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Chemring
Group

DELIVERING GLOBAL PROTECTION

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COMPANIES HOUSE

CHEMRING GROUP PLC
ANNUAL REPORT AND
ACCOUNTS 2017

COMPANY REGISTRATION
NUMBER: 00086662

"This year we have delivered a solid performance across the Group. Our Operational Excellence Programme is progressing well with positive results achieved. Major growth programmes continue to progress, underpinning medium term prospects."

Michael Flowers
Group Chief Executive

see page 8

BUILDING MOMENTUM
across our businesses

OVERVIEW

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

ACCOUNTING POLICIES

OTHER INFORMATION

KEY DEVELOPMENTS

- Safety, operational and financial performance improvements continue
- Operating profit growth of 14% to £55.4m
- Earnings per share* increased 25% to 12.9p
- Continued progress on US counter-IED, Chemical and Biological Detection Programs of Record
- Operational Excellence Programme delivering further improvements in safety, knowledge sharing, gross margins and cash generation
- Net debt of £80m reflected solid cash generation across the Group, offset by the investment in working capital in the Energetics segment and the normalisation of supplier payment practices
- Board recommending a final dividend of 2.0p per ordinary share, giving a total dividend of 3.0p per ordinary share (2016: 1.3p)
- Order book at year end of £478m (2016: £593m), fall partly due to FX and fulfilment of large 40mm contracts in Energetics segment. £360m currently due as revenue in FY18, 70% coverage of FY18 targeted revenue

To find out more visit www.chemring.co.uk

2017 PERFORMANCE

REVENUE

£547m

(+15%)

Significant growth in Energetics segment

OPERATING PROFIT*

£55.4m

(+14%)

Improvement reflects site consolidations and focus on operational performance

ORDER BOOK

£478m

(-19%)

Targeted 2018 revenue approximately 70% covered by orders in hand

PROGRESS

Operational momentum of H2 2016 continued and customer deliveries made to plan

SAFETY

Remains our first priority, no injuries resulting from energetic incidents in year

2018 OUTLOOK

Tangible and sustained improvement in operational performance, combined with our Programs of Record underpin short and medium-term confidence in our business

* References to operating profit and earnings per share throughout this strategic report are to underlying measures, see note 3 for a reconciliation to statutory measures

CHAIRMAN'S STATEMENT

2017 has seen the Group build upon many of the efforts of previous years and deliver a strong and consistent performance across all operational and functional areas.

Carl-Peter Forster
Chairman

Operating profit*

£55.4m

(2016: £48.5m)

for more information see page 19

2017 PERFORMANCE

In 2017 the Group has focused on maintaining and developing a safe and sustainable business and by investing in our infrastructure, people and technology, we are creating opportunities to deliver future growth.

Designed to promote collaboration across the Group and deliver tangible improvements in safety, productivity, profitability and working capital, the Operational Excellence Programme was established during the year and is already delivering benefits. Safety maturity, engineering maturity and LEAN roll out is ongoing, with these workstreams, combined with the enhancement of our procurement function, expected to deliver financial returns in 2018 and beyond.

Historically, Chemring operated in an environment where the individual business units largely operated in isolation from one another. Perhaps the most rewarding aspect therefore, has been the way in which the programme has been embraced across the entire Group and a culture of close collaboration is being established. While still in its early stages, the Programme is already delivering benefits with best practice being shared and the Group working towards a common purpose - engineering critical solutions that protect and safeguard in an uncertain world.

Other initiatives designed to underpin future efficiency have also delivered solid progress. Site consolidation activities have continued to plan with the closure of the second countermeasures manufacturing facility in Philadelphia completed this year, as well as minor site closures in Charlottesville and Tallahassee. The closure of the California facility remains on track for completion in 2018.

The Group has maintained its position and investment in the US Programs of Record, all of which are progressing positively. Extensive trials and development effort continue on the Husky Mounted Detection System ("HMDS") counter-IED program, with fleet refurbishment and expansion contracts anticipated in 2018. Tendering activity for future stages of the Next Generation Chemical Detector ("NGCD") program is ongoing, with contract awards anticipated in 2018. The Joint Biological Tactical Detection System ("JBTDS") program has progressed through Critical Design Review and now moves into customer testing prior to moving into production phases. Success on these programs remains a key driver of the Group's future growth.

Chemring's trading environment started to show signs of recovery in 2017, particularly in the dominant US market, with this recovery coinciding with improved operational performance and a strengthened balance sheet. Despite continued geopolitical instability, this has enabled the Group to deliver a solid set of results in 2017 and it is well positioned to capitalise on future opportunities.

Revenue increased 15% to £547.5m (2016: £477.1m) and underlying operating profit increased 14% to £55.4m (2016: £48.5m) and it was pleasing to see an improvement in the first half / second half split, as operational performance became more consistent. The closing order book of £478.0m (2016: £592.9m) provides good visibility of 2018 revenue, particularly in the Countermeasures segment which saw strong order intake in the second half of the year

STRATEGY

The Group's strategy is to be a market leader in our chosen niche markets, with operationally excellent execution, delivering better than average margins.

We are clearly at the start of the journey to deliver this vision. In a number of our markets we are either market leader, or one of the market leaders. In others we have the opportunity to take a significant share through securing long-term Programs of Record. The Operational Excellence Programme is focused on production efficiencies, waste reduction, more efficient working capital management and delivering margin improvement through continuous improvement in operational performance and execution.

SAFETY

Safety underpins all that we do and, as always, remains an absolute priority for the Group. As a Board we continue to drive investment and improvement in this area while fostering a culture of safety awareness. While there is never room for complacency, it was pleasing to note that there were no serious injuries sustained by any employee during the year. The one energetic incident of note could have been more serious were it not for the investment made in recent years in automation and removing employees from harm's way.

EMPLOYEES

The Board has visited several sites throughout the year, spending time at each with a number of our employees. We are continually impressed by the knowledge and expertise of our entire workforce, and the commitment they show in meeting the needs of our customers.

In particular, in 2017 our employees have risen to the challenge of embracing the Operational Excellence Programme and on behalf of the Board I thank them for their high level of commitment and enthusiasm.

DIVIDENDS

The Board is recommending a final dividend in respect of the year ended 31 October 2017 of 2.0p (2016: 1.3p) per ordinary share. With the interim dividend of 1.0p per share (2016: nil), this results in a total dividend of 3.0p (2016: 1.3p) per ordinary share.

If approved, the final dividend will be paid on 20 April 2018 to shareholders on the register on 6 April 2018.

In accordance with accounting standards, this final dividend has not been recorded as a liability as at 31 October 2017.

BOARD OF DIRECTORS

Andrew Lewis joined the Group on 9 January 2017 and was appointed to the Board as Group Finance Director on 19 January 2017. Andrew was previously the Group Finance Director of Avon Rubber p.l.c.

The membership of the Group's Board has substantially changed in recent years and this fresh perspective and experience is an invaluable asset as we position the Group to capitalise on the opportunities for future growth.

CURRENT TRADING AND OUTLOOK

Trading since the start of 2018 has been in line with expectations across all businesses.

While we continue to work towards a more balanced delivery of revenue and profit, the expected profile of orders, revenue and margins in 2018, combined with routine seasonality within the business, means that the Group again expects to reflect a significant second-half weighting to trading performance.

The order book as at 31 October 2017 was £478.0m, of which £360.9m is currently expected to be recognised as revenue in 2018.

The order book at 31 December 2017 was £453.8m.

The Board's expectations for the Group's 2018 performance remain unchanged, based on current foreign exchange rates.

Carl-Peter Forster
Chairman
18 January 2018

BUSINESS MODEL

Our core purpose is to engineer critical solutions that protect and safeguard in an uncertain world.

WHAT WE OFFER

Our purpose underpins everything we do across all our business segments – Countermeasures, Sensors and Energetics.

COUNTERMEASURES

Our countermeasures protect aircraft and ships from guided missile attack by decoying the threat away from the platform they are protecting. Our businesses combine a deep understanding of platform signatures, missile seekers and chemical formulations to develop new decoys against new threats. Our factories are designed to protect our workforce from the potentially hazardous materials involved and to produce the large volumes of flares required to support military training and operations.

- More than 50% share of global market
- Sole supplier of F-35 and Typhoon flares

SENSORS

Our sensors protect people, platforms and information by detecting threats with a very high degree of confidence. Our targets include explosive, chemical, biological, radio and cyber threats, which are all becoming more complex, driving a constant need to engineer improved technological solutions to meet customer needs.

- Building export success – over 200 HMDS systems delivered and used by six countries; 150 Resolve Electronic Warfare systems delivered and used by 12 countries
- Developing next generation counter-IED, biological and chemical sensors for three US Programs of Record

ENERGETICS

Our energetic materials, components and products harness the ability of energetic materials to very rapidly release energy to perform any of a number of functions; from propelling an aircraft ejection seat to illuminating a battlefield at night. We are expert at the full range of technical disciplines needed to safely design, develop, test and manufacture our products from our dedicated energetics sites. Our components businesses operate batch production to deliver a very wide variety of products; our products businesses can scale up to deliver very large volumes in batch or continuous production.

- Sole supplier of NASA Standard Initiator
- Components on every single Martin-Baker ejection seat

1.5million
flares produced in 2017

88%
of NATO combat aircraft use our flares

30
countries using our Sensors to detect and protect

60
devices on Mars Rover Programme

1,000
different energetic components in portfolio

56,000
cartridge products delivered per week

WHERE WE OPERATE

We operate in four home markets in the UK, US, Australia and Norway, and export our products and services around the world.

OUR LOCATIONS

OUR BUSINESSES

Our businesses operate in the UK, US, Australia and Norway.

UK

- **Chemring Countermeasures UK** develops and manufactures air and naval countermeasures
- **Chemring Technology Solutions** develops C-IED and EW products
- **Roke** provides contract engineering services
- **Chemring Energetics UK** manufactures energetic components
- **Chemring Defence UK** supplies military pyrotechnics

USA

- **Chemring Countermeasures USA** operates from two sites producing Special Material Decoys (Philadelphia) and conventional flares (Tennessee)
- **Chemring Sensors & Electronic Systems** develops sensors to detect IED, chemical and biological threats
- **Chemring Energetic Devices** manufactures aircraft, missile and space components
- **Chemring Ordnance** manufactures ammunition and military pyrotechnics

AUSTRALIA

- **Chemring Australia** manufactures countermeasures and pyrotechnics and supports other Group products in the region

NORWAY

- **Chemring Nobel** synthesises high-quality explosive materials

OUR CUSTOMERS

Our customers are national defence and security agencies, and defence prime contractors. Our home markets in the UK, US, Australia and Norway represent some of the most demanding users in the world, with well-funded militaries and international credibility which helps achieve export sales.

- 71% of Group sales are to our businesses' home markets
- The US DoD is our largest customer at 36% of Group sales
- No other customer represents more than 10% of Group sales
- UK MOD represents less than 5% of revenues

84%

of Group sales outside the UK

71%

of Group sales to home markets

36%

of Group sales to US DoD

60

countries bought Chemring products and services last year

BUSINESS MODEL CONTINUED

Operational Excellence – paying for itself

Our Operational Excellence Programme is targeted at several aspects of the business, but particularly focuses on eliminating non-conformance in manufacturing operations. This delivers significant returns, and also benefits from a multiplier effect, as improved processes deliver higher quality, less re-work, increased capacity, improved cycle time, faster and more predictable deliveries to customers, reduced working capital and improved cash flow. This virtuous circle is delivering financial payback in weeks or months, releasing cash for further reinvestment.

HOW WE MAKE MONEY

We invest in advanced technology and manufacturing capability to meet customers' needs safely, reliably and on time. Efficient operations deliver strong cash generation, reward shareholders and enable reinvestment in the business.

INVESTMENT IN TECHNOLOGY AND MANUFACTURING

Chemring is an engineering and manufacturing group – our solutions, frequently deployed in harm's way, require extensive development, qualification and testing to ensure that they work every time. Our investments secure our products in a competitive marketplace, and ensure that our factories are safe and efficient.

WIN ORDERS

We operate in niches within the defence and security market, and compete for the majority of our business. Our technology investment is critical to deliver winning products throughout the business, particularly in the Sensors segment where evolution of threats and competitors' technologies drive a need to constantly upgrade and innovate. We win orders based on our extensive customer relationships, and maintaining compelling value propositions in all the solutions we offer.

REVENUE

The specialist nature of our products mean that almost all our output is built to order. Our manufacturing operations are scaled and scoped to meet expected levels of customer demand safely and reliably. Our investments in manufacturing are targeted to secure a safe operating environment for our work-force, deliver efficient operations and build a momentum of continuous improvement throughout the business. Efficient operations minimise operational cycle-time from order to delivery, which in turn secures strong cash conversion.

122%

of underlying operating profit converted to cash from underlying operations over the last three years

CASH FLOW

We have a good record of cash conversion delivering £168.9m of cash from underlying operations over the last three years.

REINVESTMENT

Our cash flow from operations underpins our ability to reinvest to deliver to our customers leading-edge solutions from safe and efficient operations. Over the last three years, we have invested £43.8m in technology development and £32.0m in upgraded facilities.

SHAREHOLDER RETURNS

The cash generated from operations allows us to deliver fair shareholder returns whilst continuing to secure the future prosperity of the Group. Over the last three years we have paid £14.3m to our shareholders and our capital allocation policy should continue to share the benefits of our improving profitability in the future.

HOW WE SET OURSELVES APART

Chemring is characterised by a willingness to do hard things well, to respond to customer needs, and to invest to sustain its future and protect its workforce.

SAFETY
Our factories, particularly in Countermeasures and Energetics, are handling dangerous materials in potentially lethal quantities. Through constant, critical self-assessment we aim to operate the safest factories in our industry.

INVESTMENT IN INFRASTRUCTURE
In addition to maintaining safe operations, we intelligently sustain investment in our manufacturing operations to secure reliable product delivery and quality. Where appropriate, we have invested to consolidate two or more operations onto a single upgraded site, delivering improved product quality, reduced overhead costs and enhanced safety.

RESPONSIVENESS
The ongoing conflicts of recent years have created many new operational threats. As these threats emerge, our customers urgently require solutions to protect people and save lives. From developing a new detector to building a new production line to deliver thousands of flares a week, we respond quickly, intelligently and vigorously.

INTELLECTUAL PROPERTY
Intellectual property ("IP") is critical throughout our business, whether it is embedded in a patented software algorithm or the know-how associated with manufacturing a critical component of a satellite deployment mechanism. We carefully nurture and protect our IP through technology investment, patents and detailed manufacturing process understanding. Many of our products are manufactured only every two or three years, so understanding, maintaining and documenting all the critical features, parameters and processes are key to ensuring consistent delivery.

CUSTOMER DELIVERY
We operate with some of the world's most technically demanding customers, who reasonably expect our advanced technology solutions on time and to the required quality. Frequently, operational capability for a new aircraft or ship can only be achieved with a stock-pile of our consumables to protect the fleet in the event of a war, so our factories also need to deliver large volumes of product. We constantly strive to meet all our customers' expectations from placing an order to delivering the last unit of a production run, and supporting products in the field, even in war-zones where our users are operating.

INTERNATIONAL FOOTPRINT
Our facilities in the US, Europe and Australia provide local access to our home market customers who lead the definition of the requirements for our next-generation products. Developing products to meet these demanding requirements creates a range of competitive products, which we can export around the world. Combining technologies from different requirements can leap-frog competitors to create a sustained lead in our markets – for example, we are transferring UK developed capabilities in countermeasures and IED detection to the US, providing the world's largest defence market with new capabilities which it did not have before.

OUR PEOPLE
From building relationships to understanding customers' complex needs, to developing advanced technologies and delivering solutions, our people are critical at every step. We respect the extensive experience residing in most of our businesses, whilst nurturing innovation, creativity and talent to develop the Group for the future.

Key Differentiators

- Safety is lead by the Group Chief Executive with Group resources and an Operational Excellence work-stream dedicated to it
- Track record of investment in remote operations – £26.9m invested in capital equipment over the last three years
- £43.8m invested in R&D over the last three years
- 179 patents in Countermeasures, Sensors and Energetics
- Only multi-national countermeasures supplier in the world
- Strong engineering capability with over 500 graduate engineers in the Group

GROUP CHIEF EXECUTIVE'S REVIEW

Delivering performance and growth

In 2017 the Group continued to build on its improved performance of recent years, delivering strong results that exceeded expectations from both a financial and operational performance perspective. Significant progress has been made on the Operational Excellence Programme, with tangible sustainable results already delivered and further improvement in the pipeline.

Michael Flowers
Group Chief Executive

HEALTH AND SAFETY

We continue to strive to be the world's best with regards to safety, and constantly focus on enhancing our operations to remove hazards wherever possible. Our target is to ensure that every day on every site every employee is operating in a safe and healthy environment. As always, safety remains the Group's first priority and the Group continues to drive improvement in this area.

Lost time injury ("LTI") performance continues to reflect world best practice, and although our lost time injury rate of 0.59 was slightly above 2016 levels, all incidents were minor in nature, none resulted from energetic incidents, and none required hospitalisation. We continue our four pronged approach to safety; process improvement, capital investment, enhanced leadership engagement and cultural improvement; with the cultural aspects of safety now becoming increasingly critical.

During the year the Group had only one energetic incident of note, an initiation within our primary explosives manufacturing facility in Scotland. This facility is a fully automated remote operation, and subsequent to the initiation all safety systems operated as designed and there was no exposure of personnel to hazard. The facility was quickly brought back into operation, with no operational or financial impact.

STRATEGY

Over 2017 the Group has seen a slight improvement across the bulk of its end markets, with the US market, in particular, emerging from a long period of decline. Indications are that global growth in our markets will be sustained at around 3% per annum, although in certain niches growth is likely to be stronger. The exception to this is the UK market, where exchange rate pressures and major platform acquisitions are constraining other expenditure, however it should be noted that the MOD represents less than 5% of Group revenues. The Middle Eastern market remains strong, although low oil prices have resulted in requirements for some products reducing and new programmes and procurements being delayed.

In 2017 the Board has refined the Group's capital allocation policy to better reflect our fundamental strategic requirements. Paramount to capital decisions is the need to maintain a strong and robust balance sheet with appropriate levels of debt. It is recognised that organic investment, particularly on capital projects, has been constrained over recent years, and investment in our manufacturing base is a priority that will increase in importance in future years. The Group continues to actively pursue acquisition opportunities, with our priority being towards acquisitions in the Sensors segment, particularly where we need further development of our technological and market reach.

The Countermeasures segment strategy continues to be one of strengthening our world-leading position through continuously improving our technological and operational base whilst working closely with our customers in the development of new solutions to meet emerging threats. We continue to develop our position on the F-35 Joint Strike Fighter ("F-35") program, with orders and deliveries for F-35 operational, special material, and training flares increasing. Investment in the segment will principally be directed towards enhancement of current facilities and capabilities, with a significant capital programme to transform our Tennessee facility. We also see great opportunity through partnering with our customer base on future technological developments, with collaborative agreements having been concluded with our UK and Australian customers in 2017.

Within Sensors, the focus continues to be on expansion of capability and product portfolio in the major operating niches of tactical electronic warfare ("EW"), counter-IED and explosives detection, chemical warfare detection and biological warfare detection. The Sensors segment is the Group's principal area for R&D investment, given the growth opportunities, particularly in US Programs of Record.

The US Programs of Record remain the Group's area of greatest strategic focus, and investment will continue over the coming years as these programs reach critical points. In the coming year we expect contracting decisions on the Engineering and Manufacturing Development ("EMD") phases of NGCD, Low and Full Rate Production decisions on JBTDS, and contracting for fleet refurbishment, expansion and technological refresh of the HMDS program. Success on key elements of the programs is critical. The Group will establish a new project and contracting organisation to respond to emergent US Department of Defense ("US DoD") and related area requirements in complementary technology areas to those of our major programs that are increasingly being contracted for under Indefinite Delivery / Indefinite Quantity ("IDIQ") or Other Transaction Authority ("OTA") framework contracts. From the technologies developed through these programs, the Group intends to broaden its product base and market reach, seeking greater opportunities in adjacent markets such as the Department of Homeland Security.

The Group will, over the next 24 months, develop our Next Generation Electronic Warfare System to replace the current Resolve system which has been in global service for the past six years. This new capability is being developed in concert with emerging customer needs, particularly related to the convergence of requirements from the traditional electronic warfare and cyber threat areas. Capability will also be broadened by partnering with complementary companies to further grow this very successful business area.

Roke's historical end markets were subdued in 2017 due to continued budgetary pressure from its largest government customer, yet despite this the improving performance trend from 2016 continued. Investment at Roke shall continue to focus on its people, to ensure their training and development matches emergent market needs, and organisational development to ensure we can recruit and retain the right mix of staff in a resource constrained market. Having consolidated our position in traditional markets, we shall now look to expand our offerings, particularly in the cyber-security market, to international and commercial customers.

The Energetics businesses continue to be managed in order to maximise market position in their operating niches, maintain product qualification, and ensure safe and effective operations. The Group is consciously moving away from seeking to compete with low cost competitors in commodity markets, focusing on higher margin niches where there are significant barriers to entry. These areas include our UK and US devices businesses, our high quality energetic materials supply from Norway, and more specialised ammunition and componentry from our Florida facility. Investment focus will be on maintaining organic capability to ensure we remain safe, our products remain current, and our operations run as efficiently as possible.

OPERATIONAL OVERVIEW

2017 was a more balanced year, and although the Group's earnings were still significantly second half weighted, the balance improved from that of prior years. This has enabled more effective production planning which is starting to deliver more efficient manufacturing operations.

Improvement in operational performance continues to be driven by improvements in consistency of production and improved manufacturing yields across all sites. This has been particularly evident at our US countermeasures businesses, with signs that improved delivery performance is leading to increased market share starting to emerge. From a more consistent and appropriately scaled manufacturing operation, the Group's focus becomes the driving out of cost and waste across all lines, delivering improved gross and operating margins. Our Operational Excellence Programme will drive this improvement.

Business restructuring and site consolidation has been a key element of the Group's focus over recent years, as we have sought to integrate earlier acquisitions and more effectively align our capacity and capabilities to market demand. During 2017 we concluded the closure of our second countermeasures manufacturing plant in Philadelphia, with the closure of our California facility progressing to schedule. At year end only a small number of active contracts remain open at California, with all likely to complete by mid calendar year 2018. Qualification of critical products at Chicago has been successfully completed; the new precision machining centre is at initial operating capability; and in 2018 we shall conclude the commissioning of the Chicago primary explosive handling capability. This will effectively conclude this consolidation effort.

These site consolidations resulted in a non-underlying cost of £14.3m, the benefit of which will be delivered in future years. A detailed impairment review of the Group's businesses has also been completed, and, based upon current conditions in the military and law enforcement pyrotechnics market, an impairment charge of £10.6m has been recognised against the Chemring Defence UK business unit. Further details of these and other non-underlying items are in note 3 of the financial statements.

OPERATIONAL EXCELLENCE PROGRAMME

Throughout the year the Operational Excellence Programme has been the priority business activity, aimed at enhancing, over a five year programme, all aspects of the Group's operations. Key aims of the programme are to embed a high safety performance level and culture, improve operating margins and reduce working capital.

Work effort is concentrated in eight Group wide excellence teams covering:

- Safety performance
- Manufacturing operations
- Supply chain management
- Sales and marketing
- New product development
- Business processes and systems
- Production planning systems
- Commercial and contracting practice

Although much of the effort in 2017 has been foundational, a number of tangible benefits have already resulted. These include: margin improvements being achieved in all segments and across multiple lines and a Group operating margin 0.6% above initial expectations; Lean assessment tools developed and assessments completed; safety maturity assessment tool developed and assessments ongoing; and a Group-wide CRM system rolled out.

The total programme cost in 2017 was £2m (underlying), with a Group wide net benefit of approximately £3m and a gross benefit of £5m. In future years the programme is expected to cost approximately £2m per annum plus additional capital costs as identified. All day-to-day programme costs will continue to be classified as underlying.

Specific work plans and objectives to be actioned and delivered in 2018 have been developed for the Group, for each segment and business unit, and significant production lines. Key amongst these include:

- Ongoing Lean implementation
- ERP enhancement and integration with CRM
- Kilgore transformation programme
- Norway systems development and capacity enhancement
- Development and roll out of consistent production planning process across manufacturing sites

As a Group our 2018 and longer-term objectives for the Operational Excellence Programme are threefold:

- **Safety.** In 2018 we aim to have no injuries from energetic incidents and no life altering injuries. By 2022, we aim to have removed all operators from potential lethal exposure, or reduced this exposure to As Low As Reasonably Practicable (ALARP), delivered an LTI rate sustained at below 0.5, have no injuries from energetic incidents, and have no life altering injuries.
- **Operating margin.** Group margin to increase on a like for like basis, by 75bps in 2018 and by 300bps in 2022.
- **Working capital.** In 2018 we look to reduce working capital by £10m. By 2022 we will seek to reduce total working capital from 24% to below 19% of revenue.

CONCLUSION

In 2017 the Group has performed strongly and delivered a solid set of results.

Progression on US Programs of Record and the critical F-35 countermeasures program has been very positive, and we look forward to these programs being strong contributors in future years. The foundations of the Operational Excellence Programme have been laid with initial tangible outcomes achieved. The Group looks to this programme, our progression on the US Programs of Record, and a steadily strengthening global market to deliver enhanced opportunities and returns in future years.

Michael Flowers
Group Chief Executive
18 January 2018

OUR STRATEGY

OUR MARKETS

MARKET DRIVERS

Global defence spend is slowly recovering in our markets.

This recovery is led by the US, which plans to increase its base budget spend by over 5% from 2017 to 2018 and the Senate unusually recommended a $26 billion increase to 2018's original Presidential Budget Request, with additional funding to several major programmes, *including an additional twenty F-35 aircraft.*

In Europe, defence spending remains subdued but stable. Only six countries (US, UK, Greece, Estonia, Poland and Romania) meet their NATO commitments to spend 2% of GDP on defence, and the US rhetoric continues to drive members to meet this threshold. However the UK MOD is struggling with major budget shortfalls, and we have seen delays in order placement, although it should be noted that the MOD represents less than 5% of Group revenues. Spending on cyber-security by our UK intelligence agency customers is strong and demand for our services is growing.

Australia, one of Chemring's other home markets, expects to increase spending by about 6% in real terms over 2017-2018. It has declared a ten-year plan to grow defence spending by over 80% to maintain an appropriate response to China's increasingly capable forces in the region.

The Middle East defence market remains volatile and unpredictable, with regional tensions running high, but oil revenues still suppressed by relatively low prices. Customers are continuing to fund defence, but we are seeing delays in order placement and payments as priorities are *continually shuffled.*

OUR STRATEGY

KEY PRIORITIES

Our strategy reflects the current dynamics of our defence and security markets

HOLD THE GROUND ALREADY WON

Our short-term priority has been to deliver profit and cash, with a particular focus on meeting planned repayments of our private placement *loan notes from existing bank facilities* and cash resources. We have delivered this, with the first repayment of £51m in November 2017 (post year-end) and final repayment of £63m planned in November 2019.

This has been achieved by scaling the businesses to match the current demand and driving regular and consistent delivery; our Countermeasures and Energetics sites tend to be large, with significant fixed cost, and our Sensors businesses require a critical mass of engineering resource to remain competitive.

Against this backdrop, maintaining operational throughput by eliminating delays and non-conformance has been a major effort, whether it is mixing *processes in Countermeasures*, component tolerancing in Energetics or minimising un-billable time in our contract engineering business.

This has been an early priority for our Group-wide Operational Excellence Programme, under the "Manufacturing Operations" workstream, and every business has identified flagship improvement projects to deliver measured gains in the next financial year.

SEGMENTS

[illegible] — Collaborate to consolidate [illegible]

[illegible] — Deliver development phase [illegible]

[illegible] — Recruit skilled people at [illegible]

[illegible] — Match facilities to demand levels [illegible]; Complete restructuring and site [illegible]

KEY PERFORMANCE INDICATORS

- [illegible]
- [illegible]

see pages 22 to 25

RISKS

- Health and safety
- [illegible]
- [illegible]
- [illegible]

see pages 28 to 33

TRANSFORM OUR CAPABILITIES

Our Operational Excellence Programme ("OEP") will systematically upgrade all our capabilities across the Group through collaboration, sharing best practice and, where appropriate, bringing in specific expertise. In addition to our "Manufacturing Operations" workstream, we are covering:

- Safety performance
- Supply chain management
- Sales and marketing
- New product development
- Business processes and systems
- Production planning systems
- Commercial and contracting practice

All workstreams cover all businesses, but certain segments will focus more on particular themes, outlined below.

Where we have identified systemic weaknesses or pinch-points, we have addressed these directly at a Group level. For example, historic payment practices have hampered our ability to manage our supply chain strategically, so we have deliberately invested in working capital to improve this. In addition, we have strengthened our commercial resources and conducted Group-wide training to reduce our contractual risk exposure.

Finally, we are exploring how best to structure the Group to maximise synergies within segments whilst eliminating irrelevant activity between segments. This is at an early stage, requiring sensitive engagement with internal and external stakeholders, but it is a key initiative which we have resourced centrally to pursue.

INVEST FOR GROWTH

We will invest in equipment, facilities and product development to deliver growth. As a result of our position in the US countermeasures market, and strategic investments in sensors technology, we are well placed on several major programmes, mainly in the US.

These multi-year, multi-million dollar "Growth Programmes" underpin the growth of the Group to the mid-2020s, and include:

- F-35 countermeasures
- JBTDS
- NGCD
- HMDS

In addition to these specific US Programs of Record, our UK Sensors businesses face exciting opportunities in next-generation electronic warfare, cyber electro-magnetic activity and consulting and R&D for UK agencies.

These programmes are the main priorities for investment to ensure that Chemring secures and maintains its position as sole source supplier of these key military capabilities. The portfolio, particularly the Energetics segment, will deliver cash to fund this growth.

OEP – Safety and operational performance [illegible]

[illegible]

OEP – Operational performance [illegible]

OEP – Safety and operational performance [illegible]

[illegible] internal supply and routes to market

- Safety [illegible]
- [illegible]
- [illegible]
- Operational performance [illegible]

- Health and safety
- [illegible]
- [illegible]
- Manufacturing
- [illegible]

Upgrade Tennessee facility to meet F-35 demand

Targeted R&D investment [illegible]

[illegible]

Deliver cash to fund growth

- [illegible]
- [illegible]

- Health and safety
- [illegible]
- [illegible]
- [illegible]
- [illegible]

FOCUS ON

COUNTERMEASURES

Revenue

£134.8m

(- 3%)

Operating profit[1]

£16.7m

(+ 30%)

Order book

£178.6m

(2016: £177.0m)

Operating margin[1]

12.4%

(2016: 9.3%)

SAFETY

WORLD LEADING

OPPORTUNITIES:

- [illegible] St[illegible]
- [illegible]
- [illegible]
- New [illegible]

Chemring is well-established as the world leader in the design, development and manufacture of advanced expendable countermeasures and countermeasure suites for protecting air, sea and land platforms against the growing threat of guided missiles. The Group has a broad product range including conventional flares, advanced flares, special material decoys, chaff and naval countermeasures.

