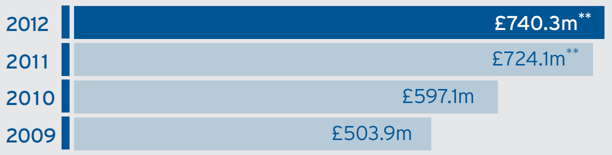
Financial performance

Revenue – continuing operations

£740.3m

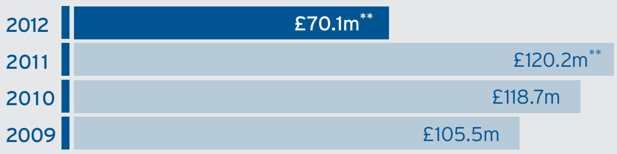
+2%



Underlying profit before tax*

£70.1m

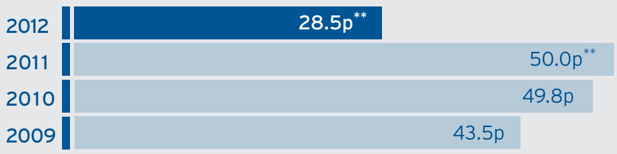
-42%



Underlying earnings per ordinary share*

28.5p

-43%



* Before acquisition and disposal related costs, restructuring and incident costs, profit on disposal of business, impairment of goodwill, intangible amortisation arising from business combinations and gain on fair value movements on derivatives

** Excluding discontinued operations

Contents

Chemring at a glance

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

Counter-IED

Chemring is the leading supplier of vehicle-mounted ground penetrating radar (GPR) detection systems, chemical and biological detection systems, and counter-IED electronic countermeasures. We manufacture portable minefield breaching systems and a range of detonators, initiators and disruptors for demolition and explosive ordnance disposal.

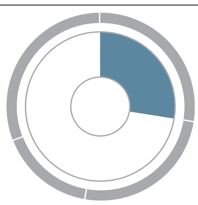
- Leader in vehicle-mounted IED detection
- Leader in vehicle-mounted chemical and biological detection systems
- Supplier of disruptors, demolition stores and minefield breaching systems to US and European forces

Revenue

£205m

Proportion of Group revenue

28%



For more information see page 8

Countermeasures

Chemring is the world leader in the design, development and manufacture of advanced expendable countermeasures for protecting air, sea and land platforms. We are also a leading developer of man-portable electronic warfare equipment.

- 50% share of expendable decoy market
- 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
- Supplier of RESOLVE man-portable electronic warfare equipment to UK and other military customers

Revenue

£184m

Proportion of Group revenue

25%

For more information see page 10

Pyrotechnics

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

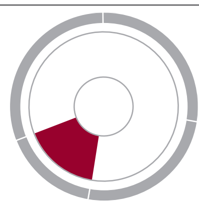
- Leading supplier of low shock satellite separation products and NASA standard initiators
- Largest supplier of pyromechanisms for aircraft egress systems
- Significant supplier of training products to the US Army and other NATO forces
- Growing demand for advanced pyrotechnic rounds and payloads

Revenue

£123m

Proportion of Group revenue

16%



For more information see page 12

Munitions

Chemring operates as a prime contractor in certain market niches and, as a component supplier, offers a unique capability in supplying energetic materials, components and subsystems.

- Market leader in naval ammunition
- Market leader in 90mm ammunition for light armoured vehicles
- Manufacturer of critical components for PAC-3 anti-ballistic missile system
- Leader in materials development for insensitive munitions

Revenue

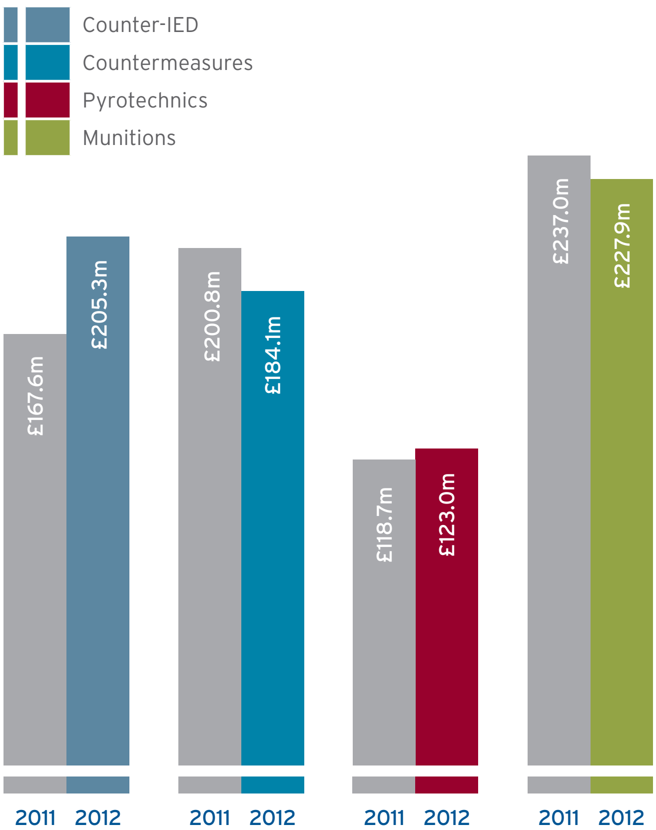
£228m

Proportion of Group revenue

31%

For more information see page 14

Continuing revenue by sector



Chairman's statement

Although the defence industry is facing challenges, Chemring's leading market positions, innovative products and manufacturing expertise should ensure the Group's underlying business remains robust in the face of market pressures.

Highlights

- Revenue from continuing operations up 2% to £740.3 million
- Underlying continuing operating profit* £88.3 million
- Underlying continuing profit before tax* £70.1 million
- Underlying continuing earnings per share* 28.5p
- Continuing profit before tax £18.8 million
- Basic continuing earnings per share 6.8p

Key information

Underlying continuing profit before tax*

£70.1m

Underlying continuing earnings per share*

28.5p

Dividend per ordinary share

9.5p

* Before acquisition and disposal related costs, restructuring and incident costs, profit on disposal of business, impairment of goodwill, intangible amortisation arising from business combinations and gain on fair value movements on derivatives

2012 was extremely disappointing for Chemring, our shareholders, our customers and our employees. During the course of the year, against an already challenging market background, a number of additional issues disrupted the operational performance of the business, including problems with the supply chain, contract delays and changes in senior management.

Although the general decline in defence spending in a number of our markets had a significant impact on trading during the year, a large proportion of the problems that affected the Group's performance stemmed from operational issues within the business, a failure to anticipate the impact of changing market dynamics, and poor management of expectations. Overall, this resulted in a significant decline in the market value of the Company.

However, with the appointment of Mark Papworth as Chief Executive in November 2012, followed by the appointment of Steve Bowers as Finance Director in January 2013, we are now rebuilding the senior management team required to lead our recovery. This recovery will focus on operational performance efficiency, margin improvement, and business reorganisation to enable the Group to deal with the ongoing challenges in its end markets. Turning to the balance sheet, there will need to be a tighter focus on the generation and management of our cash flows in order to reduce our levels of debt. The objective is to ensure the business is well-positioned to operate effectively in an environment of constrained defence spending, and to ensure the Group can return to profitable growth.

Trading

Chemring's trading result during 2012 was unsatisfactory. Defence spending pressures on both sides of the Atlantic, but particularly in the USA, affected a number of defence companies during 2012 and Chemring was no different. We failed to anticipate and react to those changing market dynamics quickly enough and to understand the impact on our businesses. Our trading performance suffered as a result. In addition, the overall performance also reflected specific issues at several of our subsidiary companies.

We reported a number of issues during the year. At our Florida subsidiary, we encountered problems with the installation of a new resource planning system which, together with delays on a major contract, considerably eroded its profit. At the year end, the Group's results were significantly below expectations, as we experienced a delay in the receipt of a major order from the Middle East, continued to suffer technical problems with a specific countermeasure product, and were unable to deliver as much of a vehicle-based mortar system product as we had anticipated due to export licence difficulties.

Overall, revenue from continuing operations for the year was £740.3 million, an increase of 2%, generating an underlying continuing operating profit* of £88.3 million, down 35%. Underlying continuing profit before tax* fell by 42% to £70.1 million, producing underlying continuing earnings per share* of 28.5p, a fall of 43% against the previous year.

The order intake for the Group was £660.2 million, which is 17% lower than last year. Although we saw strong order growth in our Counter-IED and Pyrotechnics businesses, this was offset by a downturn in order intake within Countermeasures and Munitions. The Munitions segment was affected by export licence delays, and the timing of orders, with several large multi-year contracts having been received in the prior year. The lower order intake in the Countermeasures segment principally reflects lower customer demand, driven by government fiscal and budgetary controls. As a result, the Group's closing order book reached £760.9 million, down 13% on 2011.

Balance sheet, cash flow and debt

The Group generated an underlying continuing operating cash flow* of £114.9 million, which was 130% of underlying continuing operating profit*. At the end of the year, net debt was £244.8 million, compared with £262.7 million last year, driven by significant operating cash inflow in the final quarter of the year.

Group strategy

In recent years, the Group has pursued a strategy of combining organic growth with targeted acquisitions. Whilst operating in fragmented markets where opportunities for future consolidation exist, the Board currently believes that there are greater opportunities to enhance shareholder value in the short term through focusing on delivering performance improvement and integration of operating units.

Board of directors

There have been a number of changes at Board level during the last twelve months. As outlined in last year's report, Vanda Murray joined the Board as a non-executive director in November 2011, and David Evans retired from the Board at the Annual General Meeting in March 2012. Mark Papworth was appointed to the Board as Chief Executive at the start of the new financial year, succeeding David Price who resigned at the end of October 2012. Steve Bowers joined the Board as Finance Director at the beginning of January 2013, replacing Paul Rayner who resigned in July 2012.

Nigel Young, who was Interim Chief Financial Officer between August 2012 and January 2013, will join the Board as a non-executive director at the end of April 2013, after completing a specific reorganisation project. He will become Chairman of the Audit Committee, succeeding Lord Freeman who plans to retire from the Board at the end of the year.

Sir Peter Norriss, who has been a non-executive director since May 2004, has indicated his intention to retire from the Board at the Annual General Meeting. During his time with the Group, Peter has provided the Board with invaluable guidance, and I would like to take this opportunity to thank him on behalf of the Board and wish him well in the future.

Dividends

The Board is recommending a final dividend for the year of 4.2p (2011: 10.8p). With the interim dividend paid of 5.3p (2011: 4.0p), this gives a total dividend for 2012 of 9.5p (2011: 14.8p). The total dividend for the year reflects the Company's policy outlined last year, to provide dividends covered three times by earnings.

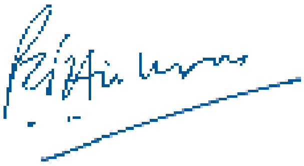
Outlook

The US defence market will remain vulnerable to budget uncertainties during the coming year, and the lack of clarity over defence expenditure is likely to continue to erode market confidence and adversely affect the procurement process, as purchase decisions are delayed.

Similarly, in the UK, funding for new and existing programmes is expected to remain constrained during the course of 2013, as the MoD's review of its procurement processes continues. Downward pressure on European defence spending, as a result of deficit reduction programmes, is also expected to continue.

Overall, therefore, the difficult market conditions that contributed to the Group's disappointing performance in 2012 are expected to continue in 2013.

However, against this challenging environment, Chemring's strategy will be to drive improvements in operational performance and structure the business in such a way as to provide greater resilience. At the same time, we will continue to pursue the opportunities that exist within our non-NATO territories, where defence spending may be less affected by the same constraints. Although the defence industry is facing challenges, Chemring's leading market positions, innovative products and manufacturing expertise should ensure the Group's underlying business remains robust in the face of market pressures. Whilst the new management team is actively addressing these issues and opportunities, 2013 is still expected to be a challenging year for Chemring, and therefore the Board's expectations for the year remain unchanged.



P C F Hickson
Chairman
24 January 2013

Our strategy

Our strategy is to develop and build on our core competencies in energetic materials and electronics for sensors, electronic warfare and network protection.

Vision

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

Counter-IED

Establish technology leadership

- Maintain technological lead in ground penetrating radar and counter-IED jamming
- Become world leader in IED, chemical and biological threat detection
- Become world leader in IED neutralisation and demolition stores

Countermeasures

Maintain world lead

- Exploit lead in special material, spectral and thrusted flares
- Develop a market lead in naval launchers and decoys
- Become the world leader in dismounted and vehicle electronic warfare equipment
- Establish niche position in network protection

Pyrotechnics

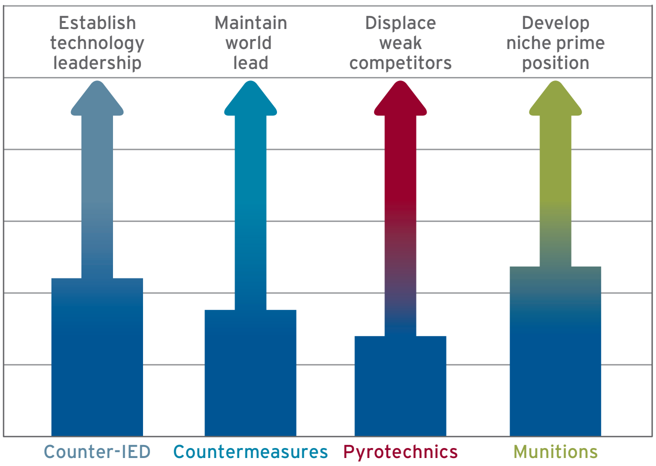
Displace weak competitors

- Develop new products to deliver transformational capabilities in changing operational environments
- Ensure position on next generation platforms for space and safety systems

Munitions

Develop niche prime position

- Become a leading prime contractor for non-NATO customers
- Become a supplier of choice for NATO primes



Group strategy

The Group strategy is balanced between our four segments – Counter-IED, Countermeasures, Pyrotechnics and Munitions. All these segments build on a fundamental understanding of the properties, characteristics and application of energetic materials, and, to an increasing extent, the application of electronics to provide new, high integrity solutions to difficult problems.

Our strategy develops and builds on our core competencies:

- **Energetic materials** – We will focus the business on products where we can exploit our extensive knowledge and expertise in explosive, pyrotechnic and pyrophoric materials. We will address niche, highly profitable markets with significant value-added manufacture/assembly, where barriers-to-entry are high. We will exploit the commonality of our technology and design expertise to generate a broad centre-of-excellence that can be maintained over the long term future.
- **Electronics for sensors, electronic warfare (EW) and network protection** – A growing proportion of our business will be based on high integrity, high speed electronics for detecting and analysing threats to enable a timely response. Many of these electronic systems will rely on data from multiple sensors and may also be network-based.
- **High reliability and integrity** – The nature of our products requires the highest levels of safety and reliability, particularly when their correct operation is life critical, as in ejection seats, or in chemical, biological or explosives detection. Manufacturing and product safety must always be one of our highest priorities.
- **Agile manufacturing** – Our energetics manufacturing activities range in volumes from thousands per day to tens per year, which requires intelligent, agile manufacturing at key centres-of-excellence. Our strategy is to consolidate manufacturing centres, where possible, to give high volumes. Expertise in automation and flexible manufacturing will drive down our cost base and maintain competitive advantage. In electronics, we will retain control of quality by focussing on assembly and test.

Organic growth strategy

The first element of our organic growth strategy is to maintain a geographic footprint which reflects the balance of global defence spending. As military operations in Iraq and Afghanistan wind down, defence spending is migrating to the Middle East, Far East and South America. Our strategy is to target these growth markets and locally promote the full range of products which the Group offers. Where we can identify a strong competitive advantage, we will establish manufacturing capabilities in key countries through equity participation in joint ventures, or in partnership with established local businesses, by transferring product, component and manufacturing technologies. We will exploit our transatlantic footprint and expanded manufacturing base by promoting exports from all our businesses to our customer base in over sixty countries around the world.

RESOLVE electronic surveillance

RESOLVE in semi-static configuration

Secondly, we will maintain a strong focus on developing world-leading products. As a growing proportion of our business is based on advanced electronics, we have developed parallel energetics and electronics technology strategies.

Our energetics technology strategy is focused on materials technology and applications engineering in five key areas:

- **Explosive materials** – We will develop and optimise material formulations to improve their performance and safety.
- **Warheads** – We will build a capability in missile warheads and will offer insensitive munitions (IM) variants of our ammunition products.
- **Propellants** – We will develop a new generation of low vulnerability ammunition (LOVA) propellant solutions and will build a capability in composite rocket motors.
- **Pyrotechnic countermeasures and illumination** – We will maintain our world lead in air countermeasures and will develop a full range of spectrally optimised pyrotechnic payloads.
- **Pyrotechnic obscurants** – We will lead development of safer, multi-spectral smokes and less-lethal technologies.

Our electronics technology strategy builds on our leadership in key niches:

- **Initiation** – Is the interface to energetic products, and we will extend the application of electronics to improve the performance of our munitions and pyrotechnic products.
- **Detection** – We will maintain our lead in stand-off threat detection technologies and will enhance these with sensor fusion and advanced algorithm development.
- **Electronic warfare (EW)** – We will extend our lead in man-portable electronic intelligence equipment, and will develop vehicle-mounted variants of our products.
- **Electronic countermeasures** – We will establish a world lead in active off-board decoys, and will develop a step-change in portable counter-IED jammers.
- **Network protection** – We will apply our leading capability in fast electronic hardware to lawful intercept applications and the protection of wirelessly networked military systems.

We will maintain an underpinning technology base to enable a cycle of rapid product development and technology insertion, through internal research and partnerships with universities, research institutions and technology companies. Where we cannot quickly develop critical capabilities and technologies organically, we will supplement this with targeted acquisitions.

Acquisition strategy

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

Whilst our focus in the near term will be on consolidation and organic growth, we will continue to keep a watching brief on the market. We have three key criteria against which we evaluate acquisition opportunities. Firstly, they should fill identified gaps in our technology or product portfolio, where acquisition is an expedient and cost effective alternative to organic development. Secondly, we look for businesses which provide access to attractive markets where we do not have strong existing routes to market, which may comprise access to new geographies or new relationships with prime contractors. Finally, we look for businesses which have the potential to overcome their historic growth constraints under our ownership – for example, where we can provide routes to market, technology or production capability.

We maintained a watch on potential acquisition candidates throughout the year, and although we conducted a preliminary evaluation of a handful of smaller opportunities, we did not pursue these as they failed to meet our criteria.

Counter-IED

The closing order book for Counter-IED was £172.8 million, up 36% on 2011.

Highlights in 2012

- Revenue 22% higher than 2011
- NIITEK won a multi-year IDIQ contract with the US Department of Defense worth $579 million
- Chemring Detection Systems won contracts for JSLSCAD and JBPDS worth a combined $78 million
- Chemring Ordnance was awarded a further $40.4 million contract to supply APOBS
- Closing order book for Counter-IED was £172.8 million, up 36% on 2011

Key information

Orders received

£252.0m

Revenue

£205.3m

Underlying operating profit

£43.9m

Underlying operating margin

21%

Strategy

Our strategy is to establish leadership in the global counter-IED (improvised explosive device) market, with high technology products to detect, disable and defeat the threat posed by IEDs, as well as chemical and biological agents. We will maintain our world lead in ground penetrating radar, and will invest in complementary sensor technology and data fusion to deliver high reliability detection of all types of IEDs. We will also build on our leading position in advanced jamming technologies, and will migrate our detection and jamming technologies to hand-held, robot-mounted and vehicle-mounted products. In chemical and biological threat detection, we will maintain our position as a leading US prime contractor, accessing advanced technologies to offer fixed, vehicle-based and hand-held solutions to defence and security customers. Finally, we will develop and qualify a comprehensive set of disruptors, demolition stores and electronic initiation systems to defeat a full range of threats.

Financial performance

Our revenue in 2012 was £205.3 million, 22% higher than the previous year, driven mainly by the full year contribution of Chemring Detection Systems, which was acquired in July 2011. NIITEK's revenue for the year was flat compared to 2011, primarily due to the delayed placement of the $579 million HMDS (Husky Mounted Detection System) IDIQ (indefinite delivery/indefinite quantity) contract, which impacted deliveries in the first half of the year.

Deliveries were also delayed on Chemring Ordnance's IDIQ contract for the supply of Anti-Personnel Obstacle Breaching Systems (APOBS) to the US Army, as a result of problems with a US Government directed supplier who had to implement new processes and improvements in order to meet current government standards. The supplier is now delivering, and APOBS is expected to complete its first article test in February, with production commencing thereafter.

The closing order book for Counter-IED was £172.8 million, up 36% on 2011, as a result of major orders for HMDS, chemical and biological detection products, and the APOBS minefield breaching system.

Activities during the year

During the year, threat detection remained the dominant element of our activity in the Counter-IED segment, with our expanded range of products covering chemical and biological agents, as well as improvised and concealed explosive devices. The most significant contract of the year was NIITEK's $579 million HMDS IDIQ contract. This three year contract, with an initial order worth $161 million, provides the US Department of Defense with the means to procure spares and replacement systems to replenish theatre sustainment stock, as well as providing new systems for the US Army, the US Marine Corps, and US Government supported Foreign Military Sales. A second delivery order worth $32 million was awarded to NIITEK in December 2012.

NIITEK also won new export orders for the HMDS, with the award in October 2012 of a $6.9 million contract from the Commonwealth of Australia for the production and delivery of ten complete systems, and associated spare parts, for the Australian Army. NIITEK also secured its first order in Europe, with a $5.9 million contract from MBDA Italia S.p.A for the supply of the "Mine Buster" Ground Penetrating Radar (GPR) systems, and logistics support to the CALIFE 3 Italian Army Programme for the Italian Ministry of Defence. Deliveries under the contract will be made in 2013, and will support the Italian Army's Route Clearance Mission. NIITEK has established a partnership with Critical Solutions, Inc., the manufacturer of the Husky vehicle, to jointly promote the vehicle and detector to the international market. The partnership recently completed a successful demonstration to the Turkish Army's Engineering School.

NIITEK continues to enhance its technology base and product offering with incremental product upgrades, as well as development of hand-held, robot-mounted and multi-sensor solutions. Following successful

Chemical threat detection
Vehicle-mounted I-SCAD

evaluation of its RVIS remote visualisation system, NIITEK won a contract, potentially worth up to $18 million, to produce 102 RVIS systems and initial spare parts, and deliver technical support, training and logistics data in support of Operation Enduring Freedom (OEF). The RVIS system provides remote viewing of the HMDS graphical user interface display in a follow-on vehicle, providing improved situational awareness to the route clearance package. NIITEK also established a partnership with Minelab Electronics Pty Limited, to incorporate Minelab's proven metal detection technology into a new prototype dual sensor hand-held detector, which was completed in July.

Chemring Detection Systems performed well in its first full year under Chemring's ownership. In the US, it won two key orders for its chemical and biological detection systems. The first, announced in February 2012, was a $29 million contract to supply over one hundred Joint Services Lightweight Stand-off Chemical Agent Detectors (JSLSCAD) for the US Army's Stryker Nuclear Biological Chemical Reconnaissance Vehicle (NBCRV). The second was a $49 million contract award to supply Joint Biological Point Detection Systems (JBPDS) for installation on Stryker NBCRVs and US Navy ships such as the USS Ross (DDG 71). Chemring Detection Systems also delivered an export contract for JBPDS to Japan, and completed a six week in-country operator training course for the Japanese Ground Self Defence Force.

Chemring Detection Systems' Lightguard Minotaur, a fixed installation stand-off explosives detector, successfully completed its in-theatre early user test, and the systems have been transitioned to a new location in the Middle East for a new mission. Chemring Detection Systems also won a development contract for Lightguard Mercury, an on-the-move variant of the Lightguard detection system.

In the UK, Roke is also developing a number of specialist detection technologies, and has successfully delivered concept demonstrators of its SPLINTER system. It is in discussions with the US Department of Defense to incorporate this technology onto existing IED detection systems.

Chemring Energetics delivered its first full year sales of its expanded range of insensitive munition (IM) demolition stores, including plastic explosives, Sabrex linear cutting charges, sheet explosives, and Bangalore torpedoes. It also completed its first deliveries of Sabrex charges to the US, via Chemring Ordnance. Following the receipt of a $150 million IDIQ contract in 2011 to supply APOBS, Chemring Ordnance has now successfully completed all the production facilities for this contract, and was awarded a further contract option worth $40.4 million in August 2012.

In response to growing demand for a lightweight disruptor, Chemring EOD rapidly completed development of its Wasp product, to provide EOD specialists with a small, backpack portable device to quickly and safely neutralise IEDs. Chemring EOD also won a contract from the UK Ministry of Defence to supply a range of disruptors for the UK's new bomb disposal robot, Cutlass.

Outlook

The outlook for the Counter-IED segment is positive. Most militaries have identified that there is a significant and growing gap in their capabilities to deal with the persistent and rapidly evolving threat of IEDs as the insurgent's weapon of choice. We are seeing sustained interest in our detection, jamming and defeat products, from both NATO and non-NATO users. Even in the budget-constrained environments in the UK and US, new programmes of record are being developed to ensure that forces are equipped with state-of-the-art equipment, irrespective of current operations in Afghanistan.

Our business units and companies

Chemring Energetics UK Ltd
Specialises in the design and manufacture of energetic materials, detonators, and demolition stores.

Chemring EOD Ltd (UK)
Manufactures a range of products for detection, assessment and neutralisation of threats from improvised explosive devices and unexploded ordnance.

Chemring Ordnance, Inc. (USA)
Supplies Anti-Personnel Obstacle Breaching System (APOBS), a rocket-deployed mine clearance system, to the US Army.

Chemring Detection Systems, Inc. (USA)
Leading US developer and supplier of vehicle-mounted chemical and biological detection systems for the US Army.

Non-Intrusive Inspection Technology, Inc. (USA)
The leading manufacturer of vehicle-mounted ground penetrating radar mine detection systems.

Roke Manor Research Ltd (UK)
A world-class developer of electronic countermeasures and threat detection technologies.

Our products

Detect
- Vehicle-mounted IED detection systems
- Chemical and biological detection systems
- Stand-off IED detectors
- Remote IED inspection equipment
- Under-vehicle surveillance systems

Disable
- Electronic countermeasures

Defeat
- Remote initiators
- Detonators
- Explosive charges
- Minefield breaching systems
- Recoilless de-armers/disruptors

Countermeasures

There is growing interest in Alloy Surfaces' pre-emptive solutions in the US, NATO and the Middle East.

Highlights in 2012

- Chemring Australia opened its new flare manufacturing facility
- Kilgore won option awards totalling $44 million for expendable decoy flares from the US Army and US Air Force
- Roke achieved further export orders for its Resolve man-portable electronic warfare system and was also appointed as joint-lead position in a three year UK MoD research programme for next generation electronic warfare

Key information

Orders received

£131.5m

Revenue

£184.1m

Underlying operating profit

£18.3m

Underlying operating margin

10%

Strategy

The core strategy for our Countermeasures segment is to maintain our share of the expendable countermeasures market. We will build on our current leadership in special materials, spectral and thrusted flare technologies, and will work closely with our customers to monitor threat evolution and to jointly develop new countermeasure concepts. We will also invest in decoy and launcher technologies for the naval market, where we see an unmet need for a trainable launcher for larger vessels. We will also evaluate active off-board radio-frequency (RF) decoys, where we can establish a leading position based on our capabilities in expendable countermeasures and in advanced, miniaturised RF electronics. We will build on our strong position in man-portable electronic warfare equipment, to establish ourselves as a world leader in dismounted and vehicle mounted systems. We will also establish a niche position in network protection, based on our capabilities in fast electronic hardware and network enabled capability.

Financial performance

In 2012, our revenue in the Countermeasures segment was £184.1 million, down 8% on the previous year, mainly due to reduced NATO demand as customers reduced stockpiles in anticipation of withdrawal from Afghanistan. Sales at our US subsidiary, Alloy Surfaces, and at our UK subsidiary, Chemring Countermeasures, were most affected. This situation was exacerbated at the end of the year by a delay in receipt of a multi-year contract for the supply of aircraft countermeasures to a customer in the Middle East, and technical problems on the development of a new countermeasure, which resulted in it not being accepted by the customer until further tests have successfully taken place.

The combination of these issues affected revenue, and had a major impact on profit for the year, which at £18.3 million was down 61% on the prior year. Delay to the Middle East order meant that profit could not be recognised as expected under contract accounting policies, on product that had been manufactured during the year in expectation of that order award. The customer is reconsidering the timing of the order placement, and it is now considered unlikely that the full contract will be placed before the end of the current financial year. The product development issue related to the supply of a newly developed countermeasure, where several lot acceptance test failures required a substantial provision to be made to recognise the costs and implications involved in meeting acceptance conditions. Work to resolve the technical problem is ongoing, and further customer acceptance tests are planned during the second half of the year.

The closing order book for the Countermeasures segment was £182.3 million, down 22% on the previous year. This reflects lower orders for flares of all types, particularly in the US market.

Activities during the year

During the year, Chemring Australia opened its new manufacturing facility at its site near Melbourne, which creates a sovereign capability to manufacture flares for Australia's aircraft, and ensures a surge capacity to meet operational requirements in the future. The facility was commissioned in June 2012, and by the end of the year, had successfully delivered 50,000 flares to the Commonwealth of Australia. This facility will also produce flares for the F-35 Joint Strike Fighter when it enters service, and will operate as a second source to Kilgore for this product.

Alloy Surfaces is developing a number of new evolutions of its special material decoys, and has successfully flight-tested its new ASD-1292 decoy. This helicopter flare deploys its pyrophoric payload in a pseudo-kinematic trajectory, by sequentially releasing strapped bundles of material along its flight path. The ASD-1292 has been shown, in flight-testing, to be an effective single decoy solution against legacy and advanced infra-red (IR) threats.

Alloy Surfaces is also winning new export orders, particularly for its BOL-IR / MJU-52 decoy, which is pre-emptively dispensed to protect fast jets in high-threat environments. Italy and Germany received their first deliveries

Airborne countermeasures

Helicopter dispenses flares

for flight-tests on the Typhoon and other platforms, and Finland placed its first production order for its F-18 aircraft. Significantly, Alloy Surfaces has also received, for the first time, a temporary export licence to allow it to display its products in the Middle East at IDEX in February 2013.

In 2012, Kilgore won option awards worth a total of $44 million for three types of airborne expendable decoy flares from the US Army's Rock Island Contracting Centre. The MJU-7, MJU-10 and M206 decoy flares are used by the US Air Force and US Army to protect a number of fixed and rotary wing aircraft from the threat of IR guided missiles. Deliveries of these units are scheduled to continue through to June 2014.

