

Notes to the Group Financial Statements

1. General information

Chemring Group PLC is a company incorporated in England and Wales under registration number 86662. The address of the registered office is Chemring House, 1500 Parkway, Whiteley, Fareham, Hampshire PO15 7AF. The nature of the Group's operations and its principal activities are set out in Note 5 and in the Directors' Report on pages 34 to 37. These financial statements are the consolidated financial statements of Chemring Group PLC and its subsidiaries ("the Group").

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

2. Adoption of new and revised standards

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

At the date of authorisation of these financial statements the following Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

- IFRS1 (amended)/IAS27 (amended) *Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- IFRS2 (amended) *Share-based Payment - Vesting Conditions and Cancellations*
- IFRS3 (revised 2008) *Business Combinations*
- IFRS8 *Operating Segments* (effective from 1 January 2009)
- IAS1 (revised 2007) *Presentation of Financial Statements* (effective 1 January 2009)
- IAS23 *Borrowing Costs* (effective 1 January 2009)
- IAS27 (revised 2008) *Consolidated and Separate Financial Statements*
- IAS32 (amended)/IAS1 (amended) *Puttable Financial Instruments and Obligations Arising on Liquidation*
- IFRIC12 *Service Concession Arrangements*
- IFRIC15 *Agreements for the Construction of Real Estate*
- IFRIC16 *Hedges of a Net Investment in a Foreign Operation*

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.

3. Accounting policies

Basis of preparation

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

Basis of accounting

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

Accounting convention

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

Basis of consolidation

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

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

3. Accounting policies continued

Operating profit

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

Revenue recognition

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

Investment income

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

Acquisitions

On acquisition of a subsidiary, the cost is measured as the fair value of the consideration given plus any directly attributable costs. The assets, liabilities and contingent liabilities of a subsidiary that meet the IFRS3 *Business Combinations* recognition criteria are measured at the fair value at the date of acquisition. Where cost exceeds fair value of the net assets acquired the difference is recorded as goodwill.

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

Intangible assets

Goodwill

The purchased goodwill of the Group is regarded as having an indefinite useful economic life and, in accordance with IAS36 *Impairment of Assets*, is not amortised but is subject to annual tests for impairment. In reviewing the carrying value of goodwill of the various businesses the Board has considered the separate plans and cash flows of these businesses consistent with the requirements of IAS36 and is satisfied that these demonstrate that no impairment has occurred in respect of continuing operations. Goodwill arising on acquisition before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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

Other intangibles

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Development expenditure, where it meets certain criteria given below, is capitalised on a straight-line basis over typically three years from the date commercial production commences. Development costs not meeting the criteria for capitalisation are expensed as incurred.

An intangible development asset is recognised only if all of the following conditions are met:

- the development costs are separately identifiable;
- the development costs can be measured reliably;
- management are satisfied as to the ultimate technical and commercial viability of the project; and
- it is probable that the asset will generate future economic benefits.

Patents and trademarks

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

Notes to the Group Financial Statements

3. Accounting policies continued

Property, plant and equipment

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 useful economic lives, which are considered to be:

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

Impairment of non-current assets

Assets that have indefinite lives are tested for impairment annually. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever changes in circumstances indicate that the carrying value may not be recoverable. To the extent that the carrying value exceeds the recoverable amount an impairment loss is recorded for the difference as an expense in the income statement. The recoverable amount used for impairment testing is the higher of the value in use and its fair value less costs of disposal. For the purpose of impairment testing assets are grouped at the lowest levels for which there are separately identifiable cash flows.

Inventories

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

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

Tax

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

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

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

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

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

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

Special capital reserve

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

3. Accounting policies continued

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 profit or loss for the period.

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

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

Financial instruments

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

Financial assets

Trade receivables

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

Cash and cash equivalents

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

Notes to the Group Financial Statements

3. Accounting policies continued

Derivative financial instruments

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

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

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

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

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

Retirement benefit costs

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

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

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

Leased assets

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

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

Share-based compensation

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

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

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

3. Accounting policies continued

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 IAS10 *Events after the Balance Sheet Date*, the Group continues to disclose events that it considers material and non-disclosure of which can influence the economic decisions of users of the financial statements.

Critical accounting judgements and key sources of estimation uncertainty

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

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

Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to determine such assets, to estimate the future cash flows expected to arise from the cash-generating unit and to determine a suitable discount rate in order to calculate present value.

Intangible assets acquired in business combinations

Under IFRS3 *Business Combinations*, it is necessary to separately identify and value any acquired intangible assets. In order to ascertain the values of the separate assets it is necessary for management to estimate the future cash flows attributable to the asset and estimate their useful economic lives.

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 35).

4. Revenue

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

Revenue by destination	Continuing operations 2008 £m	Acquisitions 2008 £m	Total 2008 £m	Total 2007 £m
UK	85.8	0.6	86.4	60.7
USA	130.7	11.4	142.1	109.4
Europe	63.1	3.4	66.5	37.5
Middle and Far East	39.3	2.7	42.0	34.9
Australia	10.8	1.4	12.2	8.4
Rest of the world	4.9	0.1	5.0	3.8
	334.6	19.6	354.2	254.7

In addition to the revenues shown above there was finance income of £1.8 million (2007: £0.6 million) from continuing operations. There was no discontinued revenue in 2008 (2007: £3.8 million). Full disclosure is given in Note 34. Total revenue including finance income was £356.0 million (2007: £255.3 million).

Notes to the Group Financial Statements

5. Business and geographical segments

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

Principal activities are as follows:

Energetics: Pyrotechnics, battlefield simulation products, flares, cartridge/propellant actuated devices, explosive ordnance disposal equipment, propellants, munitions

Countermeasures: Expendable countermeasures

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

Business segments

	2008 £m	2007 £m
Revenue		
Energetics	196.7	128.2
Countermeasures	157.5	126.5
Total revenue from third parties	354.2	254.7

	2008 £m	2007 £m
Analysis of operating profit		
Energetics	45.7	27.9
Countermeasures	45.5	38.6
Charge for share-based payments	(1.7)	(2.4)
Unallocated head office costs	(4.6)	(2.9)
Total underlying operating profit*	84.9	61.2
Goodwill adjustment arising from recognition of tax losses	(1.8)	-
Intangible amortisation arising from business combinations	(6.0)	(3.4)
Loss on fair value movements on derivatives	(8.7)	-
Total operating profit	68.4	57.8

Included within the charge for share-based payments are net costs of £1.7 million (2007: £1.4 million) for equity settled share-based payments.