STRATEGY

Chemring maintains its leading position in the market for conventional and advanced countermeasures through continuous operational improvement and targeted investment in technology.

New automated manufacturing facilities in the UK and Australia are operational and Chemring has a strong focus on improving the operational performance of all facilities. The Group also intends to maintain its technological lead in air countermeasures through targeted R&D investment to meet evolving needs and to sustain its sole source positions on the key US and NATO next-generation platforms – F-22, F-35 and Typhoon.

The Group's Operational Excellence Programme will focus on improving the management of safety, production efficiencies, waste reduction and more efficient working capital management. The results of these programmes are expected to be realised over the next three years.

MARKETS

The countermeasures market is showing further signs of recovery, with a notable increase in solicitation, bid activity and orders, particularly in the US. The broader global countermeasures market remains robust, with improving levels of activity in the UK and Australia, supplemented by export order opportunities.

PERFORMANCE

Countermeasures revenue decreased by 3% to £134.8m (2016: £138.3m) and the segment reported an underlying operating profit of £16.7m (2016: £12.8m), up 30%. Revenues were down slightly as the Philadelphia plant was closed for modernisation during the first half. Improved consistency in production and a more appropriate cost base in the second half of the year in Philadelphia resulted in year on year operating margins improving from 9.3% to 12.4%. Order intake was £144.4m, a 51% increase on the prior year.

2017 has seen significant development of the F-35 program, with production commencing on both Low Rate Initial Production ("LRIP") 6 of the F-35 operational flares and the initial contract for F-35 training flares. The contract award for LRIP 7 was received late in the year, and the customer is finalising the Special Material Decoy ("SMD") requirements for the F-35. The programme to qualify Chemring Australia as a second source supplier of F-35 flares was successfully completed in the year and commercial negotiations to supply F-35 flares from Australia are ongoing.

The facility consolidation at Philadelphia from two sites to one, originally planned for the second quarter of 2017, was delayed due to urgent requirements from our US customer. This adversely impacted margins in the first half as we continued to run a sub-optimal cost base. Shortly after the half year the second site was closed and the consolidation and modernisation of the remaining site was completed in the second half. The restructuring cost in 2017 was £1.6m, of which £1.1m was a cash cost, and it has delivered £1.3m of annualised savings from the beginning of the second half of 2017

OPPORTUNITIES AND OUTLOOK

After years of declining markets, the outlook, particularly for the critical US market, is looking much stronger in both the conventional and SMD flare variants. The focus within Countermeasures continues to be on strengthening our market leading position, in particular on the key F-35 and Typhoon platforms, and maintaining a dominant position in the crucial SMD market.

A new SMD was launched to the market early in 2017, with initial orders received shortly after its introduction, and ongoing orders anticipated. Additionally, with the US forces installing BOL countermeasure dispensers on selected platforms, the Group's position on BOL infra-red and chaff countermeasures leads us to expect significant opportunities in this product range in future years.

Improved collaboration and a more co-ordinated approach to both product development and customer needs is expected to result in improved order intake and customer service across the segment.

There is also a considerable opportunity through partnering with our customer base on future technological developments, with collaborative agreements having been concluded with our UK and Australian customers in 2017. These are expected to deliver considerable benefits in 2018 and beyond.

The closing order book for Countermeasures increased by 1% to £178.6m (2016: £177.0m). This increase primarily reflects the receipt of a number of significant orders from the US and UK customer, totaling £83m, that were received in the second half of the year, offset slightly by reductions in the long term framework contract value with the Australian DoD, as Australian requirements transition from F-18 to F-35 countermeasures.

With a solid order book in place, 2018 trading performance for Countermeasures is expected to be positive, albeit with a significant bias towards the second half.

WHERE WE OPERATE

Chemring Countermeasures USA
Consists of Alloy Surfaces, based in Philadelphia, and Kilgore Flares, based in Tennessee. Alloy Surfaces is a leading developer of special material decoys for the US Navy, Marine Corps, Army and Air Force, with exports to the UK and Australia. Kilgore Flares operates a high volume manufacturing facility making conventional and advanced flares, including flares for the F-22 and F-35.

Chemring Countermeasures UK
Manufactures advanced expendable countermeasures for air and sea platforms. Its aircraft products include conventional and advanced flares and chaff. Its naval products include infra-red and radio frequency decoys and the CENTURION trainable naval decoy launcher.

Chemring Australia
Develops and manufactures aircraft countermeasures, pyrotechnics, and counter-IED and electronic warfare solutions.

FOCUS ON SENSORS

Revenue

£94.5m

([illegible] 2%)

Operating profit[*]

£14.3m

(+ 25%)

Order book

£55.4m

(2016: £49.3m)

Operating margin[*]

15.1%

(2016: 11.8%)

INNOVATION

NEXT GENERATION

OPPORTUNITIES:

- [illegible]
- [illegible]
- [illegible]
- [illegible]

Chemring's Sensors products include world-leading systems for detecting improvised explosive devices ("IEDs"), chemical and biological agents, and core technologies for detecting, intercepting and jamming electronic communications. The Group is also a leading contract research and development supplier, trusted by government and industrial partners worldwide to solve the most technically challenging security critical issues, with a focus in the cyber-security field.

STRATEGY

The Group has invested to grow its Sensors business by developing and exploiting technologies for its niche markets in IED defeat, chemical and biological threat detection, and land-based electronic warfare. To do so, the Group aims to exploit its international footprint to continue to develop advanced technologies and win key, identified Programs of Record including the Husky Mounted Detection System ("HMDS"), the Next Generation Chemical Detector ("NGCD"), the Joint Biological Tactical Detection System ("JBTDS") and several next-generation EW programmes.

The Group's specialist contract research and development business operates in the growing cyber-security market, and investing in recruiting, developing and retaining our people, together with expanding our geographical and customer coverage, is key to profitable growth in this area.

MARKETS

The sensors market remains our principal long-term growth area, with demand for Roke's security related consultancy services increasing and development efforts in support of US Programs of Record in the counter-IED, chemical and biological detection markets progressing. Production awards for sensors products continue to be subject to ongoing research and development programmes and protracted customer decision-making processes.

PERFORMANCE

Sensors revenue decreased by 2% to £94.5m (2016: £96.9m) reflecting the continued focus of the US business on the research and development phases of the counter-IED, chemical and biological detection Programs of Record. The segment reported an underlying operating profit of £14.3m (2016: £11.4m), up 25%. Operating margins increased from 11.8% to 15.1%. Order intake was £99.7m, an 80% increase on the prior year.

In 2017, the US DoD's approach to counter-IED through the HMDS program changed to one of spiral development, with concurrent development, trialling, and manufacturing being undertaken. During the year orders were received for separate capability requirements, including incorporation and trialling of wire detection, development of advanced radar, and manufacturability studies. Subsequent to this, a restructured Capability and Requirement Program plan was agreed by the US Army and authorisation was granted to produce and field a fleet of 369 HMDS between now and mid-2021. The new fleet will be comprised of both refurbished and new HMDS and this activity will run alongside technology upgrade programs. Final budget and schedule details are unknown at this point.

Sales of RESOLVE electronic warfare systems continue to be strong, now exceeding £50m since its launch, with orders received from four new customers and six repeat customers. RESOLVE is now used in 12 nations globally. Following on from an initial order from the US, a further requirement has recently been solicited from this strategically important market. A significant RESOLVE development programme has commenced aimed at ensuring RESOLVE maintains its position as the world's leading tactical electronic warfare system.

Roke's performance was impacted as budgetary pressures from its largest government customers continued. Despite this the business continued its improved performance trend.

The facility consolidation of Charlottesville into Charlotte and Dulles was completed early in the year. The restructuring costs in 2017 were £5.4m, of which £0.3m was a cash cost. The annualised saving of £0.2m has been realised in 2017.

OPPORTUNITIES AND OUTLOOK

The focus for Sensors continues to be on expanding the Group's product, service and capability offerings in the areas of tactical electronic warfare and cyber-security, and securing positions on the US DoD Programs of Record. In September 2017 a Request for Proposal ("RFP") was received for the EMD and production phase for the first of the three NGCD variants. Government decision is expected in mid-2018. The RFP was in line with the Group's expectations and the overall size of the program is significant. Tenders for other phases of NGCD are expected in 2018. Funded development of Chemring's sole source position on the JBTDS program is continuing with government testing of product ongoing. Critical Design Review, led by the Joint Program Executive Office for Chemical and Biological Defense, occurred in November 2017. The review concluded that the program was sufficiently advanced to progress to the next stage of customer testing, which would occur during 2018. In addition a further $5m of funding was provided to cover ongoing development activity.

Contracting activity on the HMDS program is expected to be significant in 2018, and shall cover existing fleet refurbishment, delivery of system elements to increase overall fleet size to the Army Acquisition Objective, delivery of further Wire Detection systems and ongoing technological developments. Following on from initial small Foreign Military Sales ("FMS") orders received in 2017 for 3d-Radar based HMDS which were delivered in the second half, further orders for these systems are expected in 2018 and beyond.

Supporting the UK Government across National Security and Defence, and non-governmental industries in high-value manufacturing and infrastructure, Roke will continue to focus on their customers' missions: to enable them to deliver competitive advantage, defend their people, assets and secrets, and defeat their adversaries. With a focus on emerging technologies in connectivity, cyber, automation and data analytics, Roke will deliver its high quality people and capabilities via research, design, engineering and advisory services. Concurrently, Roke is seeking to expand its capabilities into commercial and international markets.

The order book for Sensors at 31 October 2017 was £55.4m (2016: £49.3m).

2018 trading performance for Sensors is expected to show an improvement on 2017, driven primarily by Roke and HMDS awards.

WHERE WE OPERATE

Chemring Sensors & Electronic Systems ("CSES")

Based in Virginia and North Carolina, CSES develops and manufactures ground penetrating radar, IED detection systems, and chemical and biological threat detection systems.

Chemring Technology Solutions

The Group's centre of excellence in land EW, and also develops and manufactures IED detection and neutralisation systems, including vehicle-mounted and hand-held sensors, disruptors and initiation systems.

Roke

A technology company that provides electronics research, development and engineering services, and cyber-security solutions for UK Government agencies and prime contractors.

FOCUS ON

ENERGETICS

Revenue

£318.2m

(+ 32%)

Operating profit

£34.8m

(+ 10%)

Order book

£244.0m

(2016: £366.6m)

Operating margin

10.9%

(2016: 13.1%)

PROVEN

RELIABLE

OPPORTUNITIES:

- Growth [illegible]
- [illegible]
- Global mar[illegible] [illegible]

Chemring's energetic sub-systems are safety critical components of missiles, aircraft and space launch systems. Operators and prime contractors depend on Chemring's very high reliability, single-use devices to perform key functions, including satellite deployment, aircrew egress and missile self-destruct.

Chemring manufactures a range of pyrotechnic products which are used by military and security forces around the world for screening, signalling and illumination. In addition, the Group produces a specialist range of high explosive products, including minefield clearance systems, demolition stores and 40mm ammunition.

STRATEGY

The Group will secure the position of its energetic sub-systems components on next-generation platforms for missile and space programmes in the United States and Europe, through excellent delivery performance on current programmes and strong customer and partner interaction.

In military pyrotechnics, the Group will upgrade key products to ensure that it can offer the full range of rockets, smoke grenades and flares required by its military and security customers. The Group has been successful in entering new markets, particularly in the Middle East and Asia Pacific, and further development of customer relationships is planned in these areas.

MARKETS

Within Energetics, we are seeing increased demand for our products, driven in part by increased level of operations in certain areas of the world and in part by restocking of reduced inventory levels. The high specification energetic devices businesses are also growing as our customers recognise our niche technological capabilities in this area.

PERFORMANCE

Energetics revenue increased by 32% to £318.2m (2016: £241.9m) with underlying operating profit increasing by 10% to £34.8m (2016: £31.7m). Operating margins decreased from 13.1% to 10.9%. Order intake was £205.8m, a 7% decrease on the prior year.

The major contributors to improved performance in the segment were the large Middle Eastern 40mm ammunition contracts which contributed revenue of £64.2m (2016: £44.5m). Having successfully delivered the balance of the 40mm order received in 2015, the Group received an additional 40mm contract, valued at £23.0m, from a different customer, the majority of which was delivered during the second half of 2017.

Increased sales of procured non-standard ammunition ("NSA") product was another key driver of growth in this segment. Due to the externally sourced nature of the products involved, margins on non-standard ammunition sales are typically lower than for manufactured product. Supply of NSA products to the US Government contributed £97.6m (2016: £62.2m) to revenue in the year.

Aside from these large contracts, segmental revenue grew by 16% reflecting the valued niche technology and capability demonstrated in the energetic devices field. At our devices and propellant facility in Scotland, the award of three multi-year contracts for supply of Metron actuators and propellant into the fire suppression, commercial aerospace and marine safety markets, combined with our long-term supply agreements with the UK MOD and Martin Baker will see annual revenues from long-term contracts near £20m, or 60% of historical revenue levels.

Our high explosive manufacturing business in Norway has achieved record order intake levels with significant investment being undertaken to enhance capacity, which will continue in 2018.

OPPORTUNITIES AND OUTLOOK

The closure of the California facility in 2018 is progressing according to plan. This project is anticipated to have a total cost of approximately £6.4m by the time of completion, of which £4.2m is expected to be a cash cost. The site rationalisation is expected to deliver approximately £4m in annual savings from 2019.

Significant new opportunities are developing for our US ordnance business. These include further significant export requirements for 40mm ammunition, and domestic and international requirements for APOBS minefield breaching systems. Development and qualification activity on 57mm naval ammunition continues. NSA requirements are expected to remain high in 2018, although we expect this low margin business line to reduce from 2019.

The significant growth in demand for product from our Norwegian high explosives business is driving a programme to enhance overall capacity through plant, process and systems upgrades. It is expected that total plant throughput will double from historical (2016) levels by 2020.

The order book for Energetics at 31 October 2017 was £244.0m (2016: £366.6m), and included £11.2m in respect of 40mm ammunition and £83.7m in respect of NSA.

2018 trading performance for Energetics is expected to show a reduction on 2017, driven primarily by lower volumes of 40mm ammunition.

WHERE WE OPERATE

Chemring Energetic Devices
A leading US supplier of pyrotechnic and electro-mechanical systems for missiles, space and safety applications. Products include satellite and space launch vehicle separation systems, initiators and low-shock satellite separation systems, and a range of pyromechanisms for aircrew egress. Chemring Energetic Devices also supplies sub-systems for missiles.

Chemring Energetics
Incorporating Chemring Energetics UK in Scotland and Chemring Nobel in Norway. A leading supplier of detonators, actuators, rocket motors, high explosive charges, canopy cutting cords and pyromechanisms for aircrew egress, and demolition stores. It is also a leading supplier of high explosive charges, high explosives and energetic binders to the defence, security, oil and gas industries.

Chemring Defence UK
Designs, develops and produces smoke and illumination pyrotechnics and payloads for military, OEM and security customers.

Chemring Ordnance
A leading US manufacturer of the Anti-Personnel Obstacle Breaching System ("APOBS"), 40mm ammunition and military pyrotechnics, located in Florida. It also operates a procurement service, supplying non-NATO standard ammunition to the US Army and other customers.

FINANCIAL REVIEW

In market conditions which continue to be challenging, but which are showing signs of medium-term improvement, Chemring's focus on completing recent restructuring, operational improvement and cost control has delivered a business with greater resilience to the defence market cycles.

Andrew Lewis
Group Finance Director

Profit after tax*

£36.0m
(2016: £26.9m)

Increased revenue, improved operational performance together with lower interest and tax contributed to a 34% increase in profit after tax*.

The 2017 financial results demonstrate a second year of improved delivery, maintaining the momentum of the second half of 2016. This current year delivery has been balanced with a focus on improving operational performance, setting the foundations for further progress in subsequent years.

GROUP RESULTS

The underlying operating profit of £55.4m (2016: £48.5m) resulted in an underlying operating margin of 10.1% (2016: 10.2%). The slightly lower margin primarily reflects a lower margin sales mix, primarily as a result of significantly higher non-standard ammunition revenue in the Energetics segment.

Foreign exchange translation has had an impact on year-on-year comparison following the significant devaluation of Sterling in June 2016. On a constant currency basis, restating the current period at the FY16 average exchange rate, revenue would have been £528.0m and underlying operating profit would have been £55.0m.

After a net underlying finance expense of £11.3m (2016: £14.5m), there was an underlying profit before tax of £44.1m (2016: £34.0m). The effective tax rate on the underlying profit before tax from continuing operations was 18.4% (2016: 20.9%). The underlying earnings per share was 12.9p (2016: 10.3p).

Statutory operating profit was £15.3m (2016: £26.2m) and after statutory finance expenses of £11.3m (2016: £18.2m), statutory profit before tax was £4.0m (2016: £8.0m), giving statutory EPS of 1.1p (2016: 2.5p).

The Group has recognised an impairment loss of £10.6m in respect of the Chemring Defence UK business. This is based on the current market conditions in the military and law enforcement pyrotechnics market.

REVENUE RECOGNITION

The Group has adopted IFRS 15 for its 2017 financial year and the Board believes that this represents a move to a more prudent basis of revenue recognition. The majority of the Group's transactions are unaffected by IFRS 15, however when IFRS 15 is applied to a small number of customer contracts this leads to a difference in the timing of recognising revenue. As permitted by the standard, the Group has adopted the modified transitional provisions and as such the 2016 results remain as previously reported. For further details see note 33.

The net effect of the adoption of IFRS 15 on the Group results for 2017 was broadly neutral. The impact of adoption in 2017 has been to increase revenue by £16.3m and increase underlying operating profit by £4.9m arising from transactions recognised in prior periods which would have subsequently been recognised in the current period under IFRS 15. Similarly a number of transactions, with a broadly equivalent operating profit impact, will be recognised in 2018 that could have previously been recognised in 2017. This timing difference is expected to recur at each reporting period end, albeit at a different quantum.

FINANCE EXPENSES

Net underlying interest costs were £8.5m (2016: £10.9m), amortisation of debt finance costs was £2.4m (2016: £2.8m) and other non-cash finance expenses associated with the defined benefit pension scheme were £0.4m (2016: £0.8m).

TAX

The continuing underlying effective tax rate, where the tax charge and the profit before taxation are adjusted for non-underlying items and the amortisation of acquired intangibles, is 18.4% (2016: 20.9%).

The continuing statutory tax charge totalled £0.9m (2016: £1.5m) on a continuing statutory profit before tax of £4.0m (2016: £8.0m). The continuing effective statutory tax rate for the period is a charge of 22.5% (2016: 18.8%). The increase in the continuing effective rate of tax on the results of the Group is primarily due to the geographic mix of profits, changes to the amounts of deferred tax assets considered recoverable in respect of both tax losses and US interest limitations, prior year adjustments and the recent reduction in UK corporation tax rates.

The US Tax Cuts and Jobs Act ("TCJA") was substantively enacted on 22 December 2017. The TCJA provides for a reduction in the main rate of federal corporate income tax from 35% to 21% for accounting periods beginning on or after 1 January 2018. As the legislation was not substantively enacted at the balance sheet date its effect has not been included in these financial statements. If the changes had been taken into account in preparing the financial statements the impact would have been to reduce the value of the Deferred Tax Asset by approximately £5m.

EARNINGS PER SHARE

Underlying earnings per share were 12.9p (2016: 10.3p) and diluted underlying earnings per share were 12.6p (2016: 10.1p).

2017 Operating profit* by segment

2016 Operating profit* by segment

Earnings per share*

12.9p

(2016: 10.3p)

Dividend per share

3.0p

(2016: 1.3p)

Net Debt/EBITDA*

0.99x

(2016: 1.19x)

FINANCIAL REVIEW continued

GROUP FINANCIAL POSITION

NET DEBT AND CASH FLOW

The Group's net debt at 31 October 2017 was £80.0m (2016: £87.6m), representing a net debt : EBITDA ratio of 0.99x (2016: 1.19x). The financial condition of the Group has improved in a number of aspects during the year. Debt repayments were made which reduces future interest costs, working capital practices were improved, capitalised development costs has reduced as amortisation now exceeds capitalisation and the IAS19 pension deficit has significantly reduced to £0.6m (2016: £17.3m deficit). The Group hopes to achieve further improvements over the medium term.

Underlying operating activities generated cash of £47.1m (2016: £81.4m), reflecting the investment made in working capital associated with fulfilling contracts in the Energetics segment. The increase in inventory reflected the inventory on hand to fulfil the final deliveries associated with the £23m 40mm contract in the Energetics segment. Trade receivables increased due to a combination of the timing of deliveries to customers and increased levels of business activity. This was particularly apparent in the Energetics segment where increased levels of 40mm and NSA deliveries occurred in the final quarter. In addition, the Group has maintained the supplier payment practices introduced at half year, returning them to normal industry standards. This has resulted in a one off investment in working capital in the year of £30m. Improved relationships with suppliers is expected to assist the Group in improving future operational performance.

On 21 November 2016, the Group repaid £29.0m of outstanding loan notes and on 13 November 2017 a further £51.4m of loan notes were repaid. Both payments were made out of existing cash resources and debt facilities. The remaining loan notes of £62.9m are repayable in November 2019.

WORKING CAPITAL

Working capital was £131.5m (2016: £122.0m), an increase of £9.5m. Working capital as a percentage of revenue has remained comparable at 24% (2016: 26%).

Inventory increased in Energetics to support contract deliveries but fell in Sensors as efforts to optimise inventory levels were successful.

Trade receivables increased by £9.3m and trade payables decreased by £15.8m as a result of the high levels of activity in the final quarter of the year and the normalisation of supplier payment practices referred to above.

Within trade and other receivables, trade receivables increased which reflected the timing of shipping late in the year, and advance payments to suppliers increased reflecting the higher volume of NSA business where advance payments are required.

In trade and other payables the reduction in trade payables was offset by an increase in advance receipts from customers, which was driven by the higher level of NSA business and the advance receipt on the £23m 40mm contract.

DEBT FACILITIES

The Group's principal debt facilities comprised £114.3m of private placement loan notes, of which £51.4m was repaid on 13 November 2017, and a £100.0m revolving credit facility The revolving credit facility was established in July 2014, is with a syndicate of three banks and had a four-year initial term. On 27 April 2017 this was extended by one year to July 2019. The Group had £106.0m (2016: £108.0m) of undrawn borrowing facilities at the year end. The Group is subject to two key financial covenants, which are tested quarterly. These covenants relate to the leverage ratio between underlying EBITDA and debt; and the interest cover ratio between underlying EBITDA and finance costs. The calculation of these ratios involves the translation of non-Sterling denominated debt using average, rather than closing, rates of exchange. The revolving credit facility and the loan notes have differing covenant compliance calculations. The Group was in compliance with the covenants throughout the year.

RETIREMENT BENEFIT OBLIGATIONS

The deficit on the Group's defined benefit pension schemes was £0.6m (2016: £17.3m), measured in accordance with IAS 19 (Revised) *Employee Benefits*.

The deficit relates to the Chemring Group Staff Pension Scheme (the "Scheme"), a UK defined benefit scheme whose assets are held in a separately administered fund. The Scheme was closed to future accrual in April 2012. A full actuarial valuation for the Scheme as at 6 April 2015 has been prepared and updated to 31 October 2017, using the projected unit credit method. This valuation showed a deficit of £0.6m (2016: £17.3m). The reduction reflects the funding structure agreed with the trustees, under which contributions of £5.0m were paid in 2017, together with the effect of changes in actuarial assumptions. The Group has given a bank guarantee and letters of credit totalling £7.2m (2016: £8.5m) to the Scheme in respect of future contributions, which are progressively reducing as contributions are paid under the agreed funding structure.

CAPITAL EXPENDITURE

The Group continues to invest in the infrastructure of its facilities, with particular focus on enhancing safety and enhancing operational performance. In the year £12.4m was spent on property, plant and equipment.

RESEARCH AND DEVELOPMENT

R&D expenditure was £52.4m (2016: £57.8m). Continued investment in R&D is a key aspect of the Group's strategy, and levels of internally-funded R&D are expected to be maintained as investment in product development continues, particularly within Sensors. An analysis of R&D expenditure is set out below:

	2017 £m	2016 £m
Customer-funded R&D	**41.1**	43.4
Internally-funded R&D		
– expensed to the income statement	**7.4**	7.7
– capitalised	**3.9**	6.7
Total R&D expenditure	**52.4**	57.8

Amortisation of development and patent costs was £7.1m (2016: £6.9m), with the increase reflecting a number of previously capitalised projects coming on-stream. A further increase in amortisation of development and patent costs is anticipated for 2018 as additional Sensors projects complete their development phase.

ALTERNATIVE PERFORMANCE MEASURES

The strategic report includes both statutory measures and Alternative Performance Measures ("APMs"). The principal APMs presented are the underlying measures of earnings which exclude discontinued operations, exceptional items, gain or loss on the movement on the fair value of derivative financial instruments, and the amortisation of acquired intangibles. The term underlying is not defined under IFRS and may not be comparable with similarly titled measures used by other companies.

The directors believe that these APMs improve the comparability of information between reporting periods. All profit and earnings per share figures in this strategic report relate to underlying business performance (as defined above) unless otherwise stated.

A reconciliation of underlying measures to statutory measures is provided below:

	2017			2016		
Group:	**Underlying £m**	**Non-underlying £m**	**Statutory £m**	Underlying £m	Non-underlying £m	Statutory £m
EBITDA	**81.0**	**(24.1)**	**56.9**	73.8	(7.5)	66.3
Operating profit	**55.4**	**(40.1)**	**15.3**	48.5	(22.3)	26.2
Profit before taxation	**44.1**	**(40.1)**	**4.0**	34.0	(26.0)	8.0
Tax charge	**(8.1)**	**7.2**	**(0.9)**	(7.1)	5.6	(1.5)
Profit after tax	**36.0**	**(32.9)**	**3.1**	26.9	(20.4)	6.5
Basic earnings per share (pence)	**12.9**	**(11.8)**	**1.1**	10.3	(7.8)	2.5
Diluted earnings per share (pence)	**12.6**	**(11.5)**	**1.1**	10.1	(7.7)	2.4
Segments:						
Countermeasures EBITDA	**29.8**	**(2.6)**	**27.2**	25.2	(0.9)	24.3
Countermeasures operating profit	**16.7**	**(4.0)**	**12.7**	12.8	(1.1)	11.7
Sensors EBITDA	**20.2**	**(5.4)**	**14.8**	18.0	(0.8)	17.2
Sensors operating profit	**14.3**	**(12.4)**	**1.9**	11.4	(7.9)	3.5
Energetics EBITDA	**41.2**	**(16.2)**	**25.0**	37.8	(3.3)	34.5
Energetics operating profit	**34.8**	**(23.8)**	**11.0**	31.7	(10.8)	20.9

Further details are provided in note 3.

The adjustments comprise:

- amortisation of acquired intangibles of £15.0m (2016: £14.8m)
- exceptional items of £2.3m (2016: £0.3m) relating to acquisition and disposal related costs
- exceptional items of £14.3m (2016: £5.4m) relating to business restructuring and incident costs
- exceptional items of £0.4m (2016: £0.6m credit) relating to claim related costs
- exceptional items of £10.6m (2016: £nil) relating to the impairment of a business, of which £0.8m relates to taxation and is included in the tax credit of £7.2m below
- gain on the movement in the fair value of derivative financial instruments of £1.7m (2016: £1.0m loss)
- tax credit on adjustments of £7.2m (2016: £5.6m)
- discontinued operations net credits of £3.5m (2016: £4.6m)

Andrew Lewis
Group Finance Director
18 January 2018

KEY PERFORMANCE INDICATORS

The Group's strategy is underpinned by focusing on a number of key performance indicators ("KPIs"). The KPIs that the Board and senior management utilise to assess Group performance are set out below.

These KPIs enable progress to be monitored on the implementation of the Group's strategy, levels of investment, operational performance and business development. They also give an early insight into how well the principal risks and uncertainties are being managed. Similar indicators are used to review performance by each of the Group's businesses, albeit that the exact nature of these varies between business units to reflect the differing nature of their operations.

ORDERS

The Group uses a number of KPIs relating to orders. These comprise order intake, order book and the level of forecast revenue for the current financial year covered by orders on-hand.

The closing order book at 31 October 2017 of £478.0m represents a decrease of 19% on the prior year, principally reflecting the delivery of some significant contracts in Energetics, offset by stronger orders in Countermeasures. As at 31 October 2017, of the orders on hand of £478.0m, £360.9m were expected to be fulfilled in the year ending 31 October 2018.

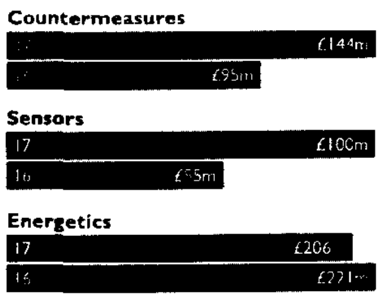
For more information see pages 12 to 17

ORDER INTAKE

Group

£450m

(2016: £371m)

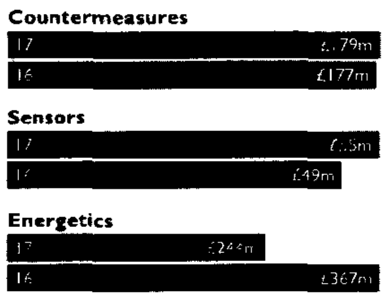


ORDER BOOK

Group

£478m

(2016: £593m)



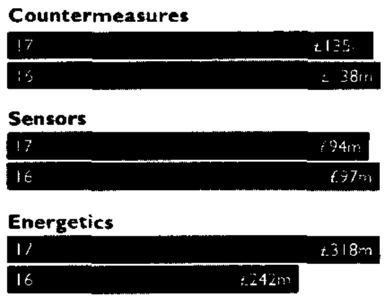
REVENUE

Revenue provides a measure of business activity and growth, enabling customer behaviour trends to be identified and acted upon. In the case of business units that have experienced operational and production issues, revenue levels indicate their ability to deliver throughput and fulfil customer orders.

Group

£547m

(2016: £477m)



SEGMENTAL UNDERLYING OPERATING PROFIT

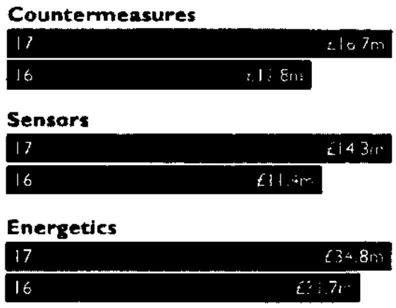
Segmental underlying operating profit is stated before charges for unallocated corporate costs and non-underlying items, as shown in note 2 of the Group financial statements. Segmental underlying operating profit provides a consistent year-on-year measure of the trading performance of the Group's operations. It does not include significant non-recurring or exceptional costs that would distort a comparative assessment, nor does it include unallocated corporate costs associated with operating a public company. The continuing segmental underlying operating profit increased by 18% during the year, reflecting the change in revenue and the operating leverage effects associated with the high fixed-cost nature of certain of the Group's activities.

for more information **see pages 12 to 17**

Group

£65.8m

(2016: £55.9m)



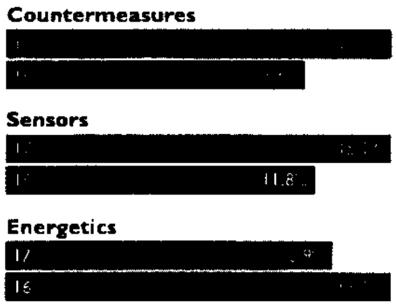
UNDERLYING OPERATING MARGIN

Underlying operating margin is based on underlying segmental operating profit and provides an assessment of the profitability of the business. A focus on operating margin allows the impact of changes in revenue and cost base to be monitored, enabling comparisons to be made of management performance and trading effectiveness. The changes in margin of each segment reflect the market conditions, volume changes and performance improvement actions, as set out in this strategic report. The changes in margin also reflect the impact of movements in revenue, offset by the benefit of cost-saving measures.