Production of Kilgore's MJU-7 flare restarted in the year, with flares successfully delivered to US and export customers. The final phase of the production facility rebuild is the commissioning of its state-of-the-art automated flare assembly facility, which started in October 2012.

In Europe, Chemring Countermeasures and Roke have engaged on their first joint developments in the Countermeasures segment. The first is in relation to the Centurion naval decoy launcher, where Roke successfully completed the third phase of development of the launcher software, which provides key functionality that allows the user to control the prototype launcher through a custom-designed user interface. The second is the development of an air countermeasure electronic sequencer, which is a small circuit board which fits inside a standard flare cartridge case, to provide accurate time delays for a single flare which fires multiple shots. This not only increases the decoy deployment capacity within existing aircraft dispenser constraints, but also opens new technical and market opportunities in air countermeasures.

In the land electronic warfare (EW) segment, Roke achieved further export orders for its Resolve man-portable electronic warfare system. It has now delivered nearly a hundred Resolve systems to four customers, including a recently developed lightweight variant, with improved sensitivity, for a strategically important overseas customer. Roke has also been appointed as joint-lead position in a three year UK Ministry of Defence research programme for next generation electronic warfare, which will enable Roke to jointly develop the future electronic warfare roadmap. Outside the UK, Chemring Australia is working closely with Roke to establish improved routes to the Australian market, and this has included submission of a grant fund application for collaborative EW developments in Australia.

Separately, Roke successfully completed the software build for Selex to deliver artillery location systems for the Italian Ministry of Defence. In customer trials, the first system detected mortars with unprecedented accuracy and reliability, and four systems have subsequently been deployed to theatre and are currently protecting NATO troops.

Outlook

The outlook for the air countermeasures business is tight, with the decline in NATO procurement being faster than non-NATO growth. Delays in Joint Strike Fighter deliveries and expected in-service dates will correspondingly delay major procurements of warstock for these fleets. This will drive some capability extension to existing platforms, and there is growing interest in Alloy Surfaces' pre-emptive solutions in the US, NATO and the Middle East. There is also a growing capability gap in customers' naval countermeasure inventories, and there is interest in improved naval decoys and launchers. However, the timing of orders in tight budget environments remains uncertain. In land EW, a growing user community and an in-service fleet of equipment creates both a demand for upgrades and a momentum of interest in next generation equipment.

Our business units and companies

Alloy Surfaces Company, Inc. (USA)

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

Chemring Australia Pty Ltd

Australia's only on-shore manufacturer of aircraft expendable countermeasures.

Chemring Countermeasures Ltd (UK)

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

Kilgore Flares Company LLC (USA)

Develops and produces airborne expendable IR countermeasure decoys and naval decoys.

Roke Manor Research Ltd (UK)

A world-class developer of electronic countermeasures, electronic intelligence and network protection technologies.

Our products

Air countermeasures

- Conventional and advanced flares
- Special material decoys
- Chaff

Naval countermeasures

- RF decoys
- IR decoys
- Naval decoy launchers

Land/EW

- Electronic intelligence equipment
- Electronic countermeasures
- Lawful intercept equipment

Pyrotechnics

Mecar's sales of pyrotechnic rounds and products grew in the year, as part of major ammunition contracts for the Middle East.

Highlights in 2012

- The closing order book was £178.2 million, up 24% on the previous year
- Sale of the marine safety pyrotechnics business to Drew Marine, for £30.4 million
- Chemring Defence developed and delivered a new vehicle discharge grenade for a Middle Eastern customer
- Chemring Ordnance won a contract to supply sixty weapons effect simulators for the man-portable aircraft survivability trainer (MAST)

Key information

Orders received
£130.6m

Revenue
£123.0m

Underlying operating profit
£12.3m

Underlying operating margin
10%

Strategy

Our strategy is on focused investment in new products that deliver transformational capabilities to users in changing operational environments. We intend to expand our activities in the space sector by developing improved products for initiation, stage separation, and satellite and sub-system deployment for military and commercial customers. This will address the US, European and emerging international markets. We intend to expand our safety systems activities, both in military and civil aircraft.

Financial performance

In 2012, revenue from our continuing operations in military and aerospace pyrotechnics was £123.0 million, which is 4% higher on a like-for-like basis than in 2011. This increase resulted from growth in sales of pyrotechnic products and rounds to the Middle East, which offset the reduction in deliveries of illumination mortar rounds to the UK, which were affected by supply chain issues in the first half of the year. This also substantially reduced the profitability of this segment. Sales of training and simulation products were down 50%, reflecting reduced demand for training grenades in the US. Space and safety systems' revenues were broadly flat.

In addition to the impact of product mix on the profitability of the segment, Chemring Ordnance also indentified significant errors in the data underpinning its resource planning system. The issues that led to this problem are now well understood and corrective action has been taken such that the problems will not reoccur.

The closing order book was £178.2 million, up 24% on the previous year, due to the receipt of UK orders for illumination rounds, Middle East demand for pyrotechnic rounds and products, and orders for space components.

Activities during the year

In July, the Group completed the sale of its marine safety pyrotechnics business to Drew Marine, for £30.4 million. The focus of this business on the commercial and leisure market was no longer aligned with the growth strategy of the Group, and it was clear that Chemring Marine would benefit from new owners, who would provide the investment needed to expand its marine safety business and to develop its global maritime safety network.

Smoke and illumination

In January 2012, Simmel was awarded further contracts to the value of €38 million for 81mm pyrotechnic illumination mortar rounds, with deliveries over the period from 2012 to 2014.

Mecar's sales of pyrotechnic rounds and products grew in the year, as part of major ammunition contracts for the Middle East. In addition, Mecar successfully completed the development of two new pyrotechnic products – a new rifle launched smoke grenade and a new smoke filling for 120mm mortar rounds, which offers an alternative to white phosphorus. Chemring Ordnance is also developing next generation smoke/ obscurant materials, including non-pyrotechnic solutions in partnership with Florida State University's Department of Chemistry. This joint research effort will concentrate on synthesising new smoke producing materials.

The US Navy awarded Chemring Ordnance a contract to rapidly develop and produce the 40mm MK325 Tri-color signal flare. This cartridge was requested under an "urgent need" from the US Special Forces operating in Afghanistan.

Chemring Defence continued deliveries of its new compact smoke grenade, and also developed and delivered a new vehicle discharge grenade (VDG) for a Middle Eastern customer. This underpins a major marketing thrust in the region to promote Chemring's range of 66mm and 76mm VDGs for a range of platforms.

Alloy Surfaces submitted its covert infra-red marker devices, based on special material decoy technology, for test and evaluation by the US Air National Guard. The products – a covert position marker and an individual marker device – passed, and were recommended for full fielding for all US Department of Defense services.

Chemring Australia successfully developed two new products in its Ascend range of military pyrotechnics. The A300D is a drill trip flare, and initial production and deliveries were completed in June. The

Smoke and screening

Landing position marked by smoke grenade

A400 is a thermite incendiary grenade, with first production orders received.

Training
Revenue for training products was down, principally as a result of the full stockpiles of the US M228 practice grenade. However, Chemring Ordnance did win a contract to supply sixty weapons effect simulators for the man-portable aircraft survivability trainer (MAST). This product will be in service with all US Armed Services.

Safety systems
Chemring Energetic Devices successfully shipped its JCAST test systems to F-22 and F-16 squadrons of the US Air Combat Command and US Air National Guard during the year. The system allows pilots to check critical oxygen, communications and their G-Suit prior to getting in the aircraft. The system is the only authorised test set-up for the F-22.

Space
In the space segment, Hi-Shear has started working with SpaceX, one of the new US commercial launch providers contracted to provide launch services to NASA. It has established the SpaceX standard initiator and detonator, and won its first significant order. In Europe, Hi-Shear and Chemring Energetics have successfully promoted the PC-23 initiator to the European Space Agency (ESA) and European satellite manufacturers. Chemring Energetics is also supplying detonating cords to ESA for cutting and stage separation applications on the Ariane V launch vehicle.

Roke is also developing a position in the space segment, with a contract with the UK Ministry of Defence to develop and deliver flight-ready payload modules for a multi-national nano-satellite demonstrator programme.

Outlook
The outlook for pyrotechnics is stable, with space and safety systems sustained by long term programmes and large in-service aircraft fleets. In recent years, military signal and illumination enjoyed a major surge in demand, as a result of UK demand for 81mm illumination mortars, but this has now levelled, with some orders still to be delivered to the UK, and continued requirements from the Middle East.

Our business units and companies

Chemring Australia Pty Ltd

Supplies a range of pyrotechnics and military training products.

Chemring Defence (Europe)

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

Chemring Energetics UK Ltd

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

Chemring Energetic Devices, Inc. (USA)

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

Chemring Ordnance, Inc. (USA)

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

Hi-Shear Technology Corporation (USA)

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

Our products

Space and satellite launch
- Initiators
- Separation sub-systems
- Thrusters and actuators

Training
- Pyrotechnics and launchers

Smoke and illumination
- Military smokes, flares and rockets
- Distraction and screening products
- Pyrotechnic payloads
- Submarine distress signals

Safety systems
- Rocket motors
- Canopy cutting charges
- Cartridge actuated devices

Munitions

Ammunition sales for land forces grew by 55% in the year, in both Europe and the Middle East.

Highlights in 2012

- New generation miniature radio-frequency proximity fuze for 40mm gun ammunition developed, offering improved reliability and easier manufacturing
- Mecar maintained its strong position in the Middle East, with major deliveries to strategic customers including, for the first time, the UAE
- Chemring's lead azide production process approved for US Department of Defense use by the US Energetic Materials Qualification Board
- 40mm ammunition sold into South America for the first time

Key information

Orders received

£146.1m

Revenue

£227.9m

Underlying operating profit

£24.3m

Underlying operating margin

11%

Strategy

Our principal strategy is to develop our position as a niche manufacturer of specialist ammunition products for European and non-NATO markets. We will build on our world leading position in naval ammunition, our growing strength in ammunition for light armoured vehicles (LAVs), and our broad range of mortar and 40mm grenade products. We will focus on new product development, and investment in facilities that will allow us to expand our presence in a growing international market. We intend to establish our position as a key strategic supplier of energetic material components and sub-systems to the key prime contractors for ammunition and missiles in Europe and the US. This will be achieved by developing and qualifying components for next generation weapon systems, and displacing poorly performing incumbents on legacy products.

Financial performance

In 2012, our Munitions revenues were £227.9 million, a 4% reduction from 2011. Ammunition sales for land forces grew by 55% in the year, in both Europe and the Middle East, and naval ammunition and component sales remained steady during the year. This was offset by the delayed delivery of mortar systems, due to extended delays in the granting of export licences for a limited number of critical components. These licences have recently been issued, and deliveries should commence in the 2014 financial year, when a customer-funded contract modification has been finalised.

The profitability of the segment fell significantly as a result of the different product mix in the year.

The closing order book for the Munitions segment was £227.6 million, a reduction of 39% on the previous year, notably due to delays to the placing of significant munitions contracts both at Simmel and Mecar. Delays in the granting of export licences were also a significant factor. About 75% of the order book is from non-NATO customers.

Activities during the year

Naval

The naval ammunition market is stable, and our deliveries of naval ammunition were at similar levels to 2011. The two largest customers were NATO countries but sales continue around the world. A key development in the year was a new generation miniature radio-frequency proximity fuze for 40mm gun ammunition, which offers improved reliability whilst also being easier to manufacture, requiring a reduced level of manual assembly, test and adjustment.

Land

Although deliveries of mortar systems were substantially delayed during the year, sales of land forces' ammunition grew. Mecar maintained its strong position in the Middle East, with major deliveries to strategic customers including, for the first time, the United Arab Emirates. In addition, Mecar continues to expand its presence in the Far East, delivering components and ammunition to Indonesia and Thailand, and completing its first contract in Malaysia.

Mecar also completed the development of a new family of low cost fuzing for its range of recoilless rifle ammunition.

In 40mm grenades, we successfully completed the development and internal qualification of a new dual purpose low velocity round, which meets NATO insensitive munition standards and has a self-destruct fuze, which substantially reduces the hazard from unexploded ordnance left behind on the battlefield. Initial performance tests have been very encouraging, and we look forward to qualifying the round with a NATO customer in the near future. We have also succeeded in selling 40mm ammunition into South America for the first time, with the US Department of State strongly supporting the sale process.

Components and sub-systems

Our components business grew slightly in the year, with sustained demand for a very wide range of products, from high explosive materials to mechanical and electronic subsystems. In August 2012, the

Land ammunition

SAS soldier firing a grenade

US Energetic Materials Qualification Board approved Chemring's lead azide production process for US Department of Defense use. As a result, Chemring Energetic Devices is now the only US based producer of this important primary explosive, which is used in a wide variety of US and NATO fuze and detonator assemblies.

Outlook

Chemring operates in the global market for naval ammunition, and mainly in the non-NATO market for land forces' ammunition. The naval market has suffered budget constraints, with NATO countries struggling to fund their land operations in Afghanistan, but demand is expected to remain steady. Defence budgets in the Middle East and Far East are growing but local volatility and export licence risks mean that the market for land forces' ammunition will remain a challenge.

Our business units and companies

Chemring Energetics UK Ltd

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

Chemring Energetic Devices, Inc. (USA)

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

Chemring Military Products, Inc. (USA)

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

Chemring Nobel AS (Norway)

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

Chemring Ordnance, Inc. (USA)

Niche supplier of 40mm grenade ammunition.

Hi-Shear Technology Corporation (USA)

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

Mecar S.A. (Belgium)

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

Simmel Difesa S.p.A. (Italy)

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

Our products

Naval ammunition

- Medium and large calibre ammunition

Land forces ammunition

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

Components

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

Financial review

Underlying continuing profit before tax* was £70.1 million and underlying continuing profit after tax* was £55.0 million.

Financial highlights

- Revenue from continuing operations up 2% to £740.3 million
- Underlying continuing profit before tax* £70.1 million
- Net finance expense down to £18.3 million
- Underlying continuing operating cash flow of £114.9 million, representing a 130% conversion from underlying continuing operating profit*
- £143.9 million of undrawn borrowing facilities at the year end

Key information

Underlying continuing operating profit*

£88.3m

Research and development expenditure

£59.0m

Divisional operating margin

13%

* Before non-underlying items (see note 5)
~ Organic growth at constant exchange rates excludes growth from Chemring Detection Systems

Group results

An analysis of the underlying results is set out below:

	2012 £m	2011 £m
Total continuing revenue	**740.3**	724.1
Divisional continuing operating profit	**98.8**	145.8
Unallocated corporate costs	**(10.5)**	(10.0)
Underlying continuing operating profit	**88.3**	135.8
Share of post-tax results of associate	**0.1**	0.1
Finance income	**0.1**	0.1
Finance expense	**(18.4)**	(15.8)
Underlying continuing profit before tax	**70.1**	120.2
Tax on underlying continuing profit before tax	**(15.1)**	(27.3)
Underlying continuing profit after tax	**55.0**	92.9

Total continuing revenue was £740.3 million (2011: £724.1 million), an increase of 2%.

Revenue generated during the year by Chemring Detection Systems, acquired in July 2011, was £51.9 million (from acquisition in July 2011: £14.6 million), representing an increase of 5% of total continuing revenue. During the year, the Euro depreciated against sterling, which reduced the reported sterling revenues of Euro subsidiaries by £12.2 million, although this was partially offset by increases of £3.9 million on US dollar and other currencies. This gave a net decrease due to currency effects of £8.3 million, equivalent to 1%. Organic revenue~ reduced by 2%.

An analysis of revenue and divisional continuing operating profit by segment*, excluding unallocated corporate costs, is set out below:

Division	2012 Revenue £m	2012 Underlying operating profit* £m	2012 Underlying operating margin	2011 Revenue £m	2011 Underlying operating profit* £m	2011 Underlying operating margin
Counter-IED	**205.3**	**43.9**	**21%**	167.6	31.9	19%
Countermeasures	**184.1**	**18.3**	**10%**	200.8	46.7	23%
Pyrotechnics	**123.0**	**12.3**	**10%**	118.7	26.4	22%
Munitions	**227.9**	**24.3**	**11%**	237.0	40.8	17%
Divisional results	**740.3**	**98.8**	**13%**	724.1	145.8	20%

Counter-IED revenue increased 22% to £205.3 million, due predominantly to the full year impact of Chemring Detection Systems, which contributed additional revenue of £37.3 million. Operating margins increased to 21%, largely due to a strong result from Chemring Detection Systems.

Countermeasures revenue decreased by 8%, due principally to lower demand for decoys at Alloy Surfaces. Margins decreased considerably, predominantly due to the two issues identified in the Group's trading update issued on 1 November 2012 – technical problems on the development of a countermeasure, which resulted in the product not being accepted by the customer and considerable rework costs, and a delay in the receipt of a multi-year contract for the supply of aircraft countermeasures to a customer in the Middle East. In addition, profit at Alloy Surfaces has decreased in line with revenue, and given the high margins achieved historically by this business, this has led to a further decline in the segmental margin.

Pyrotechnics revenue increased 4% to £123.0 million, although underlying operating profit* decreased by 53% to £12.3 million. This was principally due to lower demand for 81mm illumination products and production issues at Hi-Shear, which were compensated for in revenue terms by other lower margin product sales.

Munitions was largely flat, with revenue at £227.9 million. Mecar's margin declined in the second half, largely due to issues on a contract for the supply of vehicle based mortar systems for a Middle Eastern customer. The issues were attributable to delays in the granting of export licences for a limited number of parts. The licences are now being issued but substantial progress is unlikely to be made on this contract until 2014.

Unallocated corporate costs were £10.5 million, slightly higher than in 2011, due largely to additional costs associated with the Group's London office, which has been vacated since the year end.

As a result of the above, the total underlying continuing operating profit* was £88.3 million (2011: £135.8 million), a decrease of 35%.

Total underlying continuing operating margin* reduced to 12% from 19% last year. This reduction reflects the decreases in the Countermeasures, Pyrotechnics and Munitions segments, as explained above.

Finance income in the year was £0.1 million (2011: £0.1 million). Finance expense for the year was £18.4 million (2011: £15.8 million), an increase of 16%. The increase is largely due to higher average debt during 2012, compared with 2011. Included within finance expense is £0.8 million (2011: £0.7 million) for retirement benefit obligations.

Underlying continuing profit before tax* was £70.1 million (2011: £120.2 million), a decrease of 42%.

Tax on underlying continuing profit before tax* was £15.1 million (2011: £27.3 million), representing an underlying tax rate of 22% (2011: 23%). The tax rate is lower than the UK corporation tax rate, due predominantly to the utilisation of R&D tax credits across the Group, particularly at Roke, and the utilisation of tax losses within our European businesses which had not previously been recognised.

Underlying continuing profit after tax* was £57.1 million (2011: £96.8 million), a decrease of 41%.

Analysis of non-underlying items

The Board monitors underlying operating profit and underlying profit before tax for reporting purposes so as not to distort year-on-year comparisons; hence, certain items are classed as non-underlying as set out below:

	2012 £m	2011 £m
Acquisition and disposal related costs	**8.2**	5.7
Restructuring and incident costs	**11.9**	7.2
Profit on disposal of business	**(10.3)**	-
Impairment of goodwill	**22.5**	-
Intangible amortisation arising from business combinations	**20.9**	24.3
Gain on fair value movements on derivatives	**(1.9)**	(2.4)
Total non-underlying items	**51.3**	34.8

Acquisition and disposal related costs include costs associated with the approach by a third party in connection with a potential offer for the Group, external costs incurred in acquiring businesses, costs associated with aborted bids, and costs associated with the establishment of joint ventures.

In 2012, restructuring and incident costs comprised costs related to the closure of the Group's Marshall, Texas site (£3.3 million), the restructuring of the Group's US countermeasures businesses (£2.5 million), the restructuring of the Group's UK operations (£2.6 million), and an additional £1.5 million relating to several smaller restructuring projects. There were also a number of Board changes during the year, resulting in associated costs of £2.0 million. Further details of the compensation for loss of office payments of £1.1 million and deferred share awards worth £0.3 million received by two of the former executive directors are set out in the Directors' Remuneration Report. The balance of the costs relate to recruitment, and various other legal and professional fees.

The profit on disposal of business relates to the sale of the Group's marine pyrotechnics business, further details of which are provided below.

Following a detailed review, impairment losses have been recognised in relation to Chemring Ordnance (£6.8 million) and Chemring Energetic Devices (£15.7 million) at the year end, totalling £22.5 million (2011: £nil). The impairment losses were based on value-in-use calculations and relate only to goodwill. The impairment charges were primarily driven by business valuations that were negatively impacted by lower cash flows within business plans, reflecting the challenging economic conditions facing the defence industry within the US.

Intangible amortisation arising from business combinations decreased in the year, despite a full year's charge for Chemring Detection Systems. This is due to some intangible assets arising on previous acquisitions being fully amortised.

A gain on derivatives of £1.9 million arose (2011: £2.4 million), due largely to movements in interest rates during the year.

Financial review
continued

Shareholder returns
Underlying basic continuing earnings per ordinary share* was 28.5p (2011: 50.0p), a decrease of 43%. Basic continuing earnings per share were 6.8p (2011: 37.7p), a decrease of 82%.

The total dividend per ordinary share of 9.5p (2011: 14.8p) is covered 3.0 times (2011: 3.4 times) by the underlying earnings per share*.

The Group's underlying return on capital employed was 11% (2011: 16%).

Shareholders' funds at the year end were £433.5 million (2011: £475.4 million), a decrease of 9%.

Pensions
The deficit on the Group's defined benefit schemes before associated tax credits, as defined by IAS 19 *Accounting for pension costs*, was £27.0 million (2011: £25.2 million).

The Chemring Group Staff Pension Scheme is a defined benefit scheme, with the assets held in a separate trustee-administered fund. The Scheme was closed to future accrual on 6 April 2012, resulting in a curtailment gain of £1.4 million. A full actuarial valuation for the Scheme as at 6 April 2009 has been prepared and updated to 31 October 2012 by a qualified actuary, using the projected unit credit method. The triennial valuation at 6 April 2012 is currently being progressed, and is expected to be signed-off in the coming months. The Group has given a bank guarantee and letters of credit totalling £27.2 million (2011: £27.2 million) to the Scheme. A £20 million letter of credit may be drawn by the Scheme trustees in June 2014, subject to the size of the deficit of the Scheme at April 2014. The remaining £7.2 million bank guarantee may only be drawn upon certain events of default by the Company.

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 £59.0 million (2011: £59.6 million), 1% lower than last year. The continued significant spend supports the Group's investment in future growth. An analysis of expenditure is set out below:

	2012 £m	2011 £m
Customer-funded research and development	**34.4**	38.4
Internally-funded research and development	**24.6**	21.2
Total research and development expenditure	**59.0**	59.6

Of the internally-funded research and development costs, £12.3 million (2011: £12.4 million) was capitalised in the year. The Group's policy is to amortise capitalised development costs over a three year to five year period from the date on which the intangible asset is available for use. Amortisation of development and patent costs was £4.6 million (2011: £2.6 million).

Cash flow
Underlying continuing operating cash flow* was £114.9 million (2011: £118.6 million), which represents a conversion rate of underlying profit, before interest, depreciation and amortisation*, to operating cash of 103% (2011: 76%).

A summary of underlying Group cash flow is set out below:

	2012 £m	2011 £m
Underlying operating profit from continuing operations	**88.3**	135.8
Depreciation and loss on disposal of fixed assets	**19.1**	17.0
Amortisation of development costs, patents and licences	**4.6**	2.6
Underlying profit, before interest, depreciation and amortisation	**112.0**	155.4
Working capital movements	**19.9**	(15.6)
Other movements	**(17.0)**	(21.2)
Underlying operating cash flow from continuing operations	**114.9**	118.6
Fixed asset expenditure	**(41.1)**	(56.6)
Tax	**(6.1)**	(17.2)
Interest	**(23.8)**	(22.5)
Underlying free cash flow	**43.9**	22.3

Fixed asset expenditure across the Group was £41.1 million (2011: £56.6 million). This included £6.9 million (2011: £19.7 million) of expenditure associated with the construction of new facilities at our sites in Salisbury and Australia.

Tax payments were significantly lower than last year, principally due to the lower profits of the Group. However, the level of payments was also reduced due to the availability of R&D tax credits, lower UK tax rates, and the timing of payments.

Interest payments increased due to the higher level of gross debt during 2012.

Working capital
A summary of working capital balances is set out below:

	2012 £m	2011 £m	Variance £m
Inventories	**113.8**	146.8	(33.0)
Trade receivables	**90.9**	109.0	(18.1)
Contract receivables	**87.6**	55.1	32.5
Trade payables	**(100.2)**	(105.3)	5.1
Advance payments	**(11.7)**	(48.7)	37.0
Accruals and deferred income	**(45.6)**	(20.9)	(24.7)
Other working capital items	**(29.5)**	(10.8)	(18.7)
Total working capital	**105.3**	125.2	(19.9)
Total working capital days	**52**	63	

Overall working capital decreased by 16% on 2011. Total working capital days have also decreased since last year at 52 days (2011: 63 days). The decrease in working capital is largely due to general improvements in receivables, together with a £10 million reduction associated with the marine business, which was included within the October 2011 figures but not in the October 2012 figures. Contract receivables have increased, largely due to higher revenue at Chemring Detection Systems and the adoption of contract accounting by NIITEK for its new HMDS IDIQ contract received during the year. The increase in contract receivables, which was the result of a doubling of revenue accounted for under long term contracts to 37% of total revenue, is compensated for by the decrease in inventories.

The Group's level of working capital is a key focus area, and initiatives to raise working capital efficiency will be implemented in the current financial year.

Disposals

On 31 July 2012, the Group sold its marine interests to Drew Marine for £30.4 million. This figure is less than the £32 million anticipated sale proceeds announced on 6 June 2012, due to a working capital adjustment determined at the completion date. The marine business included operations in four jurisdictions, and restructuring of each individual business was required in order to facilitate a sale. This involved separating the German manufacturing facility into two for the retained defence business and the marine business, together with a carve-out of the marine activities from the Group's defence businesses in Spain and Australia.

The net assets of the marine interests at the date of disposal were £10.3 million. Attributable costs associated with the disposal were £9.8 million. The profit on disposal of the marine interests was £10.3 million.

The deferred working capital adjustment was settled in cash by the Group in December 2012.

Net debt, facilities and going concern

Net debt at 31 October 2012 was £244.8 million (2011: £262.7 million), a decrease of £17.9 million or 7%. The Group had £143.9 million (2011: £150.1 million) of undrawn borrowing facilities at the year end.

On 14 January 2011, the Group completed a refinancing of its bank facilities with a syndicate of five banks. The resulting facilities, which are unsecured, total £230 million. The term of the facilities is to April 2015, with an option to extend for twelve months.

In addition to the bank facilities, the Group has outstanding fixed interest loan notes in the US, repayable in full in November 2016 ($80 million), November 2017 (£12.5 million and $125 million), and November 2019 ($200 million).

The Group is subject to two key financial covenants, which are tested quarterly, relating to the ratio between underlying earnings before interest, tax, depreciation and amortisation (underlying EBITDA) and debt ('debt ratio'), and the ratio between underlying EBITDA and finance costs ('interest cover'). The revolving credit facility and the loan note agreements have different covenant compliance calculations, and have therefore been separated out below – the primary difference being that the revolving credit facility uses consolidated net debt in the calculation whereas the loan note agreements require consolidated total debt to be used. The Group complied with both these covenants throughout the year, and the position at the year end is detailed below:

	2012	2011
Covenant ratios – revolving credit facility		
Maximum allowed ratio of consolidated net debt to underlying EBITDA	**3.0**	3.0
Actual ratio of consolidated net debt to underlying EBITDA	**2.1**	1.6
Minimum allowed ratio of underlying EBITDA to finance costs	**4.0**	4.0
Actual ratio of underlying EBITDA to finance costs	**6.7**	9.5
Covenant ratios – loan note agreements		
Maximum allowed ratio of consolidated total debt to underlying EBITDA	**3.0**	3.0
Actual ratio of consolidated total debt to underlying EBITDA	**2.8**	2.1
Minimum allowed ratio of underlying EBITDA to finance costs	**3.5**	3.5
Actual ratio of underlying EBITDA to finance costs	**6.9**	10.4

The consolidated total debt to underlying EBITDA loan note covenant is higher than the previous year, largely due to the reduction in profitability in the year.

Gearing at the year end was 56% (2011: 55%). A summary of debt is set out below:

	2012 £m	2011 £m
Cash	**96.0**	91.9
Loans and finance leases	**(79.6)**	(94.4)
Loan notes	**(261.2)**	(260.2)
	(244.8)	(262.7)

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. The Group has been in compliance with its bank and loan note covenants throughout 2012, and is forecast to be in compliance for the coming twelve months. Thus, the directors have a reasonable expectation that adequate financial resources will continue to be available for the foreseeable future.

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	
	2012 £m	2011 £m	2012 £m	2011 £m
Counter-IED	**252.0**	207.4	**172.8**	127.1
Countermeasures	**131.5**	155.0	**182.3**	234.0
Pyrotechnics	**130.6**	85.2	**178.2**	143.9
Munitions	**146.1**	349.3	**227.6**	371.7
Total	**660.2**	796.9	**760.9**	876.7

The closing order book at the year end of £760.9 million represents a 13% decrease on the previous year end, reflecting the budgetary constraints which affected our main markets during the year and the consequential delay in placement of orders.

Divisional continuing operating profit**

	2012 £m	2011 £m
Counter-IED	**43.9**	31.9
Countermeasures	**18.3**	46.7
Pyrotechnics	**12.3**	26.4
Munitions	**24.3**	40.8
Total	**98.8**	145.8

** Operating profits of the divisions are stated before charges for unallocated corporate costs and non-underlying items (see note 5)

The divisional operating profit 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 divisional operating profit decreased by 32% during the year.

Return on sales

	2012 %	2011 %
Counter-IED	**21**	19
Countermeasures	**10**	23
Pyrotechnics	**10**	22
Munitions	**11**	17
Total	**13**	20

The return on sales percentage is based on underlying divisional operating profit and 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. The significant decrease in three of the segments reflects the softening markets and operational issues detailed in the business review on pages 8 to 15.

Underlying continuing earnings per share*

	2012	2011
Total	**28.5p**	50.0p
Growth rate	**(43.00)%**	0.04%

Underlying earnings per share is a key measure for the Group. The decrease in the year reflects the Group's disappointing trading performance.

