

Notes to the Group Financial Statements

1. General information

Chemring Group PLC is a company incorporated in England and Wales under registration number 86662. The address of the registered office is Chemring House, 1500 Parkway, Whiteley, Fareham, Hampshire, PO15 7AF. The nature of the Group's operations and its principal activities are set out in Note 5 and in the Directors' Report on pages 36 to 38. These financial statements are the consolidated financial statements of Chemring Group PLC and its subsidiaries ("the Group").

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

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Group has adequate resources to continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Statement on Corporate Governance on page 51.

2. Adoption of new and revised standards

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

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

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

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

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

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

3. Accounting policies

Basis of preparation

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

Basis of accounting

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

Accounting convention

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

Basis of consolidation

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

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

Operating profit

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

Revenue recognition

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

Investment income

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

Acquisitions

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

Where the fair value of the net assets exceeds the cost, the difference is recorded directly in the Income Statement.

The accounting policies of subsidiaries are changed where necessary to be consistent with those of the Group.

Intangible assets

Goodwill

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

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

Patents and trademarks

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

Property, plant and equipment

Other than historically revalued land and buildings, property, plant and equipment are held at cost less accumulated depreciation and any recognised impairment loss. Borrowing costs on significant capital expenditure projects since 1 November 2008 are capitalised and allocated to the cost of the project. No depreciation is provided

on freehold land. On other assets depreciation is provided at rates calculated to write down their cost or valuation to their estimated residual values by equal instalments over their estimated useful economic lives, which are considered to be:

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

Impairment of non-current assets

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

Inventories

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

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

Borrowing costs

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

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

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

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

Government grants

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

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

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

Notes to the Group Financial Statements

3. Accounting policies continued

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

Tax

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

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

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

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

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

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

Special capital reserve

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

Foreign currencies

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

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each Balance Sheet

date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the Balance Sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

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

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

Financial instruments

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

Financial assets

Trade receivables

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

Cash and cash equivalents

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

Financial liabilities and equity instruments

Financial liabilities

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

Bank borrowings

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

Trade payables

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

Retirement benefit costs

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

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

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

Leased assets

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

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

Share-based compensation

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

For grants made under the Group's share-based compensation schemes, the fair value is calculated at the grant date with

changes in the fair value recognised in the Income Statement on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest. The valuation of the options utilises a methodology based on the Black-Scholes model.

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

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

Provisions

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

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

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

Restructurings

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

Warranties

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

Post balance sheet events

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

Critical accounting judgements and key sources of estimation uncertainty

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

Notes to the Group Financial Statements

3. Accounting policies continued

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

Goodwill

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

Intangible assets acquired in business combinations

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

Pensions

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

4. Revenue

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

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

5. Business and geographical segments

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

Principal activities are as follows:

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

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

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

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

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

Restructuring costs

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

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

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

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

Notes to the Group Financial Statements

5. Business and geographical segments continued

Geographical segments

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

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

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

6. Operating profit

The following table shows a reconciliation of cost by function:

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

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

Operating profit is stated after charging/(crediting):

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

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

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

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

Corporate finance services above relate to fees for acquisitions and disposals. Included in the Group audit fees is £0.1 million (2008: £0.1 million) paid in respect of the parent company.

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

During the year the Group incurred professional fees with other accountancy firms for the provision of corporate finance services of £0.3 million (2008: £0.1 million).

7. Staff costs

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

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

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

The costs incurred in respect of these employees were:

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

8. Finance income

	2009 £m	2008 £m
Interest income	0.7	1.8

9. Finance expense

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

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

Notes to the Group Financial Statements

10. Tax

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

Income tax in the UK is calculated at 28% (2008: 28.83%) of the estimated assessable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

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

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

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

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

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

11. Dividends

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

The proposed final dividend in respect of the year ended 31 October 2009 of 36p per share will, if approved, absorb approximately £12.7 million of shareholders' funds. The dividend is subject to approval by shareholders at the Annual General Meeting and accordingly has not been included as a liability in these financial statements.

12. Earnings per share

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

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

From continuing operations

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

The number of shares in issue differs from the number held by third parties due to the fact that the Group holds Chemring Group PLC shares in treasury. Further information on the treasury shares is given in Note 30.