Group

12.0%

(2016: 11.7%)



WORKING CAPITAL AND INVENTORY

Working capital is defined as inventories, trade and other receivables, and trade and other payables. The primary focus for improvement within working capital is inventory.

Optimum inventory levels drive both effective staff utilisation and cost efficiency. Excess inventory results in second order costs such as increased storage and inventory management costs, the write-off of ageing or obsolete inventory, and disposal costs, which can be significant for energetic materials.

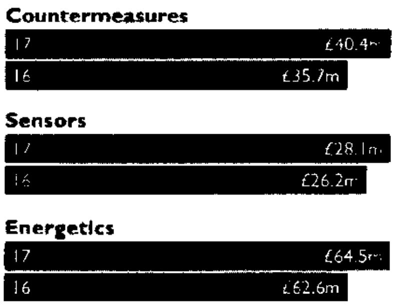
for more information **see page 79**

WORKING CAPITAL

Group

£131.5m

(2016: £122.0m)

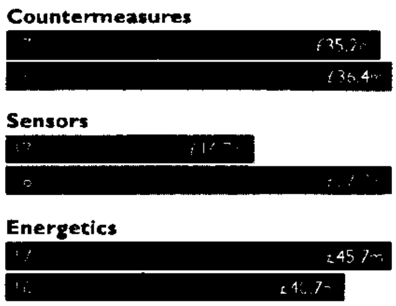


INVENTORY

Group

£97.6m

(2016: £104.8m)



KEY PERFORMANCE INDICATORS continued

CONTINUING UNDERLYING EARNINGS PER SHARE

Underlying earnings per share is a key measure for the Group, reflecting the combined trading performance together with the impact of its funding structure and taxation. The increase in the year reflects the Group's improved trading performance together with lower interest and tax costs.

Continuing underlying earnings per share

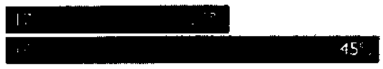
12.9p

(2016: 10.3p)

Change from previous year

25%

(2016: 45%)



DEBT TO UNDERLYING EBITDA

The ratio of underlying EBITDA to the Group's debt levels is a clear indicator of the leverage borne by the Group. The ratio is a specified financial covenant within the Group's principal debt finance facilities, comprising the revolving credit facility and the loan note agreements, and the ratios under each of the measurement bases required in these facilities form KPIs for the Group. The basis of calculation under the two debt finance facilities differs in some regards, notably in the use of gross debt and adjusted debt measures in the loan note agreements, compared to net debt in the revolving credit facility. The covenant definitions differ from the definition used to calculate the 0.99x as described in the strategic report due to average, rather than year end, foreign exchange rates are used to calculate debt. The Group's aim over the medium-term is to maintain the ratio of net debt to underlying EBITDA to an average level of less than 1.50x.

Revolving credit facility[1]

1.03x

(2016: 1.15x)

1 Actual ratio of net debt to underlying EBITDA (maximum allowed ratio of 3.00x)

Loan note agreements[2]

1.40x

(2016: 1.89x)

2 Actual ratio of total debt to underlying EBITDA (maximum allowed ratio of 3.00x)

INTEREST COVER

Interest cover provides a simple measure of the ratio between underlying EBITDA and the finance costs incurred in servicing the Group's debt. It is an important indicator for the Group, and is a specified financial covenant under the revolving credit facility and loan note agreements. As with the ratio of debt to underlying EBITDA, there are certain differences in the bases of calculation of interest cover under the two facilities.

Revolving credit facility[3]

9.59x

(2016: 6.82x)

3 Actual ratio of underlying EBITDA to finance costs (minimum allowed ratio of 4.00x)

Loan note agreements[4]

9.43x

(2016: 6.54x)

4 Actual ratio of underlying EBITDA to finance costs (minimum allowed ratio of 3.50x)

UNDERLYING CONTINUING OPERATING CASH FLOW

Operating cash flow provides a measure of the cash generated by the Group's trading. It represents the cash that is generated to fund capital expenditure, interest payments, tax and dividends. Given the Group's relatively short-cycle manufacturing operations and with working capital being improved through greater efficiency, operating cash conversion closely follows operating profit, although the Group recognises that the timing of certain contracts and subsequent payment can have a timing effect from period to period. The Group's underlying continuing operating cash flow was £47.1m during the year, reflecting the change in underlying operating profit and increase in working capital following the decision to normalise supplier payment practices during the year.

Underlying continuing operating cash flow

£47.1m

(2016: £81.4m)

SAFETY

Many of Chemring's manufacturing activities involve the use of hazardous substances and energetic materials, and safety metrics are a fundamental part of the key performance indicators used to manage the business. All incidents and near misses are reported and investigated, in order to share findings and corrective actions throughout the Group. The Group's key lagging indicators are the number of incidents that result in lost time, and the number of energetic incidents that cause injury. In addition, the Group has a number of leading indicators, principally the level of near misses. The active reporting of near misses by employees is encouraged in order to highlight potential risk issues and enable these to be considered and addressed on a timely basis. Each of these is reviewed and resolved, gradually reducing risk.

Leading indicators[5]

2,264

(2016: 2,265)

5 Near misses reported and actioned

Injuries from energetic incidents[6]

0

(2016: 1)

6 Injuries arising

Lost time incidents

Lost time incident rate

OPERATIONAL PERFORMANCE

Operational performance is measured using a series of indicators that include efficiency, labour utilisation and customer order performance. These performance indicators are considered at business unit level, as the varying nature of the Group's operations mean that it is not appropriate to consolidate this data. Improving operational performance is key to securing strong customer relationships and maximising returns from production activities. Closely monitored measures include gross margin percentages by business, on-time delivery of customer orders, overall manufacturing utilisation and product development spend.

HOW WE MANAGE RISK

RISK MANAGEMENT ORGANISATION STRUCTURE

THE BOARD
Overall responsibility for risk management

AUDIT COMMITTEE
Reviews the effectiveness of the Group's systems of internal control

RISK MANAGEMENT COMMITTEE
Monitors and reviews the Group's risk register

BUSINESS UNIT MANAGEMENT
Maintains business unit risk registers and provides input to Risk Management Committee

THE BOARD
The Board is responsible for determining the nature and extent of risks it is willing to accept in delivering the Group's strategy and running the Group's operations, and ensuring that risks are effectively managed across the Group.

The Board reviews the Group risk register on a regular basis, and considers whether the Risk Management Committee has appropriately identified the principal risks to which the Group is exposed.

THE AUDIT COMMITTEE
The Audit Committee is responsible for reviewing in detail the effectiveness of the Group's systems of internal control, including financial, operational and compliance controls, and its risk management systems.

THE RISK MANAGEMENT COMMITTEE
The Risk Management Committee reviews the business unit risk registers on a regular basis. The Risk Management Committee is responsible for identifying the principal risks to which the Group is exposed, monitoring key mitigation plans, and maintaining the Group risk register. All members of the Executive Committee are also members of the Risk Management Committee.

RISK MANAGEMENT FRAMEWORK
The Group's risk management framework draws fundamentally from the "Three Lines of Defence Methodology", with the "First Line" being day-to-day management of risk and maintenance of effective control procedures at individual business units. The "Second Line" comprises various risk management and control functions established at the corporate management level designed to enhance and monitor the First Line. These functions include a Risk Management Committee, health, safety and environmental management function, financial controls, and a compliance function responsible for anti-corruption and legal compliance. The "Third Line" comprises the Group's internal audit function utilising KPMG, who report directly to the Audit Committee.

The management of each of the business units is responsible for the identification, management and reporting of local risks, in accordance with the Group's risk management framework. The business units' management are also responsible for the maintenance of business unit risk registers and the implementation of mitigation plans.

Each business unit is required to maintain a risk register identifying the key risks to achievement of their current year's budget and their five year plan, and their most significant health and safety risks. The risk registers also include an analysis of the likelihood and impact of each risk - before and after mitigation actions are taken to manage the risk, together with details of the mitigation plans and progress against them. Each risk is allocated an owner, who has responsibility for managing the risk.

The business unit risk registers are updated locally on a quarterly basis, and are reviewed in detail by the Group Chief Executive, the Group Finance Director and other members of the Executive Committee at quarterly review meetings with each of the businesses.

The Risk Management Committee also reviews the business unit risk registers on a regular basis and, utilising the input from the businesses, the Risk Management Committee identifies those principal risks which are material to the Group as a whole. The Risk Management Committee also considers corporate-level risks. These risks are collated on the Group risk register, together with details of the applicable mitigation plans and risk owners.

The current Group risk register comprises various risks including health, safety and environmental risks, market-related risks, political risks, operational risks, legal and compliance risks, reputational risks and financial risks. Details of the principal risks are set out on pages 28 to 33.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS
In addition to reviewing the Group risk register on a regular basis, the Board is also required to carry out an annual review of the effectiveness of the Group's systems of internal control and risk management systems in compliance with provision C2.3 of the UK Corporate Governance Code (the "Code"). In the year under review, the Board considered the following key features of the Group's risk management systems and control procedures which operated during the year:

- the Board assesses the key risks associated with achievement of the Group's business objectives as part of the annual strategic planning process and on a continuing basis thereafter;
- the performance of each business against budget and the prior year is reviewed on a monthly basis at both the operational management level and by the Board;
- the Group Chief Executive, the Group Finance Director and other members of the Executive Committee attend quarterly review meetings with each of the businesses. In the case of the US businesses, formal Board meetings are also held quarterly, and these are attended by the Group Chief Executive, the Group Finance Director and external independent non-executive directors appointed in the US. The US non-executive directors are required to provide guidance and monitor governance in the US businesses throughout the year. An external independent non-executive director is also appointed to the Board of the Group's Norwegian subsidiary;
- each business is required to comply with the Group's accounting policy manual, which sets out formal procedures for incurring certain types of expenditure and making contractual commitments. Compliance with the accounting policy manual is audited by the internal auditors, who report regularly to the Audit Committee on their findings;

- the Board retains primary responsibility for acquisitions and disposals, and financing arrangements for the Group. Treasury management, IT strategy, insurance and significant legal matters are dealt with centrally from the Group head office, and the Board receives regular reports on each of these items. Reviews of the Group's pensions, insurance and physical risk management arrangements are carried out by external advisers on a periodic basis;
- the Group Director of Safety, supported by business-specific health and safety management committees, co-ordinates and controls the activities of each business in relation to health, safety and environmental matters, which are a key focus for the Board in view of the nature of the Group's operations. The Group Chief Executive is the Board member nominated with specific responsibility for health and safety;
- the Group maintains a Bribery Act compliance manual incorporating its anti-corruption policies and procedures; and
- the Board has established a broad internal audit function utilising the services of KPMG. In addition to reviewing financial controls, the internal auditors review a wide range of non-financial processes and procedures, which provides additional assurance to the Board on the adequacy of the Group's internal controls. The internal auditors report to the Audit Committee on a quarterly basis, and progress on identified improvement actions is monitored and tracked.

The Board confirms that it has reviewed the effectiveness of the Group's systems of internal control and risk management which were in place during the financial year ended 31 October 2017, and it confirms that:

- there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Company and the Group;
- systems of internal control and risk management compliant with the Code and the Turnbull Guidance were in place throughout the year and have remained in place up to the date of approval of these financial statements; and
- the Group's internal control and risk management systems are regularly reviewed by the Board, and broadly comply with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the Financial Reporting Council.

The Board acknowledges, however, that the internal control systems can only provide reasonable, not absolute, assurance against material mismanagement or loss of the Group's assets. The Board will therefore continue to take steps to embed internal control and risk management further into the operations of the Group, and to deal with any areas of improvement which come to the attention of management and the Board.

PRINCIPAL RISKS

The principal risks and uncertainties which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results have not changed significantly from those set out in the Group's 2016 annual report and accounts and the 2017 interim report.

The principal risks to which the Group is exposed are set out below, together with details of their potential impact; the likelihood of occurrence (on a scale of 1 to 3, with 1 being the most likely); an indication of whether the trend in the risk exposure is increasing, decreasing or broadly unchanged; and the mitigation actions taken to manage the risk.

Principal risks are identified by the Risk Management Committee based on the likelihood of occurrence and the potential impact on the Group as a whole.

LINKS TO STRATEGY:

Hold the ground already won

Transform our capabilities

Invest for growth

TREND:

↑ Increase

– No change

↓ Decrease

HEALTH, SAFETY AND ENVIRONMENTAL RISKS

Health and safety

RISK DESCRIPTION	LIKELIHOOD OF OCCURRENCE	POTENTIAL IMPACTS	MITIGATION ACTIONS	TREND
• The Group's operations which utilise energetic materials are subject to inherent health and safety risks. • Weak culture and individual behaviours may lead to bypassing of rules and procedures, and unsafe acts involving energetic operations. • Upset conditions can occur during manufacturing operations which may expose employees to increased quantities of hazardous materials. • The handling and disposal of energetics waste can result in unplanned ignitions.	3	• Incidents may occur which could result in harm to employees, the temporary shutdown of facilities or other disruption to manufacturing processes. • The Group may be exposed to financial loss, regulatory action, and potential liabilities for workplace injuries and fatalities.	• The Board believes that responsibility for the delivery of world-class safety standards is an integral part of operational management accountability. The Board is committed to ensuring that the Group's leadership operates with health and safety as the top priority, and that the strength of the Group's safety culture and the quality of its protective systems deliver operations where all employees and visitors feel and are absolutely safe. • All businesses were subject to an audit of their compliance against the Group Safety Policy Manual (the "GSPM") during the year. The GSPM, which was introduced in 2016, sets out the best practice standards expected of all the Group's businesses. Each business was awarded an initial "compliance score", and specific actions were agreed to drive identified improvements in compliance. The scores for each business will be monitored on an ongoing basis. A health and safety workstream is included in the Operational Excellence Programme, focusing on culture development, communication mechanisms, competence management and wellbeing. • The Group's Safety Leadership Programme continues to be rolled-out across the Group, helping to improve culture and behaviours. • The Group continues to invest in state-of-the-art process safety systems and equipment. The Group's safety and loss prevention programmes require detailed pre-construction reviews of process changes and new operations, and safety audits of operations are undertaken on a regular basis. • All businesses are expected to pro-actively manage their own risks but, in addition, the most significant site risks at each business and their associated mitigation programmes are reviewed by the Risk Management Committee. • All employees are encouraged to report potential hazards, and to raise any health and safety concerns through the appropriate channels. • Health and safety is included on the agenda at every Board meeting, and is discussed at the monthly Group Executive Committee meeting. Further details on the Group's approach to health and safety are set out in the corporate responsibility review.	↓

HEALTH, SAFETY AND ENVIRONMENTAL RISKS continued

Environmental laws and regulations

RISK DESCRIPTION	LIKELIHOOD OF OCCURRENCE	POTENTIAL IMPACTS	MITIGATION ACTIONS	TREND
• The Group's operations and ownership or use of real property are subject to a number of federal, state and local environmental laws and regulations, including those relating to discharge of hazardous materials, remediation of contaminated sites, and restoration of damage to the environment. • At certain sites that the Group owns or operates, or formerly owned or operated, there is known or potential contamination for which there is, or may be, a requirement to remediate or provide resource restoration.	3	• The Group could incur substantial costs, including remediation costs, resource restoration costs, fines and penalties, or be exposed to third-party property damage or personal injury claims, as a result of liabilities associated with past practices or violations of environmental laws or non-compliance with environmental permits.	• All of the Group's businesses are certified to the environmental management system ISO 14001, which requires the setting of environmental goals and objectives focused on local aspects and impacts. • The Group has monitoring programmes at certain sites, for which appropriate financial provision has been made. In certain circumstances, the Group procures environmental liability insurance, subject to applicable insurance conditions.	–

MARKET RISKS

Possible defence budget cuts

RISK DESCRIPTION	LIKELIHOOD OF OCCURRENCE	POTENTIAL IMPACTS	MITIGATION ACTIONS	TREND
• Defence spending depends on a complex mix of political considerations, budgetary constraints and the requirements of the armed forces to address specific threats and perform certain missions. Defence spending may therefore be subject to significant fluctuations from year to year. • Whilst we anticipate that overall defence budgets in many of our key markets will remain subdued but stable in the short to medium term, there may be downward pressure on defence budgets in certain key programme areas.	2	• The Group's financial performance may be adversely impacted by lower defence spending by its major customers, either generally or in relation to certain programmes. • Short-term trading and cash constraints may impact on the Group's ability to invest in longer-term technologies and capabilities.	• In recognition of the issues which have affected the Group's traditional NATO markets in recent years, business development activities have been focused more on non-NATO markets, particularly in the Middle East. The Group continues to leverage the benefits of its local presence in the UAE. • The Group continually assesses whether its planned organic growth strategies and product developments align with government priorities for future funding. Efforts are being focused, in particular, on the US Programs of Record, and in the UK security market and Australia, where significant growth is anticipated over the next ten years. • Actions continue to be taken to restructure and "right-size" the businesses, and reduce overheads, to ensure the businesses are sustainable and profitable, even in difficult market conditions.	–

PRINCIPAL RISKS continued

MARKET RISKS continued

Timing and value of orders

RISK DESCRIPTION	LIKELIHOOD OF OCCURRENCE	POTENTIAL IMPACTS	MITIGATION ACTIONS	TREND
• The Group's profits and cash flows are dependent, to a significant extent, on the timing of award of defence contracts. In general, the majority of the Group's contracts are of a relatively short duration and, with the exception of framework contracts with key customers, do not cover multi-year requirements. • Delays in the placement of orders by certain NATO customers, as a result of budgetary constraints, may continue in the short to medium term. • Whilst the Middle East has become an important market for the Group, it has become more volatile as a result of increased hostilities in the region and the collapse in oil prices in recent years.	2	• An unmitigated delay in the receipt of orders or cancellation of existing contracts could affect the Group's earnings and achievement of its budget in any given financial year. • If the Group's businesses are unable to continue trading profitably during periods of lower order intake, financial performance will deteriorate and assets may be impaired.	• Maximising order intake remains a key objective for the businesses. A Group-wide customer relationship management system has been established and implemented more fully over the last year, as one of the key projects established under the sales and marketing workstream of the Operational Excellence Programme. • The businesses continue to pursue long-term, multi-year contracts with their major customers wherever possible. • The Group has undertaken several restructuring projects in recent years, aimed at restoring the profitability of those Group businesses which have suffered most from order delays. • Site optimisation plans continue to be refined to ensure that the Group utilises its manufacturing facilities as efficiently as possible, within the constraints imposed by export control legislation and customer requirements.	–

Contract-related risks

RISK DESCRIPTION	LIKELIHOOD OF OCCURRENCE	POTENTIAL IMPACTS	MITIGATION ACTIONS	TREND
• The Group's government contracts may be terminated at any time and may contain other unfavourable provisions. • The Group may need to commit resources in advance of contracts becoming fully-effective, to ensure prompt fulfilment of orders or to enable conditions precedent to be met.	3	• The Group may suffer financial loss if its contracts are terminated by customers, or a termination arising out of the Group's default may have an adverse effect on its ability to re-compete for future contracts and orders. • Unfavourable commercial contract terms may adversely impact the Group's working capital position, particularly if the receipt of payments by the Group is delayed.	• The Group negotiates with customers to ensure the most favourable contractual terms are agreed. Areas of significant judgment or enhanced risk require the review and approval of the executive directors. • The Group has instigated a commercial and contract risk management training programme during the year, with a view to improving future contracting practices. • The Group endeavours to negotiate stage payments with its customers wherever possible, in order to minimise exposure to significant cash outflows on contracts which may be terminated at short notice.	–

Political risks

RISK DESCRIPTION	LIKELIHOOD OF OCCURRENCE	POTENTIAL IMPACTS	MITIGATION ACTIONS	TREND
• The Group is active in several countries that are suffering from political, social and economic instability. • In addition, there is a significant risk of political unrest and changes in the political structure in certain non-NATO countries to which the Group currently sells.	1	• The Group's business in certain countries may be adversely affected in a way that is material to the Group's financial position and the results of its operations. • Political changes could impact future defence expenditure strategy and the Group's ability to export products to certain countries. • During periods of unrest, delays in obtaining export licences can result in delayed revenues.	• The Group's businesses strive to maintain relationships at all levels within the political structure of certain key countries, in order to ensure that they are aware of and can react to proposed changes, if and when they occur. • Wherever possible, the businesses implement financing arrangements, such as letters of credit and advance payments, for contracts with high-risk customers, which are intended to mitigate the impact of a deterioration in the customer's financial position and in certain circumstances, they may also procure political risks insurance.	↑

OPERATIONAL RISKS

Management resource

RISK DESCRIPTION	LIKELIHOOD OF OCCURRENCE	POTENTIAL IMPACTS	MITIGATION ACTIONS	TREND

• The Group requires competent management to lead it through the next stage of its development. In challenging markets, there is an increased risk of loss of key personnel. • As the shape of the Group's business also changes, with an increased focus in high-technology areas such as cyber-security, there is a need to ensure that the businesses build and retain an appropriate skill base to enable them to compete successfully in new markets and product areas.	1	• If key personnel are not incentivised appropriately to remain within the Group, its operations may suffer from loss of management expertise and knowledge. • Failure to recruit sufficient suitably-qualified personnel in key areas of the business may result in the Group failing to achieve its future growth aspirations.	• The Group has appointed an Organisational Development Director to focus on culture change as part of the Operational Excellence Programme, employee engagement and the development of the Group's personnel. • Incentivisation arrangements have been streamlined and improved in certain areas of the business, to ensure that employees are suitably incentivised to deliver key strategic objectives. • Succession plans are being developed further throughout the business.	–

Manufacturing risks

RISK DESCRIPTION	LIKELIHOOD OF OCCURRENCE	POTENTIAL IMPACTS	MITIGATION ACTIONS	TREND
• The Group's manufacturing activities may be exposed to business continuity risks, arising from plant failures, supplier interruptions or quality issues. • Site consolidation plans may not be effectively implemented. • Planned new facility developments may be delayed as a result of operational issues.	2	• Interruptions to production and sales could result in financial loss, reputational damage and loss of future business. • Failure to complete planned site consolidation activities may result in long-term inefficiencies, and increasing misalignment of organisational skills and market requirements. • A delay in completing new manufacturing facilities, such as those planned in Norway and in Tennessee, could constrain capacity and limit future business growth.	• One of the key objectives of the Operational Excellence Programme is to improve the Group's "right-first-time" and on-time delivery performance. • The Group continues to refine its requirements for reporting of key performance indicators, in order to provide better visibility on operational performance, and to facilitate the identification of potential production and quality issues at an early stage • All of the Group's businesses are required to prepare business continuity plans. • The Group insures certain business interruption risks where appropriate. • Detailed plans are developed for all restructuring and consolidation projects. Additional dedicated resource is being employed to oversee key investment projects, and progress will be closely monitored by the Group Executive Committee.	↓

Technology risks

RISK DESCRIPTION	LIKELIHOOD OF OCCURRENCE	POTENTIAL IMPACTS	MITIGATION ACTIONS	TREND
• The Group may fail to maintain its position on key future programmes due to issues with capability development, technology transfer or cost-effective manufacture. • The Group needs to continually add new products to its current range, through innovation and continuing emphasis on research and development. New product development may be subject to delays, or may fail to achieve the requisite standards to satisfy volume manufacturing requirements and the production of products against high reliability and safety criteria to meet customer specifications. • The Group also needs to ensure that it continues to upgrade its existing product range to compete with emerging technologies	2	• Failure to obtain production contracts on major development programmes, particularly the US Programs of Record, may significantly impact the future performance and value of individual businesses. • Failure to complete planned product development and upgrades successfully may have financial and reputational impacts, and may result in obsolescence or loss of future business.	• Close relationships are maintained with customers on all key future programmes, to ensure product and capability development aligns with customer requirements. • The Operational Excellence Programme includes a workstream on new product development, which will shape the Group's future technology investment approach, in order to ensure that resources are applied appropriately across the Group in support of the five year plan. • Working groups have been established to drive and co-ordinate the Group's technology growth in certain key areas, such as countermeasures, detection and cyber security.	↓

PRINCIPAL RISKS continued

LEGAL AND COMPLIANCE RISKS

Product liability and other customer claims

RISK DESCRIPTION	LIKELIHOOD OF OCCURRENCE	POTENTIAL IMPACTS	MITIGATION ACTIONS	TREND
• The Group may be subject to product liability and other claims from customers or third parties, in connection with (i) the non-compliance of products or services with the customer's requirements, due to faults in design or production; (ii) the delay or failed supply of the products or the services indicated in the contract; or (iii) possible malfunction or misuse of products. • As many of the Group's products are single use devices, it is often impossible to conduct functional testing without destroying the product, and this increases the risk of possible product failure, either in use or during customers' own sample-based functional tests.	3	• Substantial claims could harm the Group's business and its financial position. • In addition, any accident, product failure, incident or liability, even if fully insured, could negatively affect the Group's reputation among customers and the public, thereby making it more difficult for the Group to compete effectively. • Material breaches in the performance of contractual obligations may also lead to contract termination and the calling of performance bonds.	• The businesses maintain rigorous control of their production processes, monitoring critical parameters on a batch or unit basis. State-of-the-art techniques, including statistical process control or Six Sigma, are applied and, where appropriate, processes are automated to reduce the scope for human error. Detailed assessments of incoming components and materials are conducted to ensure compliance with specifications. • Product liability claims from third parties for damage to property or persons are generally covered by the Group's insurance policies, subject to applicable insurance conditions.	–

Compliance and corruption risks

RISK DESCRIPTION	LIKELIHOOD OF OCCURRENCE	POTENTIAL IMPACTS	MITIGATION ACTIONS	TREND
• The Group operates in over fifty countries worldwide, in a highly-regulated environment, and is subject to the applicable laws and regulations of each of these jurisdictions. The Group must ensure that all of its businesses, its employees and third parties providing services on its behalf comply with all relevant legal obligations. • The nature of the Group's operations could also expose it to government investigations relating to import-export controls, money-laundering, false accounting, and corruption or bribery. • The Group requires a significant number of permits, licences and approvals to operate its business, which may be subject to non-renewal or revocation.	3	• Non-compliance could result in administrative, civil or criminal liabilities, and could expose the Group to fines, penalties, suspension or debarment, and reputational damage. • Loss of key operating permits and approvals could result in temporary or permanent site closures, and loss of business.	• The Group has a central legal and compliance function which assists and monitors all Group businesses, supported by dedicated internal legal resource in the US. • The Group operates under a Global Code of Business Principles, which stipulates the standard of acceptable business conduct required from all employees and third parties acting on the Group's behalf. The Group has also adopted a Bribery Act Compliance Manual, incorporating all of its anti-bribery policies and procedures. • A significant proportion of the Group's management continue to receive training in relation to ethics and anti-corruption on a regular basis. • The Group is currently co-operating with the Serious Fraud Office in relation to a self-report made by Chemring Technology Solutions Limited, as referred to in note 36 of the Group financial statements.	–

REPUTATIONAL RISKS

Cyber-related risks

RISK DESCRIPTION	LIKELIHOOD OF OCCURRENCE	POTENTIAL IMPACTS	MITIGATION ACTIONS	TREND
• Cyber-security and related risks are key emergent areas of critical importance for all businesses, particularly for those involved in the defence and security sector. Threats can emanate from a wide variety of sources and could target various systems for a wide range of purposes, making response particularly difficult. The data and systems which need to be protected include customer-classified or sensitive information, commercially-sensitive information, employee-related data and safety-critical manufacturing systems.	3	• The Group may suffer from critical systems failures, or its intellectual property, or that of its customers, may fall into the hands of third parties. • In addition to business interruption and financial loss, the Group may suffer reputational damage, and its business of providing cyber-security services to customers may be irreparably damaged.	• A threat assessment has been completed, and an action plan to counter the Group's identified major threats has been implemented. • The Group adopts a number of cyber-security defence measures, encompassing, as appropriate to the nature of the threat and sensitivity of data or systems being protected, hardware, software, system, process or people-based solutions. Where appropriate, government or commercial accreditation of networks and systems is obtained in support of the overall cyber-security programme. • All of the Group's UK businesses have achieved the "Cyber Essentials" accreditation as a minimum standard, and the US businesses have either achieved, or are working towards, compliance with the US DFARS standard. • A review of the Group's IT and security systems is included within the internal audit programme.	↑

FINANCIAL RISKS

- Details of the financial risks to which the Group is potentially exposed and details of mitigating factors are set out in the financial review and note 20 of the Group financial statements.

CORPORATE RESPONSIBILITY REVIEW

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

THE GROUP'S APPROACH

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

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

- health and safety;
- employee support and development;
- environmental protection; and
- ethical business conduct.

The Board intends that the Group's corporate responsibility approach will be fully embedded within its business units, and the senior management bonus plan incorporates specific objectives in the above areas.

Further details of the Group's approach are set out below.

IN THE WORKPLACE

Health and safety

Policy and practices

The Board recognises that the highest levels of safety are required in order to protect employees, product users and the general public. The Board believes that all incidents and injuries are preventable, and that all employees have the right to expect to return home safely at the end of every working day.

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

The Board requires that all businesses systematically manage their health and safety hazards, set objectives, and monitor progress by regular measurement, audit and review. Each managing director is responsible for the management of health and safety within their business, and for providing adequate resources to satisfy the Board's requirements. All managing directors have health and safety related objectives incorporated within their annual bonus plan.

Managers and supervisors in the Group's businesses are required to enforce procedures, and to provide leadership and commitment to promote and embrace a positive health and safety culture. The Board emphasises the importance of individual responsibility for health and safety at all levels of the organisation, and expects employees to report potential hazards, to be involved in implementing solutions, and to adhere to rules and procedures.

A key element in the continual improvement of health and safety management is sharing best practice and lessons learnt from incidents across the Group's businesses and the wider industry. Accidents, incidents and near misses are investigated, with actions generated to prevent recurrence.

Within the Group's Operational Excellence Programme activities have been identified that specifically relate to health and safety, including further work on culture development, communication mechanisms, competence management and wellbeing.

Energetic events

There was one energetic incident of note during the year; an ignition within our primary explosives manufacturing facility in Scotland. This is a remote process, no one was hurt and all safety systems worked as designed.