Debt to underlying EBITDA

	2012	2011
Covenant ratio – revolving credit facility		
Maximum allowed ratio of consolidated net debt to underlying EBITDA	**3.0**	3.0
Actual ratio of consolidated net debt to underlying EBITDA	**2.1**	1.6
Covenant ratio – loan note agreements		
Maximum allowed ratio of consolidated total debt to underlying EBITDA	**3.0**	3.0
Actual ratio of consolidated total debt to underlying EBITDA	**2.8**	2.1

Debt to underlying EBITDA provides a clear indicator of leverage between the underlying EBITDA generated by trading and the Group's debt levels, which are measured under different bases for the revolving credit facility and for the loan note agreements. It is an important indicator for the Group, and forms the basis of one of our specified financial covenants, which requires us to maintain a debt to underlying EBITDA ratio of not more than 3 times.

Interest cover

	2012	2011
Covenant ratio – revolving credit facility	**6.7**	9.5
Covenant ratio – loan note agreements	**6.9**	10.4

Interest cover provides a simple metric of the ratio between the underlying EBITDA generated by trading, compared with the finance costs for the current debt. It is an important indicator for the Group, and forms the basis of one of our specified financial covenants. The Board aims to keep interest cover at a prudent level.

Underlying continuing operating cash flow

	2012 £m	2011 £m
Total cash flow	**114.9**	118.6
Conversion from operating profit	**130%**	87%

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. In our short cycle business, operating cash conversion closely follows operating profit and the Group usually targets a rate above 100%. The Group underlying continuing operating cash flow decreased by 3% to £114.9 million during the year. This represents a conversion rate of underlying continuing operating profit* to operating cash of 130% (2011: 88%).

* Before non-underlying items (see note 5)

Principal risks and uncertainties

As described on pages 51 and 52, the Board is responsible for the Group's systems of internal control and its risk management systems. The Board has constituted a Risk Management Committee, which meets quarterly, to review the key risks associated with the achievement of the annual budget and the five year plan for each business, the top five health and safety risks identified at each site, and the risk control procedures implemented. The Committee reports biannually to the Audit Committee and the Board, and through this process, the Board has identified the following principal risks currently facing the Group. The mitigating actions taken by the Group management to address these risks are also set out below. The Group mitigates its risk exposure through an insurance programme that covers property and liability risks, where it is appropriate and cost effective to do so.

Risk description	Mitigation actions
Health and safety risks The nature of those Group operations which utilise 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 operational management accountability, and managers are therefore expected to embrace a positive safety culture and to demonstrate leadership and commitment in the workplace. All employees are encouraged to report potential hazards, and to raise any health and safety concerns through the appropriate channels. Our stated aim is to achieve zero injuries, and to reduce health and safety risks, where they cannot be eliminated altogether, to a level which is "as low as reasonably practicable". All businesses are expected to proactively manage their own risks but, in addition, the top five site risks at each business and their associated mitigation programmes are reviewed on a monthly basis by the Group Executive Committee and quarterly by the Risk Management Committee. Technology and automation roadmaps support the Group's strategy for risk reduction through increased automation and remote operations, and this strategy is reflected in the Group's five year plan. Further details on the Group's approach to health and safety are set out in the corporate responsibility review.
Possible defence budget cuts We recognise that with large budget deficits and the prevailing economic conditions, there will be continued downward pressure on many countries' budgets, and consequently, defence expenditure could be severely impacted. In particular, the Group has significant exposure to the US defence market, where there is currently considerable uncertainty in relation to the potential impact of sequestration on the defence budget for 2013 and 2014.	In recognition of the issues affecting our traditional NATO markets, we are focusing our growth strategy on non-NATO markets, where defence expenditure is forecast to grow strongly over the next five to ten years. We have made good progress on the establishment of a joint venture in India, and we are also in discussions with potential joint venture partners in Saudi Arabia and Brazil. We also continually assess whether our planned organic growth strategies and product developments align with government 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 Group the agility to quickly re-deploy engineering staff to product areas where funding is more secure. We continue to closely monitor the position in all the key markets in which we operate.
Timing and value of orders The Group's order book has decreased in the last year, principally as a consequence of the delay in receipt of a number of key orders. 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 orders could affect the Group's earnings, and achievement of its growth targets, in any given financial year. We anticipate that the recent delays in the placement of orders by our traditional NATO customers, due to budgetary constraints, are likely to continue in the short to medium term. We therefore need to ensure that our businesses are properly positioned to continue to trade profitably during periods of reduced order intake.	As referred to above, we are focusing on expanding our business in non-NATO markets, where defence expenditure is forecast to increase. Maximising order intake remains a key objective for our businesses, and we continue to address this through the strengthening of our sales and marketing resources. We also continue to pursue long term, multi-year contracts with our major customers wherever possible. The development of world class manufacturing facilities, with the ability to transfer manufacturing 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 currently have various initiatives under way which are aimed at restoring the profitability of the Group's businesses which have suffered most from order delays in the last year.

Principal risks and uncertainties
continued

Risk description	Mitigation actions
Political risks It is recognised that political unrest and changes in the political structure in certain non-NATO countries to which we currently sell could impact on their future defence expenditure strategy and our ability to export products to these countries. During periods of unrest, delays in obtaining export licences can result in delayed revenues. It is also recognised that current military operations around the world may change in nature or diminish over the next three to five years. Certain of our businesses have already been impacted by the withdrawal of troops from Afghanistan and Iraq.	Our businesses strive to maintain relationships at all levels within the political structure of certain key countries, in order to ensure that we are aware of and can respond to proposed changes, if and when they occur. The Group's Counter-IED, Munitions and Pyrotechnics businesses are less dependent on active military operations, particularly as our electronics activities expand and our product portfolio continues to grow in areas such as IED-detection, space, safety systems, training, munitions components and naval ammunition.
Introduction of new manufacturing facilities We continue to invest in the establishment of new manufacturing facilities across the Group. 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 significant capital investment projects is closely monitored by the Group Executive Committee and the Board. Dedicated project managers have been appointed to oversee all of our major capital expenditure programmes in the US and Europe. Our new UK countermeasures facility has taken longer to complete than originally expected, principally due to the significant challenges associated with the new automated processes which are being installed, but we now expect the facility to be commissioned during 2013. The Australian countermeasures facility has been completed and is operating well.
Introduction of new products The Group's approach to innovation and continued emphasis on 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.	We continue to strengthen our engineering resources to ensure that we have the right people in place to deliver product development activities in support of our five year plan. We have established relationships with a number of prominent universities, which are focused on exploring new technologies and products for future development. We continue to invest in 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.
Product failure Many of our products are single-use devices, where it is impossible to conduct functional testing without destroying the product. There is a risk that products may fail, either in use or during customers' own sample-based functional tests. Where we procure components for our products from third parties, we need to ensure that the suppliers adhere to our high quality standards and that the components are reliable.	We maintain rigorous control of our production processes, monitoring critical parameters on a batch or unit basis. We apply state-of-the-art techniques, including statistical process control or Six Sigma, and where appropriate, automate processes to reduce the scope for human operator error. We also conduct detailed assessments of incoming components on materials to ensure compliance with specifications. Finally, we perform a range of non-destructive and sample-based functional tests on all our products, to ensure a level of in-service reliability and integrity appropriate to the product application.

Risk description	Mitigation actions
Competitive risks Defence is a global industry, which is constantly challenged to counter ever-changing threats. The Group's strategy is to focus on targeted niche markets in energetic materials and protective systems, where the nature of the products and the requisite production and qualification processes provide significant barriers to new entrants. However, as threats evolve, new businesses offering new solutions may enter the market.	The nature of the threat from missiles and other weapons is continually changing, particularly as new platforms are introduced in different countries, and countermeasure solutions need to develop on an ongoing basis to meet the enhanced requirements. The number of countermeasures manufacturers is currently small; however, as technologies change, existing manufacturers are able to compete for new products and new businesses can also 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. We intend to maintain this position through our continued investment in research and development, and world class manufacturing facilities. The competitive threats to our Munitions and Pyrotechnics businesses are generally lower, as the markets are fragmented and our competitors are generally companies with national market positions and limited product ranges. Our Counter-IED businesses need to continually develop next generation systems in order to address emerging threats, and this provides an opportunity for new competitors to emerge. However, the detection systems produced by NIITEK in particular are extensively used in-theatre, and this provides a good platform from which to capture the future market. 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 next generation products 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.
Management resource The Group requires competent management to lead it through the next stage of its development. In challenging markets and difficult times, we need to ensure that we retain and motivate the employees we value most, and that we respond quickly to apply additional resource in any areas where a need is identified.	The Group Executive Committee reviews the strengths and weaknesses of the management team at each business twice a year, and the Board undertakes an annual review of future requirements and succession planning as part of the strategic planning process. A number of additional senior appointments have been made over the last year, including the recent appointment of a Group Human Resources Director, who will oversee our future people strategy.
Compliance and corruption risks The Group operates in over sixty countries worldwide, and is subject to the laws and regulations of each of these countries. The Group must ensure that all of its businesses, its employees and third parties acting on its behalf comply with their legal obligations, and do not expose the Group to financial penalties or reputational damage.	The Group has a central legal and compliance function which assists and monitors all Group businesses, assisted by dedicated internal legal resource in the US. The Group's internal audit activities also incorporate a review of legal risks. The Group has a Global 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. The Group has also adopted a Bribery Act Compliance Manual, incorporating all of our anti-bribery policies and procedures. A significant proportion of the Group's management have received training in relation to ethics and anti-corruption.
Financial risks Details of the financial risks to which the Group is potentially exposed are set out in the business review and note 24 of the financial statements.	

Corporate responsibility review

Our approach

The Group acknowledges its obligation to ensure the responsible operation of its business at all times, and is fully committed to sound and ethical business conduct in its interaction with key stakeholders (shareholders, employees, customers, business partners and suppliers), governments and regulators, communities and society, and the environment.

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

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

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

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

Further details of our approach are set out below.

In the workplace

Health and safety

Our policy and practices

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

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

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

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

Compliance audits are conducted using external consultancy firms, and all findings are subject to corrective action reviews to ensure closure.

We continue to drive improvements in our process safety management systems, by investing in automation, remote operations and infrastructure, and also by improving our risk control systems, layers of protection, asset integrity, and culture.

With the exception of Mecar, all of our businesses are certified to the international health and safety management system OHSAS18001.

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

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

Our performance

Energetic events

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

On 14 May 2012, an operator at our Mecar facility in Belgium suffered severe burns when a pyrotechnic composition ignited. She subsequently died from her injuries. All production was stopped at Mecar following this incident, and an in-depth investigation was instigated, led by a senior divisional director. Findings were grouped into two – those relating to the root cause, and those relating to other peripheral arrangements or practices where it was found that further improvements in safety and working practices could be made. Two "Alerts" were then issued to all Group companies, which stipulated the urgent actions required to identify and close any gaps that might lead to a repeat incident, and these are being monitored to closure. Mecar supported the operator and her family through very difficult times, and we continue to extend our support and deepest sympathies to her family, friends and work colleagues.

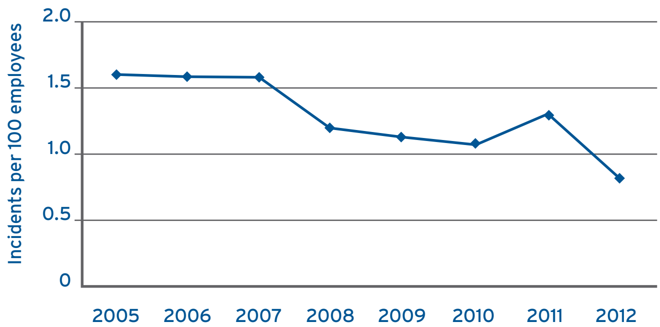
We had no energetic events during the year that caused significant damage to buildings or equipment.

Other lost time events

We collect and report lost time incident rates using the US Occupational Safety and Health Administration (OSHA) rules, and we were pleased to see a significant improvement in performance from a rate of 1.28 lost time incidents per 100 employees last year to 0.80 this year. In absolute terms, this was a reduction from 50 lost time incidents last year to 32 this year.

Our historical lost time accident rate performance per 100 employees is shown below:

Lost time incident rate performance



Our most common lost time injury types continue to be slips, trips and falls, and strains and sprains.

Employees

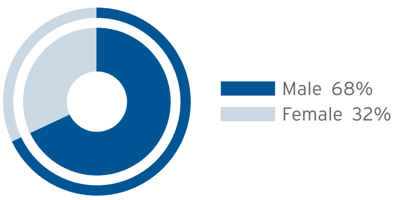
The Board recognises the valuable contribution that the Group's employees continue to make to its success, and aims to provide a working environment that reflects and rewards this. The Group now has 4,193 (2011: 4,679) employees based in seven countries.

Employment practices

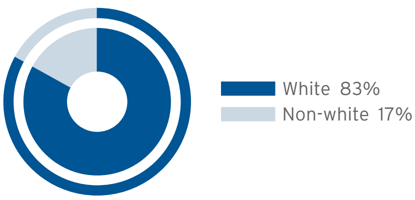
The Group's policy is to provide equal opportunities for all employees, irrespective of race, nationality, gender, sexual orientation, marital status, religion or political belief, disability or age. The Group is committed to meeting, at a minimum, the labour rights and legislation requirements in each 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.

The Board currently has two female members, and we remain committed to a minimum of at least 25% female representation on the Board. We also recognise the importance of promoting diversity across the Group.

Gender diversity



Ethnic diversity



Development and training

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

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

Benefits

We aim to provide all of our employees with an attractive and competitive benefits package. Most 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, and we therefore offer savings-related share plans to our UK and US employees.

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, "Chemring-i", is published on a quarterly basis and distributed to all of our employees.

In the environment

Our policy and practices

The Board believes that protecting the environment by minimising our environmental impact will help to secure the long term future of our businesses.

All of the Group's businesses are certified to the environmental management system ISO14001, which requires the setting of environmental goals and objectives focused on local aspects and impacts. In addition, we set expectations and monitor performance across the Group.

Land quality

The Chemring Energetic Devices (formerly Scot) facility, which is based in Downers Grove, Illinois, USA, is located on a site which has "superfund" status under the US contaminated land (CERCLA) regime. We continue to work with external consultants and the regulatory authorities to ensure that the legal obligations of the business in relation to this matter are fully satisfied.

Corporate responsibility review

continued

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

The Group carries a £1.5 million provision in respect of these pre-acquisition environmental liabilities, which the Board considers to be adequate (see note 25 of the financial statements).

Incidents
There were no significant environmental incidents in the year.

Performance
Energy and emissions
We have calculated that business travel represents less than 3% of our overall carbon footprint, and we therefore focus our efforts on energy utilisation in our facilities. We do not include emissions from our supply chain, nor use our disposal of products, in our carbon footprint calculation.

We are increasing our efforts to address energy conservation and thus indirect emissions. All sites have analysed their top energy consuming plant or buildings, and created energy reduction programmes for the top five.

Our total emissions in carbon dioxide equivalents reduced during the year, as follows:

Source	2012 (tonnes CO_2)	2011 (tonnes CO_2)	2010 (tonnes CO_2)	2009 (tonnes CO_2)	2008 (tonnes CO_2)
Electricity	**44,576**	46,459	38,303	36,334	29,128
Gas	**13,630**	14,676	14,033	12,512	12,384
Oil	**5,726**	7,222	3,111	2,008	2,351
Total	**63,932**	68,357	55,447	50,854	43,863

This resulted in a further improvement in our overall carbon intensity:

	2012	2011	2010	2009	2008
Total emissions (tonnes CO_2)*	**63,932**	68,357	55,447	50,854	43,863
Group revenue (£million)*	**740**	730	571	504	354
Tonnes of CO_2 per £million of revenue	**86**	94	97	101	124

* Group revenue and emissions excludes in-year acquisitions

All UK facilities participate in the CRC Energy Efficiency Scheme, with the exception of Chemring Energetics UK at Ardeer in Scotland, which operates under a Climate Change Agreement.

The Group participated in the 2012 Carbon Disclosure Project.

Waste
Our total waste generation increased during the year as a result of our ongoing construction and renewal programmes.

	2012 (tonnes waste)	2011 (tonnes waste)	2010 (tonnes waste)	2009 (tonnes waste)
Recycled, non-hazardous	**1,804**	1,684	712	Not available
Recycled, hazardous	**387**	415	369	Not available
Not recycled, non-hazardous	**1,028**	1,018	1,161	Not available
Not recycled, hazardous	**469**	388	360	Not available
Total	**3,688**	3,505	2,602	1,876

Water
Our absolute water consumption varies each year within a narrow tolerance band, principally due to changes in product mix.

	2012 (m^3)	2011 (m^3)	2010 (m^3)	2009 (m^3)
Total water consumption	**1,647,000**	1,441,000	1,550,000	1,762,000

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. Each business has its own locally held charity budget, and at a Group level, charitable donations are considered on a monthly basis by the Executive Committee. Examples of support provided during the year include:

- Donations to a range of charities including Help for Heroes, SSAFA, The Army Benevolent Fund, Supporting Royal Marines, Queen Alexandra Hospital Home for Ex-Service Personnel, Houses for Heroes Appeal, various health and cancer charities, local hospitals and schools.
- Sponsorship of the 7 Air Assault Battalion Royal Electrical and Mechanical Engineers (REME) Field Gun Crew, the Red Devils, the Royal Artillery Gold Cup Day – all part of Team Army, and the Combined Services Under 23 Rugby Team.
- Sponsorship of the UK Aerospace Youth Rocketry Challenge.

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

The Group is involved with a number of educational initiatives, notably including the sponsorship of various local schools. The Group also has relationships with several universities, whereby we provide funding for students' research activities.

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

Ethics and business conduct

The Group has adopted a Global 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 Global Code of Business Principles on an annual basis.

Anti-bribery and corruption

Following implementation of the UK Bribery Act 2010, the Group adopted a Bribery Act Compliance Manual, which incorporates all of our anti-corruption policies and procedures. Our anti-bribery programme now incorporates the following:

- Requirements for bribery risk assessments to be carried out as part of normal operating procedures.
- Group-wide policies and procedures on the appointment of all sales partners and other third party advisers, stipulating due diligence and contractual requirements, approval levels, and monitoring and review processes.
- Regular training for management and employees working within commercial, sales and marketing, finance and human resource functions.
- Policies and procedures on the giving and receiving of gifts and hospitality.

Our US businesses have also adopted an ethical compliance programme to satisfy US Government requirements for ethical training for employees, compliance audits, a confidential reporting line for employees, 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 reflect the requirements of the UK Bribery Act 2010.

Directors and corporate information

Peter Hickson~+

Non-Executive Chairman

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

Mark Papworth

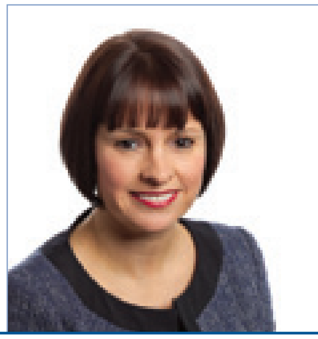
Group Chief Executive

Mr Papworth was appointed as Group Chief Executive on 5 November 2012. Formerly the Chief Executive Officer of the Gas Turbines Services division of John Wood Group plc, where he was also a main Board executive director from 2006. His career has covered high technology, service and manufacturing companies serving aerospace, energy and infrastructure markets. Prior to his time at John Wood Group plc, Mr Papworth spent two years as Executive Vice President of Rolls-Royce Energy, based in the USA, and thirteen years with Alstom Power in various roles, finally as Managing Director of the Industrial Gas Turbines division.

Steve Bowers

Group Finance Director

Mr Bowers joined the Group on 7 January 2013. He was formerly Finance Director of Umeco plc. Mr Bowers joined Umeco in 1998, and for thirteen years held a number of financial roles, alongside the role of Company Secretary. He qualified as a Chartered Accountant with KPMG LLP, and is a member of the Institute of Chartered Accountants.

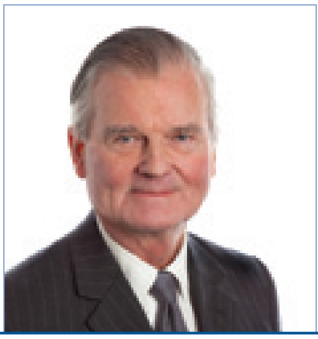


Sarah Ellard

Group Legal Director & Company Secretary

Appointed to the Board on 7 October 2011, having been Group Company Secretary since 1998. Prior to joining the Group in 1994, Mrs Ellard trained and worked at Ernst & Young LLP. She is a Fellow of the Institute of Chartered Secretaries and Administrators.

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



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 and Chairman of Thales UK Advisory Board. Previously a non-executive director of Savile Group PLC, a member of the main Board of Thales S.A., France, and a partner at Lehman Brothers Investment Bankers between 1969 and 1985. Member of Parliament from 1983 to 1997. Made a Privy Councillor in 1993. Minister 1985-1997.

Ian 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 directorships of Admiral plc, Camelot plc, Manchester United plc and Simplyhealth Group Ltd. Currently Senior Independent Director and Chairman of the Remuneration Committee of Senior plc, and Chairman of the Remuneration Committee of BTG plc.

Vanda Murray OBE*~

Non-Executive Director
Joined the Group as a non-executive director on 1 November 2011. Currently holds a portfolio of non-executive directorships, including Carillion plc, where she chairs the Remuneration Committee, The Manchester Airport Group plc, and Microgen plc. She also took up the role of Senior Independent Director of Fenner plc in January 2012. Previous appointments include Deputy Chairman of the North West Regional Development Agency, non-executive director of SIG plc, Chief Executive Officer of Blick plc, and UK Managing Director of Ultraframe PLC. She is a Fellow of the Chartered Institute of Marketing, and in 2002 was appointed OBE for Services to Industry and to Export.

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

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

Headquarters and registered office

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Website: www.chemring.co.uk

Registration number

86662

Registrars

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

Directors' report

for the year ended 31 October 2012

The directors present their annual report, together with the audited financial statements of the Group and the Company for the year ended 31 October 2012.

Principal activities

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

Business review

The Chairman's statement and the business review on pages 4 to 27 provide an overview 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. There have been no significant events since the balance sheet date.

Results and dividends

The profit attributable to the Group's shareholders for the year was £15.3 million (2011: £73.9 million). The directors recommend a final dividend of 4.2p per ordinary share which, together with the interim dividend of 5.3p per ordinary share paid in August 2012, gives a total for the year of 9.5p (2011: 14.8p). The final dividend is subject to approval by shareholders at the Annual General Meeting on 20 March 2013, and accordingly has not been included as a liability in these financial statements.

Directors and their interests

The present directors are shown on pages 28 and 29.

Mr D Evans resigned as a director on 21 March 2012, Mr P Rayner resigned as a director on 31 July 2012, and Dr D Price resigned as a director on 23 October 2012.

Mr M Papworth was appointed as a director on 5 November 2012, and Mr S Bowers was appointed as a director on 7 January 2013. Both of these directors will be seeking re-appointment under Article 87.1 of the Company's Articles of Association at the forthcoming Annual General Meeting.

In accordance with the Company's Articles of Association, all directors are required to submit themselves for re-election every three years. However, in order to ensure compliance with the UK Corporate Governance Code, all directors now voluntarily submit themselves for re-election at every Annual General Meeting. Sir Peter Norriss has indicated his intention to retire as a non-executive director at this year's Annual General Meeting, and will not therefore be seeking re-election.

Nigel Young, who was Interim Chief Financial Officer between August 2012 and January 2013, will join the Board as a non-executive director at the end of April 2013. He will become Chairman of the Audit Committee, succeeding Lord Freeman who plans to retire from the Board at the end of the year.

Details of the service contracts between the Company and the executive directors are set out in the directors' remuneration report on page 41. The non-executive directors do not have service contracts with the Company.

The Company has made qualifying third party indemnity provisions for the benefit of its directors, which were in effect throughout the year and remain in force at the date of this report.

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 2012.

Information required as to directors' shareholdings is set out in the directors' remuneration report.

Substantial shareholdings

At 23 January 2013, the following substantial holdings in the ordinary share capital of the Company had been notified to the Company in accordance with Chapter 5 of the Disclosure and Transparency Rules of the Financial Services Authority:

Name	% Interest
Invesco Limited	27.5
UBS Global Asset Management	5.5
Old Mutual Asset Managers	5.1
Ameriprise Financial, Inc.	5.1
JP Morgan Chase & Co.	4.9
AXA S.A. and its group of companies	4.8
Standard Life Investments Ltd	4.6
BT Pension Scheme Trustees Ltd as Trustees of the BT Pension Scheme	3.8
Cantillon Capital Management LLC	3.6
Tameside MBC re Greater Manchester Pension Fund	3.4
Hermes Equity Ownership Services Ltd	2.9

Employees and employee consultation

Details of the Group's employment policies and employee consultation practices are set out in the corporate responsibility review on page 25.

Charitable and political donations

Charitable donations amounting to £64,000 (2011: £129,000) were made during the year. No political donations were made during the year (2011: £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 2012 amounted to 25 days (2011: 29 days).

Share capital and shareholder rights

General

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

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

To decide who can attend or vote at a general meeting, the notice of meeting can give a time, which must not be more than forty eight 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 fourteen days after the service of the notice, then the shareholder is not entitled to attend and vote at a shareholder meeting.

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

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

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

The Company's Articles of Association (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 passed in general meeting. The authority, when given, can last for a maximum period of five years, but the Board proposes that renewal should be sought at each Annual General Meeting. Such proposal is set out as resolution 12 in the Notice of the Annual General Meeting.

Section 561 of the Act requires that an allotment of shares for cash may not be made unless the shares are first offered to existing shareholders on a pre-emptive basis in accordance with the terms of the Act. In accordance with general practice, to ensure that small issues of shares can be made without the necessity of convening a general meeting, the Board proposes that advantage be taken of the provisions of section 571 of the Act to not apply the Act's pre-emptive requirements. Accordingly, a special resolution (set out as resolution 13 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 1,215,000 (2011: 300,000) of its ordinary shares, and 359,331 (2011: 456,855) ordinary shares were distributed following vesting of awards under the Chemring Group Performance Share Plan. At 31 October 2012, the Company held a total of 2,198,814 ordinary shares in treasury (representing 1.12% of the ordinary shares in issue on 1 November 2012).

All purchases of ordinary shares were made by way of market purchases on the London Stock Exchange. Further details can be found in note 29 of the financial statements.

A special resolution (set out as resolution 14 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 may 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.

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
27 January 2012	1,785,720	37

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

On 30 July 2012, options were granted over 553,724 ordinary shares. Options over 14,115 ordinary shares were exercised during the year and options on 262,602 shares lapsed. Additional information is set out in note 31.

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

On 30 July 2012, options were granted over 82,738 ordinary shares. Options over 792 ordinary shares were exercised during the year and options on 59,130 shares lapsed. Additional information is set out in note 31.

Approach to share ownership

The Group actively encourages its employees to share in the future success of the Group. The fifth annual grant of options under the UK Sharesave Plan and the US Stock Purchase Plan, which were both launched in 2008, took place during the year.

Directors' report

continued

Statement of directors' responsibilities

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

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

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

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

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

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

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

Directors' responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the Chairman's statement and the business review, which are referred to in the directors' report, include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Provision of information to auditors

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

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

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

Close company provisions

As far as the directors are aware, the close company provisions of the Taxes Acts do not apply to the Group nor has there been any change in that respect since 31 October 2012.

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 20 March 2013, together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders.

Approved by the Board of Directors on 24 January 2013
Signed on behalf of the Board

S L Ellard
Group Legal Director & Company Secretary

Directors' remuneration report

for the year ended 31 October 2012

Statement by the Chairman of the Remuneration Committee

Dear shareholder

The past eighteen months have been extremely challenging for the Company, as continuing pressure on defence spending has resulted in increasingly uncertain prospects within the sector. The Board has also had to address the uncertainty caused by a third party approach for the Group, and the departure of David Price from the role of Chief Executive and Paul Rayner from the role of Finance Director. The Remuneration Committee has had to determine their termination arrangements, as well as the remuneration arrangements for the new Chief Executive and Finance Director.

Against this backdrop, the Remuneration Committee has needed to ensure that its remuneration policy is capable of appropriately rewarding and incentivising the revised senior management team to deliver improved performance. It has also taken account of the forthcoming changes to remuneration reporting announced by the UK Department for Business, Innovation and Skills, and has sought to incorporate many of these early, in this year's remuneration report.

The Committee's basic policy remains to provide executive remuneration packages which are competitive, but not excessive, by reference to market rates across comparator companies. These take into account the individual contribution and performance of each executive, and reflect the performance of the business against financial objectives. The Committee also remains conscious of its responsibility to ensure that remuneration appropriately aligns executive and shareholder interests.

Accordingly, the Remuneration Committee has made the following decisions in respect of 2012 and 2013:

- Mark Papworth and Steve Bowers have joined the Company on salaries that are below the level of their predecessors. Their next review will take place in early 2014.
- As in 2011, no bonuses will be paid to executive directors in respect of 2012.
- The Performance Share Plan awards which could have vested on 20 January 2013 have lapsed, as the threshold level of earnings per share growth has not been achieved.
- David Price and Paul Rayner received termination payments that were consistent with their contracts, namely the payment of one times annual salary plus benefits. Their deferred share awards, which were made in connection with their annual bonuses for 2009 and 2010, were also allowed to vest. Dr Price's and Mr Rayner's other long term incentive awards lapsed.
- The structure of the annual bonus remains largely unchanged for 2013, with 40% of any award deferred in shares for three years and subject to claw-back. The maximum annual bonus will be 125% of salary for Mr Papworth and 100% of salary for the other executive directors.
- The Committee has reviewed the weighting of the financial and personal objectives in the annual bonus plan, and has increased the weighting on personal objectives for 2013 in recognition of the need to focus on key strategic and operational goals, given the ongoing review of the strategy.
- At the time of negotiating Mr Papworth's remuneration package, there was a high probability that a bid for the Company would be forthcoming, and that a new owner might not wish to maintain his employment. Therefore, it was agreed with him that we would include some additional elements in his package that would protect him in this eventuality. A change of control clause was agreed, which provides that, in the event of a change of control of the Company during the first twelve months of his employment, which results in the termination of his employment within a six month period thereafter, he will receive a lump sum payment of twelve months' salary in lieu of notice and a guaranteed bonus, pro-rated for that proportion of the year during which he is employed. This provision falls away after the first twelve months of his employment.
- In addition, in order to provide an immediate alignment with shareholders, the Committee decided to award Mr Papworth performance shares worth 200% of his annual salary. The Committee is aware that the priority of many shareholders is to see a significant increase in the share price, and we therefore decided to set a performance condition which was linked directly to such a result. The award will vest in full if the share price reaches 500p at the end of the three year vesting period. This represents an increase of 130% over the share price at the time of grant.
- The Committee also intends to use a performance condition based on share price growth for the performance share plan awards to be made to other senior executives in early 2013. If the full vesting share price of 500p for these awards is achieved, the Company's market capitalisation will have increased by over £394 million since the date of this report.
- The change in strategy and appointment of a new Chief Executive and Finance Director mean that it is an appropriate time to review the remuneration policy for executive directors. The Committee intends to conduct a fundamental review of its remuneration policy during 2013. If the Committee proposes to make substantive changes to the executive directors' remuneration policy, it will, as part of the review process, consult with shareholders and will report back on the outcome in next year's report and accounts.