	2008 £m	2007 £m
Balance Sheet		
Assets		
Energetics	403.5	240.9
Countermeasures	137.2	100.0
Interest in associate	1.0	1.0
Unallocated assets	39.7	22.6
Consolidated total assets	581.4	364.5
Liabilities		
Energetics	(239.0)	(165.5)
Countermeasures	(66.0)	(61.5)
Unallocated liabilities	(45.8)	(13.5)
Consolidated total liabilities	(350.8)	(240.5)
Group net assets	230.6	124.0

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

5. Business and geographical segments continued

Other information	2008 £m	2007 £m
Capital additions - continuing		
Energetics	21.5	7.8
Countermeasures	12.7	8.2
Depreciation and amortisation - continuing		
Energetics	10.2	6.2
Countermeasures	6.2	4.6

Geographical segments

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

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

	2008 £m	Carrying amount of net segment assets 2007 £m	2008 £m	Additions to property, plant and equipment and intangible assets 2007 £m
UK	108.9	26.3	11.4	6.4
USA	72.8	55.4	11.3	8.3
Rest of the world	48.9	42.3	11.5	1.3
	230.6	124.0	34.2	16.0

6. Operating profit

The following table shows a reconciliation of cost by function:

	2008 £m	2007 £m
Total revenue	354.2	254.7
Cost of sales	(227.1)	(162.4)
Distribution costs	(10.3)	(3.8)
Administrative expenses*	(31.9)	(27.3)
Goodwill adjustment arising from recognition of tax losses	(1.8)	–
Intangible amortisation arising from business combinations	(6.0)	(3.4)
Loss on fair value movements on derivatives	(8.7)	–
Total administrative expenses	(48.4)	(30.7)
Total operating profit	68.4	57.8

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

Operating profit is stated after charging:

	2008 £m	2007 £m
Research and development costs	9.3	6.7
Depreciation		
- property, plant and equipment	9.1	6.4
- leased assets	0.6	0.4
Amortisation		
- development costs	0.7	0.6
- arising from business combinations	6.0	3.4
Operating lease rentals - plant and machinery	0.7	0.7
- other	1.1	1.1
Foreign exchange losses	9.3	0.7
Staff costs (see Note 7)	84.8	67.2
Cost of inventories recognised as an expense	140.2	87.4
Auditors' remuneration for audit services (see over)	0.4	0.3

Notes to the Group Financial Statements

6. Operating profit continued

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

	2008 £m	2007 £m
Audit fees	0.2	0.2
Auditing accounts of subsidiary companies	0.2	0.1
	0.4	0.3
Other services:		
Tax services - compliance	0.1	0.1
Tax services - advisory	0.3	0.2
Corporate finance services	0.4	0.5
	1.2	1.1

Corporate finance services above relate to fees for acquisitions and disposals. Included in the Group audit fees is £0.1 million (2007: £0.1 million) paid in respect of the parent company.

A description of the work of the Audit Committee is set out in the Statement on Corporate Governance on pages 48 and 49 and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

During the year the Group incurred professional fees with other accountancy firms for the provision of corporate finance services of £0.1 million (2007: £0.2 million).

7. Staff costs

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

	2008 Number	2007 Number
Production	2,529	2,019
Administrative, sales and marketing	541	573
	3,070	2,592

The costs incurred in respect of these employees were:

	2008 £m	2007 £m
Wages and salaries	69.0	54.7
Social security costs	11.6	8.9
Other pension costs	4.2	3.6
	84.8	67.2

8. Finance income

	2008 £m	2007 £m
Interest income	1.8	0.6

9. Finance expense

	2008 £m	2007 £m
Bank overdraft and loan interest	0.2	2.2
US loan notes interest	5.1	–
Medium term loan interest	6.0	5.4
Finance lease interest	0.1	0.1
Amortisation of debt finance costs	0.5	0.4
Interest cost of retirement benefit obligations (see Note 35)	0.7	0.6
	12.6	8.7

10. Tax

	2008 £m	2007 £m
Current tax charge	(15.2)	(14.9)
Deferred tax charge	(1.3)	(1.0)
Total current year tax charge	(16.5)	(15.9)

Income tax in the UK is calculated at 28.83% (2007: 30%) 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:

	2008 £m	2007 £m
Profit before tax from continuing operations	57.7	49.8
Tax at the UK corporation tax rate of 28.83% (2007: 30%)	(16.6)	(14.9)
Income/(expenses) not allowable/(deductible) for tax purposes net of tax credits	1.4	(0.1)
Utilisation of tax losses	1.1	0.3
Other	0.6	1.6
Prior year adjustments	0.4	(0.1)
Overseas profits taxed at rates different to the standard rate	(3.4)	(2.7)
Total current year tax charge	(16.5)	(15.9)

In addition to the income tax expense charged to the Income Statement, a tax debit of £4.8 million (2007: tax credit £1.5 million) has been recognised in equity in the year and is included in the Statement of Recognised Income and Expense.

Tax on discontinued operations is shown in Note 34.

11. Dividends

	2008 £m	2007 £m
Dividends on ordinary shares of 5p each		
Final dividend for the year ended 31 October 2007 17.8p (2006: 11.2p)	5.8	3.6
Interim dividend for the year ended 31 October 2008 10.0p (2007: 7.2p)	3.5	2.4
Total dividends	9.3	6.0

The proposed final dividend in respect of the year ended 31 October 2008 of 25p per share will, if approved, absorb approximately £8.8 million of shareholders' funds. The dividend is subject to approval by shareholders at the Annual General Meeting and accordingly has not been included as a liability in these financial statements.

Notes to the Group Financial Statements

12. Earnings per share

Earnings per share are based on the average number of shares in issue of 33,339,754 (2007: 32,470,410) and profit on ordinary activities after tax and minority interests of £41.2 million (2007: £33.9 million). Diluted earnings per share has been calculated using a diluted average number of shares in issue of 33,514,169 (2007: 32,678,486) and profit on ordinary activities after tax and minority interests of £41.2 million (2007: £34.0 million).

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

From continuing operations			2008		2007	
	Earnings £m	Ordinary shares Number 000s	EPS Pence	Earnings £m	Ordinary shares Number 000s	EPS Pence
Basic	41.2	33,340	123	33.9	32,470	105
Additional shares issuable other than at fair value in respect of options outstanding	–	174	–	0.1	208	(1)
Diluted	41.2	33,514	123	34.0	32,678	104

Reconciliation from basic earnings per share to underlying earnings per share

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

	Earnings £m	Ordinary shares Number 000s	2008 EPS Pence	Earnings £m	Ordinary shares Number 000s	2007 EPS Pence
Basic	41.2	33,340	123	33.9	32,470	105
Intangible amortisation arising from business combinations, goodwill adjustment and loss on fair value movements on derivatives (after tax)	12.3	–	37	2.3	–	7
Underlying	53.5	33,340	160	36.2	32,470	112

From continuing and discontinued operations

	Earnings £m	Ordinary shares Number 000s	2008 EPS Pence	Earnings £m	Ordinary shares Number 000s	2007 EPS Pence
Basic	41.2	33,340	123	32.1	32,470	99
Additional shares issuable other than at fair value in respect of options outstanding	–	174	–	–	208	(1)
Diluted	41.2	33,514	123	32.1	32,678	98