Strategy

The Group's safety improvement programmes fit into three strategic areas:

Physical

The Group continues to invest in engineering solutions to remove people from hazards. This includes the automation of operations, increasing the number of processes that are conducted remotely and further developing protection systems. All business activities that expose employees to a high level of hazard have been identified and improvement plans developed to eliminate or reduce the exposure.

Systems

All of the Group's businesses are certified to the international health and safety management system OHSAS 18001. The businesses receive regular internal, customer and regulator audits.

Additionally, all businesses were audited in the year for compliance with the Group Safety Policy Manual and improvement plans established. The Group Safety Policy Manual specifies industry-leading performance practices and arrangements.

People

The Group continues to focus on leadership, culture and behaviours through the Safety Leadership Programme, which is delivered at all levels across the Group.

Lost time incidents

The number of lost time incidents is one of the key performance indicators monitored by the Group. The Group collects and reports lost time incident rates using the US Occupational Safety and Health Administration rules.

In 2017 the lost time incident rate deteriorated slightly but still compares well to our peers and the wider industry. None of the lost time incidents during the year were associated with our energetic materials or processes.

The Group's historical lost time incident rate (number of lost time incidents per 100 employees per year) is as follows:

2017	2016	2015	2014	2013
0.59	0.35	0.57	0.43	0.83

Employees

The Board recognises the valuable contribution that the Group's employees continue to make to its success, and aims to provide a working environment that reflects and rewards this.

At 31 October 2017 the Group had 2,651 (2016: 2,577) employees based in four countries.

Employment practices

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

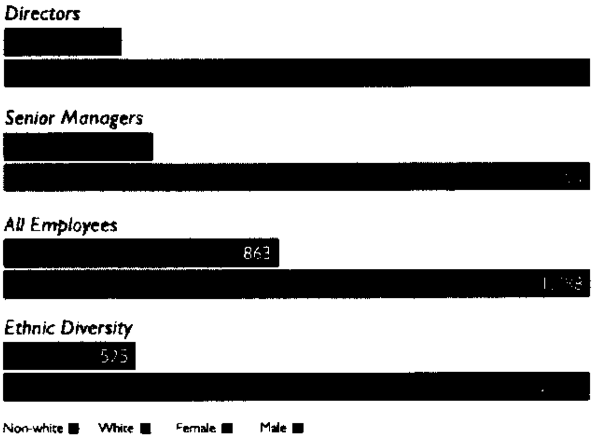
Human rights
The Group does not have a stand-alone human rights policy but its practices and policies adhere to internationally-recognised human rights principles.

A statement on the Group's compliance with the Modern Slavery Act 2015 can be found on the Group's website at www.chemring.co.uk.

Gender diversity
A breakdown by gender of the number of persons who are directors of the Company, senior managers and other employees is set out below.

The Board currently has one female member, and remains committed to a minimum of at least 25% female representation on the Board. The Board recognises the importance of promoting diversity across the Group.

Senior managers are generally directors and functional heads within head office and subsidiary companies.



Development and training
The Group continues to address training and development requirements for employees at all levels within the organisation. All businesses consider training needs for their employees at a local level, in order to ensure that they have the right skill base to deliver their five year plan. The Board also reviews future management requirements and succession plans on an ongoing basis.

In the UK, Roke operates successful undergraduate placements, internships and graduate development programmes, which have received external recognition.

The Group has appointed an Organisational Development Director to oversee employee development programmes across the businesses, drive improvement in operational effectiveness and promote culture change.

Benefits
The Group aims to provide all employees with an attractive and competitive benefits package. US employees receive health care and selected other benefits.

The Board is keen to encourage employees to join share schemes in order that they can share in the future success of the Group, and savings-related share plans are therefore offered to employees where appropriate.

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

A Group magazine, "Chemring-i", is published on a bi-annual basis and is distributed to all employees.

IN THE ENVIRONMENT
Policy and practices
All of the Group's businesses are certified to the environmental management system ISO 14001, which requires the setting of environmental goals and objectives focused on local aspects and impacts. In addition, expectations are set for energy usage, waste generation and water utilisation, and performance is monitored across the Group.

Land quality
The Chemring Energetic Devices facility in Chicago, USA, is located on a site which has "superfund" status under the US contaminated land regime. The business continues to work with consultants and the regulatory authorities to ensure that its legal obligations in relation to this matter are fully satisfied.

The Group carries a £3.1m (2016: £4.1m) provision in respect of environmental liabilities, which the Board considers to be adequate (see note 21 of the Group financial statements).

Incidents
There were no significant environmental incidents in the year.

Performance
Greenhouse gas emissions
The Group is required to report on all of the emission sources of entities that fall within its consolidated financial statements, as specified under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. The Group does not have responsibility for any emission sources of entities which are not included in its consolidated financial statements.

Absolute values have been converted to carbon dioxide equivalents using the UK Government Conversion Factors for Company Reporting 2017. The reporting period covered aligns with the Group's financial year ended 31 October 2017. The Group is not required to report on its Scope 3 emissions.

CORPORATE RESPONSIBILITY REVIEW continued

Scope 1 emissions

Combustion of fuel in any premises, machinery or equipment operated, owned or controlled by the Group	Quantity (Mwh)	Conversion factor	CO_2e (tonnes)
Gas	31,357	0.184	5,770
Heating oil	7,109	0.268	1,905
Liquid petroleum gas	1,980	0.215	426

Fuels consumed by company-owned and leased vehicles, excluding business travel and employee commuting	Quantity (tonnes)	Conversion factor	CO_2e (tonnes)
Diesel	108	3.099	335
Liquid petroleum gas	86	2.940	253
Petroleum	84	2.998	252

The operation or control of any manufacturing process by the Group	CO_2e (tonnes)
On-site waste incineration	1,699
Total Scope 1 emissions	10,640

With reference to the six Kyoto substances, the Group does not emit hydrofluorocarbons, perfluorocarbons or sulphur hexafluoride. Values for carbon dioxide, methane and nitrous oxides are included in the above figures.

Scope 2 emissions

Electricity:	Quantity (Mwh)	Conversion factor	CO_2e (tonnes)
Australia	1,218	0.81360	991
Norway	41,684	0.01372	572
UK	16,272	0.35156	5,721
USA	29,328	0.49845	14,619
Total Scope 2 emissions			21,903

The Group uses revenue for intensity measurement, which it considers to be the most reliable comparator.

	2017	2016
Total emissions (tonnes CO_2)	**32,543**	37,640
Group revenue (£m)	**547**	477
Total CO_2 per £m of revenue	**59**	79

The UK businesses participate in the CRC Energy Efficiency Scheme, with the exception of Chemring Energetics UK, which operates under a Climate Change Agreement.

Waste

The waste total has increased due to the inclusion of previously unreported waste streams.

	2017 Tonnes	2016 Tonnes	2015 Tonnes	2014 Tonnes	2013 Tonnes
Recycled, non-hazardous	**945**	956	968	731	2,240
Recycled, hazardous	**652**	64	287	262	226
Not recycled, non-hazardous	**1,343**	782	748	659	1,080
Not recycled, hazardous	**321**	942	696	401	490
Total	**3,261**	2,744	2,699	2,053	4,036

Water	**2017 m^3**	2016 m^3	2015 m^3	2014 m^3	2013 m^3
Total water consumption	**663,917**	682,185	721,401	924,889	1,606,541

IN THE COMMUNITY

Helping others

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

The Board operates a charitable policy, which confirms its commitment to support selected charitable causes with a focus on the military and armed services, and those linked to the local communities in which the Group's businesses operate. Each business has its own locally-held charity budget, and at a Group level, charitable donations are considered on a monthly basis by the Executive Committee. The Group continues to sponsor the British Army's Parachute Regiment display team, the Red Devils.

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

The Group is involved with a number of educational initiatives and has relationships with several universities, whereby funding is provided for students' research activities.

Local impact

With regards to the impact of the Group's manufacturing activities on the local community, at locations where operations may inconvenience neighbours through product proofing, the businesses liaise with local residents to minimise any impact. The Group is also cognisant of the potential impact of its operations on the local environment, and is addressing this through its environmental strategy.

IN THE MARKETPLACE

Policy on the Sale of Goods and Services

The Board has adopted a Policy on the Sale of Goods and Services, which provides guidance to all stakeholders on the products and services that the Group will supply, to which customers and to which countries, and sets out a clear definition of what the businesses will not supply. All Group businesses are required to comply with this policy, which addresses both legal and reputational considerations with regards to certain products. The policy is reviewed and updated on a regular basis.

Ethics and business conduct

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

Anti-bribery and corruption

The Group's Bribery Act Compliance Manual incorporates all of its anti-corruption policies and procedures, including the following:

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

The Group's US businesses have an ethical compliance programme to satisfy US Government requirements for ethical training for employees, compliance audits, a confidential reporting line for employees, and related investigation procedures.

The Group has a whistleblowing policy and procedures in place which enable all employees to raise concerns, in confidence, about possible improprieties.

These arrangements reflect the requirements of the UK Bribery Act 2010.

STRATEGIC REPORT

Cautionary statement

This report contains forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could, is confident, or other words of similar meaning. Undue reliance should not be placed on any such statements because they speak only as at the date of this document and, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and Chemring's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements.

There are a number of factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. Among the factors that could cause actual results to differ materially from those described in the forward-looking statements are; increased competition, the loss of or damage to one or more key customer relationships, changes to customer ordering patterns, delays in obtaining customer approvals for engineering or price level changes, the failure of one or more key suppliers, the outcome of business or industry restructuring, the outcome of any litigation, changes in economic conditions, currency fluctuations, changes in interest and tax rates, changes in raw material or energy market prices, changes in laws, regulations or regulatory policies, developments in legal or public policy doctrines, technological developments, the failure to retain key management, or the key timing and success of future acquisition opportunities or major investment projects.

Chemring is under no obligation to revise or update any forward-looking statement contained within these financial statements, regardless of whether those statements are affected as a result of new information, future events or otherwise, save as required by law and regulations.

The strategic report on pages 4 to 37 has been approved by the Board of directors and signed on its behalf by:

Michael Flowers
Group Chief Executive
18 January 2018

Governance

BOARD OF DIRECTORS

CARL-PETER FORSTER
Non-Executive Chairman

N

Board length of service (as at 18 Jan 18):
1 year, 8 months

Length of service with the Group (as at 18 Jan 18):
1 year, 8 months

Experience:
- Board experience at Chairman and Chief Executive level
- Extensive international experience within the industrial goods and engineering sectors
- Expertise in operational excellence and lean manufacturing

Carl-Peter Forster joined the Group as an independent non-executive director and Chairman-designate on 1 May 2016, and was appointed Chairman of the Board on 1 July 2016.

Carl-Peter formerly held senior leadership positions in some of the world's largest automotive manufacturers, including BMW, General Motors and Tata Motors (including Jaguar Land Rover). Carl-Peter is currently the Senior Independent Director at IMI plc and a non-executive director of Cosworth Ltd, and was previously a non-executive director of Rexam PLC and Rolls-Royce plc. He is also Chairman of the London Taxi Company, a member of the Board of Volvo Cars Corporation, a member of the Board of Geely Automobile Holdings, and a member of the Advisory Board of Rock Tech Lithium, Inc.

MICHAEL FLOWERS
Group Chief Executive

Board length of service (as at 18 Jan 18):
3 years, 7 months

Length of service with the Group (as at 18 Jan 18):
11 years, 11 months

Experience:
- Extensive senior management experience in the defence sector
- International experience in both service and manufacturing industries

Michael Flowers was appointed to the Board as Group Chief Executive on 24 June 2014, having previously been Group Director – Munitions, with responsibility for running and subsequently disposing of the Group's European munitions businesses.

Michael joined Chemring in 2006, and ran the Group's Australian operations for seven years. Prior to joining Chemring, Michael worked for BAE Systems in programme management roles, principally in the weapons systems and electronic warfare domains. Prior to his time with BAE Systems, Michael served as an officer in the Australian Army for 22 years, and was a graduate of the Australian Command and Staff College and the British Royal Military College of Science.

ANDREW LEWIS
Group Finance Director

Board length of service (as at 18 Jan 18):
1 year

Length of service with the Group (as at 18 Jan 18):
1 year

Experience:
- Extensive international experience in the defence sector
- Board experience at Finance Director level
- Chartered Accountant

Andrew Lewis joined the Group on 9 January 2017 and was appointed to the Board as Group Finance Director on 19 January 2017.

Andrew spent eight years as Group Finance Director of Avon Rubber p.l.c., where he also performed the Interim CEO role during 2015, following the retirement of the previous CEO.

Prior to joining Avon, Andrew was Group Financial Controller of Rotork plc and before that he was a Director at PricewaterhouseCoopers in Bristol and New Zealand.

SARAH ELLARD
Group Legal Director & Company Secretary

Board length of service (as at 18 Jan 18):
6 years, 4 months

Length of service with the Group (as at 18 Jan 18):
23 years, 11 months

Experience:
- Legal, compliance and governance expertise
- Chartered Secretary

Sarah Ellard was appointed as Group Legal Director on 7 October 2011, having been Group Company Secretary since 1998.

Prior to joining the Group, Sarah trained and worked at Ernst & Young LLP. She is a Fellow of the Institute of Chartered Secretaries and Administrators.

ANDREW DAVIES
Non-Executive Director

Board length of service (as at 18 Jan 18):
1 year, 8 months

Length of service with the Group (as at 18 Jan 18):
1 year, 8 months

Experience:
- Board experience at Chief Executive level
- Extensive knowledge of the international defence industry

Andrew Davies was appointed as an independent non-executive director on 17 May 2016.

Andrew has a wealth of relevant sector experience, having served in senior operational and strategic roles at executive committee level at BAE Systems plc for more than fourteen years. He was formerly Chief Executive of Wates Group Ltd.

DANIEL DAYAN
Non-Executive Director

R

Board length of service (as at 18 Jan 18):
1 year, 10 months

Length of service with the Group (as at 18 Jan 18):
1 year, 10 months

Experience:
- Board experience at Chief Executive level and as a non-executive director
- Experience in manufacturing and engineering sectors

Daniel Dayan was appointed as an independent non-executive director and Chairman of the Remuneration Committee on 7 March 2016.

Daniel is also currently Group CEO of the Klöckner Pentaplast Group.

Daniel has held a number of senior level executive and non-executive roles within the engineering and manufacturing sector, including an eight-year appointment as Chief Executive of Fiberweb plc and two years as Chairman and CEO of LINPAC before its acquisition by Klöckner Pentaplast. He also previously served as a non-executive director of Stobart plc and as a trustee in the charity sector.

NIGEL YOUNG
Senior Independent Non-Executive Director

A

Board length of service (as at 18 Jan 18):
4 years, 9 months

Length of service with the Group (as at 18 Jan 18):
5 year, 5 months

Experience:
- Previously Interim Chief Financial Officer of the Group from August 2012 to January 2013
- Finance experience from previous CFO positions
- Chartered Accountant

Nigel Young became an independent non-executive director and Chairman of the Audit Committee on 1 May 2013, following his appointment as Interim Chief Financial Officer in August 2012. He was appointed as Senior Independent Director in March 2016.

Nigel's previous appointments include Finance Director of ALVIS PLC, First Technology PLC, Babcock International Group PLC and Morgan Advanced Materials Plc. Nigel has also undertaken a number of interim finance roles, including one at McBride Plc. He is currently a non-executive director and Chairman of P2i Limited, a provider of liquid repellent nanotechnology, and is a trustee and Board member of Orbis UK, a leading global eye charity.

COMMITTEE MEMBERSHIP

- Audit Committee
- Nomination Committee
- Remuneration Committee
- None
- Denote Chairman

DIRECTORS' REPORT

The directors present their annual report, together with the audited financial statements of the Group and the Company, for the year ended 31 October 2017.

The following sections of the annual report are incorporated into the directors' report by reference:

- strategic report on pages 4 to 37;
- corporate governance report on pages 44 to 51;
- Audit Committee report on pages 52 to 55;
- directors' remuneration report on pages 56 to 74;
- directors' responsibilities statement on page 43; and
- notes to the Group financial statements as detailed in this section.

BUSINESS REVIEW

The strategic report on pages 4 to 37 provides a review of the Group's business development, performance and position during and at the end of the financial year, its strategy and likely future development, key performance indicators, and a description of the principal risks and uncertainties facing the business. Further information regarding financial risk management policies and financial instruments is given in note 20 to the Group financial statements.

There have been no significant events since the balance sheet date, other than as referred to in note 36 to the Group financial statements.

RESULTS AND DIVIDENDS

The profit attributable to the Group's shareholders for the year was £6.6m (2016: £11.1m).

The directors are recommending the payment of a final dividend of 2.0p per ordinary share which, together with the interim dividend of 1.0p per share paid in September 2017, gives a total for the year of 3.0p (2016: 1.3p). The final dividend is subject to approval by shareholders at the Annual General Meeting on 20 March 2018 and has not therefore been included as a liability in these financial statements.

DIRECTORS AND THEIR INTERESTS

The directors are shown on pages 38 and 39.

Andrew Lewis was appointed as Group Finance Director on 19 January 2017.

In accordance with the Company's Articles of Association, all directors are required to submit themselves for re-election at every Annual General Meeting. All directors will therefore be seeking re-election at the Annual General Meeting on 20 March 2018.

Details of the service contracts entered into between the Company and the executive directors are set out in the directors' remuneration report on page 62. The non-executive directors do not have service contracts with the Company.

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

Other than in relation to their service contracts, none of the directors is or was beneficially interested in any significant contract to which the Group was a party during the year ended 31 October 2017.

Information required in relation to directors' shareholdings is set out in the directors' remuneration report on page 70.

SUBSTANTIAL SHAREHOLDINGS

At 17 January 2018, the following substantial holdings in the ordinary share capital of the Company had been notified to the Company in accordance with Chapter 5 of the Disclosure and Transparency Rules of the Financial Conduct Authority. It should be noted that these holdings may have changed since the Company was notified; however, notification of any change is not required until the next notifiable threshold is crossed.

Name	% Interest
Schroders Plc	11.1
Invesco Limited	8.1
Sterling Strategic Value Fund S.A., Sicav-Raif	6.4
Neptune Investment Management Limited	5.9
UBS Global Asset Management	5.5
Old Mutual Asset Managers	5.1
J O Hambro Capital Management Limited	5.1
Prudential Plc	5.0
Majedie Asset Management Limited	5.0
Thameside MBC re Greater Manchester Pension Fund	5.0
Jupiter Asset Management Limited	Below 5.0
FIL Limited	Below 5.0
J P Morgan Chase & Co	4.9
Investec Asset Management Limited	4.8
Ameriprise Financial, Inc.	4.8
AXA S.A. and its group of companies	4.8
Standard Life Investments Limited	4.6
BT Pension Scheme Trustees Limited as Trustee of the BT Pension Scheme	3.8

EMPLOYEES AND EMPLOYEE CONSULTATION

Details of the Group's employment policies and employee consultation practices are set out in the corporate responsibility review on pages 34 and 35.

POLITICAL DONATIONS

No political donations were made during the year (2016: £nil).

CONTRACTUAL ARRANGEMENTS

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

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

RESEARCH AND DEVELOPMENT

The Group's research and development expenditure for the year is detailed in the financial review on page 20.

CHANGE OF CONTROL

Individual Group businesses have contractual arrangements with third parties, entered into in the normal course of business, which may be amended or may terminate on a change of control of the relevant business, or in certain circumstances, following a takeover of the Group.

The most significant agreements entered in to by the Group which contain provisions granting the counterparties certain rights in the event of a change of control of the Company are the revolving credit facility agreements entered into with the Group's banks, and the loan note agreements, pursuant to which the Company issued notes under a series of private placements. These agreements provide that, in the event of a change of a control, the Company must repay all outstanding borrowings, together with accrued interest and other sums owing under each agreement.

SHARE CAPITAL AND SHAREHOLDER RIGHTS

General

The Company's share capital consists of ordinary shares of 1p each and preference shares of £1 each, which are fully paid-up and quoted on the main market of the London Stock Exchange. Full details of the movements in the issued share capital of the Company during the financial year are provided in note 23 to the Group financial statements.

Details of the rights attaching to shares are set out in the Articles of Association (the "Articles"). All holders of ordinary shares are entitled to attend, speak and vote at any general meeting of the Company, and to appoint a proxy or proxies to exercise these rights. At a general meeting, every shareholder present in person, by proxy or (in the case of a corporate member) by corporate representative has one vote on a show of hands, and on a poll has one vote for every share held. The Notice of Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in respect of the resolutions to be passed at the Annual General Meeting.

There are no restrictions on the transfer of ordinary shares in the capital of the Company, other than certain restrictions which may from time to time be imposed by law. In accordance with the Market Abuse Regulation, certain employees are required to seek the approval of the Company to deal in its shares.

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

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

The Company's Articles may only be amended by special resolution at a general meeting of shareholders.

Issue of shares

Under the provisions of section 551 of the Companies Act 2006 (the "Act"), the Board is prevented from exercising its powers under the Articles to allot shares without an authority contained either in the Articles or in a resolution of the shareholders passed in general meeting. The authority, when given, can last for a maximum period of five years, but the Board proposes that renewal should be sought at each Annual General Meeting. An ordinary resolution, seeking such authority, will be proposed at the forthcoming Annual General Meeting.

Section 561 of the Act requires that an allotment of shares for cash may not be made unless the shares are first offered to existing shareholders on a pre-emptive basis in accordance with the terms of the Act. In accordance with general practice, to ensure that small issues of shares can be made without the necessity of convening a general meeting, the Board proposes that advantage be taken of the provisions of section 571 of the Act not to apply the Act's pre-emptive requirements. Accordingly, a special resolution will be proposed at the forthcoming Annual General Meeting which, if passed, will have the effect of granting the directors the power to allot not more than 5% of the issued ordinary share capital at the date of the Annual General Meeting free of the requirements of section 561 of the Act. No issue of these shares will be made which would effectively alter the control of the Company without the prior approval of the shareholders in general meeting.

Purchase of own shares

The Company did not purchase any of its ordinary shares (2016: nil) during the year. At 31 October 2017, the Company held a total of 2,198,814 1p ordinary shares in treasury (representing 0.8% of the ordinary shares in issue on 31 October 2017).

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

EMPLOYEE SHARE SCHEMES AND PLANS

Approach to share ownership

The Group actively encourages its employees to share in the future success of the Group, and therefore operates share-based arrangements to provide incentives and rewards to employees.

The Group operated four share-based incentive plans during the year, as set out below. Further details of awards and vesting are provided in note 27 to the Group financial statements.

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

The UK Sharesave Plan is open to all eligible UK employees. Employees may choose between three and five year savings periods, at the end of which the employee can choose to exercise the option or seek the return of their savings. A grant of options was made on 27 July 2017.

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

The PSP expired on 22 March 2016 but was previously the primary long-term incentive plan for executive directors and senior employees. Discretionary awards were granted under the PSP over a fixed number of shares by reference to salary, with awards ordinarily vesting, subject to meeting performance criteria, on the third anniversary of the grant date. Awards remain outstanding under the PSP but no further awards can be made under the plan.

The Chemring Group Performance Share Plan 2016 (the "2016 PSP")

The 2016 PSP is now the primary long-term incentive plan for executive directors and senior employees. Discretionary awards are granted under the PSP over a fixed number of shares by reference to salary, with awards ordinarily vesting, subject to meeting performance criteria, on the third anniversary of the grant date. Awards were granted under the plan on 24 March 2017.

The Chemring Group Restricted Share Plan (the "RSP")

The RSP provides for the discretionary grant of deferred share awards to selected key employees. Executive directors are not eligible to participate. Awards typically vest on the second or third anniversary of the grant date, subject to meeting continuous service criteria. Awards under the RSP may only be satisfied with market-purchased shares.

GOING CONCERN

Details of the conclusions arrived at by the directors in preparing the financial statements on a going concern basis are set out in the corporate governance report on pages 50 and 51.

ADDITIONAL INFORMATION, AS REQUIRED BY LISTING RULES REQUIREMENT 9.8.4

The annual report is required to contain certain information under Listing Rules Requirement 9.8.4. Where this information has not been cross-referenced within the Group financial statements, it can be found in the following sections:

- capitalised interest (see note 12);
- long-term incentive schemes (see directors' remuneration report);
- allocation of equity securities for cash (see note 23);
- contracts of significance (see note 34);
- election of independent directors (see corporate governance report);
- contractual arrangements (see directors' report);
- details of independent directors (see corporate governance report); and
- substantial shareholders (see directors' report).

No profit forecasts are issued by the Group and no directors have waived any current or future emoluments. Other than in relation to ordinary shares held in treasury, no shareholders have waived or agreed to waive dividends.

None of the shareholders is considered to be a Controlling Shareholder (as defined in Listing Rules 6.1.2.A) and the Group complies with the independence provisions of the Listing Rules.

PROVISION OF INFORMATION TO THE AUDITOR

Each director at the date of this report confirms that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

AUDITOR

As outlined in the Audit Committee report, the Group is undertaking a tender process for the selection and appointment of a new external auditor to replace Deloitte, who have provided external audit services to the Group for more than fifteen years. Pending conclusion of this process and the appointment of a new auditor, resolutions will be proposed at the forthcoming Annual General Meeting to reappoint Deloitte and to authorise the directors to determine the external auditor's remuneration.

ANNUAL GENERAL MEETING

The resolutions to be proposed at the Annual General Meeting to be held on 20 March 2018, together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and Article 4 of the IAS Regulation, and they have also chosen to prepare the parent company financial statements under IFRS as adopted by the EU. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, IAS 1 *Presentation of Financial Statements* requires that directors:

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

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' RESPONSIBILITY STATEMENT

Each of the directors, whose names and functions are listed on pages 38 and 39, confirms that to the best of their knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and accounts, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

The directors' report and responsibility statement was approved by the Board of directors on 18 January 2018 and is signed on its behalf by:

Michael Flowers
Group Chief Executive

Sarah Ellard
Group Legal Director

CORPORATE GOVERNANCE REPORT

The Board is committed to upholding high standards of corporate governance, protecting and growing shareholder value, and engaging in a fair and transparent manner with all of the Group's stakeholders. The Board takes responsibility for approving the Group's long-term goals and strategies, and provides overall financial and organisational control. The Board also ensures that the Group's businesses have appropriate and effective internal control and risk management systems.

2017 was the first full financial year for the new Board members appointed during 2016. It was a year for developing a deeper understanding of the Group's businesses, its systems and processes, and the longer-term strategic direction of the Group.

The Board travelled to the US in July to meet with the members of the Group's US Board. Given the nature of our business interests in the US, most of the Group's US businesses are subject to the requirements of a Special Security Agreement with the US Government, which imposes certain restrictions on the control and influence we can exert over these businesses. This arrangement has the potential to introduce additional challenges from a governance perspective, and it is vital that the main Board maintains a strong relationship with the US Board in order to ensure that all of our respective stakeholders' objectives are being addressed. The US Board was strengthened during the year with the appointment of a new outside director with considerable US defence industry experience, and we are already seeing the benefits of his contribution.

With regards to broader stakeholder engagement, I met with a number of our larger, institutional shareholders over the course of the year in order to elicit their views of the Group and their aspirations for our future development. Daniel Dayan, the Chairman of our Remuneration Committee, also spent a considerable amount of time engaging with shareholders on a new directors' remuneration policy, and whilst a decision was taken not to proceed with seeking approval for the new policy at the 2017 Annual General Meeting, the feedback that was received will be very valuable in framing the updated policy that will require shareholder approval at the 2019 Annual General Meeting.

The Board is aware of the consultation being undertaken by the Financial Reporting Council on the proposed new UK Corporate Governance Code, and in particular, the proposed recommendations that the Board should consider input from the workforce as part of its normal operation in future. Michael Flowers, the Group Chief Executive, has already started to engage with small groups of employees during his visits to our sites, and we will consider how we can build upon this over the course of the next year.

During the latter part of 2017, the Board undertook an externally-facilitated review of its performance using our retained advisors, Lintstock Limited. This highlighted several areas in which we can seek to improve our effectiveness going forward, and these are now being addressed.

Compliance statement

In the year under review, the Company was required to apply the main and supporting principles of good governance set out in the UK Corporate Governance Code issued in April 2016 by the Financial Reporting Council (the "Code"). The detailed report below sets out how the Company applied these principles in practice.

The Company was in compliance with the provisions of the Code throughout the year ended 31 October 2017, with the exception that a formal performance evaluation of the Board was not completed during the year. As referred to above, the evaluation was completed after the year end.

Carl-Peter Forster
Chairman

THE BOARD

Composition of the Board and independence

The Board currently comprises three executive directors and four non-executive directors (including the Chairman). The biographical details of individual directors, including details of their other business commitments, are set out on pages 38 and 39.

The roles of Chairman and Chief Executive are separate and clearly defined, in accordance with the requirements of the Code, with the division of responsibilities set out in writing and agreed by the Board.

The Board considers all of the current non-executive directors to be independent in judgement and character, and considered Carl-Peter Forster to be independent on his appointment as Chairman. Nigel Young was employed as the Group's Interim Chief Financial Officer for a period of six months from August 2012, prior to his appointment as a non-executive director, but the Board does not consider that this short period of employment impacted his independence, and his contribution to the Board continues to be impartial and objective. Mr Young was appointed as Senior Independent Director in March 2016.

The Board considers that the current balance of executive and non-executive influence on the Board is appropriate for the Company, taking into account its size and status.

Matters reserved for approval of the Board

The Board has a formal schedule of matters reserved to it for consideration and approval, including:

Strategy and management	• Approval of the Group's five year plan and annual budget • Approval of acquisitions, disposals and major capital expenditure • Approval of changes to the Group's capital structure
Financial matters and internal controls	• Oversight of the Group's systems of financial control and risk management • Approval of financial statements and results announcements • Recommendation and declaration of dividends
Corporate governance	• Undertaking performance reviews of the Board and its committees • Approval of policies on financing and treasury, ethical matters, and health and safety • Receiving reports on the views of shareholders

CORPORATE GOVERNANCE REPORT continued

Board responsibilities

The key responsibilities of the Board members are as follows:

Chairman	• Responsible for the leadership and governance of the Board as a whole • Ensures that the Board is kept properly informed and is consulted on all decisions reserved to it • Promotes constructive relations between the executive and non-executive directors • Ensures that the training and development needs of directors are identified • Ensures that the performance of the Board is evaluated on a regular basis • Ensures that communication with shareholders is effective, and acts as a conduit to ensure that the views of shareholders are communicated to the Board
Group Chief Executive	• Responsible for the leadership and day-to-day management of the business • Develops strategy for Board approval and ensures that the agreed strategy is implemented successfully • Presents the annual budget and five year plan to the Board for approval and delivers agreed objectives • Identifies new business opportunities, and potential acquisitions and disposals • Manages the Group's risk profile, including the management of health and safety • Ensures that the Board is fully informed of all key matters
Non-executive directors	• Participate in the development of strategic objectives and monitor the performance of executive management in achieving the agreed objectives • Monitor the Group's financial performance • Consider the integrity of the Group's financial information, and whether the financial controls and risk management systems are robust and defensible • Determine the appropriate remuneration policy for the executive directors • Meet periodically with the Group's senior management and visit operations • Meet regularly without the executive directors being present
Senior Independent Director	• Provides support to the Chairman and acts as a trusted sounding board • Reviews the Chairman's performance with the other non-executive directors • Available to meet shareholders if they have concerns which cannot be resolved through the normal channels
Company Secretary	• Secretary to the Board and its committees • Under the direction of the Chairman, responsible for maintaining good information flows within the Board and its committees • Develops Board and committee agendas, and collates and distributes papers • Assists with the induction of new directors • Keeps directors informed about changes to their duties and responsibilities • Provides advice on legal, regulatory and corporate governance matters • Available to all directors

OPERATION OF THE BOARD

Board meetings and attendance

The Board meets at least eight times a year. The Board receives reports from the Group Chief Executive, the Group Finance Director, the Group Legal Director and the Group Director of Safety as standing agenda items at every scheduled Board meeting. Members of the senior leadership team and external advisers attend Board meetings by invitation, as appropriate.