I F R Much
Chairman of the Remuneration Committee

Directors' remuneration report
continued

Introduction
This report sets out the information required by Schedule 8 to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008. The report also satisfies 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 UK Corporate Governance Code. In preparing this year's report, the Committee has paid regard to the new reporting requirements announced by the UK Department for Business, Innovation and Skills that will come into force with effect from next year's report and accounts, and has sought to adopt a number of the new requirements where it is practical to do so whilst still remaining compliant with the existing Regulations. This year's report consists of two sections: a remuneration policy section, which describes the Company's policy for the remuneration of executive and non-executive directors for the coming year and which is not subject to audit, and an implementation section, subject to audit, which provides details of the directors' emoluments, shareholdings, long term incentive awards and pensions for the year ended 31 October 2012.

In accordance with the Regulations, a resolution inviting shareholders to approve the directors' remuneration report will be put to the Annual General Meeting on 20 March 2013.

The Remuneration Committee and its advisers
The Remuneration Committee has been established by the Board and is responsible for executive remuneration. The Committee's terms of reference, which are available in full on the Company's website or from the Company Secretary on request, are summarised below:

Summary of the Committee's terms of reference
- 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, members of the Executive Committee and the first tier of senior management below the Executive Committee, and their individual remuneration packages and any changes thereto;
- reviewing the market competitiveness of the remuneration policy and arrangements;
- overseeing salary levels and remuneration packages for the second and third tiers of management;
- approving the terms and conditions of employment, and any changes thereto, of the executive directors;
- approving any compensation payments for executive directors;
- approving the design of, and determining targets for, any performance-related pay schemes operated by the Group;
- reviewing the design of all share incentive plans for approval by the Board and the Company's shareholders;
- providing oversight of potential remuneration-related risks arising across the Group; and
- overseeing any major changes in employee benefits structures across the Group.

Members

Name	From	To	Attendance at Committee meetings
Mr I Much (Chairman)	1 Dec 2004	Present	6/6
The Rt Hon Lord Freeman	26 May 2006	Present	5/5
Mr P Hickson	1 July 2010	Present	6/6
Mrs V Murray	1 Nov 2011	Present	5/5
Air Marshal Sir Peter Norriss	15 May 2004	Present	5/5

Other attendees at Remuneration Committee meetings
The Chief Executive attends meetings by invitation but no executive director or other employee is present during discussions relating to their own remuneration.

Advisers
During the year, the Committee retained New Bridge Street (an Aon Hewitt company, part of Aon plc) to advise on remuneration and incentives plan related matters. The Company received no other services from New Bridge Street, or any other part of the Aon group of companies, during the year. The fees paid to the Committee's advisers in 2012 were: New Bridge Street £27,198 (2011: £27,576).

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

Remuneration policy section
General policy
The aim of the remuneration policy is to enable the Company to offer a package of rewards that is aligned with the strategy for the business by:

- being competitive but not excessive by reference to market rates across comparator companies;
- taking into account the individual contribution and performance of each executive;
- reflecting the performance of the business against financial objectives; and
- aligning the interests of executives with shareholders, by ensuring that a significant proportion of remuneration is performance-related and delivered in shares.

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

The Committee reviews the policy annually in light of market conditions, performance and developments in corporate governance best practice.

The Company's policy is that a substantial proportion of an executive's remuneration should be performance-related and delivered in shares, which executives are required to hold under the Company's share ownership guidelines.

There are five main elements of the remuneration package for executive directors and senior management:

- base salary;
- benefits;
- pension arrangements;
- annual bonus; and
- long term incentives.

The table below summarises the Company's 2013 remuneration policy, including any changes to the policy.

Element	Purpose and link to strategy	Operation	Maximum	Performance targets	Change from prior policy
Salary	Reflects the performance of the individual, their skills and experience over time, and the responsibilities of the role Provides an appropriate level of basic fixed income, avoiding excessive risk arising from over reliance on variable income	Reviewed annually Benchmarked periodically against companies with similar characteristics and sector companies Annual increases take account of complexity of the role, market competitiveness, Group performance and the increases awarded to the wider workforce	N/A	N/A	
Bonus	Incentivises annual delivery of financial, strategic and personal goals Maximum bonus only payable for achieving demanding targets Delivery of a proportion in deferred shares provides alignment with shareholders and assists with retention	Paid in cash with 40% deferred as a conditional award of shares Vesting of deferred shares is subject to continued employment (save in good leaver scenarios) at the end of three years from the award of the bonus The payment of any bonus remains ultimately at the discretion of the Committee Non-pensionable Includes a clawback mechanism	Chief Executive – 125% of salary Other executive directors – 100% of salary	Mix of Group financial objectives (60% weighting) and personal objectives (40% weighting)	For 2013 only, financial objectives will account for 60% of total bonus opportunity and personal objectives will account for 40%. The Committee intends to revert to a more significant weighting on financial objectives from 2014 Mr Papworth and Mr Bowers will receive a guaranteed minimum bonus of 50% of salary for 2013 only

Directors' remuneration report

continued

Element	Purpose and link to strategy	Operation	Maximum	Performance targets	Change from prior policy
Long term incentive plans **(Performance Share Plan (PSP) and Sharesave Plan)**	Aligned to the Group's main strategic objectives of delivering sustainable growth and shareholder returns	Annual grant of performance shares which vest after three years No re-testing PSP includes a clawback mechanism	150% of base salary (although grants up to 200% of base salary may be made in exceptional circumstances) Executives may participate in the Sharesave Plan	Awards made from January 2007 to November 2012: based on EPS growth over three years Awards made in November 2012 and January 2013: based on share price growth over three years	Performance condition for November 2012 and January 2013 awards linked to share price growth
Pension	Provides modest retirement benefits	Defined benefit scheme until 6 April 2010 Cash supplement after 6 April 2010	20% of base salary cash supplement	N/A	
Other benefits	Provides a competitive package of benefits that assists with recruitment and retention	Main benefits provided are a fully-expensed company car or allowance, and private medical insurance	N/A	N/A	
Share ownership guidelines	To provide alignment between executives and shareholders	Executive directors are required to build-up, over a five year period following appointment, and maintain a shareholding in the Company equivalent to one year's basic salary Other participants in the PSP are expected to build-up a shareholding equivalent to 25%-50% of their basic salary over a five year period	100% of salary holding for executive directors	N/A	

Element	Purpose and link to strategy	Operation	Maximum	Performance targets	Change from prior policy
Non-executive directors' and Chairman's remuneration	Takes account of recognised best practice and set at a level that is sufficient to attract and retain high calibre non-executives	Non-executive directors receive fees paid in cash Certain non-executive directors receive private medical insurance When reviewing fee levels, account is taken of market movements in non-executive director fees, Board committee responsibilities, ongoing time commitments and the general economic environment Other than when a non-executive changes role or where benchmarking indicates fees require realignment, fee increases will not exceed the general level of increases for the Group's employees	N/A	N/A	

Summary of each executive director's package

	Mr M Papworth (appointed 5 Nov 2012)	Mr S Bowers (appointed 7 Jan 2013)	Mrs S Ellard
Base salary as at 1 January 2013[1]	£450,000	£275,000	£210,000
Base salary as at 1 January 2012	–	–	£200,000
Percentage increase	–	–	5%
On-target bonus (% of salary)	62.5%	50%	50%
Maximum bonus (% of salary)	125%	100%	100%
PSP award (% of salary)[2]	200%	150%	150%
Shareholding guidelines – target (% of salary)	100%	100%	100%
Value of current shareholding at 23 January 2013 (% of salary)	31% (50,000 shares)	–	102% (75,587 shares)
Contract	12 months	12 months	12 months

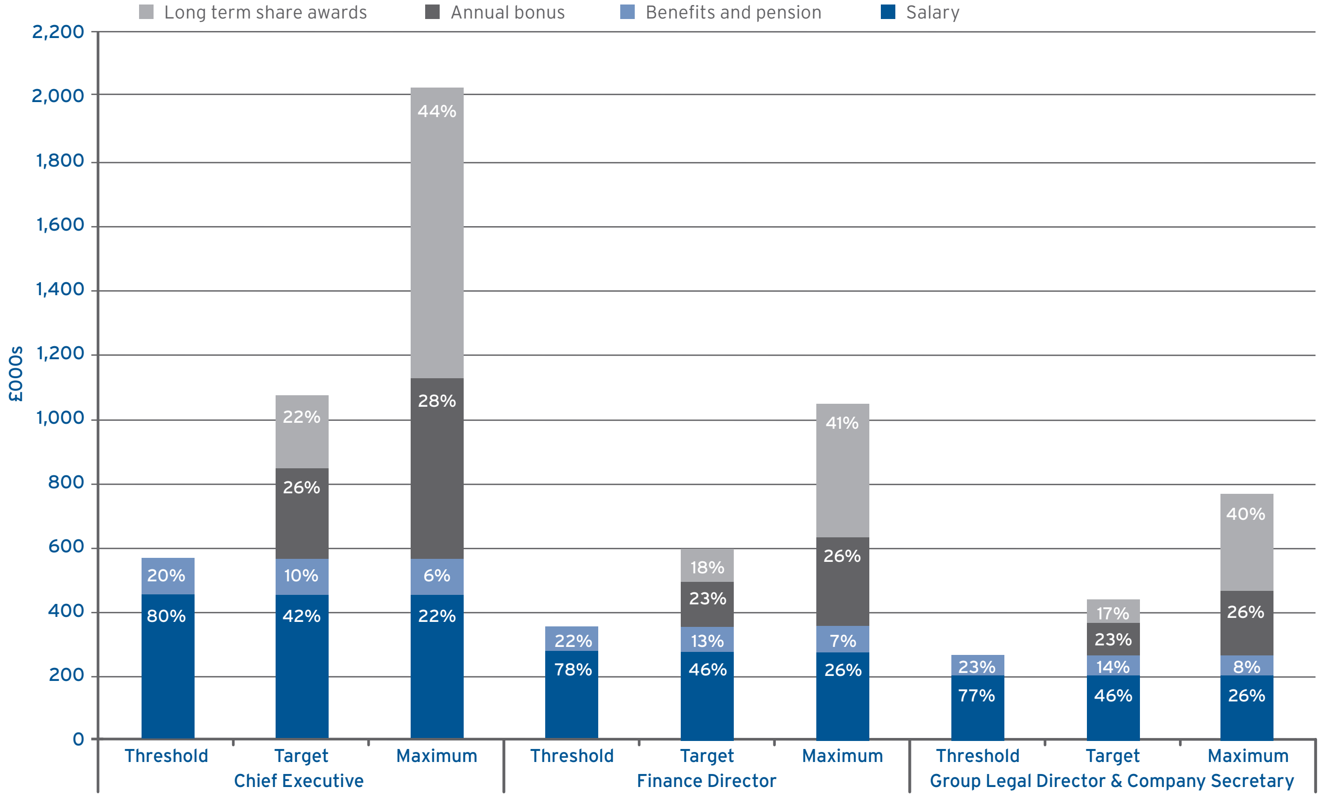
[1] Base salary as at 1 January 2013 or date of appointment if later.
[2] In order to ensure Mr Papworth's immediate alignment with shareholders' interests and as part of the terms of his appointment, an award of performance shares valued at 200% of salary was made on 21 November 2012, with vesting subject to demanding share price growth targets. These are described in more detail below.

Directors' remuneration report

continued

Remuneration scenarios for executive directors

The chart below shows how the composition of each executive director's remuneration package varies at different levels of performance under the policy set out above:



Notes
1. The target and maximum vesting for the Chief Executive's annual bonus is 62.5% and 125% of salary respectively, and 50% and 100% for the other executive directors.
2. For performance share awards, the target and maximum vesting is 50% and 200% of salary for the Chief Executive, and 37.5% and 150% of salary for the other executive directors.
3. Pension provision is 20% of salary for each director.
4. The value of other benefits is assumed to be £22,000 for each director.

How employees' pay is taken into account

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

How executive directors' remuneration policy relates to the wider Group

The remuneration policy described above provides an overview of the structure that operates for the most senior executives in the Group. Lower aggregate incentive quantum operates at below executive level, with levels driven by market comparatives and the impact of the role.

Employees are provided with a competitive package of benefits that includes participation in the Group's defined contribution pension arrangements.

Long term incentives are provided to the most senior executives and those anticipated as having the greatest potential to influence performance levels within the Company. However, in order to encourage wider employee share ownership, the Company operates a Sharesave Plan in the UK and a Stock Purchase Plan in the US, in which all UK and US employees are eligible to participate on completion of six months' service.

How shareholders views are taken into account

The Remuneration Committee considers shareholder feedback received in relation to the Annual General Meeting each year and guidance from shareholder representative bodies more generally. Shareholders' views are key inputs when shaping remuneration policy.

During the year, the Committee engaged with its largest shareholders regarding the policy for 2012, including the choice and weighting of annual bonus performance targets and the earnings per share performance conditions for the performance share awards made in January 2012.

Planned application of the policy for 2013

Base salary 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 relevant comparator companies. The Committee refers to published salary surveys and data provided by its remuneration advisers, New Bridge Street, and also reviews the remuneration information presented in the annual reports of companies in comparator groups.

Factors that are considered during the annual review of base salary and benefits include:

- reference to market rates across comparator companies (those of similar size to Chemring or within the same sector);
- individual contribution and performance of each executive; and
- pay levels across the Group.

Mrs Ellard's basic salary was increased to £210,000 p.a. with effect from 1 January 2013. This increase is consistent with the general level of increases awarded to other employees of the Group (up to 5%).

Benefits consist of a fully-expensed company car or car allowance, life assurance and private medical insurance.

Pension

Mrs Ellard was a member of the Chemring Group Staff Pension Scheme (the "Staff Scheme") until 6 April 2010. This is an approved final salary scheme, which is contracted-out of the State Second Pension, and which provides, at retirement, a pension of up to two-thirds of salary, subject to HM Revenue & Customs limits. The pension arrangements for the executive directors under the Staff Scheme (1/80ths accrual rate only as far as the notional earnings cap) were well below market norms. As a result, the Committee agreed that, with effect from 6 April 2010, the executive directors would cease to participate in the Staff Scheme, and would instead, for all future service, receive a salary supplement of 20% of base salary. Mrs Ellard therefore now receives a salary supplement of 20% of her prevailing base salary in lieu of membership of the Group's occupational pension scheme, as does Mr Papworth and Mr Bowers.

Annual bonus

The annual bonus plan provides the framework for an annual incentive for executive directors and eligible senior managers, with the aim of promoting the achievement of the corporate strategy and success of the Group.

The maximum bonus award is capped at 125% of base salary for the Chief Executive and 100% for other executive directors. 40% of any bonus payable is deferred as a conditional award of the Company's shares, vesting of which is subject to continued employment (save in good leaver scenarios) three years from the award of the bonus. Bonuses are not pensionable.

The Committee has consistently set highly challenging bonus targets for the achievement of maximum bonuses. No bonuses have been paid to the executive directors in the last two years, and the executive directors did not receive maximum bonuses in any of the prior three years.

For 2013, the Committee has set equally challenging targets but has increased the weighting on personal objectives, reflecting the importance of delivering key strategic and operational goals in the current year, given the ongoing review of the strategy. For the executive directors, earnings per share and cash flow will therefore each account for 30% of the total bonus opportunity, with personal objectives accounting for 40%. When determining performance against the personal objectives, the Remuneration Committee will have discretion to reduce, potentially to zero, the payout in respect of the personal objectives element taking account of the Group's underlying financial performance. The increase in the weighting on personal objectives is intended to be exceptional, and the Committee intends to return to a more significant weighting on financial objectives for 2014.

Long term incentives

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. Conditional awards of the Company's shares can potentially be made at a value of up to 150% of base salary each year under normal circumstances, with awards of up to 200% of salary in exceptional circumstances. Awards 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. The vesting schedules for the awards granted to date, and which remain outstanding, are as follows:

	Awards to executive directors	Total earnings per share growth per annum (not compound) over three financial years	
		Threshold vesting	Full vesting
Awards made on or after 20 January 2010	125% of salary	RPI + 10% p.a. (25% vests for awards up to 100% of salary)	RPI + 25% p.a. (for awards up to 100% of salary)
		RPI + 25% p.a. (for any additional awards over 100% of salary)	RPI + 30% p.a. (for awards up to 125% of salary)
Awards made on or after 19 January 2011	150% of salary	RPI + 10% p.a. (25% vests for awards up to 100% of salary)	RPI + 25% p.a. (for awards up to 100% of salary)
		RPI + 25% p.a. (for any additional awards over 100% of salary)	RPI + 35% p.a. (for awards up to 150% of salary)
Awards made on or after 27 January 2012	150% of salary	3% p.a. (15% vests) 5% p.a. (25% vests)	10% p.a. (for awards up to 100% of salary)
		10% p.a. (for any additional awards over 100% of salary)	12.5% p.a. (for any additional awards up to 150% of salary)

Earnings per share is calculated on a fully diluted and normalised basis, as specified by the Committee prior to grant.

Directors' remuneration report
continued

An award of performance shares worth 200% of salary was made to Mr Papworth on 21 November 2012. The aim of the award was to ensure an immediate interest in the Company's performance and alignment with its shareholders, and was agreed as part of Mr Papworth's recruitment package. This award was made under the exceptional circumstances provisions of the Group's Performance Share Plan. No further awards will be made to him in the current financial year. Vesting of the awards is subject to the achievement of demanding targets linked to growth in the Company's share price over three financial years beginning with the current year, as follows:

Average share price over the three month period from 1 August 2015 to 31 October 2015	Percentage of the award vesting
Less than 275p	Nil
275p (approximately 26% above the Company's share price on the date of grant)	25%
500p or above (approximately 130% above the Company's share price on the date of grant)	100%
Between 275p and 500p	Pro-rata between 25% and 100% on a straight-line basis

In addition, this award will be subject to the Company's clawback arrangements which apply to all awards made under the Performance Share Plan from 2011 onwards. These enable the Company to claw back awards prior to vesting in the event of subsequent discovery of material misstatement of the Company's financial results, and after having first clawed back any unvested deferred shares awarded as part of the annual bonus for the financial year in which the results were misstated.

The Committee has historically set highly challenging earnings per share targets, reflecting the Board's confidence in the strong growth prospects for the Group but also the Committee's firm commitment to align the interests of shareholders with the executive management through the use of significant levels of potential variable pay triggered by exceptional levels of performance.

In considering the performance condition for awards which will be made in 2013, the Committee has remained consistent with its commitment to tough target setting. However, with defence budgets around the world continuing to be under significant pressure and given that the new senior management team is conducting an ongoing review of the Group's operations, it is difficult to set robust earnings per share performance targets for the next three years. Earnings per share is not therefore felt to be an appropriate measure at the current time, and the long term incentives granted to other senior executives in early 2013 will also be subject to a performance condition based on the share price growth as set out below:

Average share price over the three month period from 1 August 2015 to 31 October 2015	Percentage of the award vesting
Less than 350p	Nil
350p (approximately 18% above the Company's share price on the date of this report)	25%
500p or above (approximately 69% above the Company's share price on the date of this report)	100%
Between 350p and 500p	Pro-rata between 25% and 100% on a straight-line basis

The Committee believes that the adoption of this performance condition will ensure that the Company's senior executives are appropriately aligned with one another and incentivised to achieving an improvement in the Group's share price. However, the Committee intends to review the performance measures used in the Performance Share Plan going forward, and will consider reintroducing a financial measure such as earnings per share for future awards.

Shareholding guidelines
Over a five year period following appointment, executive directors are expected to build-up and maintain a shareholding in the Company equivalent to one year's basic salary. Other participants in the Performance Share Plan are expected to build-up a shareholding equivalent to 25% to 50% of their basic salary over a five year period.

Other schemes
The Company operates all-employee savings-related share schemes in the UK (The Chemring Group 2008 UK Sharesave Plan), in which executive directors can participate, and in the US (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 & Customs and US Internal Revenue Service regulations.

The Company complies with the dilution guidelines contained within the "ABI Principles of Remuneration". At 31 October 2012, awards outstanding and issued under all share schemes during the previous ten years amounted to 3.5% of the ordinary share capital of the Company. At 31 October 2012, awards outstanding and issued under executive share schemes during the previous ten years amounted to 2.95% of the ordinary share capital of the Company.

Service contracts and policy on exit

Executive directors have rolling service contracts, details of which are summarised in the table below:

Provision	Detailed terms
Contract dates	Mrs S Ellard – 2 November 2011 (effective 7 October 2011) Mr M Papworth – 22 October 2012 (effective 5 November 2012) Mr S Bowers – 2 January 2013 (effective 7 January 2013)
Notice period	Twelve months from both the Company and from the executive
Termination payment	Contracts may be terminated without notice by the payment of a sum equal to of the sum of salary due for the unexpired notice period plus the fair value of any contractual benefits Payments may be made in instalments and in these circumstances there is a requirement to mitigate loss
Remuneration entitlements	Mr Papworth's contract contains the following remuneration related entitlements: • Salary of £450,000 p.a. or such other rate agreed between by the Company and the executive • Car allowance of £20,000 p.a. and reimbursement of fuel costs for business miles • 3x salary life cover • Private medical cover (self, spouse/partner and children) • Cash salary supplement in lieu of pension provision equal to 20% of salary • Participation in the Company's incentive arrangements on such terms as determined by the Remuneration Committee Mrs Ellard's contract contains the following remuneration related entitlements: • Salary of £200,000 p.a. (£210,000 p.a. with effect from 1 January 2013) or such other rate agreed between by the Company and the executive • Provision of a company car and reimbursement of fuel costs for business miles • 2x salary life cover • Private medical cover (self, spouse/partner and children) • Cash salary supplement in lieu of pension provision equal to 20% of salary • Participation in the Company's incentive arrangements on such terms as determined by the Remuneration Committee Mr Bowers' contract contains the following remuneration related entitlements: • Salary of £275,000 p.a. or such other rate agreed between by the Company and the executive • Car allowance of £18,000 p.a. and reimbursement of fuel costs for business miles • 2x salary life cover • Private medical cover (self, spouse/partner and children) • Cash salary supplement in lieu of pension provision equal to 20% of salary • Participation in the Company's incentive arrangements on such terms as determined by the Remuneration Committee
Change of control	Mr Papworth's contract provides that, in the event of a change of control of the Company during the first twelve months of his employment that results in the termination of his employment within six months following the change of control, the Company will pay him: • Twelve months' salary as a lump sum, in lieu of notice and with no requirement for him to mitigate his loss • An additional amount paid by way of a bonus calculated as 125% of the executive's salary, pro-rated to reflect the number of days of the applicable financial year of the Company during which the executive has been employed up to the date of termination In such circumstances there would be no contractual entitlement to receive a payment in respect of any incentive arrangements operated by the Company

Directors' remuneration report
continued

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

The Committee is aware of investors' views and current best practice guidelines regarding change of control provisions, and its normal policy would be not to include such provisions in directors' contracts. However, Mr Papworth was recruited at a time when it was known that the Company was in discussions with a potential acquirer, and the Committee confirms that the change of control provision was necessary to secure his appointment at a time of considerable uncertainty.

Non-executive directors
Non-executive directors do not receive compensation for loss of office, but are appointed for fixed terms of three years, renewable for further three year terms if both parties agree and subject to annual re-election by shareholders. Mr Hickson's appointment may be terminated on six months' notice by either party. The other non-executive directors' appointments may be terminated by either party upon three months' written notice. Non-executive directors do not participate in the Company's pension, bonus or share-based incentive schemes. The Company provides private medical insurance for Mr Hickson and Air Marshal Sir Peter Norriss, and their respective spouses. The following table shows details of the terms of appointment for the non-executive directors:

Name	Date original term commenced	Date current term commenced	Expected expiry date of current term
Mr P Hickson (Chairman)	1 July 2010 (Chairman since 1 October 2010)	1 July 2010	30 June 2013
The Rt Hon Lord Freeman	26 May 2006	26 May 2012	31 December 2013
Mr I Much	1 December 2004	1 December 2010	30 November 2013
Mrs V Murray	1 November 2011	1 November 2011	31 October 2014
Air Marshal Sir Peter Norriss	1 May 2004	1 May 2010	20 March 2013

The remuneration of the non-executive directors is determined by the Chairman and the executive members of the Board, and the remuneration of the Chairman is determined by the Committee. Fees for the non-executive directors and the Chairman are reviewed from time to time with regard to time commitment required and the level of fees paid by comparable companies. Current annual fee levels for the non-executive directors are as follows:

Non-executive director	2013 £	2012 £
Mr P Hickson (Chairman)	**170,000**	170,000
The Rt Hon Lord Freeman[1]	**63,000**	63,000
Mr I Much[1]	**63,000**	63,000
Mrs V Murray	**55,000**	55,000
Air Marshal Sir Peter Norriss	**55,000**	55,000

[1] The Rt Hon Lord Freeman and Mr Much each receive an additional fee of £8,000 p.a., included in the figures above, in respect of their Chairmanship of the Audit Committee and the Remuneration Committee respectively. Mr Much also serves as the Senior Independent Director but he receives no additional fee for this role.

Fees for the non-executive directors have been fixed until 2014.

Implementation section (audited)

Shareholder voting at the Annual General Meeting

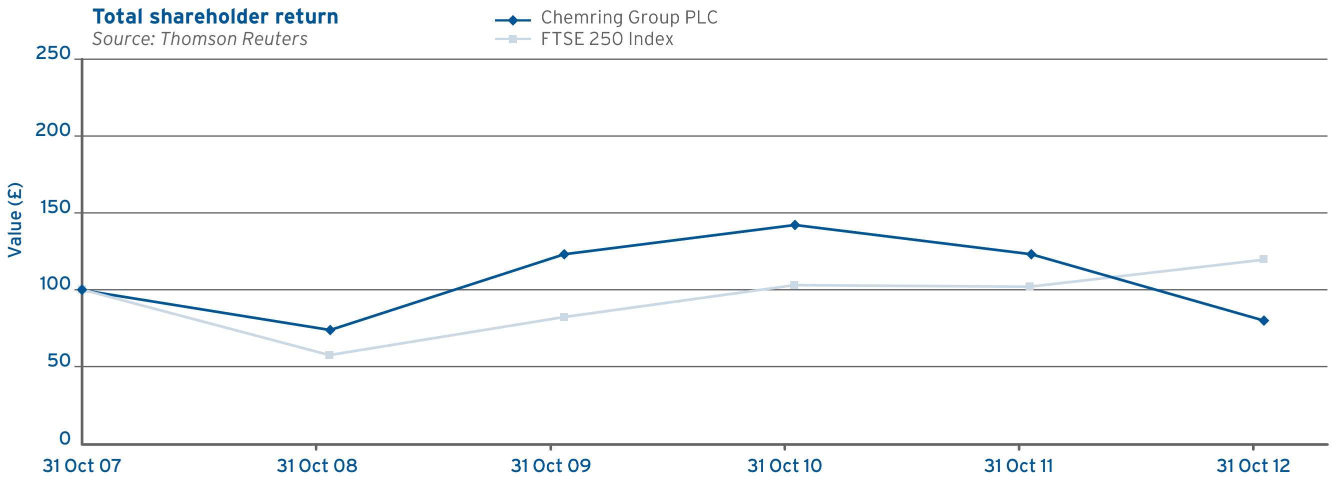
At last year's Annual General Meeting held on 21 March 2012, the directors' remuneration report received the following votes from shareholders:

	Total number of votes	% of votes cast
For	120,001,656	78.85
Against	32,184,374	21.15
Total votes cast (for and against, excluding withheld votes)	**152,186,030**	**100**
Votes withheld[1]	6,076,054	3.84
Total votes cast (for, against and withheld)	**158,262,084**	

[1] A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast "for" and "against" a resolution

Performance graph

The following graph shows a comparison of the Company's total shareholder return, 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 2012, of £100 invested in Chemring Group PLC on 31 October 2007 compared with the value of £100 invested in the FTSE250 Index. The other points plotted are the values at intervening financial year ends.

Directors' remuneration report

continued

Directors' emoluments

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

	Salaries and fees £000	Bonus (cash and deferred shares)[1] £000	Cash in lieu of pension[2] £000	Taxable benefits[3] £000	Compensation for loss of office £000	Total 2012 £000	Total 2011 £000
Executives							
Dr D Price (resigned 23 Oct 2012)	525	-	105	33	662	**1,325**	641
Mr P Rayner (resigned 31 July 2012)	256	-	49	22	410	**737**	401
Mrs S Ellard (appointed 7 Oct 2011)	200	-	40	16	-	**256**	21
Non-executives							
Mr D Evans (resigned 21 Mar 2012)	27	-	-	1	-	**28**	51
The Rt Hon Lord Freeman	63	-	-	-	-	**63**	58
Mr P Hickson	170	-	-	2	-	**172**	172
Mr I Much	63	-	-	-	-	**63**	58
Mrs V Murray (appointed 1 Nov 2011)	55	-	-	-	-	**55**	-
Air Marshal Sir Peter Norriss	55	-	-	2	-	**57**	52
Total remuneration	**1,414**	**-**	**194**	**76**	**1,072**	**2,756**	1,454

[1] 40% of any bonus is delivered as an award of deferred shares
[2] The executive directors receive a cash supplement of 20% of salary in lieu of occupational pension scheme membership
[3] Comprises a fully-expensed company car or cash allowance plus private medical insurance

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.

Details of variable pay earned in the year

Annual bonus plan

For 2012, three quarters of the bonus potential was linked to two separate financial performance conditions, namely earnings per share and cash flow (with equal weighting). No bonus was 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 satisfaction of personal objective criteria set out at the beginning of the year.

The payment of any bonus ultimately remains at the discretion of the Committee. In the year the Committee did not use its discretion.