13. Goodwill

£m

Cost

At 1 November 2006	59.7
Recognised on acquisition of subsidiary undertakings	35.6
De-recognised on disposal of subsidiary undertakings	(0.1)
Foreign exchange adjustments	(0.4)

At 1 November 2007	94.8
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Recognised on acquisition of subsidiary undertakings	24.1
Recognition of tax assets in respect of losses	(1.8)
Foreign exchange adjustments	11.7

At 31 October 2008	128.8
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Accumulated impairment losses

At 1 November 2006, 1 November 2007 and 31 October 2008	–
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Carrying amount

At 31 October 2008	128.8
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At 31 October 2007	94.8
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Goodwill acquired in a business combination is allocated at acquisition to the cash generating units ("CGU") that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

Energetics

£m

Simmel Difesa S.p.A.	34.1
Pirotécnia Oroquieta S.L.	0.2
Goodwill arising from fair value adjustments on prior year acquisitions *	1.3

At 31 October 2007	35.6
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Richmond Electronics & Engineering Limited	7.1
Titan Dynamics Systems, Inc.	1.0
Scot, Inc.	10.4
Martin Electronics, Inc.	4.2
Goodwill arising from fair value adjustments on prior year acquisitions *	1.4

At 31 October 2008	24.1
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The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGU are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, the growth rates and expected changes to selling prices and direct costs during the period for which management have detailed plans. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU being measured (the weighted average cost of capital "WACC"). The discount rate used is 10.0% (2007: 10.0%). The growth rates are based on a prudent view of industry growth forecasts adjusted for a premium associated with the high technological nature of the businesses. A growth assumption of 2.5% (2007: 2.5%) has been used. Changes in selling price and direct costs are based on past practices and expectations of future changes in the market. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows after that period based on growth as described above.

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

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

Notes to the Group Financial Statements

14. Other intangible assets

	Acquired intangibles £m	Other* £m	Total £m
Cost			
At 1 November 2006	24.6	2.7	27.3
Additions	–	1.4	1.4
Recognised on acquisition of subsidiary undertakings	15.5	0.7	16.2
De-recognised on disposal of subsidiary undertakings	(0.1)	–	(0.1)
Foreign exchange adjustments	(1.3)	(0.1)	(1.4)
At 1 November 2007	38.7	4.7	43.4
Additions	–	3.2	3.2
Recognised on acquisition of subsidiary undertakings**	37.6	0.3	37.9
Foreign exchange adjustments	14.2	0.8	15.0
At 31 October 2008	90.5	9.0	99.5
Amortisation			
At 1 November 2006	0.8	1.6	2.4
Charge for the year	2.9	1.1	4.0
Foreign exchange adjustments	–	(0.1)	(0.1)
At 1 November 2007	3.7	2.6	6.3
Charge for the year	6.0	0.7	6.7
Foreign exchange adjustments	1.0	0.5	1.5
At 31 October 2008	10.7	3.8	14.5
Carrying amount			
At 31 October 2008	79.8	5.2	85.0
At 31 October 2007	35.0	2.1	37.1

All of these assets are recognised at fair value to acquire and are amortised over their estimated useful lives. Fair values for acquired intangible assets are assessed by reference to future estimated cash flows discounted at an appropriate rate to present value, or by reference to the amount that would have been paid in an arm's length transaction between two knowledgeable and willing parties.

*Other intangibles comprise development costs, patents and licences.

**See Note 33.

15. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost or valuation			
At 1 November 2006	28.0	51.7	79.7
Additions	4.1	10.5	14.6
Acquired on acquisition of subsidiary undertakings	5.1	2.0	7.1
Disposals	–	(0.5)	(0.5)
Foreign exchange adjustments	–	(2.7)	(2.7)
At 1 November 2007	37.2	61.0	98.2
Additions	11.6	19.4	31.0
Acquired on acquisition of subsidiary undertakings	5.9	2.1	8.0
Disposals	–	(2.7)	(2.7)
Foreign exchange adjustments	5.6	13.2	18.8
At 31 October 2008	60.3	93.0	153.3
Accumulated depreciation			
At 1 November 2006	3.2	18.8	22.0
Charge for the year	1.2	5.6	6.8
Disposals	–	(0.3)	(0.3)
Foreign exchange adjustments	–	(0.1)	(0.1)
At 1 November 2007	4.4	24.0	28.4
Charge for the year	1.8	7.9	9.7
Disposals	–	(2.6)	(2.6)
Foreign exchange adjustments	1.0	6.4	7.4
At 31 October 2008	7.2	35.7	42.9
Carrying amount			
At 31 October 2008	53.1	57.3	110.4
At 31 October 2007	32.8	37.0	69.8

The carrying amount of the Group's plant and equipment includes an amount of £2.4 million (2007: £2.5 million) in respect of assets held under finance leases.

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

	2008 £m	2007 £m
30 September 1997 depreciated replacement cost	5.8	5.8
Freehold at cost	54.5	31.4
	60.3	37.2

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

	2008 £m	2007 £m
Cost	58.3	35.2
Accumulated depreciation	(7.3)	(4.7)
Historical cost value	51.0	30.5

All other tangible fixed assets are stated at historical cost.

At 31 October 2008 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £1.1 million (2007: £1.0 million).

Notes to the Group Financial Statements

16. Subsidiary undertakings

All subsidiary undertakings have been included in the consolidation. The undertakings held at 31 October 2008 which, in the opinion of the directors, principally affected the results for the year or the net assets of the Group are shown below.

Subsidiary undertaking	Country of incorporation (or registration) and operation	% of issued ordinary share capital controlled by Chemring Group PLC	Activity
Chemring Countermeasures Ltd	England	100	Countermeasures
Chemring Defence UK Ltd	England	100	Energetics
Chemring Marine Ltd	England	100	Energetics
B.D.L. Systems Ltd	England	100	Energetics
Chemring EOD Ltd	England	100	Energetics
Richmond Electronics & Engineering Ltd	England	100	Energetics
Chemring Energetics UK Ltd	Scotland	100	Energetics
Chemring Defence Germany GmbH	Germany	100	Energetics
Alloy Surfaces Company, Inc.	USA	100	Countermeasures
Kilgore Flares Company LLC	USA	100	Countermeasures and energetics
Technical Ordnance, Inc.	USA	100	Energetics
Titan Dynamics Systems, Inc.	USA	100	Energetics
Scot, Inc.	USA	100	Energetics
Martin Electronics, Inc.	USA	100	Energetics
Chemring Australia Pty Ltd	Australia	100	Countermeasures and energetics
Pirotécnia Oroquieta S.L.	Spain	100	Energetics
Simmel Difesa S.p.A.	Italy	100	Energetics
Chemring Nobel AS	Norway	100	Energetics
Associated undertaking			
CIRRA S.A.	France	49	Countermeasures

17. Interest in associate

	2008 £m	2007 £m
Interest in associate (including goodwill of £0.5 million (2007: £0.5 million))	1.0	1.0
Amounts relating to associate:		
	2008 £m	2007 £m
Assets	0.9	0.6
Liabilities	(0.4)	(0.1)
Revenue	0.7	0.6
Profit after tax	0.1	0.1

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

18. Inventories

	2008 £m	2007 £m
Raw materials	36.4	22.5
Work in progress	30.1	14.7
Finished goods	22.6	14.0
	89.1	51.2

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

19. Trade and other receivables

	2008 £m	2007 £m
Current		
Trade receivables	77.2	51.6
Allowance for doubtful debts	(1.2)	(0.1)
	76.0	51.5
Other debtors	8.1	8.6
Prepayments and accrued income	3.7	1.8
	87.8	61.9

All amounts shown above are due within one year.