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

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

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

13. Goodwill

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

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

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

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

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

The recoverable amounts of the CGU are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, the growth rates and expected changes to selling prices and direct costs during the period for which management have detailed plans. Management estimates discount rates using pre-tax rates that reflect current market

Notes to the Group Financial Statements

13. Goodwill continued

assessments of the time value of money and the risks specific to the CGU being measured (the weighted average cost of capital "WACC"). The discount rate used for both divisions is 7.5% (2008: 10.0%). The calculation has used the Group's plan figures for the next five years. At the end of five years, it assumes the performance of the Group companies will continue in perpetuity at the fifth year level. The growth rates are based on a prudent view of industry growth forecasts, adjusted for a premium associated with the high technological nature of the businesses. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market. The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next five years and extrapolates cash flows after that period based on growth as described above. Following a detailed review, no impairment losses for continuing operations have been recognised in the year and no prior impairment losses reversed.

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

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

14. Other intangible assets

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

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

* Other intangibles comprise development costs, patents and licences.

** See Note 33.

15. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost or valuation			
At 1 November 2007	37.2	61.0	98.2
Additions	11.6	19.4	31.0
Acquired on acquisition of subsidiary undertakings	5.9	2.1	8.0
Disposals	-	(2.7)	(2.7)
Foreign exchange adjustments	5.6	13.2	18.8
At 1 November 2008	60.3	93.0	153.3
Additions	6.0	27.4	33.4
Transfer	-	2.3	2.3
Acquired on acquisition of subsidiary undertakings	-	0.4	0.4
Disposals	-	(0.8)	(0.8)
Foreign exchange adjustments	2.8	2.0	4.8
At 31 October 2009	69.1	124.3	193.4
Accumulated depreciation			
At 1 November 2007	4.4	24.0	28.4
Charge for the year	1.8	7.9	9.7
Disposals	-	(2.6)	(2.6)
Foreign exchange adjustments	1.0	6.4	7.4
At 1 November 2008	7.2	35.7	42.9
Charge for the year	2.5	10.8	13.3
Impairment charge	1.1	-	1.1
Disposals	-	(0.2)	(0.2)
Foreign exchange adjustments	(0.2)	1.5	1.3
At 31 October 2009	10.6	47.8	58.4
Carrying amount			
At 31 October 2009	58.5	76.5	135.0
At 31 October 2008	53.1	57.3	110.4

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

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

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

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

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

All other tangible fixed assets are stated at historical cost.

Notes to the Group Financial Statements

15. Property, plant and equipment continued

At 31 October 2009 the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £14.0 million (2008: £1.1 million). The Group is conducting two major investment programmes for new countermeasures facilities at Salisbury, UK and Lara, Australia. The Group has committed to spending £13.0 million in respect of these projects.

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

16. Subsidiary undertakings

All subsidiary undertakings have been included in the consolidation. The undertakings held at 31 October 2009 which, in the opinion of the directors, principally affected the results for the year or the net assets of the Group are shown below.

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

17. Interest in associate

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

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

18. Inventories

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

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

19. Trade and other receivables

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

All amounts shown above are due within one year.

The average credit period taken on sales of goods, adjusted for Group revenue had the acquisitions taken place on the first day of the financial year, is 61 days (2008: 77 days). No interest is charged on the receivables from the date of invoice to payment.

The Group's policy is to provide in full for debtors greater than 120 days beyond agreed terms, unless extenuating circumstances exist. The Group does not experience significant bad debt write-offs and hence no movement schedule for the allowance for doubtful debts has been provided due to its immaterial level in 2009 and 2008. An ageing analysis has not been shown as all significant overdue receivables are covered by the allowance for doubtful debts provision above.

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

20. Cash and cash equivalents

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

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

21. Bank loans and overdrafts

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

Notes to the Group Financial Statements

21. Bank loans and overdrafts continued

The weighted average interest rates paid were as follows:

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

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

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

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

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

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

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

22. Obligations under finance leases

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

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

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

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

23. Trade and other payables

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

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

24. Financial instruments and risk management

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

Market risk

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

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

Foreign currency risk management

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

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

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

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

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

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

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

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

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

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

Notes to the Group Financial Statements

24. Financial instruments and risk management continued

At the year end, there was one US dollar structure in place which was set up to protect the Income Statement from currency fluctuations during 2009 and through to October 2011, and provides an economic hedge. The structure involves a cap and a collar, which lock in the exchange rates to give the Group the appropriate protection. However, the structure does not give linear relationships with the gain or loss from re-translation of future profits and hence hedge accounting has not been adopted for this financial instrument.