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

Board member	Board (8 scheduled meetings and 6 ad hoc meetings)	Audit Committee (4 scheduled meetings and 1 ad hoc meeting)	Nomination Committee (2 scheduled meetings and 1 ad hoc meeting)	Remuneration Committee (3 scheduled meetings and 3 ad hoc meetings)
Carl-Peter Forster	14(14)	–	3(3)	6(6)
Andrew Davies	14(14)	5(5)	3(3)	6(6)
Daniel Dayan	13(14)	5(5)	3(3)	6(6)
Sarah Ellard	13(14)	–	–	–
Michael Flowers	14(14)	–	–	–
Andrew Lewis	8(9)	–	–	–
Nigel Young	14(14)	5(5)	3(3)	6(6)

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

In addition to the scheduled meetings, six ad hoc Board meetings, one ad hoc Audit Committee meeting, one ad hoc Nomination Committee meeting and three ad hoc Remuneration Committee meetings were convened to deal with matters arising between scheduled meetings. All absences of directors were associated with unscheduled, ad hoc meetings.

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

Board activity throughout the year

In addition to its routine scheduled business, the Board also undertook the following activities during the year:

November 2016	December 2016	January 2017	March 2017
• Review of updates to the Group strategy • Approval of future financing strategy • Consideration of the Group's health and safety plan • Approval of additional US bank facilities	• Appointment of Andrew Lewis as the new Group Finance Director • Review of US Programs of Record • Review of the Operational Excellence Programme	• Report from the Audit Committee • Approval of preliminary announcement and annual results • Training on the Group's Bribery Act Compliance Manual	• Consideration of acquisition strategy and potential targets • Review of updated tax strategy

April 2017	June 2017	July 2017	September 2017
• Board visit to Norway and presentations from the management of Chemring Nobel • Review of the US energetics market • Consideration of potential acquisition opportunity	• Approval of interim results • Consideration and approval of the Group IT strategy • Review of the Group's senior leadership team	• Board visit to Alloy Surfaces • Review of future capital expenditure plans for Kilgore • Consideration of updated Group strategy	• Approval of 2018 budget • Review of updated financing strategy

BOARD EFFECTIVENESS

Appointments to the Board

External search consultancies are generally appointed to assist with the recruitment of new directors.

Drax Executive were appointed in July 2016 to undertake the recruitment of a new Group Finance Director. The search process was led by Michael Flowers, with support from the Chairman and Nigel Young. Andrew Lewis was identified as the preferred candidate and was invited to meet all members of the Board prior to approval of his appointment in December 2016.

Drax Executive were also engaged by the Group to provide consultancy services on organisational development during the year.

Diversity

The Board supports the principles set out in Lord Davies' Review into Women on Boards published in February 2011, and the Board also recognises the importance of promoting diversity across the Group. The Board currently includes one female member, and remains committed to a minimum target of at least 25% female representation on the Board, amongst senior management and across the Group in general.

Re-election of directors

In accordance with the Company's Articles of Association, all directors are required to submit themselves for re-election at each Annual General Meeting.

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

Induction

An internal induction programme on the Group's operations, and its strategic and business plans, is provided for newly-appointed directors. Directors are invited to meet key members of the senior management team at the earliest opportunity, and site visits are arranged to facilitate their understanding of the Group's operations.

The Company Secretary also provides detailed information on the operation of the Board and its committees, directors' legal duties, and responsibilities on appointment.

Training and development

The Company meets the cost of appropriate external training for directors, the requirement for which is kept under review by the Chairman.

Directors are continually updated on the Group's businesses and the matters affecting the markets in which they operate. The Company Secretary updates the Board on a regular basis with regards to regulatory changes affecting the directors and the Group's operations generally, and briefings are provided by the Group's advisers on key developments in areas such as financial reporting and executive remuneration practice.

Independent advice

All directors are entitled to take independent professional advice in furtherance of their duties at the Company's expense, should the need arise. No director had reason to seek such advice during the year.

Conflicts of interest

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

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

Performance evaluation

The Board engaged in an externally-facilitated review of its performance in late 2017, utilising the services of Lintstock Limited. The evaluation considered topics under the following headings:

- Board composition and expertise;
- Board dynamics;
- management and focus of meetings;
- Board support;
- strategic and operational oversight;
- risk management and internal control;
- succession planning and people management; and
- priorities for change.

The evaluation generated a number of recommendations, which will be addressed over the forthcoming year.

The Chairman and non-executive directors also reviewed the individual performance of the executive directors as part of the annual remuneration review.

BOARD COMMITTEES

The terms of reference of the Audit Committee, the Nomination Committee and the Remuneration Committee are published on the Company's website (www.chemring.co.uk/investors/corporate-governance) and copies are available on request from the Company Secretary.

Audit Committee

The Audit Committee comprises three independent non-executive directors. At the date of this report, the Audit Committee members were Nigel Young (Chairman), Andrew Davies and Daniel Dayan.

Nigel Young acted as Interim Chief Financial Officer for the Group between August 2012 and January 2013, and was formerly the finance director of several public companies. The remaining members of the Committee are serving executive directors of substantial companies, and have extensive business and financial management experience. The Board therefore considers that each member of the Audit Committee has the requisite recent and relevant financial experience to satisfy the requirements of the Code.

The Audit Committee convened for four scheduled meetings and one ad hoc meeting during the year.

The Audit Committee report is set out on pages 52 to 55.

Remuneration Committee

The Remuneration Committee comprises four independent non-executive directors. At the date of this report, the Remuneration Committee members were Daniel Dayan (Chairman), Andrew Davies, Carl-Peter Forster and Nigel Young.

Three scheduled Remuneration Committee meetings were held during the year, together with three ad hoc meetings. Further details on the Remuneration Committee and its activities, and the Company's policies on directors' remuneration are set out in the directors' remuneration report on pages 56 to 74.

Nomination Committee

The Nomination Committee comprises four independent non-executive directors. At the date of this report, the Nomination Committee members were Carl-Peter Forster (Chairman), Andrew Davies, Daniel Dayan and Nigel Young. Mr Forster is Chairman of the Nomination Committee but, in accordance with the Committee's terms of reference, is not permitted to chair meetings when the Committee is dealing with the appointment of his successor.

The Nomination Committee held two scheduled meetings during the year and one ad hoc meeting.

Executive Committee

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

The current members of the Executive Committee are:

- Michael Flowers (Group Chief Executive)
- Rik Armitage (Group Director - Strategy & Technology)
- Terry Bridgewater (Group Director of Safety)
- Stuart Cameron (Managing Director - Chemring Energetics)
- David Cole (Managing Director - Roke)
- Simon Darling (Managing Director - Chemring Countermeasures UK)
- Sarah Ellard (Group Legal Director & Company Secretary)
- Andrew Lewis (Group Finance Director)
- Clancy Murphy (Organisational Development Director)
- Rupert Pittman (Group Director of Corporate Affairs)

Michael Flowers chairs the Executive Committee, which meets monthly.

Key responsibilities delegated to the Executive Committee by the Board

- Implementation of the Group's strategies and policies as determined by the Board
- Monitoring of operational and financial results against budget
- Allocation of resources across the Group within the overall plan approved by the Board
- Approval of R&D and capital expenditure within limits imposed by the Board
- Developing and implementing risk management systems

CORPORATE GOVERNANCE REPORT continued

RELATIONS WITH SHAREHOLDERS AND OTHER PROVIDERS OF CAPITAL

Shareholder engagement

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

Communication with private investors is achieved largely through the medium of the interim results statement and the annual report.

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

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

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

Annual General Meeting

All substantial issues, including the adoption of the annual report and financial statements, are proposed on separate resolutions at the Annual General Meeting. In line with best practice guidelines, voting at the Annual General Meeting is conducted by way of a poll. This allows all votes to be counted, not just those of shareholders who attend the meeting. Poll results are published on the Company's website as soon as practicable following the conclusion of the meeting. The Notice of the Annual General Meeting is sent to shareholders at least twenty working days before the meeting.

Engagement with other providers of capital

In addition to issuing shares, the Company also finances its activities through external bank loans and by the issue of loan notes. The Board recognises the importance of maintaining good relationships with the providers of this capital, and the Group Chief Executive and the Group Finance Director brief the banks and note holders on a regular basis on the Company and its performance. The Board receives regular reports on any issues impacting these relationships.

ACCOUNTABILITY

Financial and business reporting

The statement of directors' responsibilities in respect of the financial statements and accounting records maintained by the Company is set out on page 42.

Having taken all the matters considered by the Board and brought to the attention of the Board during the year into account, the Board is satisfied that the annual report and accounts for the year ended 31 October 2017, taken as a whole, is fair, balanced and understandable. Furthermore, the Board believes that the disclosures set out on pages 4 to 37 provide the information necessary to assess the Company's performance, business model and strategy.

Risk management and internal control

The Board is responsible for determining the nature and extent of the risks that it is willing to take to achieve its strategic objectives. The Board is also responsible for ensuring that the Group's risk management and internal control systems are effective across the businesses.

The Board undertakes an annual review of the effectiveness of the Group's systems of internal control, including financial, operational and compliance controls, and risk management systems. Further details of the review undertaken during the financial year ended 31 October 2017 are set out on pages 26 and 27.

Going concern

The Group's business activities, key performance indicators, and principal risks and uncertainties are set out within the strategic report on pages 4 to 37. As part of a regular assessment of the Group's working capital and financing position, the directors have prepared a detailed bottom-up two year trading budget and cash flow forecast for the period through to October 2019, being at least twelve months after the date of approval of the financial statements. This is in addition to the Group's longer-term strategic planning process. In assessing the forecast, the directors have considered:

- trading risks presented by economic conditions in the defence market, particularly in relation to government budgets and spends;
- the timing of delivery of key contracts;
- the impact of macro-economic factors, particularly interest rates and foreign exchange rates;
- the status of the Group's existing financial arrangements and associated covenant requirements; and
- the availability of mitigating actions should business activities fall behind current expectations, including the deferral of discretionary overheads and restricting cash flows.

Additional detailed sensitivity analysis has been performed on the forecasts to consider the impact of severe, but plausible, reasonable worse case scenarios on the covenant requirements. These scenarios, which sensitised the forecasts for specific identified risks, modelled the reduction in anticipated levels of underlying EBITDA and the associated increase in net debt. These scenarios included significant delays to major contracts and new product launches, and the temporary closure of a major facility. These sensitised scenarios show headroom on all covenant test dates for the foreseeable future.

The directors have acknowledged the latest guidance on going concern. They have made appropriate enquiries and taken into account factors which are detailed in the strategic report on pages 4 to 37. As a consequence, the directors believe that the Company is well placed to manage its risks.

The directors, having considered the forecasts, the risks, and associated mitigating actions, have a reasonable expectation that adequate financial resources will continue to be available for the foreseeable future. Thus, they continue to support the going concern basis in preparing the financial statements.

Long-term viability statement

The directors have assessed the Group's viability over a three-year period to October 2020 based on the above assessment, combined with the Group's strategic planning process, which gives greater certainty over the forecasting assumptions used. Based on this assessment, the directors have a reasonable expectation that the Group will be able to continue in operation and meet all its liabilities as they fall due up to October 2020.

In considering our viability statements we have considered the principal risks and uncertainties discussed in the strategic report and assessed the impact.

Sensitivity analyses were run to model the financial and operational impact of plausible downside scenarios of these risk events occurring individually or in combination. These included the impacts of a further deterioration in the macroeconomic environment, underperformance in executing the Group's strategy, failure to derive targeted benefits from the Group's Operational Excellence Programme, the impact of a significant business interruption event, material movements in foreign exchange rates and a change in regulations impacting the Group's internal financing structure. Consideration was also given to the plausibility of the occurrence of other individual events that in their own right could have a material impact on the Group's viability.

Based on the consolidated financial impact of the sensitivity analyses and associated mitigating internal controls and risk management actions that are either now in place or could be implemented, the Board has been able to conclude that the Group will be able to maintain sufficient bank facilities to meet its funding needs over the three-year period.

INSURANCE

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

AUDIT COMMITTEE REPORT

Annual statement by the Chairman of the Audit Committee

The Audit Committee continues to play a very important role in the governance of the Group's financial affairs, both through monitoring the integrity of the Group's financial reporting and reviewing material financial reporting judgements.

In 2017 the Committee reviewed a number of key areas:

The Group's policy on capitalising development costs was reviewed and refined so certain criteria that a project must reach to be considered capital in nature were more clearly defined. As part of its review of the 2016 financial statements and the 2017 interim financial statements, the Committee reviewed the carrying value of previously capitalised projects and as part of this review considered the independent reporting on this area from the Group's external auditor. Based on its review the Committee concluded the carrying value was appropriate.

The adoption of IFRS 15 *Revenue from Contracts with Customers* was a key project during the year. The Committee reviewed the initial impact study prepared by management and agreed the scoping of the transition project. At the time of approving the interim financial statements the Committee reviewed the final analysis of the impact of adoption and approved the use of the modified transitional provisions and the related disclosures.

The Group's US businesses sit within a Special Security Agreement, which requires independent directors to be appointed to the US holding company. During 2017 a US Audit Committee was established, with terms of reference similar to the main Group Audit Committee. It is intended that this Committee will be fully functional in 2018.

Further details of the Committee's activities during the year are set out on the following pages.

Nigel Young
Chairman of the Audit Committee

OPERATION OF THE AUDIT COMMITTEE

The Audit Committee monitors the integrity of the Group's financial statements and the effectiveness of the external audit process.

Key responsibilities

- Making recommendations on the appointment, reappointment and remuneration of the external auditor
- Ensuring that an appropriate relationship between the Group and the external auditor is maintained, and overseeing the provision of non-audit services
- Reviewing and monitoring the external auditor's independence and objectivity
- Reviewing the effectiveness of the Group's internal controls and risk management systems
- Considering the effectiveness of the Group's internal audit function and monitoring internal audit activities
- Reviewing arrangements by which the Group's employees may confidentially raise concerns about possible improprieties
- Providing guidance to the Board in its consideration of whether the annual report and accounts are fair, balanced and understandable

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

The Committee reviews its terms of reference and its effectiveness annually, and recommends to the Board any changes required as the result of the review.

Meetings

Meetings of the Committee are attended, at the invitation of the Chairman, by the external auditor, the Chairman of the Board, the Group Chief Executive, the Group Finance Director, the internal auditors and representatives from the Group finance function. The Committee meets with the external and internal auditors on a regular basis without the executive directors being present. The Company Secretary acts as secretary to the Committee and minutes of meetings are circulated to all Board members.

A verbal report on key issues discussed by the Committee is provided to the Board after every meeting.

The Committee plans to meet four times in the current financial year.

The Chairman of the Committee meets regularly with the Group Finance Director, the external audit lead partner and the internal audit lead partner outside of scheduled meetings.

Principal activities of the Audit Committee during the year

November 2016

- Approval of the external auditor's finalised year end audit plan
- Consideration of KPMG's internal audit report
- Approval of the internal audit plan for 2017

January 2017

- Review of the status of the Group's significant research and development projects, and associated capitalised development costs
- Review of the Group's preliminary announcement and annual results for the year ended 31 October 2016, including the Group's going concern status and the viability statement
- Consideration of the auditor's report on the results of the full year audit
- Consideration of KPMG's internal audit report

April 2017

- Consideration and approval of the early adoption of IFRS 15
- Consideration of the auditor's plan for the half year results review
- Consideration of KPMG's internal audit report
- Annual review of the Committee's terms of reference
- Consideration of the Group Legal Director's ethics and compliance report
- Review of the Group's whistleblowing policy and procedures

June 2017

- Review of the Group's use of Alternative Performance Measures
- Updated status review of the Group's significant research and development projects, and associated capitalised development costs
- Review of the Group's half year results, including the going concern status
- Consideration of the auditor's report on the results of the interim review
- Consideration of KPMG's internal audit report
- Review of the proposed establishment and remit of the US Audit Committee

September 2017

- Review of audit services for the year ended 31 October 2017
- Consideration of the auditor's plan for the full year audit
- Annual review of policy on the provision of non-audit services by the external auditor
- Consideration of KPMG's internal audit report
- Approval of the internal audit plan for 2018

AUDIT COMMITTEE REPORT continued

SIGNIFICANT ISSUES CONSIDERED BY THE AUDIT COMMITTEE DURING THE YEAR IN RELATION TO THE FINANCIAL STATEMENTS

Revenue recognition policies and procedures	The Committee reviews the Group's revenue recognition policies and procedures on an ongoing basis, to ensure that they remain appropriate and that the Group's internal controls are operating effectively in this area. The Committee considered the key assumptions underlying the accounting treatment of any material contract with a customer where judgement on revenue recognition was required. The Group's adoption of IFRS 15 has led to a more prudent revenue recognition approach, with some revenue being recognised later than it would have been under the previous standard.
Impairment of goodwill and other intangible assets	The Committee considered both the recognised impairment loss in respect of the Chemring Defence UK business and management's review of the carrying value of goodwill and intangible assets held on the Group's balance sheet as at 31 October 2016 and 30 April 2017, against the latest forecasts for each of the applicable businesses.
Capitalised development costs	The Committee continued to monitor the level of development costs capitalised during the year and the periods over which such costs are to be amortised. Detailed reviews of the Group's ten most significant research and development projects, and their associated capitalised development costs, were undertaken by the Committee in January 2017 and June 2017.
Deferred tax assets on tax losses and US interest deductions	The Committee considered the management's review of the recoverability of US interest deductions and tax losses carried forward. A review of management's projections of future taxable profits that will be available to utilise tax losses and interest carried forward, and the assumptions made, was undertaken by the Committee.
Going concern and long-term viability	In order to satisfy itself that the Group has sufficient financial resources to enable it to continue trading for the foreseeable future, the Committee regularly reviews the adequacy of the Group's financing facilities against future funding requirements and working capital projections. Based on its review of the Group's forecasts and discussions with the external auditor, the Committee recommended to the Board the adoption of the going concern basis for the preparation of both the 2016 financial statements and the 2017 interim results. The Group was also required to make a statement on its long-term viability in the 2016 financial statements. The Committee considered the period over which the Group's viability would be assessed and having concluded that a three-year period was appropriate, the Committee undertook a review of the analysis and projections which supported the viability assessment prior to submission to the Board

EXTERNAL AUDIT

The Audit Committee is responsible for making recommendations to the Board on the appointment, reappointment and removal of the Company's external auditor. The Committee also undertakes an annual assessment of the auditor's independence and objectivity, taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services.

Audit effectiveness and tendering

The Committee keeps the assessment of the need to tender the audit mandate under continuing review. Deloitte LLP ("Deloitte") and its predecessor firms have been auditor to the Group for over 15 years and during this time a tender has not been conducted.

2017 represents Anna Marks' fifth year as the lead audit partner. In view of this, the EU regulatory change which requires a change of auditor in 2020, and the extensive period that Deloitte has been auditor, the Audit Committee concluded it was an appropriate time to offer the external audit work for tender.

The Audit Committee considered the timing and process of the tender against a background of substantial regulatory developments. It concluded that it was in the best interests of the Group to commence the tender process following the publication of the 2017 results. Subject to the successful selection and appointment of a new audit firm, the Board continues to recommend the reappointment of Deloitte at the Annual General Meeting. The result of the tender and appropriate transition arrangements will be advised in due course.

In assessing the effectiveness of the external auditor during the year, the Committee reviewed and considered:
- the arrangements for ensuring the external auditor's independence and objectivity;
- the external auditor's fulfilment of the agreed audit plan and any variations from the plan;
- the robustness and perceptiveness of the auditor in their handling of the key accounting and audit judgments;
- the content of the external auditor's reports and internal control recommendations; and
- the feedback received on the conduct of the external audits from key people involved in the audit process.

There are no contractual or similar obligations to restrict the choice of external auditor.

Auditor independence

The Committee keeps under review the level of any non-audit services which are provided by the external auditor, to ensure that this does not impair their independence and objectivity.

The Committee has adopted a policy which states that the external auditor should not be appointed to provide any non-audit services to the Group, unless the Committee agrees that their appointment would be in the best interests of the Company's shareholders in particular circumstances and would not create any direct conflict with their role as external auditor. In approving any such appointment, the Committee is also required to consider:
- whether the provision of the proposed services might compromise the auditor's independence or objectivity;
- whether the non-audit services will have a direct or material effect on the Group's audited financial statements;
- whether the skills and experience of the external auditor make it the most suitable supplier of the non-audit services; and
- the level of fees proposed for the non-audit services relative to the audit fees.

The external auditor is required to provide the Committee with a written confirmation of independence for all duly-approved engagements for non-audit services.

The policy adopted by the Committee expressly prohibits the provision of certain non-audit services by the external auditor, in line with regulatory requirements and UK ethical guidance.

Deloitte did not provide any additional services to the Group during the year under review. With effect from 1 November 2016, Deloitte ceased to provide any tax-related services to the Group.

Details of the amounts paid to the external auditor during the year for audit are set out in note 4 to the Group financial statements.

The Committee, in conjunction with the Group Finance Director, ensures that the Group maintains relationships with a sufficient choice of appropriately-qualified alternative audit firms for the provision of non-audit services.

INTERNAL AUDIT

The Audit Committee is responsible for reviewing the work undertaken by the Group's internal auditors, assessing the adequacy of the internal audit resource, and recommending changes for increasing the scope of the internal audit activities.

The Group's internal audit programme incorporates an annual rolling review of all businesses, and focuses on both financial and non-financial controls and procedures. The Committee approves the annual internal audit plan and receives regular reports from the internal auditors.

KPMG LLP has been appointed by the Committee to provide internal audit services for the Group. The KPMG internal audit programme covers financial and commercial processes, governance issues, and key corporate risks. The internal audit plan for 2017 included specific focus on:
- IT and cyber security risk management and controls;
- adherence to the Group's Bribery Act Compliance Manual; and
- the key financial and operating controls at each business.

KPMG presents its internal audit reports to the Committee on a quarterly basis. The management of each business is responsible for implementing the recommendations made by the internal auditors, and the Committee reviews progress on a regular basis.

Having undertaken a review of the effectiveness of KPMG in fulfilling the internal audit function, the Committee is satisfied that the quality, experience and expertise of KPMG meets the Company's requirements, and KPMG has therefore been reappointed to provide internal audit services for the Group in 2018. In 2018 the work programme for internal audit will move to a site rotation basis where every site will be covered on a two or three-year rotational basis and KPMG will create bespoke risk-based testing plans for each site.

DIRECTORS' REMUNERATION REPORT

Annual statement by the Chairman of the Remuneration Committee

Dear Shareholder

I am pleased to present the directors' remuneration report for the year ended 31 October 2017.

As noted in last year's report the Remuneration Committee conducted a comprehensive review of the remuneration policy during 2016 and as a result put forward a revised policy for shareholder approval at the 2017 Annual General Meeting. When developing this proposal, the Committee undertook extensive consultation with major shareholders and shareholder representative bodies and received generally positive feedback. However, during the run up to the 2017 Annual General Meeting, the Committee noted that, while majority support would have been received for the revised policy, a number of shareholders still had reservations. The Board therefore decided not to proceed with the proposed policy.

This means that, for the year under review, we continued with the remuneration policy which was approved at the 2016 Annual General Meeting. We remain of the view that updating the policy is necessary to attract and retain the right calibre of talent and to align with the evolving corporate strategy. However, we feel that it is important to take time to re-engage with shareholders to reach a greater consensus and that this will be best achieved by conducting a further review in the run-up to the required policy approval at the 2019 Annual General Meeting. As a result we will not be making any changes to the policy or its operation for the 2018 financial year, but will spend significant time during the coming year talking to major shareholders about formulating an optimal remuneration policy.

Performance outcomes

In line with the remuneration policy approved in 2016, the Committee operated an annual bonus with share deferral as well as a longer-term performance share plan for the executive directors.

The annual bonus was based on two elements – 75% based on financial targets (namely earnings per share ("EPS") and operating cash flow) and 25% based on personal objectives. The Committee has continued to set stretching targets which require superior performance to achieve the maximum bonus. As set out in the strategic report, Chemring's financial performance for the year under review has been positive, with underlying EPS having increased by 25.2%. The operating cash flow targets for the year were not met, primarily as a result of the investment in working capital associated with the fulfilment of profitable contracts in the Energetics segment. In terms of personal objectives, the three executive directors achieved between 82% and 88% of their personal objectives. This performance resulted in annual bonuses being payable to each individual between 58% and 60% of their individual maximum opportunity.

The long-term equity-based incentive performance shares granted in January 2015 to the two executive directors employed by Chemring at that time were subject to two performance measures. Half of the awards were subject to an EPS growth measure over the three years that ended on 31 October 2017 and the remaining half were subject to a relative total shareholder return measure. Compound EPS growth over the three-year performance period was 8.01% p.a. and the Company's TSR was below the median of the comparator group. Based on this performance, 35.075% of these awards will vest on 26 January 2018, subject to continued employment and the rules of the scheme.

The Committee is satisfied that the level of pay-out under the incentive plans is representative of the Company's performance over the respective one and three-year performance periods.

Other Committee activities during the year

In addition to the evaluation of the policy review, the Committee undertook a number of other regular activities in connection with remuneration during the year, details of which are set out on page 64. In addition, the Committee agreed the remuneration-related elements of the recruitment of Andrew Lewis as Group Finance Director (further details of which are provided in the report).

The Committee also considers the overall environment with regard to executive remuneration in the various jurisdictions relevant to Chemring's operations and, in particular, relevant issues such as the recently-introduced gender pay data disclosure requirements and the remuneration aspects of the UK Government's response to the Green Paper on Corporate Governance Reform and the FRC's review of the UK Corporate Governance Code.

Conclusion

I hope you will find this report helpful and informative, and look forward to receiving your support for the advisory resolution for the remuneration report to be tabled at our forthcoming Annual General Meeting. In the meantime, I would welcome any feedback or comments you have on the report or the policy in general and any comments you would like to feed into the remuneration policy review process leading up to the 2019 Annual General Meeting. Please do not hesitate to contact me in regard to remuneration matters via Sarah Ellard, Group Legal Director & Company Secretary at sarahe@chemring.co.uk.

Daniel Dayan
Chairman of the Remuneration Committee

PART A – REMUNERATION POLICY

This report sets out the information required by Part 4 of Schedule 8 to the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) (the "Regulations"). The report also satisfies the relevant requirements of the Listing Rules of the Financial Conduct Authority, and describes how the Board has applied the principles and complied with the provisions relating to directors' remuneration in the UK Corporate Governance Code.

Part A of this report represents the directors' remuneration policy. Part B constitutes the implementation sections of the report (the "Annual Report on Remuneration"). The auditors have reported on certain sections of Part B and stated whether, in their opinion, those parts have been properly prepared in accordance with the Companies Act 2006. Those sections of Part B subject to audit are clearly indicated.

The Remuneration Committee has been established by the Board and is responsible for the remuneration of the executive directors and the Chairman. The Committee's terms of reference are available in full on the Company's website or from the Company Secretary on request.

In determining remuneration for the executive directors, the Remuneration Committee seeks to maintain a competitive package of rewards required to promote the long-term success of the Company, without (i) being excessive by reference to market rates across comparator companies and (ii) neither encouraging nor rewarding inappropriate risk-taking. Performance-related elements should be transparent, stretching and rigorously applied, form a significant proportion of the total remuneration package of each executive director, and align the interests of executives with those of shareholders, by ensuring that a significant proportion of remuneration is performance-related and delivered in shares.

The table below summarises the Committee's policy on the remuneration of executive directors, as approved by shareholders at the 2016 Annual General Meeting and which can be found in the 2015 directors' remuneration report (http://www.chemring.co.uk/investors/reports-archive/2015.aspx). The policy remains valid until the 2019 Annual General Meeting.

Further details of the full policy are set out on pages 60 to 63.