The average credit period taken on sales of goods, adjusted for Group revenue had the acquisitions taken place on the first day of the financial year, is 77 days (2007: 69 days). No interest is charged on the receivables from the date of invoice to payment.

The Group's policy is to provide in full for debtors greater than 120 days beyond agreed terms, unless extenuating circumstances exist. The Group does not experience significant bad debt write-offs and hence no movement schedule for the allowance for doubtful debts has been provided due to its immaterial level, 1% of trade receivables (2007: nil). An ageing analysis has not been shown as all significant overdue receivables are covered by the allowance for doubtful debts provision above.

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

20. Cash and cash equivalents

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

£5.0 million of cash is held in escrow in relation to the Chemring Group Staff Pension Pension Scheme (see Note 35).

21. Bank loans and overdrafts

	2008 £m	2007 £m
Bank loans and overdrafts	19.7	22.5
UK medium term loans		
- sterling denominated	22.9	32.1
- US dollar denominated	-	22.1
- Euro denominated	45.0	52.6
- other denominated	3.2	3.1
Overseas medium term loans	3.1	3.6
US loan notes		
- sterling denominated	12.5	-
- US dollar denominated	76.9	-
	183.3	136.0
Borrowings falling due within:		
One year	19.7	22.5
One to two years	21.2	18.2
Two to five years	34.9	86.1
After five years	107.5	9.2
	183.3	136.0
Analysis of borrowings by currency:		
Sterling	45.1	54.1
US dollar	81.1	25.7
Euro	53.8	53.1
Other	3.3	3.1
Total	183.3	136.0

Notes to the Group Financial Statements

21. Bank loans and overdrafts continued

	2008 %	2007 %
The weighted average interest rates paid were as follows:		
Bank overdrafts	6.1	6.3
UK medium term loans		
- sterling denominated	6.7	6.7
- US dollar denominated	6.3	6.4
- Euro denominated	5.6	5.4
- other denominated	6.8	6.5
Overseas medium term loans		
- US dollar denominated	4.2	2.7
US loan notes		
- sterling denominated	6.8	-
- US dollar denominated	6.3	-

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

As the loans are re-translated to the year end exchange rates, the directors do not believe the fair value of the Group's borrowings to be materially different to the book values.

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

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

	2008 £m	2007 £m
Undrawn borrowings		
Cash and gross facilities	140.6	73.7
Bonds and guarantees	(33.5)	(18.7)
Total undrawn borrowings	107.1	55.0

22. Obligations under finance leases

	2008 £m	Minimum lease payments 2007 £m	2008 £m	Present value of minimum lease payments 2007 £m
Amounts payable under finance leases:				
Within one year	0.8	0.8	0.7	0.7
In the second to fifth years	2.2	1.2	1.8	1.1
After five years	0.4	0.4	0.4	0.4
Less future finance charges	(0.5)	(0.2)	-	-
Present value of lease obligations	2.9	2.2	2.9	2.2
Less amounts due within twelve months shown under current liabilities			(0.7)	(0.7)
Amount due for settlement after twelve months			2.2	1.5

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

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

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

23. Trade and other payables

	2008 £m	2007 £m
Current		
Trade creditors	58.6	34.4
Other creditors	9.6	17.7
Other tax and Social Security	3.2	3.4
Accruals and deferred income	37.1	15.9
	108.5	71.4
Non-current	1.8	0.4

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

24. Financial instruments and risk management

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

Market risk

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

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

Foreign currency risk management

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

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

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

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

	US\$	Euro	NOK	2008 AU\$	US\$	Euro	NOK	2007 AU\$
Monetary assets (million)	83.9	55.0	32.6	5.3	62.6	32.3	33.1	3.7
Monetary liabilities (million)	168.2	105.0	45.6	1.1	81.4	101.3	35.0	0.6

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	2008 AU\$	US\$	Euro	NOK	2007 AU\$
Borrowings (million)	125.0	66.9	35.0	–	47.9	80.0	35.0	–

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

Notes to the Group Financial Statements

24. Financial instruments and risk management continued

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

	2008	Average exchange rate 2007	2008 m	Expiring within one year 2007 m
US dollar	2.04	1.97	9.0	5.0
Euro	1.39	1.43	2.0	4.0

At the year end, there were two US dollar structures in place which were set up to protect the Income Statement from currency fluctuations during 2008 and through to October 2010, and provide an economic hedge.

The structures involve a cap and a collar, which lock in the exchange rates and give the Group the appropriate protection. However, these structures do not give linear relationships with the gain or loss from re-translation of future profits and hence hedge accounting has not been adopted.

At 31 October 2008, an £8.7 million loss is shown as an adjustment to underlying operating profit and represents the fair value of the structures. The significant change arises due to the sudden appreciation of the US dollar in the last month of the year. The appreciation of the dollar has locked the structures into a fixed rate of 1.855 on a currency amount of \$66 million in the year to October 2009 and \$36 million in the year to October 2010.

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

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

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 10 cent movement in the relevant foreign currencies against sterling. 10 cent 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 cent change in foreign currency rates. A negative number indicates a decrease in profit and equity where sterling weakens against the relevant currency.

	2008 £m	US dollar impact 2007 £m	2008 £m	Euro impact 2007 £m
Loss	(7.8)	(0.7)	(3.5)	(3.8)
Other equity	(7.8)	(0.7)	(3.5)	(3.8)

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

In the management's opinion the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Interest rate risk

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

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

24. Financial instruments and risk management continued

Euro, NOK and sterling floating rate borrowings have interest rate swaps which mitigate the exposure arising on the floating rate debt and are all designated as cash flow hedges. The following table details the notional principal amounts and remaining terms of interest rate swap contracts outstanding at the reporting date.

	Fixed rate %	From	Period of swap contracts To	Currency value m
Sterling bank loans	5.41	November 2007	October 2011	34.6
Euro bank loans	4.35	November 2007	April 2012	66.9
NOK bank loans	5.495	November 2007	April 2012	35.0

As the Group has predominantly fixed interest rate loans the Income Statement is not sensitive to a small change in interest rates. The swap instruments match the interest payment profiles of the medium term debt.

Liquidity risk

The table below details the maturity profiles of the Group's derivative financial instruments and loans at 31 October 2008.

