37 of the Group financial statements.

Other information

Glossary of terms

BES	Battlefield effects simulation	MANPADs	Man-portable air defence systems
CAD/PADs	Cartridge-actuated and propellant-actuated devices	MTV	Magnesium teflon viton
EOD	Explosive ordnance disposal	NAMSA	NATO Maintenance and Supply Agency
ESAF	Electronic safe/arm fuze	NASA	National Aeronautics and Space Administration
GPR	Ground penetrating radar	NLAW	Next Generation Light Anti-Tank Weapon
HE	High explosive	OSHA	Occupational Safety and Health Administration
HEDP	High explosive dual purpose	PAAMS	Principal Anti-Air Missile System
HMDS	Husky Mounted Detection System	PAC-3	Patriot Advanced Capability 3
HMX	High melting explosive	PEMBS	Portable explosive minefield breaching systems
IDIQ	Indefinite Delivery/Indefinite Quantity	RDX	Research department explosive
IED	Improvised explosive device	RF	Radio frequency
IM	Insensitive munitions	ROV	Remotely operated vehicle
IR	Infra-red	UK MoD	United Kingdom Ministry of Defence
JSF	Joint Strike Fighter	US DoD	United States Department of Defense
LAP	Load, assemble and pack	UXO	Unexploded ordnance

Find out more online

For more information about Chemring Group PLC, please visit www.chemring.co.uk where you can access the latest shareholder information:

- Current share price
- Key financial information
- Financial calendar
- Shareholder services and notices
- Corporate governance
- RSS news feeds
- Results and presentations
- Analysts' forecasts
- Regulatory news

Chemring Group PLC's Annual Report and Accounts 2009 can also be viewed online at www.chemring.co.uk/investors in a choice of formats:

- Fully-functional micro-site
- Downloadable PDF

You can also view and download the Notice for our Annual General Meeting.



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