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

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

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

Foreign currency sensitivity analysis

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

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

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

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

Interest rate risk

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

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

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

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

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

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

Liquidity risk

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

	2009				2008			
	Derivative payables £m	Derivative receivables £m	Loans and overdrafts £m	Total £m	Derivative payables £m	Derivative receivables £m	Loans and overdrafts £m	Total £m
Falling due within:								
One year	59.4	(59.0)	34.3	34.7	47.7	(41.2)	19.7	26.2
One to two years	32.8	(32.5)	36.4	36.7	22.1	(19.4)	21.2	23.9
Two to five years	-	-	24.7	24.7	-	-	34.9	34.9
After five years	-	-	87.2	87.2	-	-	107.5	107.5
	92.2	(91.5)	182.6	183.3	69.8	(60.6)	183.3	192.5

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

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

Financial assets held in the UK enjoy a right of interest offset against overdraft balances. Overseas financial assets have a weighted average interest rate of 0.5% (2008: 2.0%). The financial assets for both years are at floating rate.

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

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

A right of offset exists for currency amounts held within the UK by Bank of Scotland. These are used to offset the interest charged on the UK overdraft which bears interest at 1.0% above LIBOR. Cash at bank and in hand consists primarily of overseas funds which are used as short term intra-group financing as well as an internal exchange rate hedge.

The weighted average interest rate of fixed rate financial liabilities at 31 October 2009 was 5.5% (2008: 6.2%) and the weighted average period of funding was five years (2008: six years).

Notes to the Group Financial Statements

24. Financial instruments and risk management continued

Derivative financial instruments

The Group has three amortising interest rate swaps, from floating to fixed rate: one that expires in 2014 at a rate of 3.6-4.76% (sterling); one that expires in 2014 at a rate of 3.67-4.35% (Euro) and one that expires in 2012 at a rate of 5.495% (NOK). The fair value of interest rate swaps recognised on the Balance Sheet at 31 October 2009 was £4.8 million liability (2008: £1.2 million liability). The Group also has two forward exchange contracts with a fair value of £0.2 million asset (2008: £1.2 million liability). The total of these financial instruments is £4.6 million liability (2008: £2.4 million liability) and is recorded in reserves.

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

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

Analysed as:

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

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

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

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

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

Credit risk

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

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

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

Capital management

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

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

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

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

25. Provisions

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

Analysed as:

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

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

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

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

Notes to the Group Financial Statements

26. Deferred tax

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

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

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

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

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

27. Share capital

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

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

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

28. Reserves

	Share premium account £m	Special capital reserve £m	Hedging reserve £m	Revaluation reserve £m	Retained earnings £m	Total £m
At 1 November 2007	60.5	12.9	0.4	1.6	49.8	125.2
Ordinary shares issued	59.3	-	-	-	-	59.3
Profit after tax for the year	-	-	-	-	41.2	41.2
Dividends paid	-	-	-	-	(9.3)	(9.3)
Cost of share-based payments (net of settlements)	-	-	-	-	1.7	1.7
Deferred tax on share-based payment transactions	-	-	-	-	(0.5)	(0.5)
Actuarial gain	-	-	-	-	(0.1)	(0.1)
Decrease in fair value of cash flow hedging derivatives	-	-	(3.8)	-	-	(3.8)
Deferred tax on decrease of cash flow hedges	-	-	0.8	-	-	0.8
Foreign exchange translation gain	-	-	-	-	24.8	24.8
Transfers between reserves	-	-	-	(0.1)	0.1	-
Tax debits on items taken direct to reserves	-	-	-	-	(4.8)	(4.8)
At 1 November 2008	119.8	12.9	(2.6)	1.5	102.9	234.5
Ordinary shares issued	0.5	-	-	-	-	0.5
Profit after tax for the year	-	-	-	-	70.1	70.1
Dividends paid	-	-	-	-	(13.8)	(13.8)
Cost of share-based payments (net of settlements)	-	-	-	-	0.9	0.9
Deferred tax on share-based payment transactions	-	-	-	-	(0.3)	(0.3)
Actuarial loss	-	-	-	-	(14.1)	(14.1)
Deferred tax credit on actuarial loss	-	-	-	-	4.0	4.0
Decrease in fair value of cash flow hedging derivatives	-	-	(1.0)	-	-	(1.0)
Deferred tax on decrease of cash flow hedges	-	-	0.2	-	-	0.2
Foreign exchange translation loss	-	-	-	-	(3.1)	(3.1)
Transfers between reserves	-	-	-	(0.1)	0.1	-
Tax debits on items taken direct to reserves	-	-	-	-	(0.9)	(0.9)
At 31 October 2009	120.3	12.9	(3.4)	1.4	145.8	277.0

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

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

Notes to the Group Financial Statements

29. Statement of changes in equity

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

Equity comprises share capital, share premium and retained earnings.