	Derivative payables £m	Derivative receivables £m	Loans and overdrafts £m	2008 Total £m	Derivative payables £m	Derivative receivables £m	Loans and overdrafts £m	2007 Total £m
Falling due within:								
One year	47.7	(41.2)	19.7	26.2	4.5	(4.6)	22.5	22.4
One to two years	22.1	(19.4)	21.2	23.9	–	–	18.2	18.2
Two to five years	–	–	34.9	34.9	–	–	86.1	86.1
After five years	–	–	107.5	107.5	–	–	9.2	9.2
	69.8	(60.6)	183.3	192.5	4.5	(4.6)	136.0	135.9

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

Financial assets

	2008 Total £m	2007 Total £m
Sterling	38.5	12.3
US dollar	14.6	23.5
Australian dollar	1.8	1.5
Euro	21.0	13.4
Other currencies	1.7	0.7
	77.6	51.4
Offset in the UK	(8.0)	(12.7)
Cash at bank and in hand	69.6	38.7

Financial assets held in the UK enjoy a right of interest offset against overdraft balances. Overseas financial assets have a weighted average interest rate of 2.0% (2007: 3.9%). The financial assets for both years are at floating rate.

Included within the above is £5.4 million of restricted cash, £5.0 million of which is the escrowed pension scheme sum referred to in Note 35.

Notes to the Group Financial Statements

24. Financial instruments and risk management continued

Financial liabilities

	Floating rate £m	Fixed rate £m	2008 Total £m	Floating rate £m	Fixed rate £m	2007 Total £m
Sterling	(3.1)	(53.1)	(56.2)	(27.9)	(41.2)	(69.1)
US dollar	(4.2)	(76.9)	(81.1)	(3.0)	(22.7)	(25.7)
Euro	(0.8)	(53.0)	(53.8)	(1.6)	(51.5)	(53.1)
Other currencies	–	(3.2)	(3.2)	–	(3.1)	(3.1)
	(8.1)	(186.2)	(194.3)	(32.5)	(118.5)	(151.0)
Offset in the UK			8.0			12.7
			(186.3)			(138.3)
Bank loans and overdrafts			(19.7)			(22.5)
Medium term loans UK			(71.1)			(109.9)
US loan notes			(89.4)			–
Medium term loans overseas			(3.1)			(3.6)
Obligations under finance leases			(2.9)			(2.2)
Preference shares			(0.1)			(0.1)
			(186.3)			(138.3)

A right of offset exists for currency amounts held within the UK by Bank of Scotland. These are used to offset the interest charged on the UK overdraft which bears interest at 1.25% above LIBOR. Cash at bank and in hand consists primarily of overseas funds which are used as short term intra-group financing as well as an internal exchange rate hedge.

The weighted average interest rate of fixed rate financial liabilities at 31 October 2008 was 6.2% (2007: 5.7%) and the weighted average period of funding was six years (2007: five years).

Derivative financial instruments

The Group has three amortising interest rate swaps, from floating to fixed rate; one that expires in 2011 at a rate of 5.41% (sterling), one that expires in 2012 at a rate of 4.35% (Euro) and one that expires in 2012 at a rate of 5.495% (NOK). The fair value of interest rate swaps recognised on the Balance Sheet at 31 October 2008 was £1.2 million liability (2007: £0.6 million asset). The Group also has four forward exchange contracts with a fair value of £1.2 million liability (2007: £0.3 million asset). The total of these financial instruments is £2.4 million liability (2007: £0.9 million asset) and is recorded in reserves.

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

	2008 Total £m	2007 Total £m
Interest rate swaps	(1.2)	0.6
Forward exchange contracts	(1.2)	0.3
Forward currency structure derivatives	(8.7)	–
	(11.1)	0.9
Analysed as:		
	2008 Total £m	2007 Total £m
Included in (current liabilities)/assets	(8.1)	0.9
Included in non-current liabilities	(3.0)	–
	(11.1)	0.9

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

24. Financial instruments and risk management continued**Credit risk**

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

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

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

Capital management

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

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

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

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

25. Provisions

	Environmental provisions £m	Warranty provisions £m	Other provisions £m	Total £m
At 1 November 2007	–	1.6	0.1	1.7
Arising on acquisition of subsidiary undertaking	4.1	–	–	4.1
Effect of foreign exchange movements	0.9	–	–	0.9
Utilised in the year	–	(0.8)	–	(0.8)
At 31 October 2008	5.0	0.8	0.1	5.9
Analysed as:				
			2008 £m	2007 £m
Included in current liabilities			1.5	0.4
Included in non-current liabilities			4.4	1.3
			5.9	1.7

The warranty provisions at 31 October 2008 are held by Simmel Difesa S.p.A. and represent management's best estimate of the Group's liability under six year warranties granted, based on past experience for defective products.

The environmental provisions at 31 October 2008 are held by Scot, Inc. and represent management's best estimate of the liability based on certain environmental liabilities pre-dating the acquisition (see Note 33).

Notes to the Group Financial Statements

26. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Tax losses £m	Other £m	Total £m
At 1 November 2006	6.7	(4.7)	(1.2)	(0.9)	(0.1)
(Credit)/charge to income	(0.2)	0.1	0.5	0.7	1.1
Charge/(credit) to equity	–	1.5	–	(1.0)	0.5
Amounts arising on acquisition of subsidiary undertakings	0.3	(0.4)	–	2.2	2.1
Foreign exchange movements	(0.4)	–	–	(0.2)	(0.6)
At 1 November 2007	6.4	(3.5)	(0.7)	0.8	3.0
Charge/(credit) to income	3.1	(0.3)	(0.9)	(0.7)	1.2
Charge to equity	0.5	–	–	3.0	3.5
Amounts arising on acquisition of subsidiary undertakings	0.1	–	–	(0.5)	(0.4)
Foreign exchange movements	(0.7)	–	–	1.0	0.3
At 31 October 2008	9.4	(3.8)	(1.6)	3.6	7.6

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:

	2008 £m	2007 £m
Deferred tax liabilities	17.3	12.1
Deferred tax assets	(9.7)	(9.1)
	7.6	3.0

At the Balance Sheet date the Group had unrecognised tax losses of £8.4 million (2007: £16.8 million) potentially available for offset against future profits in certain circumstances. No deferred tax asset has been recognised in respect of this amount because of the unpredictability of future qualifying profit streams. These losses can be carried forward indefinitely.

27. Share capital

	2008 £m	2007 £m
Authorised		
43,000,000 ordinary shares of 5p each	2.2	2.2
Issued and fully paid		
35,535,699 (2007: 32,691,127) ordinary shares of 5p each	1.8	1.6

On 2 November 2007, 50,107 ordinary shares were issued at a market value of £1.0 million to partially fund the acquisition of Richmond Electronics & Engineering Limited.

On 27 June 2008, 1,111,112 ordinary shares were issued by way of a placing for cash to retrospectively fund the acquisition of Scot, Inc. and on 1 August 2008, a further 1,555,555 ordinary shares were issued as a vendor placing to fund the acquisition of Martin Electronics, Inc. The total net proceeds, after issue costs of £2.0 million, were £58.0 million.