Long term incentives

Details of long term incentive plan awards outstanding

	Number of shares under award						
	At 1 Nov 2011	Awarded during the year	Lapsed during the year	Vested during the year	At 31 Oct 2012	Date of vesting	Share price on date of award (p)
Mrs S Ellard	23,190	-	10,580	12,610	-	24 Jan 2012	406.2
	16,460	-	-	-	16,460	20 Jan 2013	615.0
	25,520	-	-	-	25,520	19 Jan 2014	636.8
	-	79,197	-	-	79,197	27 Jan 2015	378.8
	65,170	79,197	10,580	12,610	121,177		
Dr D Price	100,000	-	45,625	54,375	-	24 Jan 2012	406.2
	70,990	-	70,990	-	-	20 Jan 2013	615.0
	15,740	-	15,740	-	-	18 Mar 2013	667.8
	111,350	-	111,350	-	-	19 Jan 2014	636.8
	-	207,892	207,892	-	-	27 Jan 2015	378.8
	298,080	207,892	451,597	54,375	-		
Mr P Rayner	62,500	-	28,516	33,984	-	24 Jan 2012	406.2
	44,370	-	44,370	-	-	20 Jan 2013	615.0
	9,835	-	9,835	-	-	18 Mar 2013	667.8
	69,590	-	69,590	-	-	19 Jan 2014	636.8
	-	129,933	129,933	-	-	27 Jan 2015	378.8
	186,295	129,933	282,244	33,984	-		

54.375% of the awards granted on 21 January 2009 vested during the year, as the threshold earnings per share growth target of RPI+10% p.a. over three financial years from grant was achieved.

Awards worth 150% of base salary were granted on 27 January 2012; shares with a value at grant of 15% of salary will vest if earnings per share growth is 3% p.a. over the three year performance period, rising on a straight-line basis to 25% of salary vesting for growth of 5% p.a., 100% of salary vesting for growth of 10% p.a., and up to 150% of salary vesting for growth of 12.5% p.a..

Participation in the plan is at the discretion of the Committee, and currently includes the executive directors and senior managers. The following awards were made under the plan during the year:

Date of award	Total number of shares awarded	Number of participants receiving awards
27 January 2012	1,785,720	37
Total	**1,785,720**	**37**

Share options

The holdings by the directors of share options granted under the Chemring Group 2008 UK Sharesave Plan at 1 November 2011 and 31 October 2012 are shown below.

	Number of share options								
	At 1 Nov 2011	Granted during the year	Lapsed during the year	Exercised during the year	At 31 Oct 2012	Exercise price(p)	Market price at date of exercise (p)	Date from which exercisable	Expiry date
Mrs S Ellard	1,776	-	1,776	-	-	508.0	-	1 Oct 2014	1 Apr 2015
Mr P Rayner	4,355	-	4,355	-	-	373.6	-	1 Oct 2013	1 Apr 2014

The closing market price of the ordinary shares at 31 October 2012 was 313.7p. During the year, the ordinary shares traded within the range 267.3p to 520.5p.

Directors' remuneration report

continued

Deferred shares

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

	Number of deferred shares under award						
	At 1 Nov 2011	Awarded during the year	Lapsed during the year	Vested during the year	At 31 Oct 2012	Date of vesting	Share price on date of award (p)
Dr D Price	13,015	-	-	13,015	-	24 Jan 2012	400
	16,705	-	-	-	16,705	21 Nov 2012	591.6
	18,355	-	-	-	18,355	21 Nov 2012	646.6
	48,075	-	-	13,015	35,060		
Mr P Rayner	8,485	-	-	8,485	-	24 Jan 2012	400
	10,470	-	-	-	10,470	21 Nov 2012	591.6
	11,380	-	-	-	11,380	21 Nov 2012	646.6
	30,335	-	-	8,485	21,850		

Loss of office payments

A total payment of £662,322, representing twelve months' payment in lieu of notice and compensation for loss of contractual benefits was made to Dr Price on termination of his employment as Chief Executive. A total payment of £410,040 was made to Mr Rayner on termination of his employment as Finance Director, in settlement of his contractual entitlements.

35,060 shares and 21,850 shares were also transferred to Dr Price and Mr Rayner respectively, in satisfaction of their deferred share awards in connection with their annual bonuses for 2009 and 2010.

Pension

The following table sets out the pension benefits accrued by the executive directors during the year, as a consequence of their former membership of the Chemring Group Staff Pension Scheme.

	Total benefit accrued at 31 Oct 2011		Transfer value of accrued benefit at 31 Oct 2011	Total benefit accrued at 31 Oct 2012		Transfer value of accrued benefit at 31 Oct 2012	Increase in transfer value during year (less members' contributions)
	Pension (£p.a.)	Cash (£)	(£)	Pension (£p.a.)	Cash (£)	(£)	(£)
Mrs S Ellard	23,948	71,844	372,917	23,948	71,844	429,659	56,742
Dr D Price	7,725	23,175	126,930	7,725	23,175	143,745	16,815
Mr P Rayner	24,462	73,387	443,574	24,462	73,387	501,609	58,035

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

ii) Transfer values have been calculated in accordance with the Occupational Pension Scheme (Transfer Value) Regulations 1996.

iii) Statutory indexation over the year has been 5.2% for service to 6 April 2009 and 2.5% for service post 6 April 2009.

iv) All three directors left pensionable service on 6 April 2010 and therefore did not accrue additional pension over the year. The accrued benefits shown are their benefits at the date of exit.

v) The figures for Mrs Ellard as at 31 October 2011 have been restated following confirmation by the Company of the benefit basis that should have been applied to her under the terms of the defined benefit pension schemes.

Directors' shareholdings

To reinforce the linkage between senior executives and shareholders, the Committee has adopted a shareholding policy that applies to executive directors and other participants in the Performance Share Plan. 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 basic salary. Other participants in the Performance Share Plan are expected to retain a shareholding equivalent to 25% to 50% of their basic salary over a five year period.

The interests of the directors in the ordinary shares of the Company at 1 November 2011 and 31 October 2012 are shown below. All are beneficial holdings.

	Legally owned (Number of shares)		Unvested LTIP awards								
	2012	2011	2010 award	2011 award	2012 award	Total at 31 Oct 2012	Unvested share options	Unvested deferred shares	Total at 31 Oct 2012	% of salary held in shares under shareholding guideline[1]	Guideline met?
Executive directors											
Mrs S Ellard	75,587	75,035	16,460	25,520	79,197	121,177	-	-	121,177	118%	Yes
Non-executive directors											
The Rt Hon Lord Freeman	1,750	1,750	-	-	-	-	-	-	-	-	-
Mr P Hickson	90,000	40,000	-	-	-	-	-	-	-	-	-
Mr I Much	26,500	26,500	-	-	-	-	-	-	-	-	-
Mrs V Murray	-	-	-	-	-	-	-	-	-	-	-
Air Marshal Sir Peter Norriss	27,000	27,000	-	-	-	-	-	-	-	-	-

[1] Based on the number of shares legally owned, prevailing base salary and share price (313.7p), at 31 October 2012

The directors' share interests at 31 October 2012 include shares held by the directors' adult children, as required by the Companies Act 2006.

During November 2012 and prior to the start of the Company's close period preceding the release of its annual results, the following directors purchased shares:

Mr P Hickson	50,000 shares
Mrs V Murray	3,000 shares
Mr M Papworth	50,000 shares

No other movements have taken place.

Approval of the directors' remuneration report

The directors' remuneration report was approved by the Board on 24 January 2013.

Signed on behalf of the Board

I F R Much

Chairman of the Remuneration Committee

Statement on corporate governance

Introduction by the Chairman

The Board is committed to upholding the highest standards on corporate governance, protecting and growing our shareholders' assets, and engaging in a fair and transparent manner with all of our stakeholders. We take responsibility for approving the Group's long term goals and strategies, and provide overall financial and organisational control. We also ensure that the Group's businesses have appropriate and effective internal control and risk management systems.

The detailed statement below sets out how the Company has applied the main and supporting principles of good governance set out in the UK Corporate Governance Code issued in June 2010 by the Financial Reporting Council (the "Code"). I would like to draw your attention to some specific examples of how the principles relating to the role and effectiveness of the Board have been applied in practice this year:

Setting of strategic aims
The Board regularly reviews the long term strategic plan for the Group, the current and future resource requirements for delivery of the plan, and risks to achievement of that plan. This year, we have had to adjust our plan to reflect significant budgetary constraints in our traditional markets, and operating shortcomings in certain of the Group's companies. This necessitated a fundamental review of our strategy for delivering value to shareholders over the next few years, and the management structure required to do so.

Composition of the Board
During late 2011, two new directors, Sarah Ellard and Vanda Murray, were appointed to the Board. Both individuals have made positive contributions to the Board during a difficult year. David Evans retired from the Board at the Annual General Meeting in March 2012.

Following the resignation of Paul Rayner, the Finance Director, in July 2012, and David Price, the Chief Executive, in October 2012, the Board took action to recruit successors with the appropriate levels of experience and skill to lead the Group through the next stage of its development. Mark Papworth was appointed Chief Executive on 5 November 2012, and Steve Bowers started as Finance Director on 7 January 2013. The strengthened executive management team is key to the Board's plans for recovery and the restoration of value to shareholders.

Nigel Young, who was Interim Chief Financial Officer between August 2012 and January 2013, will join the Board as a non-executive director at the end of April 2013. He will become Chairman of the Audit Committee, succeeding Lord Freeman who plans to retire from the Board at the end of the year.

Sir Peter Norriss joined the Board as a non-executive director in 2004, and after nine years' service, will retire at the forthcoming Annual General Meeting. The recruitment of an additional independent non-executive director will be completed over the next few months.

Dialogue with shareholders
The Board recognises that shareholder expectations were not well-managed throughout the year. In the latter months of the year, we were constrained by the restrictions of The Takeover Code from engaging in a full dialogue with shareholders. Once these restrictions fell away at the start of November 2012, we participated in a series of meetings with shareholders and analysts, as a first step towards restoring good lines of communication with all of our stakeholders. We will continue to focus on communication in 2013, particularly as we introduce the new executive management team and develop our future strategic recovery plans.

The Company has been in full compliance with the provisions of the Code throughout the year ended 31 October 2012.

P C F Hickson
Chairman

The Board

Composition and operation of the Board

The Board currently comprises three executive directors and five non-executive directors (including the Chairman). The Board considers that the Chairman and all of the other non-executive directors are independent in character and judgment, and meet the criteria for independence set out in the Code. The directors' biographical details are set out on pages 28 and 29.

In accordance with the Company's Articles of Association, all directors are required to submit themselves for re-election every three years. However, in order to ensure compliance with the Code, all directors will voluntarily submit themselves for re-election at the forthcoming Annual General, with the exception of Sir Peter Norriss who has indicated his intention to retire from the Board after nine years' service.

The Board meets at least ten times a year, and has a formal schedule of matters specifically reserved to it for consideration and approval, including: the Group's five year plan; the annual operating budgets; acquisitions, disposals and major capital expenditure; financing and treasury; pensions; ethical policies; health and safety strategy; the Group's systems of financial control and risk management; appointments to the Board and 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; 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, should the need 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 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 (19 meetings)	Audit Committee (2 meetings)	Nomination Committee (1 meeting)	Remuneration Committee (6 meetings)
Mr P Hickson	19 (19)	-	1 (1)	6 (6)
Mrs S Ellard	19 (19)	-	-	-
Mr D Evans (resigned 21 Mar 2012)	6 (6)	-	-	-
The Rt Hon Lord Freeman	17 (19)	2 (2)	-	5 (5)
Mr I Much	19 (19)	2 (2)	1 (1)	6 (6)
Mrs V Murray	19 (19)	2 (2)	-	5 (5)
Air Marshal Sir Peter Norriss	18 (19)	2 (2)	1 (1)	5 (5)
Dr D Price (resigned 23 Oct 2012)	16 (17)	-	-	-
Mr P Rayner (resigned 31 July 2012)	12 (12)	-	-	-

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

The Chairman

The Company separates the roles of Chairman and Chief Executive in accordance with the recommendations of the 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 training and development needs of directors are identified and the performance of the Board evaluated on a regular basis; ensuring effective communication with shareholders and acting as a conduit to ensure that the views of shareholders are communicated to the Board. The Chairman's other business commitments, which are detailed on page 28, were fully disclosed to the Board prior to his appointment, and the Board is comfortable that he has sufficient time available to commit to his role.

Non-executive directors

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, in a constructively challenging manner where appropriate. 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 four independent non-executive directors are the members of the standing committees set up to deal with audit and the remuneration of executive directors and senior management. The Board considers that the current balance of executive and non-executive influence which exists is appropriate for the Company, taking into account its size and status.

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

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

The non-executive directors have letters of appointment covering, amongst other items, their terms of appointment and expected time commitment. These letters of appointment usually provide for a three year appointment, unless terminated earlier by and at the discretion of either party upon three months' written notice. Further details are set out in the directors' remuneration report on page 42, and copies of the letters of appointment are available for inspection on request to the Company Secretary.

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.

Board performance evaluation

The performance of the Board and its effectiveness are subject to periodic review by the Chairman. The Chairman and the non-executive directors consider the individual performance of the executive directors as part of the annual remuneration review, and the Chairman and the Chief Executive review the performance of the non-executive directors.

There were a number of changes to the Board during 2012, which required the Chairman, with the assistance of the non-executive directors, to undertake a full evaluation of the recent performance of the Board and an assessment of the additional skills and knowledge that would improve its future effectiveness.

Given the various changes, the Board intends to defer the appointment of an external adviser to assist with the evaluation of its performance until 2014.

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.

Statement on corporate governance
continued

Audit Committee

The Rt Hon Lord Freeman (Chairman)

Mr I Much

Mrs V Murray

Air Marshal Sir Peter Norriss

The Rt Hon Lord Freeman, who is a Chartered Accountant, is Chairman of the Audit Committee; his full biographical details are set out on page 29. The Committee met twice during the year, and operates within formal written terms of reference. As referred to above, the terms of reference are available on the Company's website. Meetings of the Committee are attended, at the invitation of the Chairman of the Committee, by the external auditors, the Chairman of the Board, the Finance Director and representatives from the Group finance and internal audit function. The Committee meets with the auditors on a regular basis without the executive directors being 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 2011 financial statements and 2012 interim results statement prior to Board approval, and reviewing the external auditors' detailed reports thereon;
- reviewing the appropriateness of the Group's accounting policies, and reviewing various accounting matters raised by management and the external auditors in the context of financial disclosures;
- considering and approving changes to the Group's accounting policy manual;
- reviewing the potential impact on the Group's financial statements of certain matters such as impairments of fixed asset values and the adoption of new accounting standards;
- reviewing the external auditors' plan for the 2012 interim review and the 2012 year end audit, including reviewing the key risks on the accounts, confirming the auditors' 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 anti-bribery policies and procedures, and the compliance of each of the Group's businesses with these policies;
- monitoring the Group's financing structures;
- 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 subject 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.

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

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

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

The Committee 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.

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 69.

Nomination Committee

Mr P Hickson (Chairman)

Mr I Much

Air Marshal Sir Peter Norriss

Mr Hickson is Chairman of the Nomination 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 executive directors during 2012, the Board considered the specific knowledge and expertise which was required to lead the Group through the next stage of its development, and provided a brief to external search agents based upon its conclusions. The search agents put forward a short list of candidates for the Chairman and the non-executive directors to interview, prior to making formal offers of appointment.

The Board supports the principles set out in Lord Davies' Review into Women on Boards published in February 2011, as reflected by the fact that the Board now has two female members. The Board also recognises the importance of promoting diversity across the Group, and remains committed to a minimum of at least 25% female representation on the Board.

Remuneration Committee

Mr I Much (Chairman)

The Rt Hon Lord Freeman

Mr P Hickson

Mrs V Murray

Air Marshal Sir Peter Norriss

The Remuneration Committee met six times during the year. Further details on the Committee and the Company's policy on directors' remuneration and long term incentive schemes are included within the directors' remuneration report.

Executive Committee

The current members of the Executive Committee are:

Mr M Papworth (Group Chief Executive)

Mr R Armitage (Group Business Development Director)

Mr S Bowers (Group Finance Director)

Mr T Bridgewater (Group Director of Safety)

Mr R Dellar (Managing Director – Chemring International)

Mr J Devine (Group HR Director)

Mrs S Ellard (Group Legal Director)

Mr S Grinham (Managing Director – European Electronics)

Mr M Helme (Managing Director – Chemring Europe)

Mr D McKenrick (President – Chemring North America)

Mr R Pittman (Group Director of Communications & Investor Relations)

Mr Papworth chairs the Executive Committee, which meets monthly. The Executive Committee is responsible for the executive day-to-day running of the Group, submission to the Board of strategic plans and budgets for the Group's operations, and monitoring the day-to-day performance of the Group as a whole.

Relations with shareholders

The Company maintains an active dialogue with institutional shareholders through regular briefing meetings and formal presentations following the release of interim and annual results. Meetings are usually attended by the Chief Executive and the Finance Director, although the Chairman attended a number of meetings with shareholders during 2012. The Senior Independent Director also attended one meeting with a significant shareholder in 2012. The other non-executive directors are also offered the opportunity to meet with major shareholders and attend meetings if so requested by major shareholders.

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. In line with best practice guidelines, voting at the forthcoming Annual General Meeting will be conducted by way of a poll. This allows all votes to be counted, not just those of shareholders who attend the meeting. Poll results will be published on the Company's website as soon as practicable following the conclusion of the meeting. The Notice of the Annual General Meeting is sent to shareholders at least twenty working days before the meeting.

Financial reporting

The statement of directors' responsibilities in respect of the financial statements and accounting records maintained by the Company is set out on page 32.

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 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

Statement on corporate governance

continued

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, Norwegian and Australian subsidiaries.
- Each business is required to comply with the Group 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 implemented a Bribery Act Compliance Manual incorporating its anti-bribery policies and procedures.

The Group's Risk Management Committee meets on a quarterly basis. All members of the Executive Committee also serve on the Risk Management 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 2012, and it confirms that systems of internal control and risk management compliant with the Code and the Turnbull Guidance were in place throughout the year and have remained in place up to the date of approval of these financial statements. Notwithstanding this, the Board will continue to take steps to embed internal control and risk management further into the operations of the Group and to deal with any areas of improvement which come to the attention of management and the Board.

Procedures to deal with directors' conflicts of interest

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

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

Going concern

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

- the order book of £760.9 million as at the year end, despite more challenging market conditions and government spending cuts in the US and Europe;
- the Group's underlying continuing operating cash flow of £114.9 million during the year;
- the balance sheet net assets at the year end of £433.5 million; and
- the Group's available banking facilities, which amount to £230 million, with maturities through to April 2015 (see note 24 of the financial statements).

The Group's banking and loan note covenants were all met 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. Further details on the covenants are set out in the business review on page 19 and note 21 of the financial statements. 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 24 January 2013.
Signed on behalf of the Board

S L Ellard
Group Legal Director & 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 2012 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement, the notes to the consolidated cash flow statement, and the related notes 1 to 36. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 October 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement contained within the statement on corporate governance in relation to going concern;
- the part of the statement on corporate governance relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Other matters

We have reported separately on the parent company financial statements of Chemring Group PLC for the year ended 31 October 2012 and on the information in the directors' remuneration report that is described as having been audited.

Nigel Mercer ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
24 January 2013

Consolidated income statement

for the year ended 31 October 2012

	Note	Underlying business performance# £m	Non-underlying items# £m	2012 Total £m	Underlying business performance# £m	Non-underlying items# £m	2011 Total £m
Continuing operations							
Revenue	4,5	**740.3**	**-**	**740.3**	724.1	-	724.1
Continuing operations							
Operating profit	5,6	**88.3**	**(51.3)**	**37.0**	135.8	(34.8)	101.0
Share of post-tax results of associate	17	**0.1**	**-**	**0.1**	0.1	-	0.1
Finance income	8	**0.1**	**-**	**0.1**	0.1	-	0.1
Finance expense	9	**(18.4)**	**-**	**(18.4)**	(15.8)	-	(15.8)
Profit before tax from continuing operations	5	**70.1**	**(51.3)**	**18.8**	120.2	(34.8)	85.4
Tax	10	**(15.1)**	**9.5**	**(5.6)**	(27.3)	11.9	(15.4)
Profit after tax from continuing operations		**55.0**	**(41.8)**	**13.2**	92.9	(22.9)	70.0
Discontinued operations							
Profit after tax from discontinued operations	33	**2.1**	**-**	**2.1**	3.9	-	3.9
Profit after tax		**57.1**	**(41.8)**	**15.3**	96.8	(22.9)	73.9
Earnings per ordinary share	12						
From continuing operations							
Basic		**28.5p**		**6.8p**	50.0p		37.7p
Diluted		**28.1p**		**6.7p**	49.5p		37.3p
From continuing operations and discontinued operations							
Basic		**29.6p**		**7.9p**	52.1p		39.8p
Diluted		**29.2p**		**7.8p**	51.6p		39.4p

Further information about non-underlying items can be found in note 6. The non-underlying items charge of £51.3 million is shown net of £10.3 million profit on disposal arising from the sale of the marine business (see note 33).

Consolidated statement of comprehensive income

for the year ended 31 October 2012

	Note	2012 £m	2011 £m
Profit after tax for the year attributable to equity holders of the parent		**15.3**	73.9
Items that will not be reclassified subsequently to profit or loss:			
Actuarial losses on defined benefit pension schemes	34	**(2.7)**	(1.8)
Movement on deferred tax relating to pension schemes	26	**0.7**	0.4
		(2.0)	(1.4)
Items that may be reclassified subsequently to profit or loss:			
Losses on cash flow hedges		**-**	(0.1)
Exchange differences on translation of foreign operations		**(20.1)**	(7.4)
Deferred tax on exchange differences on translation of foreign operations		**0.7**	0.3
		(19.4)	(7.2)
Total comprehensive (expense)/income for the year attributable to equity holders of the parent		**(6.1)**	65.3

Consolidated statement of changes in equity

for the year ended 31 October 2012

	Share capital £m	Share premium account £m	Special capital reserve £m	Hedging reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2011	2.0	230.6	12.9	-	1.4	(19.5)	254.6	(6.6)	475.4
Profit after tax for the year	-	-	-	-	-	-	15.3	-	15.3
Other comprehensive income for the year	-	-	-	-	-	(20.1)	(1.3)	-	(21.4)
Total comprehensive income for the year	-	-	-	-	-	(20.1)	14.0	-	(6.1)
Ordinary shares issued	-	0.1	-	-	-	-	-	-	0.1
Dividends paid	-	-	-	-	-	-	(31.1)	-	(31.1)
Share-based payments (net of settlement)	-	-	-	-	-	-	(1.8)	-	(1.8)
Transactions in own shares	-	-	-	-	-	-	-	(3.0)	(3.0)
Transfers between reserves	-	-	-	-	(0.1)	-	0.1	-	-
At 31 October 2012	**2.0**	**230.7**	**12.9**	**-**	**1.3**	**(39.6)**	**235.8**	**(9.6)**	**433.5**

	Share capital £m	Share premium account £m	Special capital reserve £m	Hedging reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2010	1.8	120.4	12.9	(2.7)	1.4	(12.4)	209.0	(7.2)	323.2
Profit after tax for the year	-	-	-	-	-	-	73.9	-	73.9
Other comprehensive income for the year	-	-	-	(0.1)	-	(7.1)	(1.4)	-	(8.6)
Total comprehensive income for the year	-	-	-	(0.1)	-	(7.1)	72.5	-	65.3
Ordinary shares issued	0.2	110.2	-	-	-	-	-	-	110.4
Dividends paid	-	-	-	-	-	-	(22.7)	-	(22.7)
Share-based payments (net of settlement)	-	-	-	-	-	-	(2.1)	-	(2.1)
Current tax relating to share-based payments	-	-	-	-	-	-	0.7	-	0.7
Transactions in own shares	-	-	-	-	-	-	-	0.6	0.6
Transfers between reserves	-	-	-	2.8	-	-	(2.8)	-	-
At 31 October 2011	2.0	230.6	12.9	-	1.4	(19.5)	254.6	(6.6)	475.4

Consolidated balance sheet

as at 31 October 2012

	Note	£m	2012 £m	£m As restated*	2011 £m As restated*
Non-current assets					
Goodwill	13	**214.8**		243.7	
Development costs	14	**31.0**		23.3	
Other intangible assets	14	**167.4**		191.5	
Property, plant and equipment	15	**240.0**		231.1	
Interest in associate	17	**1.4**		1.5	
Deferred tax	26	**16.9**		21.7	
			671.5		712.8
Current assets					
Inventories	18	**113.8**		146.8	
Trade and other receivables	19	**193.0**		190.8	
Cash and cash equivalents	20,24	**96.0**		91.9	
Derivative financial instruments	24	**1.0**		1.9	
			403.8		431.4
Total assets			**1,075.3**		1,144.2
Current liabilities					
Borrowings	21	**(74.0)**		(86.0)	
Obligations under finance leases	22	**(1.7)**		(2.0)	
Trade and other payables	23	**(201.5)**		(212.4)	
Provisions	25	**(2.8)**		(2.5)	
Current tax liabilities		**(5.2)**		(5.6)	
Derivative financial instruments	24	**(0.1)**		(1.5)	
			(285.3)		(310.0)
Non-current liabilities					
Borrowings	21	**(262.1)**		(262.1)	
Obligations under finance leases	22	**(2.9)**		(4.4)	
Trade and other payables	23	**(4.3)**		(1.2)	
Provisions	25	**(4.9)**		(2.4)	
Deferred tax	26	**(52.7)**		(59.0)	
Preference shares	27	**(0.1)**		(0.1)	
Retirement benefit obligations	34	**(27.0)**		(25.2)	
Derivative financial instruments	24	**(2.5)**		(4.4)	
			(356.5)		(358.8)
Total liabilities			**(641.8)**		(668.8)
Net assets			**433.5**		475.4
Equity					
Share capital	27		**2.0**		2.0
Share premium account			**230.7**		230.6
Special capital reserve			**12.9**		12.9
Revaluation reserve			**1.3**		1.4
Translation reserve			**(39.6)**		(19.5)
Retained earnings			**235.8**		254.6
			443.1		482.0
Own shares	29		**(9.6)**		(6.6)
Equity attributable to equity holders of the parent			**433.5**		475.4
Total equity			**433.5**		475.4

* The restatement above relates to the finalisation of the fair value of acquired assets from prior year acquisitions (see note 32)

These financial statements of Chemring Group PLC (registered number 86662) were approved and authorised for issue by the Board of Directors on 24 January 2013.
Signed on behalf of the Board

M Papworth Director S Bowers Director

Consolidated cash flow statement

for the year ended 31 October 2012

	Note	2012 £m	2011 £m
Cash flows from operating activities			
Cash generated from continuing underlying operations		**114.9**	118.6
Cash generated from discontinued underlying operations		**3.3**	6.0
Cash generated from underlying operations	A	**118.2**	124.6
Acquisition and disposal related costs	32	**(5.5)**	(6.6)
Restructuring and incident costs	5	**(10.1)**	(6.7)
Cash generated from operations		**102.6**	111.3
Tax paid		**(6.1)**	(17.2)
Net cash inflow from operating activities		**96.5**	94.1
Cash flows from investing activities			
Dividends received from associate		**0.1**	0.1
Purchases of intangible assets		**(11.0)**	(12.9)
Purchases of property, plant and equipment		**(30.1)**	(44.1)
Proceeds on disposal of property, plant and equipment		**-**	0.4
Receipts from sales of trades or businesses (net of cash transferred)	33	**21.8**	-
Acquisition of subsidiary undertakings (net of overdraft assumed)		**-**	(58.0)
Net cash outflow from investing activities		**(19.2)**	(114.5)
Cash flows from financing activities			
Dividends paid	11	**(31.1)**	(22.7)
Interest paid		**(23.8)**	(22.5)
Proceeds on issue of shares		**-**	110.4
New borrowings		**12.5**	107.2
Capitalised facility fees		**-**	(4.8)
Repayments of borrowings		**(23.0)**	(112.6)
Proceeds from new finance leases		**-**	3.4
Repayments of finance leases		**(1.8)**	(2.6)
Purchase of own shares	29	**(4.8)**	(1.5)
Net cash (outflow)/inflow from financing activities		**(72.0)**	54.3
Increase in cash and cash equivalents during the year		**5.3**	33.9
Cash and cash equivalents at start of the year		**91.9**	58.4
Effect of foreign exchange rate changes		**(1.2)**	(0.4)
Cash and cash equivalents at end of the year	20,24	**96.0**	91.9

Notes to the consolidated cash flow statement

for the year ended 31 October 2012

A. Cash generated from operations

	Note	2012 £m	2012 £m
Operating profit from continuing operations	5	**37.0**	101.0
Operating profit from discontinued operations	33	**3.1**	6.0
		40.1	107.0
Adjustment for:			
Impairment of goodwill	13	**22.5**	-
Amortisation of development costs	14	**4.3**	2.4
Amortisation of intangible assets arising from business combinations	14	**20.9**	24.3
Amortisation of patents and licences	14	**0.3**	0.2
Loss on disposal of property, plant and equipment		**3.4**	0.5
Depreciation of property, plant and equipment	15	**15.9**	17.2
Gain on fair value movements on derivatives	5	**(1.9)**	(2.4)
Share-based payment (credit)/expense		**(0.1)**	0.2
Difference between pension contributions paid and amount recognised in income statement		**0.6**	(0.4)
Increase/(decrease) in provisions		**2.8**	(0.1)
Operating cash flows before movements in working capital		**108.8**	148.9
Decrease/(increase) in inventories		**28.0**	(1.2)
Increase in trade and other receivables		**(8.2)**	(22.5)
Decrease in trade and other payables		**(20.2)**	(13.5)
		108.4	111.7
Add back non-underlying items:			
Acquisition and disposal related costs	5	**8.2**	5.7
Restructuring and incident costs	5	**11.9**	7.2
Profit on disposal of business		**(10.3)**	-
Cash generated from underlying operations		**118.2**	124.6

B. Reconciliation of net cash flow to movement in net debt

Increase in cash and cash equivalents during the year	**5.3**	33.9
Decrease in debt and lease financing due to cash flows	**12.3**	9.4
Change in net debt resulting from cash flows	**17.6**	43.3
Foreign exchange differences	**1.9**	3.0
Amortisation of debt finance costs	**(1.6)**	(1.5)
Movement in net debt in the year	**17.9**	44.8
Net debt at start of the year	**(262.7)**	(307.5)
Net debt at end of the year	**(244.8)**	(262.7)

C. Analysis of net debt

	As at 1 Nov 2011 £m	Cash flow £m	Non-cash changes £m	Exchange movement £m	As at 31 Oct 2012 £m
Cash at bank and in hand	91.9	5.3	-	(1.2)	**96.0**
Debt due within one year	(86.0)	10.5	(2.2)	3.7	**(74.0)**
Debt due after one year	(262.1)	-	0.6	(0.6)	**(262.1)**
Finance leases	(6.4)	1.8	-	-	**(4.6)**
Preference shares	(0.1)	-	-	-	**(0.1)**
	(262.7)	17.6	(1.6)	1.9	**(244.8)**

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 30 to 32. 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 and rounded to the nearest £0.1 million. 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 and the Company have 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 52.