DIRECTORS' REMUNERATION REPORT continued

Element	Purpose and link to strategy	Operation	Maximum	Performance assessment
Salary	• Reflects the performance of the individual, their skills and experience over time, and the responsibilities of the role • Provides an appropriate level of basic fixed income, avoiding excessive risk arising from over-reliance on variable income	• Normally reviewed annually with effect from 1 January • Benchmarked periodically against companies with similar characteristics and companies within the same sector • Salaries take account of complexity of the role, market competitiveness, Group performance and the increases awarded to the wider workforce	• Salary increases will normally be in line with those received by the wider workforce • More significant increases may be awarded at the discretion of the Committee, for example where there is a change in responsibilities, to reflect individual development and performance in the role	• None, although overall individual and company performance is a factor considered when setting and reviewing salaries
Bonus	• Incentivises annual delivery of financial, strategic and personal goals • Maximum bonus only payable for achieving demanding targets • Delivery of a proportion of bonus in deferred shares plus the ability to receive dividend equivalents provides alignment with shareholders' interests and assists with retention	• Paid in cash, with up to 40% deferred as a conditional award of deferred shares • Vesting of deferred shares is subject to continued employment (save in "good leaver" scenarios) at the end of three years from the award of the bonus • The payment of any earned bonus remains ultimately at the discretion of the Committee • Non-pensionable • Executives are entitled to receive, on vesting of deferred share awards, the value of dividend payments that would otherwise have been paid on the deferred shares during the deferral period	• Group Chief Executive - 125% of salary • Other executive directors - 100% of salary	• Mix of Group financial objectives and personal objectives – financial objectives will determine the majority of the award and will typically include a measure of profitability and cash flow, although the Committee has discretion to select other metrics • Personal objectives will be measurable and linked to goals that are consistent with the Group's longer-term goals • Payment of the personal objectives element will be subject to an underpin based on the Committee's assessment of underlying business performance, including *inter alia* levels of profitability and cash flow, as well as health and safety performance • Performance below the threshold for each financial target results in zero payment in respect of that element. Payment rises from 0% to 100% of the maximum opportunity for levels of performance between threshold and maximum with 50% of the maximum normally payable for on-target performance • Includes a clawback mechanism in the event of misconduct, error in calculation of performance, or a material misstatement of the Group's financial results
Long-term incentive plan (performance share plan - "PSP")	• Incentivises executives to achieve targets aligned to the Group's main strategic objectives of delivering sustainable growth and shareholder returns • Delivery of awards in shares plus the ability to receive dividend equivalents helps align executives' rewards with shareholders' interests	• Annual grants of shares, which vest subject to the Group's performance measured over at least three years • Executives are entitled to receive the value of dividend payments that would otherwise have been paid on vested awards • All awards are subject to the discretions given to the Committee in the plan rules during the vesting period	• Normally 150% of base salary (although grants of up to 200% of base salary may be made in exceptional circumstances such as on retirement)	• Awards from 2014 onwards are subject to targets based on EPS growth and relative TSR measured against a peer group of international defence sector companies. For awards granted in 2018, each measure will determine the vesting of 50% of the award; however, the Committee will have discretion to set different weightings for awards in future years • Targets for the EPS condition are set by the Remuneration Committee prior to each grant. Targets for the relative TSR condition are based on a sliding scale, with median representing threshold performance and upper quartile representing maximum performance • For each measure, performance below threshold results in zero payment. Payment rises from 25% to 100% of the maximum opportunity for that measure for levels of performance between threshold and maximum • Includes a clawback mechanism in the event of misconduct, error in calculation of performance, or a material misstatement of the Group's financial results

Element	Purpose and link to strategy	Operation	Maximum	Performance assessment
All-employee share schemes	• All employees, including executive directors, are encouraged to acquire shares by participating in the Group's all-employee share plans - the UK Sharesave Plan and the US Stock Purchase Plan	• The UK Sharesave Plan and US Stock Purchase Plans have standard terms	• Participation limits are those set by the relevant tax authorities from time-to-time	• N/A
Pension	• Provides retirement benefits that reward sustained contribution	• Ongoing pension provision is in the form of a cash supplement, subject to auto-enrolment in the Group's stakeholder scheme • Longer-serving employees have accrued benefits under the Group's defined benefit scheme, which was closed to future accrual for the executive directors on 6 April 2010	• 20% of base salary cash supplement contribution paid in lieu of occupational pension scheme membership • However, from 1 January 2014, all UK employees, including the executive directors, were subject to auto-enrolment into the Group's defined contribution stakeholder scheme, with an employer contribution of 4% of base salary. If executives do not opt out of this scheme, their cash supplement will be reduced by 4%	• N/A
Other benefits	• Provides a competitive package of benefits that assists with recruitment and retention	• Main benefits currently provided to UK executives are a car allowance, life assurance, permanent health insurance and private medical insurance • Executive directors are eligible for other benefits which may also be introduced for the wider workforce on broadly similar terms	• Cash allowance in lieu of company car of up to £25,000 per annum • Other benefits will be in line with market. The value of each benefit is based on the cost to the Company and is not pre-determined • Any reasonable business-related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit	• N/A

Notes:

1. A description of how the Company intends to implement the policy set out in this table for the forthcoming year is set out in the annual report on remuneration on pages 64 to 74.
2. The remuneration policy for the executive directors and other senior executives is designed with regard to the policy for employees across the Group as a whole. However, there are some differences in the structure of the remuneration policy for executive directors and other senior executives In general, these differences arise from the development of remuneration arrangements that are market-competitive for the various categories of individuals. They also reflect the fact that, in the case of the executive directors and other senior executives, a greater emphasis tends to be placed on performance-related pay in the market.
3. All-employee share plans do not have performance conditions. UK-based executive directors are eligible to participate in the UK Sharesave Plan on the same terms as other employees.
4. As described on page 70, the Company operates share ownership guidelines requiring executive directors to acquire and hold a specified level of shareholding.
5. The Committee may make minor amendments to the policy set out above for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation, without obtaining shareholder approval for that amendment.
6. The Regulations and related investor guidance encourages companies to disclose a cap within which each element of the directors' remuneration policy will operate. Where maximum amounts for elements of remuneration have been set within the policy, these will operate simply as caps and are not indicative of any aspiration.
7. While the Committee does not consider it to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality, whether paid for by the Company or another, and business travel for directors and in exceptional circumstances their families, may technically come within the applicable rules, and so the Committee expressly reserves the right for the Committee to authorise such activities within its agreed policies (and to discharge any related tax liability).

DIRECTORS' REMUNERATION REPORT *continued*

Committee discretions

The Committee operates the Group's variable incentive plans according to their respective rules and in accordance with governing legislation and HMRC rules where relevant. To ensure the efficient administration of these plans, the Committee will apply certain operational discretions. These include the following:

- selecting the participants in the plans on an annual basis;
- determining the timing of grants of awards and/or payment;
- determining the quantum of awards and/or payments (within the limits set out in the policy table above);
- determining the extent of vesting based on the assessment of performance;
- making the appropriate adjustments required in certain circumstances (e.g. change of control, rights issues, corporate restructuring events and special dividends);
- determining "good leaver" status for incentive plan purposes and applying the appropriate treatment; and
- undertaking the annual review of weighting of performance measures, and setting targets for the annual bonus plan and the PSP from year to year.

If an event occurs which results in the annual bonus plan or PSP performance conditions and/or targets being deemed no longer appropriate by the Committee (e.g. a material acquisition or divestment), the Committee will have the ability to adjust appropriately the measures and/or targets and alter weightings, provided that the revised conditions or targets are not materially less difficult to satisfy (taking account of the relevant circumstances).

Selection of performance metrics and targets

The performance-related elements of remuneration take into account the Group's risk policies and systems, and are designed to align the senior executives' interests with those of shareholders. The Committee reviews the metrics used and targets set for all of the Group's senior executives (not just the executive directors) every year, in order to ensure that they are aligned with the Group's strategy and to ensure an appropriate level of consistency of arrangements amongst the senior executive team. All financial targets will (where appropriate) be set on a sliding scale. Non-financial targets are set based on individual and management team responsibilities.

The annual bonus plan performance metrics include a mix of financial targets and personal objectives, reflecting the key annual priorities of the Group. The financial metrics determine the majority of the bonus and normally include operating cash flow – a key measure of the Group's ability to invest in the business, and a measure of profitability, which together reflect the Group's financial performance and are key measures for shareholders. For the 2018 financial year, the measure of profitability will be underlying earnings per share. The personal objectives agreed on an annual basis will be measurable and based on individual performance, and will be consistent with the achievement of the Group's longer-term goals.

The Committee has decided to apply total shareholder return ("TSR") and earnings per share ("EPS") performance conditions to awards made under the PSP. EPS is a measure of the Group's overall financial success and TSR provides an external assessment of the Company's performance against a peer group. TSR also aligns the rewards received by executives with the returns received by shareholders. Details of the EPS targets applied to 2017 awards and those to be made in 2018 are set out on pages 68 and 74, and further details on the TSR targets for 2017 and 2018 awards are also set out on pages 69 and 74.

The Committee will review the choice and relative balance of performance measures and the appropriateness of performance targets prior to each grant of awards under the PSP. The EPS targets are reset prior to each grant, following a review of internal and external expectations of future EPS growth for the Group, and are based on growth in adjusted EPS. The TSR comparator group is reviewed prior to each grant to ensure it remains as appropriate as possible, recognising the small size of the UK-listed defence company sector and the individual characteristics of each company. The Committee retains discretion to set different targets for future awards, providing that, in the opinion of the Committee, the new targets are no less challenging in light of the prevailing circumstances than those set previously. If substantially different targets to those used previously are proposed, major shareholders will be consulted.

How employees' pay is taken into account

In addition to determining the remuneration arrangements for the executive directors, the Committee considers and approves the base salaries for thirteen other senior executives, and reviews salaries for the next tier of management at each of the Group's businesses. The Committee also receives information on general pay levels and policies across the Group. The Committee, therefore, has due regard to salary levels across the Group in applying its remuneration policy. However, reflecting standard industry practice, the Committee does not consult with employees in relation to the design and operation of the executive remuneration policy, although the Committee will continue to monitor regulatory developments in this area.

How the executive directors' remuneration policy relates to the wider Group

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

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

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

How shareholders' views are taken into account

The Remuneration Committee considers shareholder feedback received on the directors' remuneration report each year and guidance from shareholder representative bodies more generally. Shareholders' views are key inputs when shaping remuneration policy, with the Company's major shareholders being consulted in advance in connection with proposed changes to policy. A substantial consultation exercise is expected during 2018 leading up to presentation of the remuneration policy resolution at the 2019 Annual General Meeting, and shareholders' direct participation in this consultation would be welcomed.

Legacy arrangements

For the avoidance of doubt, authority is given to the Company to honour any commitments entered into with current or former directors (such as the payment of a pension or the unwinding of legacy share schemes) permitted under the current policy or which have been disclosed to shareholders in previous directors' remuneration reports. Details of any payments to former directors will be set out in the annual report on remuneration as they arise.

External appointments

The Company's policy is to permit an executive director to serve as a non-executive director elsewhere when this does not conflict with the individual's duties to the Company, and where an executive director takes such a role they may be entitled to retain any fees which they earn from that appointment.

Potential remuneration scenarios for executive directors

The chart below details the hypothetical composition of each executive director's remuneration package and how it could vary at different levels of performance under the policy set out above.

Assumptions:

1. Minimum = fixed pay only (2018 salary plus benefits plus pension cash supplement).
   On target = fixed pay plus target annual bonus of 62.5% of salary for the Group Chief Executive and 50% for the other executive directors plus target PSP awards of 37.5% of salary for the Group Chief Executive and the other executive directors.
   Maximum = fixed pay plus maximum annual bonus of 125% of salary for the Group Chief Executive and 100% for the other executive directors plus maximum PSP awards of 150% of salary for the Group Chief Executive and the other executive directors.
2. As required by the Regulations, no account is taken of the impact that future share price growth might have on the value of remuneration delivered in shares.
3. The PSP awards section of the bars is shaded, as these awards are subject to performance in future years and cannot ordinarily vest until three years after grant.
4. Salary levels (on which other elements of the packages are calculated) are based on those applying from 1 January 2018. Note that Sarah Ellard's remuneration reflects her current contractual office-based hours, and may be increased or decreased pro-rata should these change in future.
5. The value of taxable benefits is based on an estimated cost of £22,500 for Michael Flowers, £21,000 for Andrew Lewis and £20,500 for Sarah Ellard.
6. Pension provision is 20% of salary for each director.
7. The executive directors may participate in all-employee share schemes on the same basis as other employees. The value that may be received under these schemes is subject to tax-approved limits. For simplicity, the value that may be received from participating in these schemes has been excluded from the above chart.

DIRECTORS' REMUNERATION REPORT continued

Policy on payments for loss of office

All new executive directors appointed will have service contracts which are terminable on a maximum of twelve months' notice. Provisions permitting the Company to make any termination payments by instalments, and requiring directors to mitigate their loss in such circumstances, will be included in each contract. The Remuneration Committee will exercise discretion in determining whether termination payments should be paid by instalments, taking account of the reason for the departure of the director and their prior performance. Other than in gross misconduct situations, the Company would expect to honour the contractual entitlements of terminated directors.

Other than in certain "good leaver" circumstances (including, but not limited to, redundancy, ill-health or retirement), no bonus would be payable under the annual bonus plan unless the individual remains employed and is not under notice at the payment date. Any bonus paid to a "good leaver" would be based on an assessment of their individual and the Company's performance over the period, and would normally be pro-rated for the proportion of the year worked.

Deferred bonus share awards will also normally lapse on cessation of employment, unless the executive director is deemed to be a "good leaver" by the Remuneration Committee, as referred to above, in which case they would vest in full.

With regards to long-term incentive awards, the PSP rules provide that other than in certain "good leaver" circumstances, awards lapse on cessation of employment. Where an individual is a "good leaver", the Remuneration Committee's policy for PSP awards made from 2014 onwards is normally to permit awards to remain outstanding until the end of the original performance period, when a pro-rata reduction will be made to take account of the proportion of the vesting period that lapsed prior to termination of employment, although the Committee has the discretion to partly or completely disapply pro-rating in exceptional circumstances. The Committee has discretion to deem an individual to be a "good leaver". In doing so, it will take account of the reason for their departure and the performance of the individual.

The Committee will have authority to pay any statutory entitlements and settle claims against the Company (e.g. for unfair dismissal, discrimination or whistleblowing) that arise on termination. The Committee may also authorise the provision of outplacement services and settle legal fees where considered appropriate.

Executive directors' service agreements and loss of office payments

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

Provision	Detailed terms
Contract dates	Michael Flowers - 23 June 2014 (effective 24 June 2014) Andrew Lewis - 12 December 2016 (effective 9 January 2017) Sarah Ellard - 2 November 2011 (effective 7 October 2011)
Notice period	Twelve months from both the Company and from the executive
Termination payments	Contracts may be terminated without notice by the payment of a sum equal to the sum of salary due for the unexpired notice period plus the fair value of any contractual benefits (including pension) Payments may be made in instalments and in these circumstances there is a requirement to mitigate loss

The Company's policy on service agreements reflects the approach described above (e.g. notice periods will normally be twelve months or less).

The executive directors' service contracts are available for inspection at the Company's registered office.

Recruitment of executive directors

Salaries for new hires (including internal promotions) will be set to reflect their skills and experience, the Company's intended pay positioning, and the market rate for the applicable role.

Where it is appropriate to offer a below-market salary initially, the Committee has the discretion to allow phased salary increases over a period of time for newly-appointed directors, even though this may involve increases in excess of the rate for the wider workforce and inflation.

Benefits will be provided in line with those offered to other executive directors, taking account of local market practice, with relocation expenses or arrangements provided if necessary. Tax equalisation may also be considered if an executive is adversely affected by taxation due to their employment with the Company. Legal fees and other costs incurred by the individual may also be paid by the Company.

The aggregate incentive opportunity offered to new recruits will normally be no higher than that offered under the existing incentive plans to the incumbent executive directors. Different performance measures and targets may be set initially for the annual bonus plan, taking into account the responsibilities of the individual and the point at the financial year at which they join. A performance share plan award may be granted shortly following appointment (assuming the Company is not in a close period). Any incentive quantum offered above the limits set out in the existing incentive plans and policy will (save as set out below) be contingent on the Company receiving shareholder approval for an amendment to its approved policy at its next general meeting.

Current entitlements of a new joiner from their previous employer that are forfeited (e.g. benefits, bonus and share schemes) may be bought out on terms that take due account of the nature of the entitlements in terms of (for example) time horizon, fair value and performance conditions. The Group's existing incentive arrangements will be used to the extent possible, although awards may also be granted outside of these arrangements if necessary, and as permitted under the *Listing Rules*, reflecting the above parameters. Such awards will not, in accordance with the Regulations, be subject to the limits of the remuneration policy for incentive pay.

In the case of an internal hire, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant (adjusted as relevant to take into account the Board appointment).

Policy for non-executive directors

Element	Purpose and link to strategy	Operation	Maximum	Performance assessment
Non-executive directors' and Chairman's fees	Takes account of recognised practice and set at a level that is sufficient to attract and retain high-calibre non-executives	• The Chairman is paid a single fee for all his responsibilities. The non-executives are paid a basic fee. The Chairs of the Remuneration Committee and the Audit Committee each receive additional fees to reflect their extra responsibilities • When reviewing fee levels, account is taken of market movements in non-executive director fees, Board committee responsibilities, ongoing time commitments, the general economic environment and the level of increases awarded to the wider workforce • Fee increases, if applicable, are normally effective from April of each year • Non-executive directors do not participate in any pension, bonus or share incentive plans • Non-executive directors may be compensated for travel, accommodation or hospitality-related expenses in connection with their roles and any tax thereon • In exceptional circumstances, additional fees may be paid where there is a substantial increase in the time commitment required of non-executive directors	• N/A	• N/A

Chairman's and non-executive directors' letters of appointment

Non-executive directors do not receive compensation for loss of office but are appointed for a fixed term of three years, renewable for further three-year terms if both parties agree and subject to annual re-election by shareholders. The Chairman's appointment may be terminated on six months' notice by either party and the other non-executive directors' appointments may be terminated on three months' notice by either party. The non-executive directors' letters of appointment are available for inspection at the Company's registered office.

The following table provides further details of the terms of appointment for the non-executive directors who served during the year:

Name	Date original term commenced	Date current term commenced	Expected expiry date of current term
Carl-Peter Forster	1 May 2016	1 May 2016	30 April 2019
Andrew Davies	17 May 2016	17 May 2016	16 May 2019
Daniel Dayan	7 March 2016	7 March 2016	6 March 2019
Nigel Young	1 May 2013	1 May 2016	30 April 2019

DIRECTORS' REMUNERATION REPORT continued

PART B – ANNUAL REPORT ON REMUNERATION

This part of the report has been prepared in accordance with Part 3 of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), and 9.8.6R of the Listing Rules. The annual report on remuneration will be put to an advisory shareholder vote at the 2018 Annual General Meeting. The information on pages 64 to 74 has been audited.

THE REMUNERATION COMMITTEE AND ITS ADVISERS

Members of the Remuneration Committee

The following individuals were members of the Remuneration Committee during the year:

Name	From	To
Daniel Dayan (Chairman)	7 March 2016	Present
Carl-Peter Forster	1 May 2016	Present
Andrew Davies	17 May 2016	Present
Nigel Young	1 May 2013	Present

The Group Legal Director & Company Secretary acts as secretary to the Committee, and the Group Chief Executive and the Group Finance Director attend meetings by invitation, but no executive director or other employee is present during discussions relating directly to their own remuneration.

Meetings

The Remuneration Committee met for three scheduled meetings during the year. In addition, three additional ad hoc meetings were convened to deal with matters arising between scheduled meetings. Details of the attendance of the Committee members at meetings are set out on page 47 of the corporate governance report.

Principal activities of the Remuneration Committee during the year

November 2016

- Review of initial feedback from shareholders on the proposed new incentive plan
- Consideration of potential financial targets for the proposed new incentive plan
- Consideration of salary levels for the executive directors and the senior management team

January 2017

- Consideration of bonus outturn for the 2016 financial year
- Approval of the directors' remuneration report for 2016
- Approval of the proposed new remuneration policy for the executive directors and detailed terms of the proposed new incentive plan

March 2017

- Review of further feedback from shareholders on the proposed new remuneration policy for the executive directors and the proposed new incentive plan
- Approval of financial targets and personal objectives for the 2017 annual bonus plan
- Grant of 2017 awards under the Performance Share Plan

September 2017

- Consideration of treatment of "good leavers" under the Performance Share Plan

Advisers

During the year, FIT Remuneration Consultants LLP ("FIT") were retained by the Committee to advise on remuneration and incentive plan related matters. FIT is a signatory to the Remuneration Consultants' Group Code of Conduct. The Committee has reviewed the nature of the services provided by FIT and is satisfied that no conflict of interest exists in the provision of these services. The Company received no other services from FIT during the year. The total fees paid to FIT in respect of services to the Committee during the year were £45,562 (2016: £25,792 paid to FIT and £47,300 paid to the Committee's former retained adviser, New Bridge Street). Fees were determined based on the scope and nature of the projects undertaken for the Committee.

The Committee reviews the performance and independence of its advisers on an annual basis.

The Committee consults internally with the Group Chief Executive (Michael Flowers) and the Group Legal Director & Company Secretary (Sarah Ellard).

DIRECTORS' EMOLUMENTS

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

	Year	Salaries /fees £'000	Taxable benefits[1] £'000	Bonus (cash and deferred shares)[2] £'000	PSP[3] £'000	Pension benefits[4] £'000	Total £'000
Executives							
Michael Flowers	**2017**	**415**	**23**	**310**	**–**	**83**	**831**
	2016	406	21	347	–	81	855
Andrew Lewis[5]	**2017**	**265**	**16**	**193**	**–**	**53**	**527**
	2016	–	–	–	–	–	–
Sarah Ellard	**2017**	**208**	**20**	**121**	**–**	**42**	**391**
	2016	204	23	141	–	41	409
Non-executives							
Carl-Peter Forster[6]	**2017**	**200**	**–**	**–**	**–**	**–**	**200**
	2016	100	–	–	–	–	100
Andrew Davies[7]	**2017**	**55**	**–**	**–**	**–**	**–**	**55**
	2016	25	–	–	–	–	25
Daniel Dayan[8]	**2017**	**65**	**–**	**–**	**–**	**–**	**65**
	2016	43	–	–	–	–	43
Nigel Young[9]	**2017**	**66**	**–**	**–**	**–**	**–**	**66**
	2016	63	–	–	–	–	63
Total remuneration	**2017**	**1,274**	**59**	**624**	**–**	**178**	**2,135**
	2016	841	44	488	–	122	1,495

Notes:

1. Comprises a fully-expensed company car for Sarah Ellard (annual lease cost £10,186) up to 19 August 2016 and cash allowance of £19,350 per annum thereafter; car-related cash allowance of £20,000 per annum up to 31 May 2016 and £21,500 per annum thereafter for Michael Flowers; and car-related cash allowance of £19,350 per annum for Andrew Lewis; plus private medical insurance for each of the executive directors.
2. 40% of any bonus is delivered as an award of deferred shares. Bonuses had accrued but had not yet been paid at the date of this report.
3. PSP awards that were due to vest during the year lapsed in full. PSP awards granted in January 2015 are due to vest on 26 January 2018, as reported on page 68.
4. The executive directors receive a cash supplement of 20% of salary in lieu of occupational pension scheme membership.
5. Andrew Lewis joined the Company on 9 January 2017 and was appointed to the Board on 19 January 2017.
6. Carl-Peter Forster joined the Board on 1 May 2016.
7. Andrew Davies joined the Board on 17 May 2016
8. Daniel Dayan joined the Board on 7 March 2016. Daniel receives an additional fee of £10,000 per annum, included in the above figures, in respect of his Chairmanship of the Remuneration Committee
9. Nigel Young receives an additional fee of £10,000 per annum, included in the figures above, in respect of his Chairmanship of the Audit Committee. This fee was increased from £8,000 to £10,000 per annum with effect from 7 March 2016. However, the increased payment was not processed until January 2017 and the back-dated sum paid is therefore included in the 2017 figures.

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

DIRECTORS' REMUNERATION REPORT continued

BASE SALARY AND BENEFITS PAID DURING THE YEAR

Salaries for Michael Flowers and Sarah Ellard were reviewed in November 2016 and a 2.7% increase, with effect from 1 January 2017, was approved by the Committee. The salaries of the executive directors during the year were therefore as follows:

Executive	Annual salary from 1 November 2016 to 31 December 2016	Annual salary from 1 January 2017 to 31 October 2017
Michael Flowers	£406,000	£416,962
Andrew Lewis[1]	–	£325,000
Sarah Ellard	£203,539	£209,035

Note:
1. Andrew Lewis joined the Company on 9 January 2017 and was appointed to the Board on 19 January 2017.

The Group Chief Executive receives a cash allowance of £21,500 per annum in lieu of a company car and the other executive directors receive a cash allowance of £19,350 per annum. The cash allowances are reviewed every three years and will next be reviewed in 2019.

DETAILS OF VARIABLE PAY OPPORTUNITY IN THE YEAR

Annual bonus

In accordance with previous practice, 75% of the annual bonus opportunity for 2017 was based on financial targets (namely earnings per share and operating cash flow), with 25% based on personal objectives. No bonus is payable in respect of the personal objectives unless the Committee is satisfied that this is justified by the Group's underlying performance, including *inter alia* levels of profitability and cash flow, as well as health and safety performance.

The Committee has consistently set challenging targets for the achievement of maximum bonuses. The financial targets for the 2017 bonus plan, compared with actual performance, were as follows:

Metric	Weighting (75% of overall bonus)	Performance	Target	Actual	Payout (as % of salary) Michael Flowers	Payout (as % of salary) Andrew Lewis & Sarah Ellard
Earnings per share	50%	Threshold	10.9p	12.9p	46.875%	37.5%
		Target	11.9p			
		Maximum	12.9p			
Operating cash flow	50%	Threshold	£60.0m	£47.1m	0%	0%
		Target	£67.5m			
		Maximum	£75.0m			

The personal objectives set in respect of the 2017 bonus plan (25% of overall bonus) are set out below:

Executive	Personal objectives	Key aspects of performance against individual objectives	Payout (as % of salary)
Michael Flowers	• Health and safety performance	• Implemented plan for mitigation or elimination of Group-wide hazardous exposures • Achieved a lost time incident rate of less than 0.66	27.5%
	• Operational performance improvement	• Implemented Operational Excellence Programme • Developed new KPIs and baseline metrics for measuring future operational performance improvements • Implemented Group-wide customer relationship management system • Initiated development of a Group-wide operational framework	
	• Capability and infrastructure developments	• Progressed closure of Torrance facility • Closed Alloy Surfaces' second facility • Implemented plans for closure of various surplus facilities	
	• Strategic development	• Developed strategic options for non-organic growth • Secured initial US tactical electronic warfare order • Achieved initial technology upgrade order for the HMDS spiral development programme • Refreshed strategy for the Energetics segment • Developed future financing strategy for the Group	
	• Tennessee site transformation	• Developed future capability and investment plan for Tennessee	
	• Delivery of US growth programmes	• Progressed to key stages on Next Generation Chemical Detector and Joint Biological Tactical Detection System programmes	

Executive	Personal objectives	Key aspects of performance against individual objectives	Payout (as % of salary)
Andrew Lewis	• Health and safety performance	• Implemented plan for mitigation or elimination of Group-wide hazardous exposures • Achieved a lost time incident rate of less than 0.66	22.0%
	• Financial systems	• Reissued Group Accounting Policy Manual • Updated Group reporting processes and reduced reporting timeline • Implemented quarterly balance sheet reviews for each business	
	• Operational performance improvement	• Progressed financial aspects of the Operational Excellence Programme • Developed new KPIs and baseline metrics for measuring improvements in margins, overhead cost base and working capital • Initiated development of standardised business processes for inclusion in a Group-wide operational framework	
	• Strategic development - financial	• Developed and implemented future financing strategy for the Group • Achieved investment grade credit rating for the Group in order to reduce coupon on the loan notes	
	• IT and cyber	• Finalised new IT strategy for the Group • Developed Group cyber-security risk management plan	
	• Tennessee site transformation	• Supported development of future capability and investment plan for Tennessee	
Sarah Ellard	• Health and safety performance	• Implemented plan for mitigation or elimination of Group-wide hazardous exposures • Achieved a lost time incident rate of less than 0.66	20.5%
	• Operational performance improvement	• Progressed commercial and legal aspects of the Operational Excellence Programme • Developed new KPIs and baseline metrics for measuring improvements across key commercial and legal operational areas • Initiated development of standardised commercial and legal procedures for inclusion in a Group-wide operational framework • Implemented contractual risk management training	
	• Strategy development - people	• Supported development of new incentive arrangements • Initiated development of standardised terms and conditions of employment	
	• Governance and compliance	• Completed updated Group-wide anti-bribery compliance training • Introduced procedures for UK gender pay gap reporting	
	• Pensions	• Developed and implemented initial de-risking strategy for the UK legacy defined benefit pension scheme	
	• Tennessee site transformation	• Supported development of future capability and investment plan for Tennessee	

Based on the above performance, bonuses are payable to the executive directors under the 2017 bonus plan as follows:

Executive	Maximum bonus (% of salary)	Bonus paid in respect of financial targets (% of salary)	Bonus paid in respect of personal objectives (% of salary)	Total bonus payment (£)[1]
Michael Flowers	125	46.875	27.5	310,115
Andrew Lewis	100	37.5	22.0	193,375
Sarah Ellard	100	37.5	20.5	121,240

Note:
1. 40% of bonuses payable are satisfied by way of an award of deferred shares, vesting of which is subject only to continued service.

The committee agreed to pay a full-year equivalent bonus to Andrew Lewis as part of his terms agreed on appointment.

DIRECTORS' REMUNERATION REPORT continued

Performance Share Plan

Vesting of 2015 PSP awards

The PSP awards granted on 26 January 2015 were made subject to the following performance conditions:

Measure	Threshold vesting	Full vesting
Total compound earnings per share growth per annum over three financial years (50% of award)	5% p.a. (25% vests)	10% p.a. (100% vests)
Rank of the Company's total shareholder return against the total shareholder return of the members of the comparator group (50% of award)	Median ranking (25% vests)	Upper quartile ranking (100% vests)

The Group's compound earnings per share growth over the three financial years ended 31 October 2017 was 8.01% p.a., and 70.15% of the part of the awards subject to the earnings per share measure will therefore vest. The Company's total shareholder return over the performance period was below the median ranking of the comparator group, and no part of this element of the award will vest. In total therefore, 35.075% of the awards granted on 26 January 2015 will vest on 26 January 2018.

Details of the awards granted to the executive directors on 26 January 2015 are provided below:

Executive	Vesting date	Number of shares at grant	Rights issue adjustment during 2016	Number of shares to vest	Number of shares to lapse	Value of dividends
Michael Flowers	26 January 2018	261,935	37,096	104,885	194,146	£6,179
Sarah Ellard	26 January 2018	143,867	20,374	57,607	106,634	£3,394

PSP awards granted in the year

The following conditional awards of shares were granted to the executive directors under the PSP during the year:

Executive	Date of grant	Value of award	Closing share price on date of grant	Number of conditional shares awarded	Face value	% that vests at threshold	Vesting determined by
Michael Flowers	24 March 2017	150% of salary	195.75p	363,629	£711,804	25%	EPS growth (50%) and relative TSR performance (50%), as detailed below
Andrew Lewis	24 March 2017	150% of salary	195.75p	283,430	£554,814	25%	
Sarah Ellard	24 March 2017	150% of salary	195.75p	182,297	£356,846	25%	

Awards under the PSP are normally granted in January of each year, following the release of the results for the preceding financial year, and award levels are calculated based on the closing share price on the trading day immediately preceding the date of grant. However, no awards were granted in January 2017, as it was intended that shareholder approval would be sought for a new incentive plan at the Annual General Meeting in March 2017, as reported on page 56. Following the Board's decision to withdraw the resolution for approval of the new plan, the Committee agreed to revert to making awards under the PSP on 24 March 2017. In order to ensure that the recipients of awards were not prejudiced by the delay in granting awards, the Committee considered that it would be appropriate, on this occasion, to calculate the award levels based on the closing share price on 19 January 2017 i.e. the date on which grants would normally have been made.

The face value of each award shown above is based on the closing share price on the date of grant.

The performance conditions applying to the awards made in 2017 are based as to one half of each award on the Company's compound EPS growth over three financial years commencing 1 November 2016, and as to the other half of each award on the Company's TSR performance over the same three-year performance period.

The EPS performance condition will be measured as follows:

Total compound earnings per share growth over the three-year performance period	% of earnings per share part that may vest
Less than 5% p.a.	0%
5% p.a.	25%
Between 5% p.a. and 10% p.a.	On a straight-line basis between 25% and 100%
10% p.a. or more	100%

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

The TSR performance condition will be measured as follows:

Rank of the Company's total shareholder return against the total shareholder return of the members of the comparator group	% of total shareholder return part that may vest
Below median	0%
Median	25%
Between median and upper quartile	On a straight-line basis between 25% and 100%
Upper quartile or above	100%

The comparator group for the 2017 awards comprises BAE Systems, Cobham, Cohort, Esterline Technologies, FLIR Systems, L3 Communications, Leonardo Finmeccanica, Orbital ATK, QinetiQ Group, Raytheon, Rheinmetall, Rockwell Collins and Ultra Electronics.