A further 127,798 (2007: 82,500) ordinary shares were issued for a cash consideration of £0.5 million under the Group's executive share schemes.

The Company's authorised share capital also includes 62,500 7% cumulative preference shares of £1 each, which are all issued and fully paid-up, and are classified for accounting purposes within non-current liabilities.

28. Reserves

	Share premium account £m	Special capital reserve £m	Hedging reserve £m	Revaluation reserve £m	Retained earnings £m	Total £m
At 1 November 2006	53.6	12.9	0.2	1.6	23.9	92.2
Ordinary shares issued	6.9	–	–	–	–	6.9
Profit after tax for the year	–	–	–	–	32.0	32.0
Minority interest	–	–	–	–	0.1	0.1
Dividends paid	–	–	–	–	(6.0)	(6.0)
Net cost of share-based payments	–	–	–	–	0.9	0.9
Actuarial gain net of tax	–	–	–	–	2.9	2.9
Increase in fair value of cash flow hedging derivatives	–	–	0.2	–	–	0.2
Foreign exchange translation losses	–	–	–	–	(7.0)	(7.0)
Tax credits on items taken direct to reserves	–	–	–	–	3.0	3.0
At 1 November 2007	60.5	12.9	0.4	1.6	49.8	125.2
Ordinary shares issued	59.3	–	–	–	–	59.3
Profit after tax for the year	–	–	–	–	41.2	41.2
Dividends paid	–	–	–	–	(9.3)	(9.3)
Net cost of share-based payments	–	–	–	–	1.2	1.2
Actuarial gain net of tax	–	–	–	–	(0.1)	(0.1)
Decrease in fair value of cash flow hedging derivatives	–	–	(3.0)	–	–	(3.0)
Foreign exchange translation gains	–	–	–	–	24.8	24.8
Transfers between reserves	–	–	–	(0.1)	0.1	–
Tax debits on items taken direct to reserves	–	–	–	–	(4.8)	(4.8)
At 31 October 2008	119.8	12.9	(2.6)	1.5	102.9	234.5

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

Included within retained earnings are £1.1 million of retained profits (2007: £1.1 million) relating to the associated undertaking and £0.1 million (2007: £0.1 million) of the Company's own shares held by the Group's ESOP trustees.

29. Statement of changes in equity

	2008 £m	2007 £m
Total recognised income and expense for the year (see page 54)	58.1	31.1
Dividends	(9.3)	(6.0)
	48.8	25.1
Ordinary shares issued	0.2	–
Share premium arising	59.3	6.9
Net cost of share-based payments	1.2	0.9
Purchase of minority interest	–	(0.2)
Own shares	(2.9)	(2.8)
Net addition to shareholders' funds	106.6	29.9
Opening shareholders' funds	124.0	94.1
Closing shareholders' funds	230.6	124.0

Equity comprises share capital, share premium and retained earnings.

Notes to the Group Financial Statements

30. Own shares

	2008 £m	2007 £m
Balance at 1 November 2007	2.8	–
Acquired in the year	2.9	2.8
Balance at 31 October 2008	5.7	2.8

The own shares reserve represents the cost of shares in Chemring Group PLC purchased in the market and held by the Group to satisfy options under the Group's share-based incentive schemes (see Note 32). During the year 160,000 (2007: 150,000) ordinary shares were acquired. This represents 0.87% of the total issued and fully paid ordinary share capital.

31. Obligations under non-cancellable operating leases

	2008 £m	2007 £m
Minimum lease payments under operating leases recognised in the Income Statement in the year	1.3	1.8

At the Balance Sheet date the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2008 £m	2007 £m
Within one year	1.1	0.9
Two to five years	1.5	2.6
More than five years	–	–
	2.6	3.5

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

32. Share-based payments

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

Details of the four schemes which operated during the year are as follows:

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

Under the PSP, conditional awards of ordinary shares are made at nil cost. Awards vest on the third anniversary of the award date. The scheme commenced in March 2006.

	Number of conditional shares awarded	
	2008	2007
Outstanding at beginning of year	228,096	128,676
Awarded during the year	98,771	99,420
Lapsed during the year	(16,124)	–
Outstanding at end of year	310,743	228,096
Subject to vesting at end of year	–	–

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

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

- Dividend growth at 5% per annum (2007: growth at 5% per annum);
- weighted average cost of capital 10%.

The weighted average fair value of awards made during the year was 1,813.8p (2007: 1,661.5p)

32. Share-based payments continued

Restricted share award

A one-time award of 125,000 restricted ordinary shares at nil cost was made to Dr David Price on 4 April 2005, shortly after he took up his appointment as Chief Executive. 50% of the award vested in March 2006 and 50% in March 2007. There were no awards made during the year ended 31 October 2008 (2007: No awards).

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

Under the 1998 ESOS options are granted at a price not less than the market value of the Group's ordinary shares on the date the options are granted.

	Number of share options	2008 Weighted average exercise price Pence	Number of share options	2007 Weighted average exercise price Pence
Outstanding at beginning of year	177,798	598.5	197,798	512.0
Granted during the year	–	–	–	–
Exercised during the year	(127,798)	451.8	(20,000)	384.5
Outstanding at end of year	50,000	973.0	177,798	598.5
Exercisable at end of year	–	–	75,000	436.5

Share options were exercised throughout the year and the average share price was 2,324.5p (2007: 1,856.3p). The options outstanding at the end of the year have an exercise price of 973.0p.

The compensation expense recognised in respect of share options is based on their fair value at the grant date calculated using the Black-Scholes option pricing model.

No options were granted during the year. The Group recognised total expenses of £1.7 million (2007: £1.4 million) in respect of share-based payment transactions during the year.

A £3.4 million (including employers' national insurance) final settlement of The Chemring Group Phantom Share Option Scheme was made in November 2007. Expenses of £nil (2007: £1.0 million) were recognised during the year relating to this scheme.

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

The UK Sharesave Plan was launched during the year and the first tranche of options was granted on 1 August 2008.

	Number of options granted	
	2008	2007
Outstanding at beginning of year	–	–
Granted during the year	51,416	–
Lapsed during the year	(241)	–
Outstanding at end of year	51,175	–
Subject to exercise at end of year	–	–

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

The US Stock Purchase Plan was also launched during the year and the first tranche of options was granted on 16 September 2008. This plan has been introduced to provide US employees with the opportunity to share in the future success of the Group and mirrors the UK Sharesave Plan subject to certain legal and tax differences due to the differing jurisdictions.