30. Own shares

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

The own shares reserve represents the cost of shares in Chemring Group PLC purchased in the market and held by the Group to satisfy awards under the Group's share-based incentive schemes (see Note 32). During the year 78,301 (2008: 160,000) ordinary shares were acquired, and 115,170 (2008: nil) ordinary shares were distributed following the vesting of awards under the Chemring Group Performance Share Plan. The total number of ordinary shares held in treasury at 31 October 2009 was 273,131 (2008: 310,000) with an average rate of £18.17 (2008: £18.19) per share. This represents 0.8% of the total issued and fully paid ordinary share capital.

31. Obligations under non-cancellable operating leases

	2009 £m	2008 £m
Minimum lease payments under operating leases recognised in the Income Statement in the year	2.2	1.8

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

	2009 £m	2008 £m
Within one year	0.9	1.1
Two to five years	1.3	1.5
	2.2	2.6

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

32. Share-based payments

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

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

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

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

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

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

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

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

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

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

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

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

Share options were exercised during the year and the average share price was 2,089.5p (2008: 2,324.5p). There were no options outstanding at the end of the year, and this scheme has now terminated.

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

The Group recognised net costs of £2.1 million (2008: £1.7 million) in respect of share-based payment transactions during the year.

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

Options were granted during the year on 31 July 2009.

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

Notes to the Group Financial Statements

32. Share-based payments continued

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

Options were granted during the year on 31 July 2009. This plan provides US employees with the opportunity to share in the future success of the Group and mirrors the UK Sharesave Plan subject to certain legal and tax differences due to the differing jurisdictions.

	Number of share options	
	2009	2008
Outstanding at the beginning of the year	6,960	-
Granted during the year	10,461	6,960
Lapsed during the year	(575)	-
Outstanding at the end of the year	16,846	6,960
Subject to exercise at the end of the year	-	-

33. Acquisitions

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

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

Reconciliation to cash flow statement:

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

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

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

Consideration

	£m
Cash	26.3
Directly attributable costs	0.6
Total	26.9

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

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

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

If the acquisition had been completed on the first day of the financial year, Group revenues and profits before tax for the year would have been approximately £510.4 million and £97.2 million respectively. This information is not necessarily indicative of the results of operations that would have occurred had the operations been acquired at the start of the year, nor of the future results of the combined operations.

34. Pensions

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

In Germany, Chemring Defence Germany GmbH operates a defined benefit scheme (the "Chemring Defence Germany Scheme") and in Norway, Chemring Nobel AS operates a defined benefit scheme (the "Chemring Nobel Scheme"). The other UK and overseas arrangements are all defined contribution schemes.

The Staff Scheme is a funded scheme and the assets of the scheme are held in a separate trustee administered fund. A full actuarial valuation for the Staff Scheme as at 6 April 2006 has been prepared and updated to 31 October 2009 by a qualified actuary, using the projected unit credit method. The main assumptions for the scheme are detailed below.

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

The Chemring Defence Germany Scheme is an unfunded scheme. The actuarial liability has been calculated at 31 October 2009 by a qualified actuary using the projected unit credit method. The main assumptions used were a discount rate of 5.3%, inflation rate of 1.8% and rate of increase in deferred pensions of nil%. The net deficit of the Chemring Defence Germany Scheme was £1.2 million at 31 October 2009 (2008: £1.1 million).

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

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

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

An analysis of the net liabilities recognised is as follows:

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

* Transferred to the Staff Scheme on 6 April 2009

Notes to the Group Financial Statements

34. Pensions continued

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

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

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

(i) scheme assets at the Balance Sheet date;

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

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

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

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

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

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

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

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

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

History of experience gains and losses:

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

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

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

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

	2009 £m	2008 £m
Discount rate	5.6%	7.4%
Rate of increase in salaries	4.5%	4.95%
Rate of increase in deferred pensions	3.45%	3.4%
Rate of increase in pensions in payment (where applicable)	3.45%	3.4%
Inflation assumption	3.5%	3.45%
Expected return on scheme assets	7.3%	7.3%

In determining the pension liabilities the Group uses mortality assumptions which are based on published mortality tables. For the Staff Scheme, the actuarial table currently used is PA92(YOB)MC+1, with a 1% underpin.

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

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

Notes to the Group Financial Statements

35. Self insurance

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

36. Related party transactions

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

Trading transactions

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

Remuneration of key management personnel

The remuneration of the executive directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS24 *Related Party Disclosures*. Further information on the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report on pages 39 to 47.

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

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

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

37. Post balance sheet events

Private placement of loan notes

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

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

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

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

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

Conditional acquisition of The Allied Defense Group, Inc.

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