Performance conditions for outstanding awards

	Measure	Director	Awards to executive directors	Threshold vesting	Full vesting
Awards made on 25 January 2016	Total compound earnings per share growth per annum over four financial years commencing 1 November 2014 (50% of award)[1]	Michael Flowers Sarah Ellard	150% of salary	5% p.a. (25% vests)	10% p.a. (100% vests)
	Rank of the Company's total shareholder return against the total shareholder return of the members of the comparator group over three financial years commencing 1 November 2015 (50% of award)			Median ranking (25% vests)	Upper quartile ranking (100% vests)

Note:

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

Summary of outstanding PSP awards

	Number of shares under award						
Executive	At 1 November 2016	Awarded during the year	Lapsed during the year	Vested during the year[1]	At 31 October 2017	Date of vesting	Closing share price on date of grant (p)[3]
Michael Flowers	108,256	–	(108,256)	–	–	–	229.0
	212,394	–	(212,394)	–	–	–	199.0
	299,031[2]	–	–	–	299,031	26 January 2018	230.5
	443,538	–	–	–	443,538	25 January 2019	138.4
	–	363,629	–	–	363,629	24 March 2020	195.7
	1,063,219	**363,629**	**(320,650)**	**–**	**1,106,198**		
Andrew Lewis	–	283,430	–	–	283,430	24 March 2020	195.7
	–	**283,430**	**–**	**–**	**283,430**		
Sarah Ellard	159,802	–	(159,802)	–	–	–	229.0
	164,241[2]	–	–	–	164,241	26 January 2018	230.5
	222,358	–	–	–	222,358	25 January 2019	138.4
	–	182,297	–	–	182,297	24 March 2020	195.7
	546,401	**182,297**	**(159,802)**	**–**	**568,896**		

Notes:

1. Awards lapsed due to the performance conditions not being met.
2. As explained above, these awards will partially vest on 26 January 2018.
3. Pre rights issue grant share price, where applicable.

DIRECTORS' REMUNERATION REPORT continued

Sharesave awards

Summary of outstanding Sharesave awards

Executive	At 1 November 2016	Awarded during the year	Lapsed during the year	Exercised during the year	At 31 October 2017	Exercise price	Exercise date
	Number of shares under award						
Michael Flowers	17,142	–	–	–	17,142	105p	1 October 2019 - 31 March 2020
	17,142	**–**	**–**	**–**	**17,142**		
Andrew Lewis	–	12,162	–	–	12,162	148p	1 October 2020 - 31 March 2021
	–	**12,162**	**–**	**–**	**12,162**		
Sarah Ellard	–	7,297	–	–	7,297	148p	1 October 2020 - 31 March 2021
	–	**7,297**	**–**	**–**	**7,297**		

Deferred share awards

Vesting of deferred share awards

The deferred award over 14,384 shares granted to Sarah Ellard in part satisfaction of her annual bonus for the year ended 31 October 2013 vested in full on 23 January 2017. Mrs Ellard also received £1,297.80 in respect of the dividends paid on these shares during the deferral period.

Summary of outstanding deferred share awards

Executive	At 1 November 2016[1]	Awarded during the year	Lapsed during the year	Vested during the year	At 31 October 2017	Date of vesting	Closing share price on date of grant (p)[2]
	Number of shares under award						
Michael Flowers	16,674	–	–	–	16,674	27 January 2018	226.5
	–	80,633	–	–	80,633	19 January 2020	172.0
	16,674	**80,633**	**–**	**–**	**97,307**		
Sarah Ellard	14,384	–	–	(14,384)	–	23 January 2017	229.0
	21,660	–	–	–	21,660	27 January 2018	226.5
	–	32,944	–	–	32,944	19 January 2020	172.0
	36,044	**32,944**	**–**	**(14,384)**	**54,604**		

Notes:
1. Number of shares subject to awards, after 2016 rights issue adjustment.
2. Pre rights issue grant share price, where applicable.
3. Vesting of deferred bonus share awards is subject only to continued service.

DIRECTORS' SHAREHOLDINGS

Shareholding guidelines apply to executive directors and other participants in the PSP. Executive directors are expected to build-up and maintain a shareholding in the Company equivalent to one year's basic salary, by retaining at least 50% of the after-tax gain on vested PSP awards until such time as the guidelines have been met. Other participants in the PSP are expected to retain a shareholding equivalent to 25% to 50% of their basic salary.

The interests of the directors in the ordinary shares of the Company at 31 October 2017 are shown below. All are beneficial holdings.

Executive	Legally owned (number of shares)	Value of legally owned shares as % of salary[1]	Guideline met	2015 award	2016 award	2017 award	Total at 31 October 2017	Deferred bonus share awards	Sharesave options
				Unvested and subject to performance conditions under the PSP					
Michael Flowers	185,982	77%	No	299,031	443,538	363,629	1,106,198	97,307	17,142
Andrew Lewis	8,720	5%	No	–	–	283,430	283,430	–	12,162
Sarah Ellard	43,977	36%	No	164,241	222,358	182,297	568,896	54,604	7,297
Carl-Peter Forster	20,000	–	–	–	–	–	–	–	–
Andrew Davies	–	–	–	–	–	–	–	–	–
Daniel Dayan	60,500	–	–	–	–	–	–	–	–
Nigel Young	–	–	–	–	–	–	–	–	–

Note:
1. Based on the number of shares legally owned, prevailing base salary and share price of 172.5p, at 31 October 2017.

The directors' share interests at 31 October 2017 include shares held by the directors' connected persons, if any, as required by the Regulations.

There have been no changes to the directors' interests in shares since 31 October 2017.

PENSION

The following table sets out the pension benefits earned by the executive directors. Only Sarah Ellard previously accrued benefits during her former membership of the Chemring Group Staff Pension Scheme.

Executive	Cash in lieu of pension contributions £'000	Total benefit accrued at 31 October 2016 Pension £'000p.a.	Total benefit accrued at 31 October 2016 Cash £'000	Transfer value of accrued benefit at 31 Oct 2016 £'000	Total benefit accrued at 31 October 2017 Pension £'000p.a.	Total benefit accrued at 31 October 2017 Cash £'000	Transfer value of accrued benefit at 31 Oct 2017 £'000	Increase in transfer value during year (less members' contributions) £'000	Value of benefit for single figure £000
Michael Flowers	83	–	–	–	–	–	–	–	83
Andrew Lewis	53	–	–	–	–	–	–	–	53
Sarah Ellard	42	24	72	461	24	72	461	–	42

Notes:

1. The executive directors receive a 20% cash supplement in lieu of pension.
2. Transfer values represent liabilities of the applicable scheme, and do not represent sums paid to individuals.
3. Transfer values have been calculated in accordance with the Occupational Pension Scheme (Transfer Value) Regulations 1996.
4. Sarah Ellard left pensionable service on 6 April 2010 and therefore has not accrued additional pension over the year. The accrued benefits shown are the benefits at the date of exit.
5. The scheme provided pension at a rate of 1/80th of final pensionable salary plus a cash lump sum of 3/80ths for each year of membership. Final pensionable salary was capped at the HMRC notional earnings cap, and the scheme assumed a normal retirement age of 65. Early retirement is permissible from age 55 but accrued benefits are reduced accordingly using the early retirement factors in force at the date of early retirement.

LOSS OF OFFICE PAYMENTS

The principles governing compensation for loss of office are set out on page 62.

PAYMENTS TO PAST DIRECTORS

There were no payments made to past directors during the year.

TOTAL SHAREHOLDER RETURN PERFORMANCE GRAPH AND CHIEF EXECUTIVE REMUNERATION TABLE

The following graph shows the Company's cumulative total shareholder return over the last nine financial years relative to the FTSE 250 and FTSE Small Cap Indexes. The FTSE Small Cap has been selected by the Committee for this comparison because it provides the most appropriate measure of performance of listed companies of a similar size to the Company. The FTSE 250 has been shown in previous years and has been included this year for the purpose of continuity.

TSR graph

This graph shows the value, by 31 October 2017, of £100 invested in Chemring Group PLC on 31 October 2008 compared with the value of £100 invested in the FTSE 250 and FTSE SmallCap. The other points are the values at intervening financial year ends.

DIRECTORS' REMUNERATION REPORT continued

Chief Executive remuneration table

The total remuneration figures for the Group Chief Executive during each of the last nine financial years are shown in the table below. Mark Papworth replaced David Price as Group Chief Executive on 5 November 2012, and Michael Flowers replaced Mark Papworth on 24 June 2014

The total remuneration figures for 2012 and 2014 include the payments for loss of office made to David Price and Mark Papworth respectively.

The total remuneration figure for each year includes the annual bonus based on that year's performance and, where applicable, vested PSP awards based on the three-year performance period ending in the relevant year. The annual bonus payout and PSP award vesting level as a percentage of the maximum opportunity are also shown for each of these years.

	David Price				Mark Papworth	Mark Papworth/ Michael Flowers	Michael Flowers		
	2009	2010	2011	2012	2013	2014	2015	2016	**2017**
Total remuneration (£000)	1,309	1,391	1,239	1,325	785	841	507	855	**831**
Annual bonus (% of maximum)	94%	62%	0%	0%	40%	50%	0%	68.3%	**59.5%**
PSP awards vesting (% of maximum)	100%	100%	100%	54.375%	0%	0%	0%	0%	**0%**

PERCENTAGE CHANGE IN THE GROUP CHIEF EXECUTIVE'S REMUNERATION

The table below shows the percentage change in the Group Chief Executive's total remuneration (excluding the value of any PSP awards and pension benefits receivable in the year) between the 2016 and 2017 financial years, compared to that of the average for all eligible employees of the Group.

	% Change from 2016 to 2017		
	Salary	Benefits	Annual bonus
Group Chief Executive	2.7	4.8	(10.6)
Average of other employees	2.0	5.9	36.6

The Committee is cognisant of the proposed introduction of legislation which will require companies to publish ratios comparing Chief Executive to employee pay. The Company has prepared this analysis internally, and it has been reviewed and considered by the Committee. The Committee has not, however, published this data in this report as it is concerned that the methodology for these comparisons has not yet been formally announced. The Committee will publish ratios showing comparisons in future years when UK regulations or guidance introduce a common or specified methodology.

RELATIVE IMPORTANCE OF SPEND ON PAY

The following table shows the Company's actual spend on pay (for all employees) relative to dividends and retained profits:

	2017 £m	2016 £m	% change
Staff costs	**130.4**	139.1	(6.3)
Dividends	**6.4**	–	N/A
Retained profits	**113.5**	*121.8*	*(6.8)*

The dividends figures relate to amounts payable in respect of the relevant financial year

SHAREHOLDER VOTING ON THE DIRECTORS' REMUNERATION REPORT AT THE 2017 ANNUAL GENERAL MEETING

At the Annual General Meeting held on 17 March 2017, the resolution relating to the directors' remuneration report received the following votes from shareholders:

	Total number of votes	% of votes cast
Directors' remuneration report		
For	229,703,217	98.08%
Against	4,501,178	1.92%
Total votes cast (for and against excluding withheld votes)	234,204,395	100.0%
Votes withheld[1]	2,365,186	1.00%
Total votes cast (including withheld votes)	236,569,581	100.0%

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

SHAREHOLDER VOTING ON THE DIRECTORS' REMUNERATION POLICY AT THE 2016 ANNUAL GENERAL MEETING

At the Annual General Meeting held on 21 March 2016, the resolution relating to the directors' remuneration policy received the following votes from shareholders:

	Total number of votes	% of votes cast
Directors' remuneration policy		
For	215,625,426	91.12%
Against	21,014,549	8.88%
Total votes cast (for and against excluding withheld votes)	236,639,975	100.0%
Votes withheld[1]	2,094,082	0.88%
Total votes cast (including withheld votes)	238,734,057	100.0%

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

APPLICATION OF THE REMUNERATION POLICY FOR 2018

Base salary

The executive directors' salaries were reviewed in November 2017. The salary increases, which took effect from 1 January 2018, are set out below. The percentage increase applied to the executive directors' salaries was in line with the average salary increase for UK employees.

Executive	Salary as at 1 January 2018	Percentage increase
Michael Flowers	£427,386	2.5%
Andrew Lewis	£333,125	2.5%
Sarah Ellard	£214,261	2.5%

Pension/benefits

No changes are proposed to the structure of pension and benefits provision for 2018.

Fees for the Chairman and non-executive directors

As detailed in the remuneration policy, the Company's approach to setting the non-executive directors' remuneration takes account of recognised practice, and is set at a level that is sufficient to attract and retain high-calibre non-executives. Details of the fees that will apply for 2018 are set out below.

	Fee as at 1 January 2018	Percentage increase
Chairman's fee	£200,000	0%
Other non-executive directors' base fee	£55,000	0%
Audit Committee Chair fee	£10,000	0%
Remuneration Committee Chair fee	£10,000	0%

Annual bonus plan

The annual bonus plan for 2018 will operate on a similar basis to 2017. The performance measures and weightings for the annual bonus plan will therefore be as follows:

Measure	As a percentage of maximum bonus opportunity
Earnings per share	37.5%
Operating cash flow	37.5%
Personal objectives	25.0%

Personal objectives have been set to reflect performance in the following key areas:

- Health and safety
- Operational improvement
- Organisational performance
- Strategy and business development
- Financial and corporate management

DIRECTORS' REMUNERATION REPORT continued

The Committee does not believe that it would be in shareholders' interests to prospectively disclose the financial targets under the annual bonus plan due to issues of commercial sensitivity. However, detailed retrospective disclosure of both the financial targets and the personal objectives, and performance against them, will be included in next year's annual report on remuneration.

No bonus will be payable in respect of the personal objectives unless the Committee is satisfied that this is justified by the Group's underlying performance, including *inter alia* levels of profitability and cash flow.

The 2018 bonus plan is consistent with the remuneration policy detailed on pages 58 to 63, in terms of maximum bonus opportunity, deferred share arrangements and clawback.

Performance Share Plan

It is intended that the performance condition for the annual awards granted to the executive directors under the PSP in 2018 will incorporate two metrics, namely growth in adjusted EPS and relative TSR measured against an international peer group of defence sector companies, as listed below. Each metric will determine the vesting of 50% of the 2018 awards. 25% of each part of the award will vest for threshold or median performance, with full vesting of each part of the award for stretch or upper quartile performance.

The EPS performance condition for the 2018 awards will be measured as follows:

Total compound earnings per share growth over the three year performance period	% of earnings per share part that may vest
Less than 5% p.a.	0%
5% p.a.	25%
Between 5% p.a. and 10% p.a.	*On a straight-line basis between 25% and 100%*
10% p.a. or more	100%

The TSR performance condition for the 2018 awards will be measured as follows:

Rank of the Company's total shareholder return against the total shareholder return of the members of the comparator group	% of total shareholder return part that may vest
Below median	0%
Median	25%
Between median and upper quartile	*On a straight-line basis between 25% and 100%*
Upper quartile or above	100%

The defence sector peer group for the 2018 awards comprises: BAE Systems, Cobham, Cohort, Esterline Technologies, FLIR Systems, L3 Technologies, Leonardo Finmeccanica, QinetiQ Group, Raytheon, Rheinmetall and Ultra Electronics.

APPROVAL OF THE DIRECTORS' REMUNERATION REPORT

The directors' remuneration report was approved by the Board on 18 January 2018.

Signed on behalf of the Board

Daniel Dayan
Chairman of the Remuneration Committee

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 OCTOBER 2017

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CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 OCTOBER 2017

	Note	2017 Underlying performance £m	2017 Non-underlying items[1] £m	2017 Total £m	2016 Underlying performance £m	2016 Non-underlying items[1] £m	2016 Total £m
Continuing operations							
Revenue	1,2	**547.5**	**–**	**547.5**	477.1	–	477.1
Operating profit	2,4	**55.4**	**(40.1)**	**15.3**	48.5	(22.3)	26.2
Finance expense	6	**(11.3)**	**–**	**(11.3)**	(14.5)	(3.7)	(18.2)
Profit before tax		**44.1**	**(40.1)**	**4.0**	34.0	(26.0)	8.0
Taxation	7	**(8.1)**	**7.2**	**(0.9)**	(7.1)	5.6	(1.5)
Profit after tax		**36.0**	**(32.9)**	**3.1**	26.9	(20.4)	6.5
Discontinued operations							
Profit after tax from discontinued operations	28	**–**	**3.5**	**3.5**	–	4.6	4.6
Profit after tax		**36.0**	**(29.4)**	**6.6**	26.9	(15.8)	11.1

Earnings per ordinary share	Note	2017 Underlying performance	2017 Non-underlying items[1]	2017 Total	2016 Underlying performance	2016 Non-underlying items[1]	2016 Total
Continuing operations							
Basic	9	**12.9p**	**(11.8)p**	**1.1p**	10.3p	(7.8)p	2.5p
Diluted	9	**12.6p**	**(11.5)p**	**1.1p**	10.1p	(7.7)p	2.4p
Continuing and discontinued operations							
Basic	9	**12.9p**	**(10.5)p**	**2.4p**	10.3p	(6.1)p	4.2p
Diluted	9	**12.6p**	**(10.3)p**	**2.3p**	10.1p	(5.9)p	4.2p

1 Further information about non-underlying items is set out in note 3.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 OCTOBER 2017

	Note	2017 £m	2016 £m
Profit after tax attributable to equity holders of the parent as reported		**6.6**	11.1
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) on defined benefit pension schemes	29	**11.9**	(3.8)
Movement on deferred tax relating to pension schemes	22	**(2.0)**	0.8
		9.9	(3.0)
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		**(11.6)**	33.0
Current tax on items taken directly to equity		**(3.1)**	0.8
Deferred tax on exchange differences on translation of foreign operations	22	**0.8**	4.7
		(13.9)	38.5
Total comprehensive income attributable to equity holders of the parent		**2.6**	46.6

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 OCTOBER 2017

	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2016	2.8	305.1	12.9	1.1	(20.7)	121.8	(9.6)	413.4
Impact of adoption of IFRS 15 (note 33)	–	–	–	–	–	(10.2)	–	(10.2)
Profit after tax	–	–	–	–	–	6.6	–	6.6
Other comprehensive income	–	–	–		(4.1)	4.4	–	0.3
Tax relating to components of other comprehensive income	–	–	–	–	–	(4.3)	–	(4.3)
Total comprehensive income	–	–	–	–	(4.1)	6.7	–	2.6
Ordinary shares issued	–	0.2	–	–	–	–	–	0.2
Share-based payments (net of settlement)	–	–	–	–	–	1.6	–	1.6
Dividends paid	–	–	–	–	–	(6.4)	–	(6.4)
At 31 October 2017	**2.8**	**305.3**	**12.9**	**1.1**	**(24.8)**	**113.5**	**(9.6)**	**401.2**

	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2015	2.0	230.7	12.9	1.2	(32.3)	85.7	(9.6)	290.6
Profit after tax	–	–	–	–	–	11.1	–	11.1
Other comprehensive income	–	–	–	–	11.6	17.6	–	29.2
Tax relating to components of other comprehensive income	–	–	–	–	–	6.3	–	6.3
Total comprehensive income	–	–	–	–	11.6	35.0	–	46.6
Ordinary shares issued	0.8	74.4	–	–	–	–	–	75.2
Share-based payments (net of settlement)	–	–	–	–	–	1.0	–	1.0
Transfers between reserves	–	–	–	(0.1)	–	0.1	–	–
At 31 October 2016	2.8	305.1	12.9	1.1	(20.7)	121.8	(9.6)	413.4

CONSOLIDATED BALANCE SHEET
AS AT 31 OCTOBER 2017

		2017		2016	
	Note	£m	£m	£m	£m
Non-current assets					
Goodwill	10	**125.4**		132.9	
Development costs	11	**33.7**		40.9	
Other intangible assets	11	**57.0**		77.1	
Property, plant and equipment	12	**160.1**		179.9	
Deferred tax	22	**63.2**		59.6	
			439.4		490.4
Current assets					
Inventories	14	**97.6**		104.8	
Trade and other receivables	15	**131.0**		114.2	
Cash and cash equivalents	16,32	**33.6**		63.1	
Derivative financial instruments	20	**0.4**		0.5	
			262.6		282.6
Total assets			**702.0**		773.0
Current liabilities					
Borrowings	17,32	**(51.6)**		(29.5)	
Obligations under finance leases	17,18	**–**		(0.1)	
Trade and other payables	19	**(111.9)**		(107.3)	
Provisions	21	**(6.5)**		(4.5)	
Current tax		**(5.5)**		(3.1)	
Derivative financial instruments	20	**(0.4)**		(2.5)	
			(175.9)		(147.0)
Non-current liabilities					
Borrowings	17,32	**(61.9)**		(121.0)	
Trade and other payables	19	**–**		(4.0)	
Provisions	21	**(8.8)**		(11.7)	
Deferred tax	22	**(53.5)**		(58.5)	
Preference shares	17,23	**(0.1)**		(0.1)	
Retirement benefit obligations	29	**(0.6)**		(17.3)	
			(124.9)		(212.6)
Total liabilities			**(300.8)**		(359.6)
Net assets			**401.2**		413.4
Equity					
Share capital	23		**2.8**		2.8
Share premium account			**305.3**		305.1
Special capital reserve			**12.9**		12.9
Revaluation reserve			**1.1**		1.1
Translation reserve			**(24.8)**		(20.7)
Retained earnings			**113.5**		121.8
			410.8		423.0
Own shares	25		**(9.6)**		(9.6)
Total equity			**401.2**		413.4

These financial statements of Chemring Group PLC (registered number 86662) were approved and authorised for issue by the Board of Directors on 18 January 2018.

Signed on behalf of the Board

Michael Flowers
Director

Sarah Ellard
Director

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 OCTOBER 2017

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Cash generated from underlying operations	30	**47.1**	81.4
Cash impact of non-underlying items		**(6.3)**	(8.1)
Cash flows from operating activities		**40.8**	73.3
Retirement benefit deficit recovery contributions		**(5.0)**	(5.0)
Tax paid		**(3.6)**	(3.1)
Net cash inflow from operating activities		**32.2**	65.2
Cash flows from investing activities			
Purchases of intangible assets		**(3.9)**	(6.7)
Purchases of property, plant and equipment		**(12.6)**	(10.3)
Acquisition of subsidiary undertaking, net of cash acquired		**-**	(2.5)
Proceeds on disposal of property, plant and equipment		**-**	0.1
Net cash outflow from investing activities		**(16.5)**	(19.4)
Cash flows from financing activities			
Net proceeds of share issue		**-**	75.4
Dividends paid	8	**(6.4)**	–
Finance expense paid		**(9.3)**	(11.9)
Accelerated interest costs		**-**	(3.7)
Loan note repayment costs		**-**	(1.4)
Capitalised facility fees paid		**(0.5)**	(0.5)
Repayments of borrowings		**(28.8)**	(48.8)
Repayments of obligations under finance leases		**(0.1)**	(0.3)
Net cash (outflow)/inflow from financing activities		**(45.1)**	8.8
(Decrease)/increase in cash and cash equivalents		**(29.4)**	54.6
Cash and cash equivalents at beginning of year		**63.1**	7.6
Effect of foreign exchange rate changes		**(0.1)**	0.9
Cash and cash equivalents at end of year	16,32	**33.6**	63.1

NOTES TO THE GROUP FINANCIAL STATEMENTS

1. REVENUE

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

	Countermeasures £m	**Sensors £m**	**Energetics £m**	**2017 £m**
UK	**17.8**	**43.5**	**24.0**	**85.3**
USA	**45.3**	**29.8**	**189.7**	**264.8**
Europe	**15.9**	**7.1**	**19.1**	**42.1**
Asia Pacific	**45.8**	**5.4**	**0.9**	**52.1**
Middle East	**9.5**	**8.1**	**83.7**	**101.3**
Rest of the world	**0.5**	**0.6**	**0.8**	**1.9**
	134.8	**94.5**	**318.2**	**547.5**

	Countermeasures £m	Sensors £m	Energetics £m	2016 £m
UK	11.4	42.9	25.4	79.7
USA	57.8	36.7	135.6	230.1
Europe	13.1	0.5	12.6	26.2
Asia Pacific	30.7	4.9	1.9	37.5
Middle East	24.6	11.7	65.3	101.6
Rest of the world	0.7	0.2	1.1	2.0
	138.3	96.9	241.9	477.1

The directors consider that the only countries that are significant in accordance with IFRS 8 *Operating Segments* are the USA and the UK.

The following table discloses the split of the Group's revenue between goods and services:

	Countermeasures £m	**Sensors £m**	**Energetics £m**	**2017 £m**
Goods	**130.3**	**30.3**	**314.8**	**475.4**
Services	**4.5**	**64.2**	**3.4**	**72.1**
	134.8	**94.5**	**318.2**	**547.5**

	Countermeasures £m	Sensors £m	Energetics £m	2016 £m
Goods	136.4	40.2	238.9	415.5
Services	1.9	56.7	3.0	61.6
	138.3	96.9	241.9	477.1

All revenues recognised arose from contracts with customers.

In 2017 £0.6m (2016: £0.2m) of revenue was recognised in respect of performance obligations satisfied in previous periods.

As at 31 October 2017 £478.0m (2016: £592.9m) of revenue was outstanding in respect of obligations that were unfulfilled or only partially fulfilled as at the year end. £360.9m (2016: £368.0m) of this revenue is expected to be recognised in the next financial year and £117.1m (2016: £224.9m) in future periods.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

2. BUSINESS SEGMENTS

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group Chief Executive and the Board to allocate resources to the segments and to assess their performance. For management purposes, the Group's operating and reporting structure clusters similar businesses together within the following three operating segments – Countermeasures, Sensors and Energetics. These segments are the basis on which the Group reports its segmental information. The principal activities of each segment are as follows:

Countermeasures	Development and manufacture of expendable countermeasures for air, sea and land platforms, and land–based electronic warfare equipment.
Sensors	Development and manufacture of IED detection equipment, chemical and biological threat detection equipment, IED electronic countermeasures, network protection technologies and explosive ordnance disposal equipment.
Energetics	Development, procurement and manufacture of signals and illumination devices and payloads, cartridge / propellant actuated devices, pyrotechnic devices for satellite launch and deployment, missile and ammunition components, 40mm ammunition, propellants, warheads, fuses, separation sub-systems, actuators and energetic materials.

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

Year ended 31 October 2017	Countermeasures £m	Sensors £m	Energetics £m	Unallocated £m	Total £m
Revenue	134.8	94.5	318.2	–	547.5
Segment result before depreciation, amortisation and non-underlying items	29.8	20.2	41.2	(10.2)	81.0
Depreciation	(10.8)	(1.8)	(5.8)	(0.1)	(18.5)
Amortisation	(2.3)	(4.1)	(0.6)	(0.1)	(7.1)
Segmental underlying operating profit	16.7	14.3	34.8	(10.4)	55.4
Amortisation of acquired intangibles	(0.4)	(7.0)	(7.6)	–	(15.0)
Non-underlying items (note 3)	(3.6)	(5.4)	(16.2)	0.1	(25.1)
Segmental operating profit	12.7	1.9	11.0	(10.3)	15.3
Finance expense	–	–	–	(11.3)	(11.3)
Profit before tax	12.7	1.9	11.0	(21.6)	4.0
Tax	–	–	–	(0.9)	(0.9)
Profit for the year from continuing operations	12.7	1.9	11.0	(22.5)	3.1
Discontinued operations	–	–	–	3.5	3.5
Profit for the year	12.7	1.9	11.0	(19.0)	6.6

Other segment items					
Property, plant and equipment – additions	4.1	1.0	7.2	0.1	12.4
Intangible assets – additions	0.4	3.3	0.3	–	4.0

2. BUSINESS SEGMENTS CONTINUED

Year ended 31 October 2016	Countermeasures* £m	Sensors £m	Energetics £m	Unallocated £m	Total £m
Revenue	138.3	96.9	241.9	–	477.1
Segment result before depreciation, amortisation and non-underlying items	25.2	18.0	37.8	(7.2)	73.8
Depreciation	(10.6)	(2.2)	(5.5)	(0.1)	(18.4)
Amortisation	(1.8)	(4.4)	(0.6)	(0.1)	(6.9)
Segmental underlying operating profit	12.8	11.4	31.7	(7.4)	48.5
Amortisation of acquired intangibles	(0.2)	(7.1)	(7.5)	–	(14.8)
Non-underlying items (note 3)	(0.9)	(0.8)	(3.3)	(2.5)	(7.5)
Segmental operating profit	11.7	3.5	20.9	(9.9)	26.2
Finance expense	–	–	–	(18.2)	(18.2)
Profit before tax	11.7	3.5	20.9	(28.1)	8.0
Tax	–	–	–	(1.5)	(1.5)
Profit for the year from continuing operations	11.7	3.5	20.9	(29.6)	6.5
Discontinued operations	–	–	–	4.6	4.6
Profit for the year	11.7	3.5	20.9	(25.0)	11.1
Other segment items					
Property, plant and equipment – additions	3.6	1.4	5.0	0.3	10.3
Intangible assets – additions	3.1	5.1	0.6	–	8.8

* The year ended 31 October 2016 includes £2.8m of insurance proceeds in relation to a business interruption claim following an earlier energetic incident.

Assets and liabilities by segment are not reported to the Group Chief Executive on a monthly basis, therefore are not used as a key decision making tool and are not disclosed here. A disclosure of non-current assets by location is shown below:

Non-current assets by location	2017 £m	2016 £m
UK	**224.8**	249.1
USA	**186.9**	209.1
Norway	**5.0**	5.4
Australia	**22.7**	26.8
	439.4	490.4

Information on major customers

Included in segmental revenues for continuing operations are revenues of £197.8m (2016: £147.6m), which arose from sales to the Group's largest customer. The largest customer had sales reported in all of the Group's business segments. This was the only individual customer where direct sales accounted for more than 10% of Group revenue from continuing and discontinued operations for the year.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

3. ALTERNATIVE PERFORMANCE MEASURES

In accordance with our accounting policy we have presented the following reconciliation of Alternative Performance Measures used throughout this report to their IFRS equivalent measures as follows:

Non-underlying items and non-underlying measures	2017 £m	2016 £m
Acquisition and disposal related costs	**(2.3)**	(0.3)
Business restructuring and incident costs	**(14.3)**	(5.4)
Claim related (costs)/credits	**(0.4)**	0.6
Impairment of business (note 10)	**(9.8)**	–
Loan note repayment costs	**–**	(1.4)
Gain/(loss) on the movement in the fair value of derivative financial instruments (note 20)	**1.7**	(1.0)
Less non-underlying depreciation in business restructuring and incident costs	**1.0**	–
Impact of non-underlying items on EBITDA	**(24.1)**	(7.5)
Non-underlying depreciation in business restructuring and incident costs	**(1.0)**	–
Intangible amortisation arising from business combinations (note 11)	**(15.0)**	(14.8)
Impact of non-underlying items on operating profit	**(40.1)**	(22.3)
Non-underlying accelerated interest costs	**–**	(3.7)
Impact of non-underlying items on profit before tax	**(40.1)**	(26.0)
Tax impact of non-underlying items	**7.2**	5.6
Impact of non-underlying items on continuing profit after tax	**(32.9)**	(20.4)
Discontinued operations	**3.5**	4.7
Tax on discontinued operations	**–**	(0.1)
Impact of non-underlying items on profit after tax	**(29.4)**	(15.8)

The impact of non-underlying items on statutory basic and diluted EPS, as well as a reconciliation to the IFRS equivalent, is presented in note 9. The impact of non-underlying items on cash generated from operating activities, as well as a reconciliation to the IFRS equivalent, is presented in note 30.