2. Adoption of new and revised standards

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements:

- Amendments to IAS 1 *Presentation of Financial Statements (amended June 2011)*

The Group has applied the amendments titled *Presentation of Items of Other Comprehensive Income* to IAS 1 in advance of the effective date (annual periods beginning on or after 1 July 2012). The amendment increases the required level of disclosure within the statement of comprehensive income.

The impact of this amendment has been to analyse items within the statement of comprehensive income between items that will not be reclassified subsequently to the income statement and items that will be reclassified subsequently to the income statement in accordance with the respective IFRS to which the item relates. The amendments have been applied retrospectively, and hence the presentation of items in the consolidated statement of comprehensive income has been restated to reflect the change. Other than the above mentioned presentation changes, the applications of IAS 1 do not result in any impact on profit or loss, comprehensive income and total comprehensive income.

The following IFRIC interpretations, amendments to existing standards and new standards have been adopted in the current year but have not impacted the reported results or the financial position:

- Amendments to IFRS 7 *Financial Instruments: Disclosures*
- Amendments to IAS 12 *Income Taxes*

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 European Union):

- IAS19 *Employee Benefits (revised June 2011)*
- IFRS 1 (amended) *Government Loans*
- IFRS 7 (amended) *Disclosures – Offsetting Financial Assets and Liabilities*
- Annual Improvements to IFRSs (2009-2011) Cycle
- IFRS 9 *Financial Instruments*
- IFRS 10, IFRS 12 and IAS 27 (amended) *Investment Entities*
- IFRS 11 *Joint Arrangements*
- IFRS 12 *Disclosure of Interests in Other Entities*
- IFRS 13 *Fair Value Measurement*
- IAS 27 (Revised) *Separate Financial Statements*
- IAS 28 (Revised) *Investments in Associates and Joint Ventures*
- IAS 32 (amended) *Offsetting Financial Assets and Financial Liabilities*
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

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

- IFRS 7 (amended) *Disclosures – Offsetting Financial Assets and Liabilities* will increase the disclosure requirements where netting procedures are in place for financial assets and financial liabilities.
- IFRS 9 *Financial Instruments* – This will introduce a number of changes in the presentation of financial instruments.
- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 (Revised) *Separate Financial Statements* and IAS 28 (Revised) *Investments in Associates and Joint Ventures* – These will restrict the presentation options of the results of joint ventures, which the Group expects to enter into, in the financial statements.
- IAS 19 *Employee Benefits* (Revised) – This will impact the measurement of the various components representing movements in the defined benefit pension obligation and associated disclosures, but not the Group's total obligation.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

3. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with IFRS adopted for use in the European Union. These will be those IAS, IFRS and related Interpretations (Standing Interpretations Committee (SIC)/International Financial Reporting Interpretations Committee (IFRIC) interpretations), subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board (IASB) that have been endorsed by the European Commission (collectively referred to as IFRS). These are subject to ongoing review and endorsement by the European Commission or possible amendment by interpretive guidance from the IASB and the IFRIC, and are therefore still subject to change.

Basis of accounting

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

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

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

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

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

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other revenue related taxes.

Sale of goods
Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and reward of ownership, typically on formal acceptance;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services
Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

Long term contracts
When the outcome of a long term contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion at the balance sheet date. This is normally measured by the proportion of contract costs incurred for work performed to date against the estimated total contract costs, except where this would not be representative of the actual stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amounts can be measured reliably and their receipt is considered probable.

When the outcome of a long term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Investment income
Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. 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 that asset's net carrying amount on initial recognition.

Acquisitions
On acquisition of a subsidiary, the cost is measured as the fair value of the consideration. The assets, liabilities and contingent liabilities of subsidiary undertakings that meet the IFRS 3 (revised 2008) *Business Combinations* recognition criteria are measured at the fair value at the date of acquisition, except that:

- deferred tax assets or liabilities and liabilities or assets relating to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 *Share-based Payment*; and
- assets (or disposal groups) that are classified as held for sale, in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

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 subsidiary undertakings are changed where necessary to be consistent with those of the Group.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year.

In accordance with IFRS 3 (revised 2008) *Business Combinations*, acquisition costs have been expensed through the income statement. Acquisition and disposal related costs refer to external costs incurred in acquiring and disposing of companies, together with the costs of aborted bids and the establishment of joint ventures.

Intangible assets
Goodwill
The purchased goodwill of the Group is regarded as having an indefinite useful economic life and, in accordance with IAS 36 *Impairment of Assets*, is not amortised but is subject to annual tests for impairment. On disposal of a subsidiary, associate or jointly

Notes to the group financial statements

3. Accounting policies continued

controlled entity, the amount attributable to goodwill is included in the determination of the profit or loss on disposal.

Acquired intangibles
For acquisitions after 1 November 2004, the Group recognises separately from goodwill intangible assets that are separable or arise from contractual or other legal rights and whose fair value can be measured reliably. These intangible assets are amortised 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:

Technology	- average of 10 years
Customer relationships	- average of 10 years
Order books	- average of 2 years

Development costs
Development costs that qualify as intangible assets are capitalised as incurred and, once the relevant intangible asset is ready for use, are amortised on a straight-line basis over its estimated useful life, averaging three years (2011: three years).

Patents and licences
Patents and licences are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives, averaging ten years (2011: ten years).

Property, plant and equipment
Other than historically revalued land and buildings, property, plant and equipment are held at cost less accumulated depreciation and any recognised impairment loss. Borrowing costs on significant capital expenditure projects 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	- up to 10 years

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

Impairment of non-current assets
Assets that have indefinite lives are allocated to the Group's cash generating units and tested for impairment at least 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. Once the assets are ready for their intended use, these capitalised borrowing costs are depreciated in line with the underlying asset.

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 the income statement in the period in which they are incurred.

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

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

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

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

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

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxed levied by the same tax authority, and the Group intends to settle its current tax assets and liabilities on a net basis.

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 re-translated 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 re-translated.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are included in the income statement 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.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Financial instruments

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

Financial assets

Trade receivables

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

Cash and cash equivalents

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

Financial liabilities and equity instruments

Financial liabilities

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

Bank borrowings

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

Trade payables

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

Derivative financial instruments and hedge accounting

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

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

Hedge accounting principles are used for foreign currency forward contracts and interest rate swaps where appropriate, with movements in fair value taken to equity for cash flow hedges and the income statement for fair value hedges, 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 third party valuers.

Notes to the group financial statements

3. Accounting policies continued

Where derivatives do not meet the criteria for hedge accounting, the changes in fair value are immediately recognised in the income statement.

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

Embedded derivatives
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 income statement and presented in the statement of comprehensive income.

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

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

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

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

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

For grants made under the Group's share-based compensation schemes, the fair value of an award is measured at the date of grant and reflects any market-based vesting conditions. Non market-based vesting conditions are excluded from the fair value of the award. At the date of grant, the Company estimates the number of awards expected to vest as a result of non market-based vesting conditions, and the fair value of this estimated number of awards is recognised as an expense in the profit and loss account on a straight-line basis over the vesting period. 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.

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

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

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

Assessment of long term contractual arrangements
The Group has long term contracts that fall into different accounting periods. In assessing the allocation of revenues and costs to individual accounting periods, and the consequential assets and liabilities, the Group estimates the total revenues and costs forecast to arise in respect of the contract and the stage of completion based on an appropriate measure of performance as described under the revenue recognition policy on page 61. The Group utilises assumptions and projections, principally relating to future material, labour and overhead costs. As a consequence, there is a risk that total contract costs will exceed those originally estimated and the margin will decrease. Changes to initial assumptions, which are reviewed on a regular basis, may result in revisions to estimated costs and anticipated margins. These are recognised in the period in which the estimated costs are determined. The determination of appropriate accounting policies for recognising revenue and costs in respect of these contracts requires judgement, in particular (i) whether contract accounting is the most appropriate method of recognising revenue on these contracts; and (ii) the appropriate measure of stage of completion of the contract.

Goodwill impairment review
Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the entity to determine such assets, to estimate the future cash flows expected to arise from the cash-generating unit, and to determine a suitable discount rate in order to calculate present value (see note 13). In reviewing the carrying value of goodwill of the Group's various businesses, the Board has considered the separate plans and cash flows of these businesses consistent with the requirements of IAS 36 *Impairment of Assets* and is satisfied that these demonstrate

that no impairment has occurred in respect of continuing operations. The plans and cash flows of these businesses have factored in the possible impacts of the US 'fiscal cliff' and the more difficult economic conditions for the defence industry in general.

Tax
The largest category of deferred tax asset which contains significant estimation uncertainty and which requires management judgement in assessing its recoverability relates to tax losses carried forward (see note 26 for further details).

Applicable accounting standards permit the recognition of deferred tax assets only to the extent that it is probable that future taxable profits will be available to utilise the tax losses carried forward. The assessment of future taxable profits involves significant estimation uncertainty, principally relating to an assessment of management's projections of future taxable income based on business plans and ongoing tax planning strategies. These projections include assumptions about the future strategy of the Group, the economic and regulatory environment in which the Group operates, future tax legislation, and customer behaviour, amongst other variables (see note 26 for details of tax losses on which deferred tax assets have not been recognised).

Assets and liabilities acquired under business combinations
Under IFRS 3 (revised 2008) *Business Combinations*, it is necessary to separately identify and value any acquired intangible assets. In order to ascertain the values of the separate assets, it is necessary for management to estimate the future cash flows attributable to the assets and estimate their useful economic lives (see note 14). Assets and liabilities are recognised on acquisition when relevant, which include deferred tax assets on losses (see note 26).

Pensions
The liability recognised in relation to retirement benefit obligations is dependent on a number of assumptions, including discount rate, mortality rate, salary increases and inflation. Any change in these assumptions would change the amount recognised (see note 34).

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

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.

Environmental provisions
Where the Group is liable for decontamination work or the restoration of sites to their original condition, the directors make their best estimate of the costs needed to complete these works, discounted back to present values where appropriate, relying upon independent expert third party valuers where appropriate.

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

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

Notes to the group financial statements

4. Revenue

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

Revenue by destination	Total 2012 £m	Total 2011 £m
Continuing operations:		
UK	**112.0**	128.3
USA	**348.5**	318.0
Europe	**84.8**	71.1
Australia and Far East	**60.4**	44.7
Middle East	**120.5**	138.2
Rest of the world	**14.1**	23.8
	740.3	724.1
Discontinued operations:		
UK	**1.0**	1.1
USA	**2.5**	2.1
Europe	**6.7**	9.0
Australia and Far East	**3.4**	6.1
Middle East	**-**	0.9
Rest of the world	**1.5**	2.0
	15.1	21.2
Total	**755.4**	745.3

Revenue from long term contract accounting in the above figures amounted to £275.8 million (2011: £133.9 million). The increase since 2011 reflects the first full year of results for Chemring Detection Systems, as well as growth in the business of Mecar.

In addition to the revenues shown above, there was finance income of £0.1 million (2011: £0.1 million).

The directors consider the only countries that are significant in accordance with IFRS 8 *Operating Segments* are the USA and the UK, as disclosed above, and Saudi Arabia, which is included within the Middle East category and which had revenue of £92.8 million (2011: £104.1 million).

5. Business segments

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive and the Board of Directors to allocate resources to the segments and to assess their performance. For management purposes the Group has four operating divisions – Counter-IED, Countermeasures, Pyrotechnics and Munitions. These divisions are the basis on which it reports its segmental information and the principal activities are as follows:

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

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

Business segments	2012 £m	2011 £m
Revenue		
Counter-IED	**205.3**	167.6
Countermeasures	**184.1**	200.8
Pyrotechnics	**123.0**	118.7
Munitions	**227.9**	237.0
Revenue from continuing operations	**740.3**	724.1
Revenue from discontinued operations		
Pyrotechnics	**15.1**	21.2
Total revenue	**755.4**	745.3

Operating profit	2012 £m	2011 £m
Counter-IED	**43.9**	31.9
Countermeasures	**18.3**	46.7
Pyrotechnics	**12.3**	26.4
Munitions	**24.3**	40.8
Unallocated corporate costs	**(10.5)**	(10.0)
Underlying operating profit from continuing operations	**88.3**	135.8
Underlying operating profit from discontinued operations		
Pyrotechnics	**3.1**	6.0
Total underlying operating profit	**91.4**	141.8
Acquisition and disposal related costs (see note 32)	**(8.2)**	(5.7)
Restructuring and incident costs	**(11.9)**	(7.2)
Profit on disposal of business (see note 33)	**10.3**	-
Impairment of goodwill (see note 13)	**(22.5)**	-
Intangible amortisation arising from business combinations (see note 14)	**(20.9)**	(24.3)
Gain on fair value movements on derivatives (see note 24)	**1.9**	2.4
Non-underlying items (see note 6)	**(51.3)**	(34.8)
Operating profit from continuing operations (see note 6)	**37.0**	101.0
Share of post-tax results of associate	**0.1**	0.1
Finance income	**0.1**	0.1
Finance expense	**(18.4)**	(15.8)
Profit before tax from continuing operations	**18.8**	85.4
Tax	**(5.6)**	(15.4)
Profit after tax from continuing operations	**13.2**	70.0
Profit after tax from discontinued operations	**2.1**	3.9
Profit after tax for the year	**15.3**	73.9

Notes to the group financial statements

5. Business segments continued

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment, without allocation of corporate costs including directors' salaries, exceptional items, the share of profit of associates, finance income and expense, and income tax expense. This is the measure reported to the Group Chief Executive for the purpose of resource allocation and assessment of segment performance.

Unallocated corporate costs

Unallocated corporate costs were £10.5 million, slightly up on 2011, due largely to the costs associated with the Group's London office, which has been vacated since the year end.

Intra-group transactions

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

Restructuring and incident costs

In 2012, the restructuring costs related to the closure of the Group's Marshall, Texas site (£3.3 million), the restructuring of the Group's US countermeasures businesses (£2.5 million), the restructuring of the Group's UK operations (£2.6 million), and an additional £1.5 million relating to several smaller restructuring projects. There were also a number of Board changes during the year, resulting in associated costs of £2.0 million. Further details of the compensation for loss of office payments of £1.1 million and deferred share awards worth £0.3 million received by two of the former executive directors are set out in the directors' remuneration report. The balance of the costs relate to recruitment, and various other legal and professional fees. There is a £1.8 million difference between the expense in the income statement and the amount appearing in the cash flow statement which relates to timing differences and non-cash movements.

Information about major customers

Included in revenues arising from the segments are revenues of approximately £289.6 million (2011: £246.6 million) and £89.7 million (2011: £103.6 million), which arose from sales to the Group's two largest customers respectively. The largest customer had sales reported in all four of the Group's reporting segments, whilst sales to the second largest customer were primarily from the Munitions segment. These were the only individual customers where direct sales account for more than 10% of the total Group revenue for the year.

The Group does not disclose assets or liabilities by segment in the monthly management accounts provided to the Executive Committee or the Board of Directors. The *Improvements to IFRSs* issued in April 2009 only requires information provided to the chief operating decision maker as a key decision making tool to be disclosed. The Group has adopted this amendment in order to clarify that the chief operational decision makers do not use this as a key decision tool. IFRS 8 *Operating Segments* requires a geographic analysis of non-current assets, and a disclosure of non-current assets by location is therefore shown below.

Non-current assets by location	2012 £m	2011 £m
UK	**219.7**	221.1
USA	**283.6**	314.8
Europe	**138.7**	150.3
Australia and Far East	**29.6**	26.6
	671.6	712.8

6. Operating profit

The following table shows a reconciliation of cost by function:

	2012 £m	2011 £m
Revenue from continuing operations	**740.3**	724.1
Cost of sales	**(552.5)**	(510.5)
Administrative expenses	**(99.5)**	(77.8)
Acquisition and disposal related costs (see note 32)	**(8.2)**	(5.7)
Business restructuring and incident costs	**(11.9)**	(7.2)
Profit on disposal of business (see note 33)	**10.3**	-
Impairment of goodwill (see note 13)	**(22.5)**	-
Intangible amortisation arising from business combinations (see note 14)	**(20.9)**	(24.3)
Gain on fair value movements on derivatives (see note 24)	**1.9**	2.4
Non-underlying items	**(51.3)**	(34.8)
Operating profit from continuing operations	**37.0**	101.0

Operating profit is stated after charging/(crediting):

		2012 £m	2011 £m
Research and development costs	– customer-funded	**34.4**	38.4
	– internally-funded	**12.3**	8.8
Amortisation	– arising from business combinations	**20.9**	24.3
	– development costs	**4.3**	2.4
	– patents and licences	**0.3**	0.2
Depreciation	– property, plant and equipment	**15.8**	16.9
	– leased assets	**0.1**	0.3
Loss on disposal of property, plant and equipment		**3.4**	0.5
Operating lease rentals	– plant and machinery	**1.1**	1.5
	– other	**0.8**	1.0
Government grant		**-**	(0.1)
Foreign exchange losses		**4.1**	0.3
Staff costs (see note 7)		**189.8**	179.3
Cost of inventories recognised as an expense		**364.8**	341.7
Acquisition and disposal related costs		**8.2**	5.7
Restructuring and incident costs		**11.9**	7.2
Profit on disposal of business (see note 33)		**(10.3)**	-
Impairment of goodwill		**22.5**	-
Auditors' remuneration (see below)		**1.2**	1.3

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

Auditors' remuneration:	2012 £m	2011 £m
Fees payable to the Company's auditor and its associates for:		
The audit of the Company's annual accounts	**0.4**	0.4
The audit of the Company's subsidiaries, pursuant to legislation	**0.4**	0.4
	0.8	0.8
Other services:		
Audit-related assurance services	**0.1**	0.1
Tax services – compliance	**0.1**	0.1
Tax services – advisory	**0.2**	0.2
Corporate finance services	**-**	0.1
	0.4	0.5
	1.2	1.3

Included in the Group audit fees is £0.1 million (2011: £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 50, and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors. No services were provided pursuant to contingent fee arrangements.

During the year the Group incurred professional fees with other accountancy firms for the provision of corporate finance services of £1.0 million (2011: £0.4 million).

Notes to the group financial statements

7. Staff costs

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

	2012 Number	2011 Number
Production	**3,332**	3,445
Administration, sales and marketing	**883**	847
	4,215	4,292

At the year end the number of employees was 4,193 (2011: 4,679).

The costs incurred in respect of these employees (including share-based payments) were:

	2012 £m	2011 £m
Wages and salaries	**160.3**	150.9
Social security costs	**21.9**	20.6
Other pension costs	**7.6**	7.8
	189.8	179.3

There has been an increase in wages and salaries expense since 2011, despite a slight fall in average staff numbers. This is largely due to the acquisition of Chemring Detection Systems part way through the prior year. This company has higher than average staff costs compared to the Group as a whole, increasing average wages and salaries accordingly for the second half of 2011 and all of 2012.

8. Finance income

	2012 £m	2011 £m
Bank interest	**0.1**	0.1

9. Finance expense

	2012 £m	2011 £m
Bank overdraft and loan interest	**4.0**	1.6
Loan notes interest	**15.1**	15.5
Medium term loan interest	**1.0**	0.5
Finance lease interest	**0.3**	0.4
Amortisation of debt finance costs	**1.6**	1.5
Unwinding of discount on provisions (see note 25)	**0.2**	0.3
Interest cost of retirement benefit obligations (see note 34)	**0.8**	0.7
Capitalised interest on qualifying assets (see note 15)	**(4.6)**	(4.7)
	18.4	15.8

Borrowing costs included in the cost of qualifying assets during the year are calculated by applying a capitalisation rate of 7% (2011: 7%) to expenditure on such assets.

10. Tax

	2012 £m	2011 £m
Current tax charge	**(5.7)**	(12.5)
Deferred tax credit/(charge) (see note 26)	**0.1**	(2.9)
Current year tax charge for continuing operations	**(5.6)**	(15.4)

The tax charge relating to discontinued operations amounted to £0.5 million (2011: £1.5 million).

Income tax in the UK is calculated at 24.9% (2011: 26.8%) 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:

	2012 £m	2011 £m
Profit before tax for the year for continuing operations	**18.8**	85.4
Tax at the UK corporation tax rate of 24.9% (2011: 26.8%)	**(4.7)**	(22.9)
(Expenses not deductable)/income not chargeable for tax purposes	**(2.5)**	1.0
Changes in tax rates	**2.1**	2.1
Research and development tax relief	**1.3**	1.2
Utilisation and recognition of tax losses	**(3.0)**	5.1
Non-taxable disposal of subsidiaries	**5.2**	-
Prior period adjustment	**3.5**	-
Overseas profits taxed at rates different to the UK standard rate	**(7.5)**	(1.9)
Total current year tax charge for continuing operations	**(5.6)**	(15.4)

In addition to the income tax expense charged to the income statement, a tax credit of £1.4 million (2011: tax credit of £1.4 million) has been recognised in equity in the year.

The effective rate of tax incurred by the Group is 28.4% (2011: 18.6%), and the underlying* effective rate of tax incurred by the Group is 21.5% (2011: 22.9%). The increase in the statutory effective rate since 2011 is a result of the tax treatment of exceptional items and goodwill amortisation.

* Before acquisition and disposal related costs, business restructuring and incident costs, profit on disposal of business, impairment of goodwill, intangible amortisation arising from business combinations and gain on fair value movements on derivatives

11. Dividends

	2012 £m	2011 £m
Dividends on ordinary shares of 1p each		
Final dividend for the year ended 31 October 2011 10.8p (2010: 8.4p)	**20.8**	14.9
Interim dividend for the year ended 31 October 2012 5.3p (2011:4.0p)	**10.3**	7.8
Total dividends	**31.1**	22.7

The proposed final dividend in respect of the year ended 31 October 2012 of 4.2p per share will, if approved, absorb approximately £8.1 million of shareholders' funds. The dividend is subject to approval by shareholders at the Annual General Meeting and accordingly has not been included as a liability in these financial statements.

Notes to the group financial statements

12. Earnings per share

Earnings per share are based on the average number of shares in issue of 193,309,230 (2011: 185,633,996) and profit on continuing ordinary activities after tax of £13.2 million (2011: £70.0 million). Diluted earnings per share has been calculated using a diluted average number of shares in issue of 195,792,140 (2011: 187,636,114) and profit on continuing ordinary activities after tax of £13.2 million (2011: £70.0 million).

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

From continuing operations

	2012 Basic £m	2012 Diluted £m	2011 Basic £m	2011 Diluted £m
Total profit after tax	**13.2**	**13.2**	70.0	70.0
Non-underlying items (see reconciliation below)	**41.8**	**41.8**	22.9	22.9
Underlying profit after tax	**55.0**	**55.0**	92.9	92.9

	2012 Ordinary shares Number 000s	2012 Ordinary shares Number 000s	2011 Ordinary shares Number 000s	2011 Ordinary shares Number 000s
Weighted average number of shares	**193,309**	**193,309**	185,634	185,634
Additional shares issuable other than at fair value in respect of options outstanding	**-**	**2,483**	-	2,002
Weighted average number of shares used for earnings per share	**193,309**	**195,792**	185,634	187,636

	2012 Basic Pence	2012 Diluted Pence	2011 Basic Pence	2011 Diluted Pence
Earnings per share	**6.8**	**6.7**	37.7	37.3
Underlying earnings per share	**28.5**	**28.1**	50.0	49.5

From continuing and discontinued operations

	2012 Basic £m	2012 Diluted £m	2011 Basic £m	2011 Diluted £m
Total profit after tax	**15.3**	**15.3**	73.9	73.9
Non-underlying items (see reconciliation below)	**41.8**	**41.8**	22.9	22.9
Underlying profit after tax	**57.1**	**57.1**	96.8	96.8

	2012 Ordinary shares Number 000s	2012 Ordinary shares Number 000s	2011 Ordinary shares Number 000s	2011 Ordinary shares Number 000s
Weighted average number of shares	**193,309**	**193,309**	185,634	185,634
Additional shares issuable other than at fair value in respect of options outstanding	**-**	**2,483**	-	2,002
Weighted average number of shares used for earnings per share	**193,309**	**195,792**	185,634	187,636

	2012 Basic Pence	2012 Diluted Pence	2011 Basic Pence	2011 Diluted Pence
Earnings per share	**7.9**	**7.8**	39.8	39.4
Underlying earnings per share	**29.6**	**29.2**	52.1	51.6

Discontinued operations contributed earnings per share of 1.1p (2011: 2.1p). There is no difference between basic and diluted earnings per share for discontinued operations.

The number of shares in issue differs from the number held by third parties due to the fact that the Company holds its own shares in treasury. Further information on the treasury shares holding is given in note 29.

Reconciliation from basic earnings to underlying earnings:

Underlying basic earnings are defined as earnings before acquisition and disposal related costs, restructuring and incident costs, profit on disposal of business, impairment of goodwill, intangible amortisation arising from business combinations and gain on fair value movements on derivatives, net of related tax. The directors consider this measure of earnings allows a more meaningful comparison of earnings trends. These are set out below:

	2012 £m	2011 £m
Profit after tax	**15.3**	73.9
Acquisition and disposal related costs	**8.2**	5.7
Restructuring and incident costs	**11.9**	7.2
Profit on disposal of business	**(10.3)**	-
Impairment of goodwill	**22.5**	-
Intangible amortisation arising from business combinations	**20.9**	24.3
Gain on fair value movements on derivatives	**(1.9)**	(2.4)
Tax on non-underlying items	**(9.5)**	(11.9)
Underlying profit after tax	**57.1**	96.8

13. Goodwill

	£m
Cost	
At 1 November 2010	231.0
Recognised on acquisition of subsidiary undertakings as restated*	13.8
Foreign exchange adjustments	(1.1)
At 31 October 2011*	243.7
At 1 November 2011	243.7
De-recognised on disposal of subsidiary undertakings (see note 33)	(3.7)
Foreign exchange adjustments	(2.7)
At 31 October 2012	237.3
Accumulated impairment losses	
At 1 November 2010 and 1 November 2011	-
Impairment of goodwill	(22.5)
At 31 October 2012	(22.5)
Carrying amount	
At 31 October 2012	**214.8**
At 31 October 2011	243.7

Additions to goodwill since 1 November 2010 are as follows:

	£m
Chemring Detection Systems, Inc.	13.8
At 31 October 2011 and 31 October 2012	**13.8**

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of the goodwill has been allocated to the Group's principal CGUs. An analysis of the pre-tax discount rates used and the goodwill balance (after foreign exchange) as at 31 October 2012 by principal CGU is shown below:

Notes to the group financial statements

13. Goodwill continued

	2012 %	2011 %	2012 £m	2011 £m
Hi-Shear Technology Corporation	**14.5**	11.6	**49.0**	48.9
Simmel Difesa S.p.A.	**13.8**	13.7	**44.9**	48.2
Roke Manor Research Limited	**14.0**	2.9	**28.3**	28.3
Chemring Energetics UK Limited	**12.8**	11.7	**18.1**	18.1
Non-Intrusive Inspection Technology, Inc.	**15.7**	11.6	**15.5**	15.4
Chemring Detection Systems, Inc.*	**16.0**	11.6	**13.7**	13.7
Chemring Energetic Devices, Inc.	**11.9**	11.6	**12.9**	28.6
Chemring Ordnance, Inc.	**14.9**	11.8	**-**	6.8
Other			**32.4**	35.7
Total goodwill			**214.8**	243.7

* See note 32

The pre-tax discount rate for Roke Manor Research Limited is significantly higher than the previous year due to the forthcoming change in the presentation of the UK tax treatment of research and development tax credits, and so brings the rate more in line with the other CGUs.

The Group tests goodwill at least 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 are those regarding the discount rates, the growth rates and expected changes to cash flows during the period for which management have detailed plans. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU.

Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital of 7.8% (2011: 9.4%), and adjusted for a premium specific to each CGU to account for differences in currency risk, country risk and other factors affecting specific CGUs, have been used to discount projected cash flows. Premiums range from 1% to 4%.

The calculation has used the Group's forecast figures for the next five years. At the end of five years, it assumes the performance of the Group companies will grow at a nominal annual rate of 0.5% in perpetuity thereafter. The growth rates are based on management's view of industry growth forecasts. Having considered the actual or potential budget cuts in the US and UK, management have revised down forecast growth rates for these markets. 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, impairment losses have been recognised in relation to Chemring Ordnance, Inc. and Chemring Energetic Devices, Inc. at the year end totalling £22.5 million (2011: £nil). The impairment losses recognised in the consolidated income statement, as part of non-underlying items within continuing operating profit, in respect of goodwill are as follows:

	2012 £m	2011 £m
Chemring Ordnance, Inc.	**6.8**	-
Chemring Energetic Devices, Inc.	**15.7**	-
	22.5	-

The impairment losses were based on value-in-use calculations and relate only to goodwill. The impairment charge relates to businesses operating within the Munitions and Pyrotechnics segments, but it is not possible to allocate the impairment charge by segment.

The impairment charges were primarily driven by business valuations that were negatively impacted by lower cash flows within business plans, reflecting the challenging economic conditions facing the defence industry within the US.

There is significant headroom within the remaining value-in-use calculations. Additionally, stress testing has indicated that, with the exception of Hi-Shear Technology Corporation, no reasonably possible change in the key assumptions used would result in a significant impairment charge being recorded in the financial statements.

A 25% fall in the forecast cashflows of the US CGUs and a 10% fall for all other CGUs was modelled. Hi-Shear Technology Corporation would require an impairment charge of up to £20 million in these circumstances, but no impairment would be required for any other CGU in this scenario.

A 2% addition to the discount rate for each CGU was also modelled, and under these circumstances Hi-Shear Technology Corporation would require an impairment charge of up to £12 million. The remaining CGUs would not require any impairment.

The long term growth rates beyond the end of the forecast five years were also set to zero, but this would not result in a significant impairment charge at any of the CGUs.