	Number of options granted	
	2008	2007
Outstanding at beginning of year	–	–
Granted during the year	6,953	–
Outstanding at end of year	6,953	–
Subject to exercise at end of year	–	–

Notes to the Group Financial Statements

33. Acquisitions

The following acquisitions were completed during the year ended 31 October 2008:

Name of business acquired	Activity	Date of acquisition	Proportion of shares acquired %	Cost of acquisition £m
Richmond Electronics & Engineering Ltd	Energetics	2 Nov 2007	100	12.5
Titan Dynamics Systems, Inc.	Energetics	17 Mar 2008	100	2.6
Scot, Inc.	Energetics	2 Jul 2008	100	20.8
Martin Electronics, Inc.	Energetics	1 Aug 2008	100	37.1
				73.0
Satisfied by:				£m
Cash				72.0
Share issue to the vendors of Richmond Electronics & Engineering Ltd				1.0
				73.0
Reconciliation to cash flow statement:				£m
Cash paid for acquisitions in the year*				(72.0)
Cash acquired				3.8
Net cash outflow				(68.2)

*Includes £36.7 million funded by way of a vendor placing of ordinary shares for the acquisition of Martin Electronics, Inc.

An analysis of the net assets acquired of Scot, Inc. is shown below:

	Book value £m	Fair value adjustments £m	Fair value £m
Intangible assets	–	10.1	10.1
Property, plant and equipment	1.2	–	1.2
Deferred tax	–	1.7	1.7
Inventories	2.2	(0.5)	1.7
Trade and other receivables	1.0	–	1.0
Bank and cash balances*	0.3	–	0.3
Trade and other payables	(1.3)	(0.2)	(1.5)
Provisions	(0.6)	(3.5)	(4.1)
Net assets acquired	2.8	7.6	10.4
Goodwill arising on acquisition of Scot, Inc.	–	10.4	10.4
Total	2.8	18.0	20.8
			£m
Consideration			
Cash			20.4
Costs			0.4
Total			20.8

*Includes £0.3 million of restricted cash

Other than the IFRS3 valuation of acquired intangibles, the main fair value adjustment was the increase of an environmental provision by £3.5 million for certain environmental liabilities pre-dating the acquisition.

33. Acquisitions continued

An analysis of the net assets acquired of Martin Electronics, Inc. is shown below:

	Book value £m	Fair value adjustments £m	Fair value £m
Intangible assets	–	21.3	21.3
Property, plant and equipment	1.0	4.2	5.2
Deferred tax	–	0.1	0.1
Inventories	5.1	(0.4)	4.7
Trade and other receivables	3.3	(0.2)	3.1
Bank and cash balances	0.8	–	0.8
Trade and other payables	(2.3)	–	(2.3)
Net assets acquired	7.9	25.0	32.9
Goodwill arising on acquisition of Martin Electronics, Inc.	–	4.2	4.2
Total	7.9	29.2	37.1

£m

Consideration

Cash	36.7
Costs	0.4
Total	37.1

Other than the IFRS3 valuation of acquired intangibles the other significant adjustment was the revaluation of the land and buildings. An external consultancy company was appointed and a fair value adjustment of £4.2 million was made.

An analysis of the net assets acquired of Richmond Electronics & Engineering Ltd and Titan Dynamics Systems, Inc. is shown below:

	Book value £m	Fair value adjustments £m	Fair value £m
Intangible assets	0.2	6.0	6.2
Property, plant and equipment	1.7	–	1.7
Bank and cash balances	2.7	–	2.7
Working capital	(0.1)	(0.4)	(0.5)
Deferred tax	(0.1)	(1.9)	(2.0)
Provisions falling due within one year	(0.1)	(1.0)	(1.1)
Net assets acquired	4.3	2.7	7.0
Goodwill	–	8.1	8.1
Total	4.3	10.8	15.1

£m

Consideration

Cash	13.5
Share issue	1.0
Costs	0.6
Total	15.1

Adjustments from book value to fair value arise principally from the application of Group accounting policies and the recognition of intangible assets under IFRS3 *Business Combinations and Fair Value Adjustments to Inventories, Receivables, Property, Plant and Equipment*. Intangible assets relate principally to customer relationships, order book and trademarks (see Note 14). Fair values relating to the acquisition of Titan Dynamics Systems, Inc., Scot, Inc. and Martin Electronics, Inc. are provisional and will be finalised within one year of the acquisition date.

Costs include those legal and accounting costs incurred in developing the acquisition contracts and performing due diligence activities.

Notes to the Group Financial Statements

33. Acquisitions continued

All intangible assets were recognised at their respective fair values. The residual excess of total cost over the fair value of net assets acquired is recognised as goodwill in the financial statements. Goodwill represents the value of synergies and assembled workforces acquired.

The acquisitions during the year contributed £19.6 million of revenue and £3.2 million to the Group's profit before tax for the period between the date of acquisition and the Balance Sheet date.

If the acquisitions had been completed on the first day of the financial year, Group revenues and profits before tax for continuing activities for the year would have been approximately £381.2 million and £78.4 million respectively. This information is not necessarily indicative of the results of operations that would have occurred had the operations been acquired at the start of the year, nor of the future results of the combined operations.

34. 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:

	2008 £m	2007 £m
Revenue	–	3.8
Expenses	–	(4.0)
Trading loss	–	(0.2)
Loss on disposal	–	(1.5)
Loss before tax	–	(1.7)
Tax	–	(0.2)
Loss after tax for the year	–	(1.9)
Cash flows from discontinued operations		
Net cash used on operating activities	–	(0.9)
Net cash used on investing activities	–	(0.1)
Total	–	(1.0)

35. Pensions

Within the UK the Group operates two defined benefit schemes, the Chemring Group Staff Pension Scheme (the "Staff Scheme") and the Chemring Group Executive Pension Scheme (the "Executive Scheme"), as detailed below. In Germany, Chemring Defence Germany GmbH operates a defined benefit scheme (the "Chemring Defence Germany Pension Scheme") and in Norway, Chemring Nobel AS operates a defined benefit scheme (the "Chemring Nobel Scheme"). The other UK and overseas arrangements are all defined contribution schemes.

The Staff Scheme and Executive Scheme are funded schemes and the assets of the schemes are held in separate trustee administered funds. Full actuarial valuations for the Staff Scheme and the Executive Scheme as at 6 April 2006 have been prepared and updated to 31 October 2008 by a qualified actuary, using the projected unit credit method.

The Staff Scheme triennial valuation at 6 April 2006 was signed off by the trustees and the Company on 18 February 2008. The ongoing contributions were reduced. However the Group agreed to provide a £6.0 million bank guarantee to the Staff Scheme, to be drawn upon in certain events of default by the Company. In addition £5.0 million was placed in an escrow account to provide additional security to the Trustees in the event of a default (see Note 20).

The Executive Scheme triennial valuation at the same date was signed off by the trustees and Company on 5 October 2007.

The Chemring Defence Germany Pension Scheme is an unfunded scheme. The actuarial liability has been calculated at 31 October 2008 by a qualified actuary using the projected unit credit method. The main assumptions used were a discount rate of 5.3%, inflation rate of 1.8% and rate of increase in deferred pensions of 0%. The net deficit of the Chemring Defence Germany Pension Scheme was £1.1 million at 31 October 2008 (2007: £0.8 million).