14. Other intangible assets

	Development costs £m	Acquired order book £m	Acquired technology £m	Acquired customer relationships £m	Patents and licences £m	Total £m
Cost						
At 1 November 2010	18.9	55.9	38.0	128.2	2.1	224.2
Additions*	12.4	-	-	-	0.2	0.2
Disposals	(1.0)	-	-	-	(0.6)	(0.6)
Transfers between categories	-	6.8	(4.1)	(2.7)	-	-
Recognised on acquisition of subsidiary undertakings	-	0.5	27.8	6.8	-	35.1
Foreign exchange adjustments	(0.1)	(0.4)	(0.4)	(0.8)	-	(1.6)
At 1 November 2011*	30.2	62.8	61.3	131.5	1.7	257.3
Additions	12.3	-	-	-	0.6	0.6
Disposals	(1.2)	-	-	-	-	-
Transfer between categories	(0.4)	-	-	-	0.4	0.4
Impairment	-	-	(0.8)	-	-	(0.8)
Foreign exchange adjustments	0.4	(2.1)	0.4	(2.7)	0.1	(4.3)
At 31 October 2012	41.3	60.7	60.9	128.8	2.8	253.2
Amortisation						
At 1 November 2010	5.6	20.7	5.0	15.1	1.4	42.2
Charge for the year	2.4	11.3	2.3	10.7	0.2	24.5
Disposals	(1.0)	-	-	-	(0.6)	(0.6)
Transfers between categories	-	2.5	(0.5)	(2.0)	-	-
Foreign exchange adjustments	(0.1)	(1.1)	1.1	(0.3)	-	(0.3)
At 1 November 2011	6.9	33.4	7.9	23.5	1.0	65.8
Charge for the year	4.3	4.6	5.3	11.0	0.3	21.2
Disposals	(0.8)	-	-	-	-	-
Foreign exchange adjustments	(0.1)	(1.4)	(0.2)	0.2	0.2	(1.2)
At 31 October 2012	10.3	36.6	13.0	34.7	1.5	85.8
Carrying amount						
At 31 October 2012	**31.0**	**24.1**	**47.9**	**94.1**	**1.3**	**167.4**
At 31 October 2011	23.3	29.4	53.4	108.0	0.7	191.5

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 arms length transaction between two knowledgeable and willing parties. Other intangible assets are recognised at cost and are amortised over their estimated useful lives (see note 3).

* See note 32

Notes to the group financial statements

15. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost or valuation			
At 1 November 2010	106.8	156.5	263.3
Additions	11.1	37.5	48.6
Acquired on acquisition of subsidiary undertakings	0.6	2.9	3.5
Disposals	(0.6)	(10.1)	(10.7)
Foreign exchange adjustments	0.5	(0.4)	0.1
At 1 November 2011	118.4	186.4	304.8
Additions	10.7	23.2	33.9
Disposals	(5.0)	(9.6)	(14.6)
Transfer between categories	1.3	(1.3)	-
Foreign exchange adjustments	(3.0)	(4.3)	(7.3)
At 31 October 2012	122.4	194.4	316.8
Accumulated depreciation			
At 1 November 2010	10.5	55.3	65.8
Charge for the year	3.2	14.0	17.2
Disposals	(0.4)	(8.5)	(8.9)
Foreign exchange adjustments	-	(0.4)	(0.4)
At 1 November 2011	13.3	60.4	73.7
Charge for the year	2.7	13.2	15.9
Disposals	(2.7)	(6.4)	(9.1)
Foreign exchange adjustments	(0.9)	(2.8)	(3.7)
At 31 October 2012	12.4	64.4	76.8
Carrying amount			
At 31 October 2012	**110.0**	**130.0**	**240.0**
At 31 October 2011	105.1	126.0	231.1

The carrying amount of the Group's plant and equipment includes an amount of £6.0 million (2011: £6.1 million) in respect of assets held under finance leases. £4.6 million (2011: £4.7 million) of interest has been capitalised (see note 9) in the year, bringing the cumulative capitalised cost to £11.9 million (2011: £7.3 million) since 1 November 2008. In the year, £0.1 million (2011: £0.1 million) has been charged as depreciation on completion of the relevant projects. This results in a net book value for capitalised interest of £11.7 million (2011: £7.2 million).

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

	2012 £m	2011 £m
30 September 1997 depreciated replacement cost	**5.8**	5.8
Freehold at cost	**116.6**	112.6
	122.4	118.4

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

	2012 £m	2011 £m
Cost	**120.4**	116.4
Accumulated depreciation	**(11.7)**	(12.7)
Historical cost value	**108.7**	103.7

All other tangible fixed assets are stated at historical cost.

The total amount of additions during 2012 (£33.9 million, as shown above) is different to the figure of £30.1 million shown in the cash flow statement, due to the application of IAS 23 *Borrowing Costs* and the timing of payments.

At 31 October 2012, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £6.9 million (2011: £14.6 million). The decline since 2011 is due to two major investment programmes for new countermeasures facilities at Salisbury, UK and Lara, Australia nearing completion. These two facilities accounted for £1.8 million of expenditure in 2012 (2011: £10.5 million).

16. Subsidiary undertakings

All subsidiary undertakings have been included in the consolidation. The undertakings held at 31 October 2012 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	Counter-IED/Pyrotechnics
Chemring EOD Ltd	England	100	Counter-IED
Chemring Prime Contracts Ltd	England	100	Munitions
Roke Manor Research Ltd	England	100	Counter-IED/Countermeasures
Chemring Energetics UK Ltd	Scotland	100	Counter-IED/Munitions/Pyrotechnics
Chemring Defence Germany GmbH	Germany	100	Counter-IED/Pyrotechnics
Alloy Surfaces Company, Inc.	USA	100	Countermeasures
Kilgore Flares Company LLC	USA	100	Countermeasures
Chemring Energetic Devices, Inc.	USA	100	Munitions/Pyrotechnics
Chemring Ordnance, Inc.	USA	100	Munitions/Pyrotechnics
Non-Intrusive Inspection Technology, Inc.	USA	100	Counter-IED
Hi-Shear Technology Corporation	USA	100	Pyrotechnics
Chemring Detection Systems, Inc.	USA	100	Counter-IED
Chemring Australia Pty Ltd	Australia	100	Counter-IED/Countermeasures/ Munitions/Pyrotechnics
Simmel Difesa S.p.A.	Italy	100	Counter-IED/Munitions/Pyrotechnics
Chemring Nobel AS	Norway	100	Munitions
Mecar S.A.	Belgium	100	Munitions
Associated undertaking			
CIRRA S.A.	France	49	Countermeasures

Notes to the group financial statements

17. Interest in associate

	2012 £m	2011 £m
Interest in associate	**1.4**	1.5

Amounts relating to associate:

	2012 £m	2011 £m
Non-current assets	**0.2**	0.5
Current assets	**1.3**	1.3
Current liabilities	**(0.5)**	(0.7)
Net assets	**1.0**	1.1
Group's share of net assets	**0.5**	0.6

	2012 £m	2011 £m
Total revenue	**1.8**	1.9
Profit after tax	**0.2**	0.2
Group's share of profit of associate	**0.1**	0.1

The results of the associated undertaking for the year ended 30 September 2012 relate to the Group's share of CIRRA S.A. CIRRA S.A.'s financial year ended on 30 September 2012 and there is no material difference between the results as reported and those that would be obtained were CIRRA S.A. to have a year ending on 31 October 2012.

18. Inventories

	2012 £m	2011 £m
Raw materials	**44.1**	49.1
Work in progress	**49.1**	70.8
Finished goods	**20.6**	26.9
	113.8	146.8

The decline in the value of inventories since 2011 is primarily due to the increased use of contract accounting and the corresponding increase in the value of contract receivable balances.

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

19. Trade and other receivables

	2012 £m	2011 £m
Current		
Trade receivables	**92.7**	110.4
Allowance for doubtful debts	**(1.8)**	(1.4)
	90.9	109.0
Contract receivables	**87.6**	55.1
Other debtors	**6.1**	13.4
Prepayments and accrued income	**8.4**	13.3
	193.0	190.8

All amounts shown above are due within one year.

The average credit period taken on sales of goods, based on a countback basis, is 25 days (2011: 29 days). No interest is charged on the receivables from the date of invoice to payment.

The Group's policy is to provide in full for debtors greater than 120 days beyond agreed terms, unless extenuating circumstances exist. Due to the nature of the customer base, the Group does not experience significant bad debt write-offs. The decrease in the year in trade receivables is due to a lower level of sales in the final month of the year compared to 2011. The reduction in the average credit period was due to the timing of invoicing and cash receipts at the end of the current financial year. An ageing analysis has not been shown, as all significant overdue receivables are covered by the allowance for doubtful debts provision above. The vast majority of the trade debtor balance was not yet due at the year end based on the average credit terms provided to customers.

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

20. Cash and cash equivalents

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

Included within cash is £4.5 million of restricted cash (2011: £0.4 million).

21. Borrowings

		2012 £m	2011 £m
Bank loans and overdrafts	– sterling denominated	**31.2**	35.6
	– euro denominated	**40.2**	45.9
	– US dollar denominated	**0.2**	-
Other loans due in less than one year	– euro denominated	**2.4**	4.5
Borrowings due within one year		**74.0**	86.0
UK medium term bank loans	– sterling denominated	**0.7**	1.0
Overseas medium term bank loans	– US dollar denominated	**0.2**	0.2
Other loans	– euro denominated	**-**	0.7
Loan notes	– sterling denominated	**12.5**	12.5
	– US dollar denominated	**248.7**	247.7
Borrowings due after more than one year		**262.1**	262.1
Finance leases		**4.6**	6.4
Preference shares		**0.1**	0.1
		340.8	354.6

Analysis of total borrowings by currency:

	2012 £m	2011 £m
Sterling	**49.1**	54.7
US dollar	**249.1**	248.8
Euro	**42.6**	51.1
Total	**340.8**	354.6

The weighted average interest rates paid were as follows:

		2012 %	2011 %
Bank overdrafts		**2.5**	4.6
UK medium term bank loans	– sterling denominated	**3.2**	4.6
	– euro denominated	**5.7**	5.0
	– other denominated	**-**	5.5
Overseas medium term bank loans	– US dollar denominated	**2.7**	4.2
Other loans	– euro denominated	**2.9**	5.0
Loan notes	– sterling denominated	**6.8**	6.8
	– US dollar denominated	**5.3 – 6.3**	5.3 – 6.3

Notes to the group financial statements

21. Borrowings continued

	Bank loans and overdrafts £m	Loan notes £m	Other loans* £m	2012 Total £m	Bank loans and overdrafts £m	Loan notes £m	Other loans* £m	2011 Total £m
Borrowings falling due within:								
One year	**71.6**	**-**	**4.1**	**75.7**	81.5	-	6.5	88.0
Borrowings falling due within:								
One to two years	**0.6**	**-**	**1.6**	**2.2**	0.5	-	2.6	3.1
Two to five years	**0.3**	**47.4**	**1.3**	**49.0**	0.7	-	2.5	3.2
After five years	**-**	**213.8**	**0.1**	**213.9**	-	260.2	0.1	260.3
	0.9	**261.2**	**3.0**	**265.1**	1.2	260.2	5.2	266.6
Total borrowings	**72.5**	**261.2**	**7.1**	**340.8**	82.7	260.2	11.7	354.6

* Includes finance leases and preference shares

In January 2011, the Group completed a refinancing of its bank facilities with a syndicate of five banks. The new Group facilities, which are unsecured, total £230 million. In addition, the term of the facilities was extended from April 2012 to April 2015, with an option to extend for twelve months. This revolving credit facility provides access to committed lending and bonding line support. None of the borrowings in the current or the prior year were secured.

Other loans represent loans held by certain Group companies to fund working capital.

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.

	2012 £m	2011 £m
Total undrawn borrowings	**143.9**	150.1

The Group is subject to two key financial covenants which are tested quarterly, relating to the ratio between underlying earnings before interest, tax, depreciation and amortisation ('underlying EBITDA') and debt ('debt ratio'), and the ratio between underlying EBITDA and finance costs ('interest cover'). The revolving credit facility and the loan note agreements have different covenant compliance calculations and have therefore been separated out below – the primary difference being that the revolving credit facility uses consolidated net debt in the calculation, whereas the loan note agreements require consolidated total debt to be used. The Group complied with both these covenants throughout the year, and the position at the year end is detailed below:

	2012	2011
Covenant ratio – revolving credit facility		
Maximum allowed ratio of net debt to underlying EBITDA	**3.0**	3.0
Actual ratio of net debt to underlying EBITDA	**2.1**	1.6
Minimum allowed ratio of underlying EBITDA to finance costs	**4.0**	4.0
Actual ratio of underlying EBITDA to finance costs	**6.7**	9.5
Covenant ratio – loan note agreements		
Maximum allowed ratio of consolidated total debt to underlying EBITDA	**3.0**	3.0
Actual ratio of consolidated total debt to underlying EBITDA	**2.8**	2.1
Minimum allowed ratio of underlying EBITDA to finance costs	**3.5**	3.5
Actual ratio of underlying EBITDA to finance costs	**6.9**	10.4

22. Obligations under finance leases

	Minimum lease payments 2012 £m	Minimum lease payments 2011 £m	Present value of minimum lease payments 2012 £m	Present value of minimum lease payments 2011 £m
Amounts payable under finance leases:				
Within one year	**1.9**	2.3	**1.7**	2.0
In the second to fifth years	**3.2**	4.7	**2.9**	4.4
Less future finance charges	**(0.5)**	(0.6)	**-**	-
Present value of lease obligations	**4.6**	6.4	**4.6**	6.4
Less amounts due within twelve months shown under current liabilities			**(1.7)**	(2.0)
Amount due for settlement after twelve months			**2.9**	4.4

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

	2012 £m	2011 £m
Current		
Trade payables	**100.2**	105.3
Other payables	**38.7**	33.5
Other tax and Social Security	**5.3**	4.0
Advance payments	**11.7**	48.7
Accruals and deferred income	**45.6**	20.9
	201.5	212.4
Non-current – Other payables	**4.3**	1.2

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. Advance payments are amounts received from customers on larger contracts to fund working capital. The directors consider that the carrying amount of payables approximates to their fair value.

The average credit period taken on purchases of goods is 40 days (2011: 49 days). No interest is charged on the payables from the date of invoice to payment.

24. Financial instruments and risk management

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

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

- Forward foreign exchange contracts and foreign exchange structures to manage the exchange risk arising from transactional foreign exchange exposures within the Group.
- Interest rate swaps to mitigate the risk of the movement in interest rates.

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 and structures. The measurement and control of this risk is closely monitored on a Group-wide basis.

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

Notes to the group financial statements

24. Financial instruments and risk management continued

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

	US$	Euro	NOK	2012 AUS$	US$	Euro	NOK	2011 AUS$
Monetary assets (million)	**104.4**	**80.0**	**53.3**	**2.6**	143.9	108.3	44.6	8.4
Monetary liabilities (million)	**484.6**	**128.1**	**30.2**	**5.4**	466.6	106.8	11.1	3.7

Foreign 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	2012 AUS$	US$	Euro	NOK	2011 AUS$
Borrowings (million)	**405.0**	**50.0**	**-**	**-**	405.0	53.1	-	-

The Group uses foreign exchange contracts to hedge its currency risk, most with a maturity of less than one year from the year end. The most significant exchange rates to manage, as far as the Group is concerned, are the US dollar and Euro exchange rates.

The following table details the forward foreign currency contracts for sales of foreign currencies outstanding as at 31 October:

	Average exchange rate		Expiring within one year	
	2012	2011	2012 £m	2011 £m
US dollar	**1.54**	1.56	**12.2**	48.5

At the year end, there were four US dollar structures in place which were set up to protect the income statement from currency fluctuations during 2012 and so provide an economic hedge. The structure involves a cap and a collar, which lock in the exchange rates to give the Group the appropriate protection against transactional flows. Hedge accounting was not adopted for this structure.

The principal amounts of the Group's Euro bank loans and loan notes have been accounted for as net investment hedges on the European 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.

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 10 cents movement in the relevant foreign currencies against sterling with regards to its monetary assets and liabilities. 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.

	+10 cents				- 10 cents			
	US dollar impact		Euro impact		US dollar impact		Euro impact	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Gain/(loss)	**15.8**	10.1	**2.9**	(0.6)	**(17.8)**	(11.4)	**(3.4)**	0.7
Other equity	**15.8**	10.1	**2.9**	(0.6)	**(17.8)**	(11.4)	**(3.4)**	0.7

The potential gains or losses arising from these movements in exchange rates would partly result in foreign exchange movements in the income statement and partly through movements directly through reserves.

The Group's sensitivity to foreign currency increased during the year, mainly due to the movements in working capital at the US and European subsidiaries.

Interest rate risk

The Group finances its operations through a mixture of retained profits, bank and loan note borrowings, and leasing lines of credit. The Group's policy is to be no more than 75% fixed interest on a gross debt level.

The UK borrowings are denominated in sterling, Euro and US dollar, and at the shorter end are subject to floating rates of interest. The Group has entered into a floating to fixed interest rate swap for €50 million of Euro borrowings at a weighted average rate of 3.84%.

The Group has outstanding fixed interest loan notes in the US, repayable in full in November 2016 ($80 million), November 2017 (£12.5 million and $125 million) and November 2019 ($200 million). This arrangement provides a natural hedge against the Group's investment structure in its US businesses. During the year, the Group entered into a fixed to floating interest rate swap for $80 million of US dollar loan notes at a weighted average rate of 4.24%. This ensured that the Group remained within its interest rate risk policy.

As the Group has predominantly fixed interest rate loans, a change in interest rates would not have an immediate significant impact on the income statement.

Liquidity risk

The table below details the maturity profiles of the Group's derivative financial instruments and loans (excluding finance leases, preference shares and capitalised facility fees) as at 31 October:

	2012				2011			
	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	**12.2**	**(12.8)**	**77.1**	**76.5**	48.5	(49.9)	90.1	88.7
One to two years	**11.5**	**(12.1)**	**0.6**	**-**	18.7	(19.5)	1.3	0.5
Two to five years	**9.9**	**(10.3)**	**49.9**	**49.5**	-	-	0.7	0.7
After five years	**-**	**-**	**214.2**	**214.2**	-	-	263.4	263.4
	33.6	**(35.2)**	**341.8**	**340.2**	67.2	(69.4)	355.5	353.3

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

Financial assets	2012 Total £m	2011 Total £m
Sterling	**62.9**	81.3
US dollar	**106.6**	69.7
Australian dollar	**4.9**	6.2
Euro	**111.0**	98.3
Other currencies	**5.6**	5.0
	291.0	260.5
Overdraft offset in the UK	**(15.5)**	(2.6)
Financial assets	**275.5**	257.9
Cash at bank and in hand	**96.0**	91.9
Trade receivables	**90.9**	109.0
Contract receivables	**87.6**	55.1
Financial instruments	**1.0**	1.9
	275.5	257.9

Cash balances held in the UK enjoy a right of interest offset against overdraft balances. Overseas cash balances have a weighted average interest rate of 0.1% (2011: 0.1%) and are at a floating rate.

The foreign currency balances mostly sit within overseas business units, and therefore do not result in significant exposure to transactional risks for the Group. Included within cash is £4.5 million of restricted cash (2011: £0.4 million) (see note 20).

Notes to the group financial statements

24. Financial instruments and risk management continued

Financial liabilities

	Floating rate £m	Fixed rate £m	2012 Total £m	Floating rate £m	Fixed rate £m	2011 Total £m
Sterling	**(30.9)**	**(70.9)**	**(101.8)**	(40.1)	(52.1)	(92.2)
US dollar	**(49.9)**	**(248.5)**	**(298.4)**	(3.7)	(295.7)	(299.4)
Euro	**(2.4)**	**(100.3)**	**(102.7)**	(5.2)	(88.0)	(93.2)
Other currencies	**-**	**(5.3)**	**(5.3)**	-	(4.7)	(4.7)
	(83.2)	**(425.0)**	**(508.2)**	(49.0)	(440.5)	(489.5)
Overdraft offset in the UK			**15.5**			2.6
Financial liabilities			**(492.7)**			(486.9)
Bank loans and overdrafts			**(71.6)**			(81.5)
UK medium term loans			**(0.7)**			(1.0)
Loan notes			**(261.2)**			(260.2)
Overseas medium term loans			**(0.2)**			(0.2)
Other loans			**(2.4)**			(5.2)
			(336.1)			(348.1)
Preference shares (see note 27)			**(0.1)**			(0.1)
Obligations under finance leases			**(4.6)**			(6.4)
			(340.8)			(354.6)
Trade payables due within one year			**(100.2)**			(105.3)
Accruals			**(44.8)**			(19.9)
Financial instruments due within one year			**(0.1)**			(1.5)
Trade payables due after more than one year			**(4.3)**			(1.2)
Financial instruments due after more than one year			**(2.5)**			(4.4)
			(492.7)			(486.9)

A right of offset exists for currency amounts held within the UK by Barclays Bank PLC. These are used to offset the interest charged on any UK overdraft.

The weighted average interest rate of fixed rate financial liabilities at 31 October 2012 was 5.4% (2011: 5.1%) and the weighted average period of funding was four years (2011: five years).

Derivative financial instruments

The Group has two interest rate structures, one from floating to fixed rate that expires in April 2015 at a rate of 3.84%, and one from fixed to floating rate that expires on 12 May 2015 at a rate of 4.04%. The fair value of interest rate swaps recognised on the balance sheet at 31 October 2012 was a £2.4 million liability (2011: £4.2 million liability). The Group also has two forward exchange structures with a fair value of £0.2 million liability (2011: £1.7 million liability) and £1.0 million asset (2011: £1.9 million asset). The total of these financial instruments is a £1.6 million liability (2011: £4.0 million liability).

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

	2012 Total £m	2011 Total £m
Interest rate swaps	**(2.4)**	(4.2)
Forward exchange contracts	**0.8**	0.2
	(1.6)	(4.0)

Analysed as:

	2012 Total £m	2011 Total £m
Included in current assets	**1.0**	1.9
Included in current liabilities	**(0.1)**	(1.5)
Included in non-current liabilities	**(2.5)**	(4.4)
	(1.6)	(4.0)

The following table details the gain on fair value movements on derivatives recognised in the income statement:

	2012 Total £m	2011 Total £m
Change in fair value of currency structures	**1.9**	2.4

Fair value hierarchy

IFRS 7 *Financial Instruments: Disclosures* requires companies that carry financial instruments at fair value in the balance sheet to disclose their level of visibility, determining into which category those financial instruments fall under the fair value hierarchy.

The fair value measurement hierarchy is as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – Inputs for the asset or liability that are not based on observable market data (i.e. as unobservable inputs).

The following table presents the Group's assets and liabilities that are measured at fair value:

	Level 1 £m	Level 2 £m	2012 Total £m	Level 1 £m	Level 2 £m	2011 Total £m
Assets						
Forward exchange contracts	**-**	**1.0**	**1.0**	-	1.9	1.9
Total assets	**-**	**1.0**	**1.0**	-	1.9	1.9

	Level 1 £m	Level 2 £m	2012 Total £m	Level 1 £m	Level 2 £m	2011 Total £m
Liabilities						
Borrowings	**(71.4)**	**(261.2)**	**(332.6)**	(80.8)	(273.8)	(354.6)
Interest rate swaps	**-**	**(2.4)**	**(2.4)**	-	(4.2)	(4.2)
Forward exchange contracts	**-**	**(0.2)**	**(0.2)**	-	(1.7)	(1.7)
Total liabilities	**(71.4)**	**(263.8)**	**(335.2)**	(80.8)	(279.7)	(360.5)

There were no assets or liabilities that were classed under Level 3 on the fair value hierarchy.

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. Whilst 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 monitored on an ongoing basis using credit ratings assigned by international credit rating agencies, the credit default swap market and market capitalisation.

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 receivables are attributable to 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 Group principally does business with government defence departments, such as the US Department of Defense, the UK Ministry of Defence and the KSA Ministry of Defence and Aviation, as well as US and UK defence prime contractors (such as Lockheed Martin, BAE Systems and General Dynamics).

Notes to the group financial statements

24. Financial instruments and risk management continued

The counterparties are monitored on an ongoing basis for credit risk, and as at the balance sheet date the risk was deemed to be 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 accounting policies and control procedures require letters of credit to be put in place for the majority of contracts with overseas customers. Any departures from this policy require approval by the Group finance function.

The Group's price risk is primarily 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. 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.

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

25. Provisions

	Legal provision £m	Environmental provisions £m	Warranty provisions £m	Restructuring provisions £m	Other provisions £m	Total £m
At 1 November 2011	-	2.7	1.0	1.2	-	4.9
Unwinding of discount – charged to interest	-	0.2	-	-	-	0.2
Provided for in the year	1.4	0.1	2.7	2.2	1.4	7.8
Effect of foreign exchange movements	-	(0.3)	(0.1)	-	-	(0.4)
Paid/released in the year	-	(1.2)	(1.6)	(2.0)	-	(4.8)
At 31 October 2012	**1.4**	**1.5**	**2.0**	**1.4**	**1.4**	**7.7**

Analysed as:

	2012 £m	2011 £m
Included in current liabilities	**2.8**	2.5
Included in non-current liabilities	**4.9**	2.4
	7.7	4.9

The legal provision at 31 October 2012 represents management's best estimate of the legal liabilities faced by the Group as at the balance sheet date.

At the year end, a third party assessment was carried out of the provision held in respect of the environmental liabilities associated with the Chemring Energetic Devices site in Illinois, USA. The majority of the provision is expected to be utilised within the next year, with the balance due in future years.

The warranty provisions at 31 October 2012 represent management's best estimate of the Group's liability, based on past experience for defective products.

The restructuring provisions at 31 October 2012 relate to Chemring Countermeasures Limited, Chemring EOD Limited, Chemring Energetics UK Limited and Alloy Surfaces Company, Inc.. The provisions represent management's best estimates of the costs to be incurred on the restructuring programmes during 2013.

26. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Tax losses £m	Acquired intangibles £m	Other £m	Total £m
At 1 November 2010	13.6	(6.4)	(2.5)	32.0	(1.6)	35.1
Charge/(credit) to income	5.3	0.4	(6.1)	(8.2)	11.5	2.9
Credit to equity	-	(0.4)	-	(0.3)	-	(0.7)
At 1 November 2011	18.9	(6.4)	(8.6)	23.5	9.9	37.3
(Credit)/charge to income	(0.9)	0.9	4.5	(5.9)	1.3	(0.1)
(Credit)/charge to equity	(0.3)	(0.7)	-	(0.7)	0.3	(1.4)
At 31 October 2012	**17.7**	**(6.2)**	**(4.1)**	**16.9**	**11.5**	**35.8**

The Finance Act 2012, which provides for a reduction in the main rate of corporation tax from 25% to 23%, effective from 1 April 2013, was substantively enacted on 3 July 2012. The impact of the rate reduction has been reflected in the calculation of the UK deferred tax liability provided at 31 October 2012. Therefore, a credit of £2.1 million has been included within the deferred tax charge for the year.

The UK Government has also indicated that it intends to enact a future reduction in the main tax rate of 2% down to 21% on 1 April 2014. The future 2% main tax rate reduction is expected to have a similar impact on the Group's financial statements as outlined above, subject to the impact of other developments in the Group's tax position which may reduce the beneficial effect of this in the tax rate. As this reduction in the UK corporate tax rate has not been substantially enacted at the balance sheet date, this is considered a non-adjusting event in accordance with IAS 10 *Events After the Reporting Period* and no adjustments have been made. The impact of this and any further reduction will be taken into account at subsequent reporting dates, once the change has been substantively enacted.

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

	2012 £m	2011 £m
Deferred tax liabilities	**52.7**	59.0
Deferred tax assets	**(16.9)**	(21.7)
	35.8	37.3

At the balance sheet date, the Group had unrecognised tax losses of £43.1 million (2011: £53.0 million) potentially available for offset against future profits in certain circumstances, with the majority arising from recent acquisitions. No deferred tax asset has been recognised in respect of this amount because of the unpredictability of short term future taxable qualifying profit streams.

27. Share capital

	2012 £m	2011 £m
Issued and fully paid		
195,491,341 (2011: 195,476,434) ordinary shares of 1p each	**2.0**	2.0

14,907 ordinary shares (2011: 127,996) were issued under the Group's savings-related share schemes during the year.

The Company's share capital also includes 62,500 7% cumulative preference shares of £1 each, which are all issued and fully paid-up, and are classified for accounting purposes within non-current liabilities. The cumulative preference shares carry an entitlement to a dividend at the rate of 7p per share per annum, payable in equal instalments on 30 April and 31 October each year. Holders of the preference shares have the right on winding-up to receive, in priority to any other classes of shares, the sum of £1 per share together with any arrears of dividends.

28. Reserves

The share premium account, the special capital reserve and the revaluation reserve are not distributable.

Included within retained earnings are £1.3 million of retained profits (2011: £1.2 million) relating to the associated undertaking and £0.8 million (2011: £0.1 million) of the Company's own shares held by the Group's ESOP trustee.

Notes to the group financial statements

29. Own shares

	2012 £m	2011 £m
Balance at 1 November 2011	**6.6**	7.2
Acquired in the year	**4.8**	1.5
Issued in the year to satisfy employee share awards	**(1.8)**	(2.1)
Balance at 31 October 2012	**9.6**	6.6

The own shares reserve represents the cost of shares in Chemring Group PLC purchased in the market and held by the Group to satisfy awards under the Group's share-based incentive schemes (see note 31). During the year, 1,215,000 (2011: 300,000) ordinary shares were acquired, and 359,331 (2011: 456,855) 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 2012 was 2,198,814 (2011: 1,343,145), with an average cost of £4.39 (2011: £4.89) per share. This represents 1.1% of the total issued and fully-paid ordinary share capital.

30. Obligations under non-cancellable operating leases

	2012 £m	2011 £m
Minimum lease payments under operating leases recognised in the income statement in the year	**1.9**	2.5

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:

	2012 £m	2011 £m
Within one year	**3.7**	4.0
Two to five years	**7.0**	10.8
	10.7	14.8

Operating lease payments represent rentals payable by the Group. Leases are negotiated for an average term of three years and rentals are fixed for the lease period, with an option to extend for a further period at the then prevailing market rate.

31. Share-based payments

The Group operates share-based compensation arrangements to provide incentives to the Group's senior management and other eligible employees.

The Group recognised a net charge of £0.1 million (2011: £0.2 million) in respect of share-based payment transactions during the year.

Details of the three 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 ordinarily vest on the third anniversary of the award date. The scheme commenced in March 2006.

	Number of conditional shares awarded	
	2012	2011
Outstanding at the beginning of the year	**1,792,977**	1,741,095
Awarded during the year	**1,785,720**	711,212
Vested during the year	**(359,331)**	(456,855)
Lapsed during the year	**(987,973)**	(202,475)
Outstanding at the end of the year	**2,231,393**	1,792,977
Subject to vesting at the end of the year	**-**	-

The following awards were outstanding at 31 October 2012:

Date of award	Number of ordinary shares under award	Vesting price per share £	Date when awards will vest
20 Jan 2010	318,380	Nil	20 Jan 2013
19 Jan 2011	453,360	Nil	19 Jan 2014
24 Oct 2011	17,492	Nil	24 Oct 2014
27 Jan 2012	1,442,161	Nil	27 Jan 2015

The Group has applied a discount to the share-based payment, to reflect the anticipated achievement of the stipulated targets for each PSP award, based on the predicted figures within the Group's five year plan as well as the expected number of leavers over the life of the PSP awards.

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

- dividend growth at 2p per annum (2011: growth at 2p per annum);
- weighted average cost of capital 7.8% (2011: 9.4%).

The weighted average fair value of awards made during the year was 333p (2011: 607p).

The closing share prices on the dates of vesting of awards in the year were 368.5p, 274.4p and 289.3p (2011: 666.6p). The compensation expense recognised in respect of share options is based on their fair value at the grant date.

The Chemring Group 2008 UK Sharesave Plan (the "UK Sharesave Plan")
Options were granted during the year on 30 July 2012.

	Number of share options	2012 Weighted average exercise price Pence	Number of share options	2011 Weighted average exercise price Pence
Outstanding at the beginning of the year	**505,164**	**430**	449,100	385
Granted during the year	**553,724**	**223**	182,629	508
Exercised during the year	**(14,115)**	**371**	(85,885)	373
Lapsed during the year	**(262,602)**	**445**	(40,680)	400
Outstanding at the end of the year	**782,171**	**244**	505,164	430
Subject to exercise at the end of the year	**33,150**	**344**	11,395	374

The following options were outstanding at 31 October 2012:

Date of grant	Number of ordinary shares under option	Exercise price per share £	Dates between which options may be exercised
1 Aug 2008	75,195	3.736	1 Oct 2013 – 1 Apr 2014
31 Jul 2009	33,150	3.444	1 Oct 2012 – 1 Apr 2013
31 Jul 2009	31,970	3.444	1 Oct 2014 – 1 Apr 2015
30 Jul 2010	17,105	4.784	1 Oct 2013 – 1 Apr 2014
30 Jul 2010	20,195	4.784	1 Oct 2015 – 1 Apr 2016
29 Jul 2011	37,950	5.080	1 Oct 2014 – 1 Apr 2015
29 Jul 2011	16,917	5.080	1 Oct 2016 – 1 Apr 2017
30 Jul 2012	412,355	2.230	1 Oct 2015 – 1 Apr 2016
30 Jul 2012	137,334	2.230	1 Oct 2017 – 1 Apr 2018

The weighted average fair value of options granted in the year was 101p (2011: 42p).

The weighted average fair value of options exercised in the year was 83p (2011: 85p).

The weighted average share price on exercise of the options during the year was 365p (2011: 610p).

The fair values of the share options in the UK Sharesave Plan are based on the difference between the exercise price and the share price on the grant date of the option.

The Chemring Group 2008 US Stock Purchase Plan (the "US Stock Purchase Plan")
Options were granted during the year on 30 July 2012. 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.

Notes to the group financial statements

31. Share-based payments continued

	Number of share options	2012 Weighted average exercise price Pence	Number of share options	2011 Weighted average exercise price Pence
Outstanding at the beginning of the year	**92,790**	**491**	114,355	423
Granted during the year	**82,738**	**244**	40,635	481
Exercised during the year	**(792)**	**499**	(42,111)	348
Lapsed during the year	**(59,130)**	**496**	(20,089)	385
Outstanding at the end of the year	**115,606**	**311**	92,790	491
Subject to exercise at the end of the year	**-**	**-**	-	-

The following options were outstanding at 31 October 2012:

Date of grant	Number of ordinary shares under option	Exercise price per share £	Dates between which options may be exercised
29 Jul 2011	32,868	4.81	29 Jul 2013 – 28 Oct 2013
30 Jul 2012	82,738	2.44	30 Jul 2014 – 29 Oct 2014

The weighted average fair value of options granted in the year was 46p (2011: 69p).

The weighted average fair value of options exercised in the year was 79p (2011: 80p).

The weighted average share price on exercise of the options during the year was 365p (2011: 610p)

The fair values of the share options in the US Stock Purchase Plan are based on the difference between the exercise price and the share price on the date of grant of the option.

32. Acquisitions

No acquisitions were made during the year. At the start of the year, the initial measurement period was incomplete for the acquisition of Chemring Detection Systems, Inc., which was completed during the previous year. During the twelve months following purchase, a reassessment to reduce the value of acquired intangible non-current assets by £0.3 million was made, with a corresponding increase in the value of goodwill. The balance sheet as at 31 October 2011 has been restated to reflect this change in accordance with IFRS 3 (revised 2008).

Acquisition and disposal related costs

No acquisitions were made during the year but as a result of ongoing mergers, disposals and acquisitions activity and acquisitions in prior years, acquisition and disposal related costs of £8.2 million (2011: £5.7 million) have been recognised in the income statement as non-underlying items, in accordance with IFRS 3 (revised 2008).

	2012 £m	2011 £m
Mecar S.A.	**0.1**	0.2
Roke Manor Research Limited	**-**	0.2
Chemring Detection Systems, Inc.	**0.8**	2.5
Aborted acquisitions	**0.6**	0.9
Fees related to a third party approach for the Group	**3.7**	-
Joint ventures and other acquisition related costs	**3.0**	1.9
Total acquisition and disposal related costs	**8.2**	5.7

This figure differs from the cash flow figure arising from acquisition related costs of £5.5 million, due to £2.7 million of acquisition related costs remaining within creditors at the year end.

33. Discontinued operations

The results of the discontinued operations for the year, or to the date of disposal, which have been included in the consolidated income statement, were as follows:

	2012 £m	2011 £m
Revenue	**15.1**	21.2
Operating profit	**3.1**	6.0
Finance expense	**(0.5)**	(0.6)
Tax	**(0.5)**	(1.5)
Profit after tax for the year	**2.1**	3.9

Cash flows from discontinued operations

	2012 £m	2011 £m
Net cash received from operating activities	**3.3**	5.2
Net cash used on financing activities	**(0.5)**	(0.6)
Total	**2.8**	4.6

On 31 July 2012, the Group completed the disposal of its marine interests to Drew Marine for £30.4 million. This figure is less than the £32.0 million previously reported, due to a working capital adjustment determined at the completion date. The marine business included operations in four jurisdictions, and restructuring of each individual business was required in order to facilitate a sale. This involved separating the German manufacturing facility into two for the retained defence business and the marine business, together with a carve-out from the Group's defence businesses in Spain and Australia. The profit on disposal of the marine interests was £10.3 million (see note 5).

The net assets of the marine interests at the date of disposal were as follows:

	£m
Property, plant and equipment	1.2
Inventories	4.5
Trade receivables	6.0
Bank balances and cash	3.5
Trade payables	(2.7)
Other payables	(1.7)
Provisions	(0.7)
Remove bank balances and cash	(3.5)
Attributable goodwill	3.7
Attributable disposal costs	9.8
	20.1
Profit on disposal	10.3
Total consideration	30.4
Satisfied by:	
Cash and cash equivalents	32.0
Deferred working capital adjustment	(1.6)
	30.4
Net cash inflow arising on disposal:	
Consideration received in cash and cash equivalents	32.0
Less: Cash and cash equivalents disposed of	(3.5)
Payments for attributable disposal costs	(6.7)
	21.8

The deferred working capital adjustment was settled in cash by the Group in December 2012.

Notes to the group financial statements

34. Pensions

Within the UK, the Group operates a defined benefit scheme (the "Chemring Group Staff Pension Scheme"). In Germany, Chemring Defence Germany GmbH operates a defined benefit scheme (the "Chemring Defence Germany Scheme") and in Norway, Chemring Nobel AS operates a defined benefit scheme (the "Chemring Nobel Scheme"). The other UK and overseas arrangements are all defined contribution schemes with a combined cost of £6.6 million (2011: £6.6 million).

The Chemring Group Staff Pension Scheme is a funded scheme and the assets of the scheme are held in a separate trustee administered fund. The scheme was closed to future accrual on 6 April 2012. A full actuarial valuation for the Chemring Group Staff Pension Scheme as at 6 April 2009 has been prepared and updated to 31 October 2012 by a qualified actuary, using the projected unit credit method. The main assumptions for the scheme are detailed below.

Under the funding plan agreed with the trustees following the 2009 actuarial valuation, the Company agreed to eliminate the deficit calculated at that time over a period of 9.75 years. The Company and the trustees monitor funding levels annually, and a new funding plan is agreed with the trustees every three years, based on actuarial valuations. The scheme triennial valuation at 6 April 2012 is currently being progressed and is expected to be signed-off in the coming months. The Group considers that the current contribution rates agreed with the trustees are sufficient to eliminate the calculated deficit over the agreed period.

The Group has provided a bank guarantee and letters of credit totalling £27.2 million (2011: £27.2 million) to the Chemring Group Staff Pension Scheme. A £20 million letter of credit may be drawn by the scheme trustees in June 2014, subject to the size of the deficit of the scheme at April 2014. The remaining £7.2 million bank guarantee may only be drawn upon certain events of default by the Company.

On 31 July 2012, the disposal of the UK marine business triggered a statutory debt of £1.6 million to the Chemring Group Staff Pension Scheme under Sections 75 and 75A of the Pensions Act 1995. The debt was settled in full by the Group on 22 August 2012.

The Chemring Defence Germany Scheme is an unfunded scheme. The actuarial liability has been calculated at 31 October 2012 by a qualified actuary using the projected unit credit method. The main assumptions used were a discount rate of 5.07%, inflation rate of 1.8% and rate of increase in deferred pensions of nil%. The net deficit of the Chemring Defence Germany Scheme was £0.8 million at 31 October 2012 (2011: £1.3 million).

The Chemring Nobel Scheme is an unfunded scheme. The actuarial liability has been calculated at 31 October 2012 by a qualified actuary using the projected unit credit method. The main assumptions used were a discount rate of 2.2%, inflation rate of 2.75% and rate of increase in deferred pensions of 2.25%. The net deficit of the Chemring Nobel Scheme was £0.3 million at 31 October 2012 (2011: £0.2 million).

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

	2012 £m	2011 £m	2010 £m
Present value of funded and unfunded obligations	**(71.6)**	(65.2)	(61.9)
Fair value of scheme assets	**44.6**	40.0	38.9
Net liability recognised in the balance sheet	**(27.0)**	(25.2)	(23.0)

An analysis of the net liabilities recognised is as follows:

	2012 £m	2011 £m	2010 £m
Chemring Group Staff Pension Scheme	**(25.9)**	(23.7)	(2.2)
Chemring Defence Germany Pension Scheme	**(0.8)**	(1.3)	0.5
Chemring Nobel AS Pension Scheme	**(0.3)**	(0.2)	(0.1)
Net liability recognised in the balance sheet	**(27.0)**	(25.2)	(1.8)

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

	2012 £m	2011 £m
Amounts included within operating profit:		
Current service cost	**(1.0)**	(1.2)
Curtailment gain	**1.4**	-
	0.4	(1.2)
Amounts included as other finance costs:		
Expected return on scheme assets	**2.4**	2.5
Discount on scheme liabilities	**(3.2)**	(3.2)
	(0.8)	(0.7)
Net charge	**(0.4)**	(1.9)

Amounts recognised in the statement of comprehensive income are as follows:

	2012 £m	2011 £m
Actual return less expected return on pension scheme assets (i)	**3.0**	(1.3)
Changes in assumptions underlying the present value of the scheme liabilities (ii)	**(5.7)**	(0.5)
Actuarial loss recognised in the statement of comprehensive income	**(2.7)**	(1.8)

(i) scheme assets at the balance sheet date;
(ii) present value of the scheme liabilities at the balance sheet date.

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

	2012 £m	2011 £m
Opening defined benefit obligations	**(65.2)**	(61.9)
Service cost	**(1.0)**	(1.2)
Interest cost	**(3.2)**	(3.2)
Contributions from scheme members	**(0.3)**	(0.6)
Actuarial losses	**(5.7)**	(0.5)
Benefits paid	**2.4**	2.2
Curtailment gain	**1.4**	-
Closing defined benefit obligations	**(71.6)**	(65.2)

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

	2012 £m	2011 £m
Opening fair value of schemes' assets	**40.0**	38.9
Expected return on scheme assets	**2.4**	2.5
Actuarial gains/(losses)	**1.4**	(1.3)
Contributions from scheme members	**0.3**	0.6
Contributions from sponsoring companies	**1.3**	1.5
Additional contributions in respect of the Section 75 debt on the disposal of the UK marine business	**1.6**	-
Benefits paid	**(2.4)**	(2.2)
	44.6	40.0

Notes to the group financial statements

34. Pensions continued

The total scheme assets updated to 31 October along with the expected rates of return on assets were as follows:

	2012 Long term rate of return expected	2012 £m	2011 Long term rate of return expected	2011 £m	2010 Long term rate of return expected	2010 £m
Equities	**6.8%**	**31.2**	6.8%	27.7	7.65%	27.7
Bonds	**3.2%**	**13.4**	3.4%	12.3	4.2%	11.2
Total fair value of assets		**44.6**		40.0		38.9

The analysis of pension assets at 31 October 2012 is as follows:

	2012 %	2011 %	2010 %
Equities	**70.0**	69.3	71.2
Bonds	**30.0**	30.7	28.8
	100.0	100.0	100.0

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:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of funded and unfunded obligations	**(71.6)**	(65.2)	(61.9)	(63.0)	(42.0)
Fair value of scheme assets	**44.6**	40.0	38.9	34.9	28.4
Deficit in the schemes	**(27.0)**	(25.2)	(23.0)	(28.1)	(13.6)
Experience gains on scheme liabilities	**-**	-	3.8	-	-
Percentage of scheme liabilities	**-**	-	6.1%	-	-
Experience gains/(losses) on scheme assets	**1.4**	(1.3)	1.4	4.2	(9.9)
Percentage of scheme assets	**3.1%**	(3.3)%	3.6%	12.0%	(34.9)%

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

	2012 £m	2011 £m
Opening deficit in schemes	**(25.2)**	(23.0)
Current service cost	**(1.0)**	(1.2)
Curtailment gain	**1.4**	-
Contributions	**1.3**	1.5
Other finance costs	**(0.8)**	(0.7)
Actuarial loss	**(2.7)**	(1.8)
Closing deficit in the schemes	**(27.0)**	(25.2)

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

		2012	2011
Discount rate		**4.4%**	5.0%
Rate of increase in salaries		**n/a**	4.1%
Rate of increase in deferred pensions		**2.8%**	3.0%
Rate of increase in pensions in payment (where applicable)		**2.8%**	3.0%
Inflation assumption	– RPI	**2.9%**	3.1%
	– CPI	**2.2%**	2.4%
Expected return on scheme assets		**5.8%**	5.7%

In determining the pension liabilities, the Group uses mortality assumptions which are based on published mortality tables. For the Chemring Group Staff Pension Scheme, the actuarial table currently used is SAPS Year of Birth Tables with a medium cohort and 1% underpin.

Life expectancy at 65:

		2012	2011
Future pensioners	– male	**88.2**	88.2
	– female	**91.0**	91.0
Current pensioners	– male	**86.3**	86.3
	– female	**89.1**	89.1

The assumption considered to be the most significant is the discount rate adopted. If the discount rate in the scheme were to change by 0.1% then it is predicted that the deficit in the scheme would change by approximately £1.4 million. A change in the rate of inflation by 0.1% is predicted to change the deficit by approximately £1.1 million and a one year change to the longevity assumption would change the deficit by approximately £1.9 million.

The Group anticipates contributions to the defined benefit schemes for the year ending 31 October 2013 will be £0.8 million (2012: £2.2 million).

35. Contingent liabilities

The Group enters into contracts which sometimes have offset commitments. These requirements are valued at the time of the contract being awarded. The cost of the offsets are reviewed throughout the contract life and provided for within the contract costings to the extent of the potential liability.

At 31 October 2012, the Group had contingent liabilities in respect of bank and contractual performance guarantees and other matters arising in the ordinary course of business. Where it is expected that a material liability will arise in respect of these matters, appropriate provision is made within the group financial statements. As the conditions of these guarantees are currently being met, no obligating event is foreseeable and therefore no provision has been made at the year end.

The Group is, from time to time, party to legal proceedings and claims which arise in the ordinary course of business. The directors do not anticipate that the outcome of these proceedings, actions and claims, either individually or in aggregate, will have a material adverse effect upon the Group's financial position. A provision of £1.4 million was created during the year to cover potential legal costs for the Group with regards to several pending and probable legal actions. This provision is detailed in note 25.

Since 1 November 2010, the Group has taken a £2.5 million deductible for its material damage and business interruption cover, subject to a maximum liability of £3.5 million in any one year.

Notes to the group financial statements

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 directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*. Further information on the remuneration of individual directors is provided in the audited part of the directors' remuneration report on pages 43 to 47.

The directors of the Company had no material transactions with the Company during the year, other than in connection with their 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. The remuneration of the non-executive directors is determined by the Board, having regard to the practice of other companies and the particular demands of the Group.

	2012 £m	2011 £m
Remuneration of the executive and non-executive directors	**2.7**	1.5

Included within the 2012 charge is £1.1 million (2011: £nil) relating to compensation for loss of office for Dr Price and Mr Rayner. Further detail can be found in the directors' remuneration report.

Independent auditors' report on the parent company financial statements

We have audited the parent company financial statements of Chemring Group PLC for the year ended 31 October 2012 which comprise the parent company balance sheet, the parent company statement of total recognised gains and losses, the reconciliation of movements in shareholders' funds and the related notes 1 to 12. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications in our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 October 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matters

We have reported separately on the group financial statements of Chemring Group PLC for the year ended 31 October 2012.

Nigel Mercer ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
24 January 2013

Parent company balance sheet (under UK GAAP)

as at 31 October 2012

	Note	£m	2012 £m	£m	2011 £m
Fixed assets					
Tangible assets	2		**0.7**		0.9
Investments	3		**575.2**		571.2
			575.9		572.1
Current assets					
Debtors – due within one year	5	**12.7**		15.4	
– due after more than one year	5	**279.6**		272.0	
Cash at bank and in hand		**21.1**		-	
		313.4		287.4	
Creditors due within one year	6	**(122.7)**		(133.1)	
Net current assets			**190.7**		154.3
Total assets less current liabilities			**766.6**		726.4
Creditors due after more than one year	7		**(451.0)**		(381.4)
			315.6		345.0
Capital and reserves					
Called-up share capital	8		**2.0**		2.0
Reserves					
Share premium account	9	**230.7**		230.6	
Special capital reserve	9	**12.9**		12.9	
Profit and loss account	9	**79.6**		106.1	
		323.2		349.6	
Own shares	10	**(9.6)**		(6.6)	
			313.6		343.0
Shareholders' funds			**315.6**		345.0

These financial statements were approved and authorised for issue by the Board of Directors on 24 January 2013.
Signed on behalf of the Board of Chemring Group PLC (registered number 86662)

M Papworth Director S Bowers Director

Parent company statement of total recognised gains and losses

for the year ended 31 October 2012

	Note	2012 £m	2011 £m
Profit for the financial year	9	**6.9**	36.7
Losses on cash flow hedges		**-**	(0.1)
Additional charge due to treasury shares		**(0.5)**	(0.5)
Total recognised gains and losses for the year		**6.4**	36.1

Reconciliation of movements in shareholders' funds

for the year ended 31 October 2011

	Note	2012 £m	2011 £m
Profit for the financial year		**6.9**	36.7
Dividends		**(31.1)**	(22.7)
(Loss)/profit for the year		**(24.2)**	14.0
Other recognised losses		**(0.5)**	(0.6)
Ordinary shares issued	8	**-**	0.2
Share premium arising	9	**0.1**	110.2
Share-based payments (net of deferred tax)	9	**(1.8)**	(2.1)
Own shares	10	**(3.0)**	0.6
Net (reduction)/addition to shareholders' funds		**(29.4)**	122.3
Opening shareholders' funds		**345.0**	222.7
Closing shareholders' funds		**315.6**	345.0

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. The Company reported a profit for the financial year ended 31 October 2012 of £6.9 million (2011: £36.7 million).

The auditors' remuneration for audit and other services is disclosed in note 6 to the group financial statements.

Cash flow statement

In accordance with the exemption under FRS 1 the Company's cash flow statement has not been presented separately in these financial statements.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company 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 52.

Notes to the parent company financial statements

for the year ended 31 October 2012

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).

Related Parties

The Company is exempt under FRS 8 *Related Party Disclosures* from disclosing transactions with other members of the Group.

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	– up to 10 years

Investment in Group undertakings

Investments are stated at cost less any provision for impairment in value.

Operating leases

Operating lease rental charges are taken to the profit and loss account on a straight-line basis over the life of the lease.

Provisions

A provision is recognised when the Company has a present legal or constructive obligation as a result of a past event and it is probable that settlement will be required of an amount that can be reliably estimated. Long term liabilities and provisions are discounted when the impact is material.

Current tax

Current tax, including UK corporation tax and foreign tax, is provided for at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted, or substantially enacted, by the balance sheet date.

Deferred tax

Deferred tax is provided in full at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in tax computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no commitment to sell the asset. Deferred tax assets and liabilities are not discounted.

Special capital reserve

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

Foreign currencies

The functional currency of the Company is sterling. Transactions in foreign currencies are translated into sterling at the rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities, or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the Company's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account, or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been reflected in the Company's financial statements.

For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment, and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting new interest payable over the periods of the contracts.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

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 profit and loss account, 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.

Pensions

The Company operates a defined benefit pension scheme. The defined benefit scheme is a multi-employer scheme including employees of other Group companies. It is not considered possible to allocate scheme assets and liabilities between the various companies and accordingly 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.

The Company also operates a defined contribution pension scheme. The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Share-based compensation

For grants made under the Company's share-based incentive schemes, amounts which reflect the fair value of options awarded at the time of grant are charged to the profit and loss account. Further details can be found within note 3 of the group financial statements.

2. Tangible assets

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 November 2011	0.5	1.5	2.0
Additions	-	0.1	0.1
At 31 October 2012	0.5	1.6	2.1
Depreciation			
At 1 November 2011	0.1	1.0	1.1
Charge for the year	0.1	0.2	0.3
At 31 October 2012	0.2	1.2	1.4
Net book value			
At 31 October 2012	**0.3**	**0.4**	**0.7**
At 31 October 2011	0.4	0.5	0.9

The Company had no capital commitments as at 31 October 2012 (2011: 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 2011	584.1	6.3	590.4
Capital contribution to subsidiary undertakings	8.2	-	8.2
Disposal	(4.2)	-	(4.2)
At 31 October 2012	588.1	6.3	594.4
Provision for impairment			
At 1 November 2011 and 31 October 2012	19.2	-	19.2
Net book value			
At 31 October 2012	**568.9**	**6.3**	**575.2**
At 31 October 2011	564.9	6.3	571.2

Notes to the parent company financial statements

for the year ended 31 October 2012

4. Investments in Group undertakings

The trading subsidiary undertakings held at 31 October 2012 were:

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

* Investments held by a subsidiary company

The directors consider that the carrying value of the investments does not exceed their fair value.

5. Debtors

Amounts due within one year:	2012 £m	2011 £m
Deferred tax asset (see note 11)	**0.6**	0.5
Other debtors	**10.8**	13.2
Prepayments and accrued income	**1.3**	1.7
	12.7	15.4
Amounts due after more than one year: Amounts owed by subsidiary undertakings	**279.6**	272.0

A financial instrument asset of £1.0 million (2011: £1.9 million) is recognised within other debtors in respect of the fair value of interest rate swaps (see note 24 of the group financial statements). The directors consider that the carrying value of the debtors approximates to their fair value.

6. Creditors due within one year

	2012 £m	2011 £m
Bank overdrafts	**-**	9.6
Bank loans	**71.1**	80.8
Trade creditors	**0.5**	1.2
Amounts owed to subsidiary undertakings	**37.4**	30.9
Other creditors	**8.4**	2.8
Other tax and Social Security	**0.2**	0.3
Accruals and deferred income	**5.1**	7.5
	122.7	133.1

A financial instrument liability of £0.2 million (2011: £1.2 million) is recognised in other creditors in respect of the fair value of derivative financial instruments (see note 24 of the group financial statements for further details).

7. Creditors due after more than one year

	2012 £m	2011 £m
Derivative financial instruments (see note 24 of the group financial statements)	**2.5**	4.4
Loan notes	**261.2**	260.3
Preference shares (62,500 shares of £1 each)	**0.1**	0.1
Amounts owed to subsidiary undertakings	**187.2**	116.6
	451.0	381.4

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.

	2012 £m	2011 £m
Borrowings falling due within:		
One year	**71.1**	90.4
One to two years	**47.4**	-
After five years	**213.8**	260.3
	332.3	350.7

The interest incurred on the above borrowings is detailed within note 21 of the group financial statements. The overdraft and bank loans are denominated in sterling and Euros.

8. Called-up share capital

	2012 £m	2011 £m
Issued, allotted and fully paid		
195,491,341 (2011: 195,476,434) ordinary shares of 1p each	**2.0**	2.0

14,907 ordinary shares (2011: 127,996) were issued under the Group's savings-related share schemes during the year.

The preference shares are presented as a liability (see note 7) and accordingly are excluded from called-up share capital in the balance sheet.

Share-based incentive schemes
Full details of the schemes are disclosed in note 31 of the group financial statements.

Notes to the parent company financial statements

for the year ended 31 October 2012

9. Reserves

	Share premium account £m	Special capital reserve £m	Profit and loss account £m	Total £m
At 1 November 2011	230.6	12.9	106.1	349.6
Ordinary shares issued	0.1	-	-	0.1
Profit for the year	-	-	6.9	6.9
Dividends paid	-	-	(31.1)	(31.1)
Other recognised losses	-	-	(0.5)	(0.5)
Cost of share-based payments	-	-	(1.8)	(1.8)
At 31 October 2012	**230.7**	**12.9**	**79.6**	**323.2**

The share premium account and special capital reserve are not distributable. Of the £79.6 million in the profit and loss account, £16.1 million is distributable, with the remaining £63.5 million arising from the disposal of the investment in Simmel Difesa S.p.A. not being distributable.

The Company generated a profit for the financial year of £6.9 million (2011: £36.7 million). Dividends from subsidiary undertakings of £11.1 million (2011: £29.5 million) were received in the year.

The proposed final dividend in respect of the year ended 31 October 2012 of 4.2p per share will, if approved, absorb approximately £8.1 million of shareholders' funds. The dividend is subject to approval by shareholders at the Annual General Meeting and accordingly has not been included as a liability in these financial statements.

10. Own shares

	2012 £m	2011 £m
Balance at 1 November 2011	**6.6**	7.2
Acquired in the year	**4.8**	1.5
Issued in the year to satisfy employee share awards	**(1.8)**	(2.1)
Balance at 31 October 2012	**9.6**	6.6

The own shares reserve represents the cost of shares in Chemring Group PLC purchased in the market and held by the Group to satisfy awards under the Group's share-based incentive schemes (see note 31 of the group financial statements). During the year, 1,215,000 (2011: 300,000) ordinary shares were acquired, and 359,331 (2011: 456,855) 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 2012 was 2,198,814 (2011: 1,343,145), with an average cost of £4.39 (2011: £4.89) per share. This represents 1.1% of the total issued and fully-paid ordinary share capital.

11. Deferred tax

	2012 £m	2011 £m
Movements in deferred tax assets are as follows:		
At 1 November 2011	**(0.5)**	(1.2)
(Credit)/charge to profit and loss account	**(0.1)**	0.7
At 31 October 2012	**(0.6)**	(0.5)
The amount provided represents:		
Other timing differences	**(0.6)**	(0.5)

The Company has considered the recoverability of the deferred tax asset and feels that the future activities of the Company will be sufficient to support this value.

12. Staff costs

	2012 Number	2011 Number
The average monthly number of employees (including executive directors) was:		
Total	**38**	38

	2012 £m	2011 £m
The costs incurred in respect of these employees were:		
Wages and salaries	**4.8**	3.4
Social security costs	**0.6**	0.4
Other pension costs	**0.4**	0.3
	5.8	4.1

Included within the 2012 charge is £1.1 million (2011: £nil) of wages and salaries, and £0.1 million (2011: £nil) of social security costs, relating to compensation for loss of office for Dr Price and Mr Rayner. Disclosures in respect of directors' emoluments can be found in the directors' remuneration report on pages 33 to 47 of the group financial statements.

Glossary and website

Glossary of terms

APOBS	Anti-Personnel Obstacle Breaching System
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
EBITDA	Earnings before interest, tax, depreciation and amortisation
EOD	Explosive ordnance disposal
ESA	European Space Agency
EW	Electronic warfare
GPR	Ground penetrating radar
HMDS	Husky Mounted Detection System
IDEX	International Defence Exhibition
IDIQ	Indefinite delivery/indefinite quantity
IED	Improvised explosive device
IM	Insensitive munitions
IR	Infra-red
JBPDS	Joint Biological Point Detection System
JCAST	Joint Combined Aircraft Systems Tester
JSLSCAD	Joint Service Lightweight Stand-off Chemical Agent Detector
LAV	Light armoured vehicle
LOVA	Low vulnerability ammunition
MAST	Man-portable aircraft survivability trainer
MJU	Multi-Jettison Unit
MoD	Ministry of Defence
NASA	National Aeronautics and Space Administration
NATO	North Atlantic Treaty Organization
NBCRV	Nuclear Biological Chemical Reconnaissance Vehicle
NIITEK	Non-Intrusive Inspection Technology, Inc.
OEF	Operation Enduring Freedom
OEM	Original equipment manufacturer
OSHA	Occupational Safety and Health Administration (US)
PAC-3	Patriot Advanced Capability-3
RF	Radio frequency
UK GAAP	UK Generally Accepted Accounting Practice
VDG	Vehicle Discharge Grenade

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
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- RSS news feeds
- Results and presentations
- Analysts' forecasts
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Chemring Group PLC's Annual Report and Accounts 2012 can also be viewed online at **www.chemring.co.uk/investors**.

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