The Chemring Nobel Scheme is an unfunded scheme. The actuarial liability has been calculated at 31 October 2008 by a qualified actuary using the projected unit credit method. The main assumptions used were a discount rate of 4.5%, inflation rate of 2.75% and rate of increase in deferred pensions of 1.5%. The net deficit of the Chemring Nobel Scheme was £1.4 million at 31 October 2008

35. Pensions continued

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

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

Analysis of the net liabilities recognised are as follows:

	2008 £m	2007 £m	Change £m
Chemring Group Staff Pension Scheme	(9.7)	(9.5)	(0.2)
Chemring Group Executive Pension Scheme	(1.4)	(1.6)	0.2
Chemring Defence Germany Pension Scheme	(1.1)	(0.8)	(0.3)
Chemring Nobel AS Pension Scheme	(1.4)	(1.4)	–
Net liability recognised in the Balance Sheet	(13.6)	(13.3)	(0.3)

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

	2008 £m	2007 £m
Amounts included within operating profit:		
Current service cost	(0.9)	(1.0)
Amounts included as other finance costs:		
Expected return on scheme assets	2.0	1.9
Discount on scheme liabilities	(2.7)	(2.5)
	(0.7)	(0.6)
Net charge	(1.6)	(1.6)

Amounts recognised in the Statement of Recognised Income and Expense (SORIE) are as follows:

	2008 £m	2007 £m
(i) scheme assets at the Balance Sheet date;		
(ii) present value of the scheme liabilities at the Balance Sheet date.		
Actual return less expected return on pension scheme assets (i)	(9.9)	0.3
Experience (losses)/gains arising on scheme liabilities (ii)	–	–
Changes in assumptions underlying the present value of the scheme liabilities (ii)	9.8	4.1
Actuarial (loss)/gain recognised in SORIE	(0.1)	4.4

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

	2008 £m	2007 £m
Opening defined benefit obligations	(48.3)	(48.5)
Opening adjustment to Chemring Nobel defined benefit obligations	(0.7)	–
Arising from business combinations	–	(1.4)
Service cost	(0.9)	(1.0)
Interest cost	(2.7)	(2.5)
Contributions from scheme members	(0.6)	(0.5)
Actuarial gains and losses	9.8	4.1
Benefits paid	1.4	1.5
Closing defined benefit obligation	(42.0)	(48.3)

Notes to the Group Financial Statements

35. Pensions continued

Movements in the fair value of the scheme assets were as follows:

	2008 £m	2007 £m
Opening fair value of scheme assets	35.0	32.2
Opening adjustment of Chemring Nobel scheme assets	0.7	–
Expected return on scheme assets	2.0	1.9
Actuarial gains and losses	(9.9)	0.3
Contributions from scheme members	0.6	0.5
Contributions from sponsoring companies	1.4	1.6
Benefits paid	(1.4)	(1.5)
	28.4	35.0

The total scheme assets updated to 31 October along with the expected rates of return on assets were as follows:

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

The expected rates of return are determined by reference to relevant published indices. The overall expected rate of return is calculated by weighting the individual rates in accordance with the anticipated balance in the scheme's investment portfolio. History of experience gains and losses:

	IFRS 2008 £m	IFRS 2007 £m	IFRS 2006 £m	IFRS 2005 £m	UK GAAP 2004 £m
Present value of funded obligations	(42.0)	(48.3)	(48.5)	(47.6)	(38.8)
Fair value of scheme assets	28.4	35.0	32.2	27.4	22.7
Deficit in the schemes	(13.6)	(13.3)	(16.3)	(20.2)	(16.1)
Experience gains/(losses) on scheme liabilities	–	–	5.5	(0.3)	(0.9)
Percentage of scheme liabilities	–	–	11.2%	0.7%	2.3%
Experience (losses)/gains on scheme assets	(9.9)	0.3	2.2	2.2	(0.4)
Percentage of scheme assets	(34.9)%	0.9%	6.9%	8.0%	1.6%

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

	2008 £m	2007 £m
Opening deficit in schemes	(13.3)	(16.3)
Arising from business combinations	–	(1.4)
Current service cost	(0.9)	(1.0)
Contributions	1.4	1.6
Other finance costs	(0.7)	(0.6)
Actuarial (loss)/gain	(0.1)	4.4
Closing deficit in the schemes	(13.6)	(13.3)

The principal assumptions used in the actuarial valuations were as follows:

	2008	2007
Discount rate	7.4%	5.8%
Rate of increase in salaries	4.95%	4.6%
Rate of increase in deferred pensions	3.4%	3.1%
Rate of increase in pensions in payment (where applicable)	3.4%	2.3%
Inflation assumption	3.45%	3.1%
Expected return on scheme assets	7.3%	6.2%

35. Pensions continued

In determining the pension liabilities the Group uses mortality assumptions which are based on published mortality tables. For both the Staff Scheme and the Executive Scheme the actuarial table currently used is PA92(YOB)MC+1.

The assumption considered to be the most significant is the discount rate adopted. If the discount rate in the schemes were to change by 0.1% then it is predicted that the deficit in the schemes would change by approximately £0.7 million.

The Group anticipates contributions to the defined benefit schemes for the year ending 31 October 2009 will be £1.7 million (2007: 1.7 million).

36. Self insurance

The Group is self insured through its captive insurance company CHG Insurance Limited, based in Guernsey. The Group has been self insured for the first £2.5 million of material damage and business interruption cover, subject to a maximum liability of £3.5 million in any one year since 31 October 2001. Insurance cover in respect of this risk at a level over that disclosed here is placed with external insurers.

37. Insurance claim

During the year the case against the Group's former insurance broker for alleged negligence in relation to an insurance claim was settled. At the beginning of the year, the balance of the claim that had not been recovered from the broker was £2.4 million. After incurring legal costs in the year of £0.6 million, releasing a specific provision of £0.4 million and a related tax reserve of £0.8 million, a net write-off of £0.6 million was charged to unallocated head office costs in Note 5 following settlement.

38. Related party transactions

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

Trading transactions

There are no trading activities between the Group and its associate.

Remuneration of key management personnel

The remuneration of the executive directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS24 *Related Party Disclosures*. Further information on the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 44 to 46.

The directors of the Company had no material transactions with the Company during the year other than as a result of service agreements.

The remuneration of the executive directors is determined by the Remuneration Committee having regard to the performance of individuals and the market trends.

	2008 £m	2007 £m
Remuneration of the executive directors	0.9	0.8
Share-based payments	0.1	0.3
Total	1.0	1.1

39. Post balance sheet events**Acquisition of Non-Intrusive Inspection Technology, Inc. ("NIITEK")**

On 12 December 2008 the Group completed the purchase of the entire stock capital of NIITEK for an initial consideration of \$30 million. Further deferred contingent consideration of up to \$10 million is payable upon achievement of certain financial targets.

Full disclosure of the acquisition and the analysis of assets acquired will be included in the 2009 Interim Report.