Acquisition costs and disposal related credits

Acquisition and disposal related costs of £2.3m (2016: £0.3m) relate to transaction costs and an earnout payment on the acquisition of Wallop Defence Systems' assets for which no provision was made at the time of acquisition. The removal of these items from underlying measures is in line with our accounting policy and improves comparability of information between reporting periods.

Business restructuring and incident costs

In 2017, business restructuring and incident costs of £14.3m principally comprise of restructuring costs in relation to the site closures / consolidations at facilities in California, Philadelphia and Virginia.

In 2017, there was a £9.9m (2016: £2.6m) difference between the business restructuring and incident costs recognised in the income statement and the outflow appearing in the cash flow statement due to the timing of payments, asset write-offs and other non-cash movements.

In 2016, business restructuring and incident costs of £5.4m principally comprised of restructuring costs in relation to Chemring Defence UK and across the US businesses, partly offset by insurance proceeds in relation to a property damage claim following an earlier energetic incident.

The removal of these items from underlying measures is in line with our accounting policy and improves comparability of information between reporting periods.

Claim related (costs)/credits

In 2017, claim related costs of £0.4m relate to the legal costs of a case relating to an historic transaction, which remains ongoing, and the final settlement of claims regarding the manufacture of certain components for the Next Generation Light Anti-Tank Weapon ("NLAW") by Chemring Energetics UK.

In 2016, the claim related credit of £0.6m relates to the final settlement of the claim brought by the US Department of Justice relating to historical supplies of product by Kilgore. This claim is being settled in cash over a five-year period commencing 2016.

The costs and credits incurred are a result of claims that have previously been presented as non-underlying. In order to improve comparability these are presented consistently with previous reporting periods, in non-underlying results.

Impairment of business

The Group has recognised a total impairment loss of £10.6m (2016: £nil), which includes £0.8m relating to taxation, in respect of the Chemring Defence UK business. This is based on the current market conditions in the military and law enforcement pyrotechnics market.

Other

Unallocated items include £nil (2016: £3.7m) of accelerated interest due on early repayment of loan notes, £nil (2016: £1.4m) of loan note repayment costs and a £1.7m gain (2016: £1.0m loss) on the movement in fair value of derivative financial instruments. Also included is the amortisation charge arising from business combinations of £15.0m (2016: £14.8m).

These items are all removed from underlying measures in line with our accounting policy. The removal of these items allows for improved comparability between reporting periods.

3. ALTERNATIVE PERFORMANCE MEASURES CONTINUED

Discontinued operations

Disposal related credits of £3.5m (2016: £4.7m) primarily relate to the expiry of certain tax, environmental and property liabilities arising from the disposal of several businesses in prior years. For further information on discontinued operations related credits see note 28.

Net debt

An analysis and reconciliation of net debt is presented in note 32.

EBITDA

In our financial review we present measures of EBITDA which is calculated as follows:

	2017 £m	2016 £m
Operating profit	**15.3**	26.2
Amortisation arising from business combinations (note 4)	**15.0**	14.8
Amortisation arising from development costs (note 4)	**6.9**	6.8
Amortisation arising from patents and licences (note 4)	**0.2**	0.1
Depreciation (note 12)	**18.5**	18.4
Non-underlying depreciation in business restructuring and incident costs (note 12)	**1.0**	–
EBITDA	**56.9**	66.3
Non-underlying items	**24.1**	7.5
Underlying EBITDA	**81.0**	73.8

Constant currency revenue

In our financial review we present a measure of constant currency revenue. This is calculated by translating our results for the year ended 31 October 2017 at the average exchange rates for the comparative year ended 31 October 2016.

4. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

		2017 £m	2016 £m
Research and development costs	– customer-funded	**41.1**	43.4
	– internally-funded	**7.4**	7.7
Amortisation	– arising from business combinations	**15.0**	14.8
	– development costs	**6.9**	6.8
	– patents and licences	**0.2**	0.1
Depreciation of property, plant and equipment	– owned assets	**18.4**	18.3
	– leased assets	**0.1**	0.1
Loss on disposal of non-current assets		**3.4**	0.2
Operating lease rentals	– plant and machinery	**1.3**	1.3
	– other	**0.5**	0.6
Government grants		**(0.1)**	(0.3)
Foreign exchange losses		**2.4**	3.3
Staff costs (note 5)		**130.4**	139.1
Cost of inventories recognised as an expense		**270.9**	205.1
Acquisition and disposal related costs	– continuing operations (note 3)	**2.3**	0.3
	– discontinued operations (note 28)	**(3.5)**	(4.7)
Business restructuring and incident costs (note 3)		**14.3**	5.4
Claim related costs/(credits) (note 3)		**0.4**	(0.6)
Impairment of business (note 10)		**9.8**	–
(Gain)/loss on the movement in the fair value of derivative financial instruments (note 20)		**(1.7)**	1.0
Loan note repayment costs		–	1.4
Auditor's remuneration		**0.9**	1.8

A detailed analysis of the auditor's remuneration on a worldwide basis is set out below:

Auditor's remuneration	2017 £m	2016 £m
Fees payable to the Company's auditor and its associates for:		
– the audit of the Company's annual accounts	**0.3**	0.4
– the audit of the Company's subsidiaries, pursuant to legislation	**0.5**	0.5
	0.8	0.9
Other services		
Audit-related assurance services	**0.1**	0.1
Other assurance services	–	0.5
Tax services – compliance	–	0.3
	0.1	0.9
	0.9	1.8

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

4. OPERATING PROFIT CONTINUED

Included in the fees for the audit of the Company's annual accounts is £0.1m (2016: £0.2m) in respect of the parent company.

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 52 to 55, and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor. No services were provided by the auditor pursuant to contingent fee arrangements.

5. STAFF COSTS

The average monthly number of employees, including executive directors, was:

	2017 Number	2016 Number
Direct	**1,464**	1,620
Indirect	**1,046**	1,084
	2,510	2,704

At the year end, the number of employees was 2,651 (2016: 2,577). The costs incurred in respect of employees, including share-based payments, were:

	2017 £m	2016 £m
Wages and salaries	**110.4**	118.9
Social security costs	**12.0**	13.0
Other pension costs	**6.1**	6.2
Share-based payment charge	**1.9**	1.0
	130.4	139.1

6. FINANCE EXPENSE

	2017 £m	2016 £m
Bank overdraft and loan interest	**1.1**	1.2
Loan notes interest	**7.4**	9.6
Finance lease interest	**–**	0.1
Amortisation of debt finance costs	**2.4**	2.8
Interest cost of retirement benefit obligations (note 29)	**0.4**	0.8
Underlying finance expense	**11.3**	14.5

Non-underlying items include £nil (2016: £3.7m) of accelerated interest costs due on early repayment of loan notes. Including this non-underlying item, the total finance expense for continuing operations was £11.3m (2016: £18.2m).

7. TAX

	2017 £m	2016 £m
Current tax (charge)/credit	**(10.7)**	5.3
Deferred tax credit/(charge) (note 22)	**9.8**	(6.8)
Tax charge for continuing operations	**(0.9)**	(1.5)

Income tax in the UK is calculated at 19.4% (2016: 20.0%) of the taxable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in those jurisdictions.

The tax credit for continuing operations can be reconciled to the income statement as follows:

	2017 £m	2016 £m
Profit before tax from continuing operations	**4.0**	8.0
Tax at the UK corporation tax rate of 19.4% (2016: 20.0%)	**(0.8)**	(1.6)
Expenses not deductible for tax purposes	**(6.3)**	–
Changes in tax rates	**(0.6)**	(0.2)
Tax losses not recognised/carried forward	**(1.2)**	–
Prior period adjustments	**(0.3)**	5.4
Adjustment to provision for interest restriction (note 22)	**4.2**	(10.6)
Overseas profits taxed at rates different to the UK standard rate	**4.1**	5.5
Tax charge for continuing operations	**(0.9)**	(1.5)

7. TAX CONTINUED

In addition to the tax credit in the income statement, a tax charge of £4.3m (2016: £6.3m credit) has been recognised in equity in the year.

In 2016 the prior year adjustment arises primarily as a result of the recognition of additional losses in the UK and US groups.

The effective rate of tax on the profit before tax of the Group is 22.5% (2016: 18.8%), and the effective rate of tax on the underlying profit before tax of the Group is 18.4% (2016: 20.9%). The decrease in the effective rate of tax on the results of the Group is primarily due to the geographic mix of profits, changes to the amounts of deferred tax assets considered recoverable in respect of both tax losses and US interest limitations, prior year adjustments and the recent changes in UK corporation tax rates.

Factors affecting the tax charge in future years

The Group's future tax charge and effective tax rate could be affected by several factors including; tax reform in countries around the world, including any arising from the implementation of the OECD's BEPS actions and European Commission initiatives such as the proposed anti-tax avoidance directive, tax and financial reporting directive or as a consequence of state aid investigations, future corporate acquisitions and disposals and any restructuring of our business.

See note 22 for detail on the impact of the US Tax Cuts and Jobs Act.

8. DIVIDENDS

	2017 £m	2016 £m
Dividends paid on ordinary shares of 1p each		
Final dividend of 1.3p per share for the year ended 31 October 2016	**3.6**	–
Interim dividend of 1.0p per share for the year ended 31 October 2017	**2.8**	–
Total dividends	**6.4**	–

The final dividend of 2.0p per ordinary share will be paid on 20 April 2018 to all shareholders registered at the close of business on 6 April 2018. The total dividend for the year will therefore be 3.0p (2016: 1.3p) per ordinary share. The final dividend is subject to approval by the shareholders at the Annual General Meeting and, accordingly, has not been included as a liability in the financial statements for the year ended 31 October 2017.

The cumulative preference shares carry an entitlement to a dividend at the rate of 7p per share per annum which was paid in equal instalments on 30 April 2017 and 31 October 2017.

9. EARNINGS PER SHARE

On 24 February 2016, 85,915,828 new ordinary shares were issued pursuant to the rights issue, with four new ordinary shares issued for every nine existing ordinary shares held. As a result, the total share capital increased to 279,226,442 ordinary shares. For the calculation of earnings per share, the weighted average number of shares in issue for periods prior to the rights issue has been increased by 14.2% to reflect the bonus element of the rights issue.

Earnings per share are based on the average number of shares in issue, excluding own shares held, of 279,244,616 (2016: 261,386,484).

Diluted earnings per share has been calculated using a diluted average number of shares in issue, excluding own shares held, of 285,023,906 (2016: 266,191,422).

The number of shares used in the calculations are as follows:

	2017 Ordinary shares Number millions	2016 Ordinary shares Number millions
Weighted average number of shares used to calculate basic earnings per share	**279.2**	261.4
Additional shares issuable other than at fair value in respect of options outstanding	**5.8**	4.8
Weighted average number of shares used to calculate diluted earnings per share	**285.0**	266.2

The earnings used in the calculations of the various measures of earnings per share are as follows:

	2017			2016		
	£m	Basic EPS (pence)	Diluted EPS (pence)	£m	Basic EPS (pence)	Diluted EPS (pence)
Underlying profit after tax	**36.0**	**12.9**	**12.6**	26.9	10.3	10.1
Non-underlying items (note 3)	**(32.9)**	**(11.8)**	**(11.5)**	(20.4)	(7.8)	(7.7)
Profit from continuing operations	**3.1**	**1.1**	**1.1**	6.5	2.5	2.4
Profit from discontinued operations	**3.5**	**1.3**	**1.2**	4.6	1.7	1.8
Total profit after tax	**6.6**	**2.4**	**2.3**	11.1	4.2	4.2

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

10. GOODWILL

	£m
Cost	
At 1 November 2015	179.0
Foreign exchange adjustments	27.5
At 31 October 2016	206.5
Foreign exchange adjustments	(10.4)
At 31 October 2017	196.1
Accumulated impairment losses	
At 1 November 2015	(57.8)
Foreign exchange adjustments	(15.8)
At 31 October 2016	(73.6)
Impairment	(3.0)
Foreign exchange adjustments	5.9
At 31 October 2017	(70.7)
Carrying amount	
At 31 October 2017	**125.4**
At 31 October 2016	132.9

Goodwill acquired in a business combination is allocated at acquisition to the cash-generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of the goodwill has been allocated to the Group's principal CGUs.

The Group tests goodwill at least annually for impairment. Tests are conducted more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumptions for the value-in-use calculations have been individually estimated for each CGU and include the discount rates and expected changes to cash flows during the period for which management has detailed plans, which are underpinned by the winning and execution of key contracts.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to each of the CGUs. Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital of 6.9% (2016: 8.1%) which have been adjusted for a premium specific to each of the CGUs to account for differences in currency risk, country risk and other factors affecting specific CGUs, have been used to discount projected cash flows. These premiums range from 2% to 4% (2016: 2% to 4%).

Expected changes to cash flows during the period for which management has detailed plans relate to revenue forecasts, expected contract outcomes and forecast operating margins in each of the operating companies. The relative value ascribed to each varies between CGUs as the budgets are built up from the underlying operating companies within each CGU, but the key assumption for each CGU is that demand from the US and UK governments and customers in our other principal markets for the product offering in each company will recover from its current low base. In the case of Chemring Sensors & Electronic Systems, Inc. CGU, this will be to a level seen historically and in the case of the Roke Manor Research Limited and Chemring Energetic Devices, Inc. CGUs it will continue at a similar or slightly enhanced level.

The calculations have used the Group's forecast figures for the next five years. This is based on data derived from the five year plan that has been approved by the Board. At the end of five years, the calculations assume the performance of the CGUs will grow at a nominal annual rate of 0.5% in perpetuity. Growth rates are based on management's view of industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes.

The pre-tax discount rates used for value-in-use calculations and the carrying value of goodwill by the principal CGUs are:

	2017 %	2016 %	**2017 £m**	2016 £m
Roke Manor Research Limited	**11.5**	13.1	**28.4**	28.4
Chemring Energetics UK Limited	**10.4**	11.8	**18.1**	18.1
Chemring Sensors & Electronic Systems, Inc.	**13.9**	15.3	**35.4**	38.5
Chemring Defence UK Limited	**12.7**	14.1	**–**	3.0
Chemring Energetic Devices, Inc.	**13.7**	15.4	**15.6**	17.0
Other			**27.9**	27.9
			125.4	132.9

The pre-tax discount rates used for other CGUs ranged from 11.7% to 19.3% (2016: 13.0% to 17.5%).

The Board has concluded that the goodwill relating to Chemring Defence UK Limited is impaired and a charge of £3.0m has been recorded in 2017. This assessment is based on current market conditions in the military and law enforcement pyrotechnics market. The total impairment loss is £10.6m and also covers property, plant and equipment of £5.4m (see note 12) and other assets of £2.2m, which includes deferred tax of £0.8m.

10. GOODWILL CONTINUED

The weighted average cost of capital is derived using beta values of a comparator group of defence companies adjusted for funding structures as appropriate. The beta values of this group have reduced during the year leading to generally lower pre-tax discount rates being used compared to the year ended 31 October 2016.

Following a detailed review, no other impairment losses were recognised in the years ended 31 October 2017 and 31 October 2016.

Stress testing was performed on the forecasts to consider the impact of severe but plausible reasonable worst case scenarios in the first two years, including significant delays to major contracts and new product launches followed by a 10% fall in the forecast cash flows. Even under these circumstances, no other CGUs would require an impairment against goodwill.

A 1% addition to the discount rate for each CGU was also separately modelled, and would not result in any CGUs requiring any impairment.

Setting long-term growth rates beyond the five year forecast period to zero would not result in impairment of any CGUs requiring any impairment.

11. OTHER INTANGIBLE ASSETS

	Development costs £m	Acquired technology £m	Acquired customer relationships £m	Patents and licences £m	Total £m
Cost					
At 1 November 2015	54.5	85.8	93.1	1.5	180.4
Additions	6.7	0.5	1.6	–	2.1
Disposals	(4.0)	(4.7)	(28.1)	(0.9)	(33.7)
Foreign exchange adjustments	7.2	19.5	20.9	0.4	40.8
At 31 October 2016	64.4	101.1	87.5	1.0	189.6
Additions	3.9	–	–	0.1	0.1
Disposals	(3.6)	–	(4.3)	(0.5)	(4.8)
Foreign exchange adjustments	(3.0)	(7.4)	(5.9)	(0.1)	(13.4)
At 31 October 2017	61.7	93.7	77.3	0.5	171.5
Amortisation					
At 1 November 2015	(18.4)	(46.1)	(59.1)	(1.0)	(106.2)
Charge	(6.8)	(8.6)	(6.2)	(0.1)	(14.9)
Disposals	3.5	4.7	28.1	0.9	33.7
Foreign exchange adjustments	(1.8)	(10.8)	(14.0)	(0.3)	(25.1)
At 31 October 2016	(23.5)	(60.8)	(51.2)	(0.5)	(112.5)
Charge	(6.9)	(8.6)	(6.4)	(0.2)	(15.2)
Disposals	1.6	–	4.3	0.5	4.8
Foreign exchange adjustments	0.8	4.7	3.6	0.1	8.4
At 31 October 2017	(28.0)	(64.7)	(49.7)	(0.1)	(114.5)
Carrying amount					
At 31 October 2017	**33.7**	**29.0**	**27.6**	**0.4**	**57.0**
At 31 October 2016	40.9	40.3	36.3	0.5	77.1

Acquired intangibles are recognised at fair value on acquisition and are amortised over their estimated useful lives. Fair values for acquired intangibles 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 economic lives, which are set out in the accounting policies section.

Included within the development costs of £33.7m, individually material balances relate to CENTURION £2.9m (2016: £3.6m), electronic attack £3.0m (2016: £3.7m), Perception £2.2m (2016: £2.9m), Joint Biological Tactical Detection System £8.1m (2016: £6.7m) and Next Generation Chemical Detector £8.4m (2016: £8.2m). Development costs are amortised over their useful economic lives, estimated to be between three and fifteen years, with the remaining amortisation periods for these assets ranging up to twelve years.

Acquired technology of £29.0m includes individually material balances relating to Chemring Sensors & Electronic Systems £16.1m (2016: £21.8m), Chemring Energetic Devices £8.7m (2016: £13.0m) and Roke £2.6m (2016: £3.1m). The remaining amortisation periods for these assets are six years, ten years and five years respectively.

Acquired customer relationships of £27.6m include individually material balances relating to Chemring Energetic Devices £11.6m (2016: £14.3m), Chemring Ordnance £7.1m (2016: £10.4m), Chemring Sensors & Electronic Systems £4.0m (2016: £5.1m) and Roke £3.3m (2016: £4.4m). The remaining amortisation periods for these assets are nine years, four years, six years and three years respectively.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Plant and equipment £m	Total £m
Cost or valuation			
At 1 November 2015	105.0	105.9	210.9
Additions	1.6	8.7	10.3
Disposals	(0.2)	(4.4)	(4.6)
Foreign exchange adjustments	15.5	22.1	37.6
At 31 October 2016	121.9	132.3	254.2
Additions	1.5	10.9	12.4
Disposals	(0.7)	(6.0)	(6.7)
Foreign exchange adjustments	(5.5)	(8.3)	(13.8)
At 31 October 2017	117.2	128.9	246.1
Depreciation			
At 1 November 2015	(9.0)	(33.9)	(42.9)
Charge	(3.5)	(14.9)	(18.4)
Disposals	0.1	4.2	4.3
Transfer between categories	0.1	(0.1)	–
Foreign exchange adjustments	(3.9)	(13.4)	(17.3)
At 31 October 2016	(16.2)	(58.1)	(74.3)
Charge	(3.9)	(15.6)	(19.5)
Impairment	(3.1)	(2.3)	(5.4)
Disposals	0.6	5.7	6.3
Foreign exchange adjustments	1.6	5.3	6.9
At 31 October 2017	(21.0)	(65.0)	(86.0)
Carrying amount			
At 31 October 2017	**96.2**	**63.9**	**160.1**
At 31 October 2016	105.7	74.2	179.9

The carrying amount of the Group's plant and equipment includes £nil (2016: £0.2m) in respect of assets held under finance leases.

In 2017, £1.2m (2016: £1.2m) of capitalised interest was charged as depreciation. This results in a net book value for capitalised interest of £12.3m (2016: £13.5m).

Land and buildings were revalued at 30 September 1997 by Chestertons Chartered Surveyors, independent valuers not connected with the Group, on the basis of depreciated replacement cost for two pyrotechnic sites and on open market for the remainder, which represent level 2 measurements in the fair value hierarchy.

	2017 £m	2016 £m
30 September 1997 depreciated replacement cost	**5.8**	5.8
Freehold at cost	**111.4**	116.1
Cost of land and buildings as at 31 October 2017	**117.2**	121.9

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

	2017 £m	2016 £m
Cost	**115.2**	119.9
Accumulated depreciation	**(20.3)**	(15.5)
Historical cost value	**94.9**	104.4

All other tangible fixed assets are stated at historical cost.

At 31 October 2017, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £2.8m (2016: £2.5m).

13. SUBSIDIARY UNDERTAKINGS

All subsidiary undertakings have been reflected in these financial statements. The subsidiary undertakings held at 31 October 2017, all 100% owned by the Group, are shown below. All of these subsidiary undertakings are wholly controlled by Chemring Group PLC.

Subsidiary undertaking	Country of incorporation (or registration) and operation	Operating segment
Chemring Australia Pty Limited	Australia	Countermeasures
B.D.L Systems Limited	England	Dormant
Celco Industries (USA) Limited	England	Dormant
Chemring Countermeasures Limited	England	Countermeasures
Chemring Defence UK Limited	England	Energetics
Chemring Energetics Limited	England	Dormant
Chemring Europe Limited	England	Non-trading
Chemring Finance Europe Investments Limited	England	Non-trading
Chemring Finance Europe Limited	England	Non-trading
Chemring International Limited	England	Dormant
Chemring Investments Limited	England	Non-trading
Chemring Limited	England	Dormant
Chemring North America Unlimited	England	Holding Company
Chemring Prime Contracts Limited	England	Energetics
Chemring Technology Solutions Limited	England	Sensors
CHG Design Limited	England	Dormant
CHG Overseas Investments Limited	England	Non-trading
CHG Overseas Limited	England	Holding Company
Chemring UAE Limited	England	Non-trading
Coated Electrodes UK Limited	England	Dormant
Greys Exports Limited	England	Dormant
Haley and Weller Limited	England	Dormant
Karma Industries No 1 Limited	England	Dormant
Karma Industries No 2 Limited	England	Dormant
Kembrey Corporate Trustee Limited	England	Dormant
Kembrey Electronics Limited	England	Dormant
Kembrey Engineering Limited	England	Dormant
Kembrey Group Limited	England	Dormant
Kembrey Industries Limited	England	Dormant
Kembrey Limited	England	Dormant
Kembrey Technologies Limited	England	Dormant
Leafield Engineering Limited	England	Dormant
Nobel Energetics Limited	England	Dormant
Parkway No 3 Limited	England	Dormant
Parkway No 7 Limited	England	Dormant
Parkway No 8 Limited	England	Dormant
Parkway No 9 Limited	England	Dormant
Parkway No 10 Limited	England	Non-trading
Protox Environmental Systems Limited	England	Dormant
PW Defence Limited	England	Dormant
Richmond EEI Limited	England	Dormant
Richmond Electronics & Engineering Limited	England	Dormant
Ripault Drivex Limited	England	Dormant
Roke Manor Research Limited	England	Sensors
Sarclad Rolltex Limited	England	Dormant
Schermuly Limited	England	Dormant
Chemring Luxembourg Finance SARL	Luxembourg	Holding Company
Chemring Luxembourg Holding SARL	Luxembourg	Holding Company
3d-Radar AS	Norway	Sensors
Chemring Nobel AS	Norway	Energetics
Chemring Energetics UK Limited	Scotland	Energetics
Allied Technology LLC	USA	Holding Company
Alloy Surfaces Company, Inc.	USA	Countermeasures
ASC Realty LLC	USA	Property Holding Company
Chemring Energetic Devices, Inc.	USA	Energetics
Chemring Military Products, Inc.	USA	Energetics
Chemring North America Administration, Inc.	USA	Dormant
Chemring North America Group, Inc.	USA	Holding Company
Chemring Ordnance, Inc.	USA	Energetics
CHG Flares, Inc.	USA	Holding Company
CHG Group, Inc.	USA	Head Office
Kilgore Flares Company LLC	USA	Countermeasures

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

13. SUBSIDIARY UNDERTAKINGS CONTINUED

	Country of incorporation (or registration) and operation	Operating segment
Chemring Sensors and Electronic Systems, Inc.	USA	Sensors
Tactical Systems and Ordnance, Inc.	USA	Sensors
Titan Dynamics Systems, Inc.	USA	Dormant
Associated undertaking		
Chemring Aasia Services Pvt Limited (*)	India	Non-trading

* The Group owns 49% of the issued share capital. The associate did not trade during the year.

CHG Overseas Limited, Chemring North America Unlimited, Parkway No 10 Limited, Chemring Investments Limited, CHG Overseas Investments Limited are exempt from the requirement to file audited accounts for the year ended 31 October 2017 by virtue of section 479A of the Companies Act 2006.

See page 127 for the registered offices of the subsidiary undertakings.

14. INVENTORIES

	2017 £m	2016 £m
Raw materials	**45.7**	37.7
Work in progress	**30.6**	38.6
Finished goods	**21.3**	28.5
	97.6	104.8

There are no significant differences between the replacement cost of inventory and the fair values shown above. The Group recognised £8.8m (2016: £3.2m) as a write down of inventories to net realisable value.

15. TRADE AND OTHER RECEIVABLES

	2017 £m	2016 £m
Trade receivables	**92.9**	83.6
Allowance for doubtful debts	**(0.9)**	(0.9)
	92.0	82.7
Contract receivables	**0.7**	2.2
Advance payments to suppliers	**25.8**	17.0
Other receivables	**1.2**	2.5
Prepayments and accrued income	**11.3**	9.8
	131.0	114.2

All amounts shown above are due within one year.

The average credit period taken by customers on sales of goods, calculated using a countback basis, is 34 days (2016: 24 days). No interest is charged on receivables from the date of invoice to payment.

The Group's policy is to provide in full for trade receivables outstanding for more than 120 days beyond agreed terms, unless there are facts and circumstances that support recoverability.

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

16. 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.

17. BORROWINGS

		2017 £m	2016 £m
Within current liabilities			
Loan notes	– US dollar denominated	**46.1**	29.5
	– Sterling denominated	**5.3**	–
Short-term borrowings	– US dollar denominated	**0.2**	–
Finance leases	– Sterling denominated	**–**	0.1
Borrowings due within one year		**51.6**	29.6
Within non-current liabilities			
Loan notes	– Sterling denominated	**–**	5.3
	– US dollar denominated	**61.9**	115.7
Preference shares		**0.1**	0.1
Borrowings due after more than one year		**62.0**	121.1
		113.6	150.7

Analysis of borrowings by currency:

	2017 £m	2016 £m
Sterling	**5.4**	5.5
US dollar	**108.2**	145.2
	113.6	150.7

The weighted average interest rates paid were as follows:

		2017 %	2016 %
Bank overdrafts		**1.9**	2.9
UK bank loans	– Sterling denominated	**1.9**	2.9
Loan notes	– Sterling denominated	**7.2**	7.6
	– US dollar denominated	**6.0-6.7**	6.0-7.0

An analysis of borrowings by maturity is as follows:

	2017				2016			
	Bank loans and overdrafts £m	Loan notes £m	Other borrowings £m	Total £m	Bank loans and overdrafts £m	Loan notes £m	Other borrowings £m	Total £m
Borrowings falling due:								
– within one year	**0.2**	**51.4**	**–**	**51.6**	–	29.5	0.1	29.6
Borrowings falling due:								
– within one to two years	**–**	**–**	**–**	**–**	–	53.8	–	53.8
– within two to five years	**–**	**61.9**	**–**	**61.9**	–	67.2	–	67.2
– after five years	**–**	**–**	**0.1**	**0.1**	–	–	0.1	0.1
	–	**61.9**	**0.1**	**62.0**	–	121.0	0.1	121.1
Total borrowings	**0.2**	**113.3**	**0.1**	**113.6**	–	150.5	0.2	150.7

Other borrowings comprise finance leases and preference shares.

The Group has a £100.0m, four year revolving credit facility with a syndicate of three banks expiring in July 2019. In addition, the Group has ancillary UK facilities of £56.0m in respect of bonding and trade finance requirements, and a £17.5m facility to fulfil US trade finance and working capital requirements. None of the borrowings in the current or the prior year were secured.

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

The Group has the following undrawn borrowing facilities available, in respect of which all conditions precedent have been met. Interest costs under these facilities are charged at floating rates.

	2017 £m	2016 £m
Undrawn borrowing facilities	**106.0**	108.0

The Group is subject to two key financial covenants, which are tested quarterly. These covenants relate to the leverage ratio, being the ratio between underlying earnings before interest, tax, depreciation and amortisation ("underlying EBITDA") and debt, and the interest cover ratio between underlying EBITDA and finance costs. The calculation of these ratios involve the translation of non-sterling denominated debt using average, rather than closing, rates of exchange. The Group complied with these covenants throughout the year.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

18. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Amounts payable under finance leases:				
– within one year	–	0.1	–	0.1
– within two to five years	–	–	–	–
Present value of lease obligations	–	0.1	–	0.1
Less amounts due within one year shown within current liabilities			–	(0.1)
Amounts due for settlement after one year			–	–

19. TRADE AND OTHER PAYABLES

	2017 £m	2016 £m
Within current liabilities		
Trade payables	**37.7**	53.5
Other payables	**20.0**	17.7
Interest payable	**3.2**	4.1
Other tax and social security	**3.7**	3.0
Advance receipts from customers	**30.7**	12.4
Accruals and deferred income	**16.6**	16.6
	111.9	107.3
Within non-current liabilities		
Other payables	–	4.0

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

The average credit period taken on purchases of goods is 42 days (2016: 75 days) using year end trade payables divided by cost of sales. No interest is payable on trade payables from the date of invoice to payment.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The Group's global activities expose it to the financial risks of changes in foreign currency exchange rates. The Group enters into forward foreign exchange contracts to manage its exposure to transactional foreign currency risks.

Foreign exchange risk management

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

Transactional risk	The Group's policy is to hedge transactional currency exposures through the use of forward foreign exchange contracts. The measurement and control of this risk is monitored on a Group-wide basis.
Translation risk	The Group translates the results and net assets of overseas operations in accordance with the accounting policy within the Accounting Policies section. 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 sterling equivalents of the carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the year end were as follows:

	2017				2016			
	US dollar	**Euro**	**Norwegian krone**	**Australian dollar**	US dollar	Euro	Norwegian krone	Australian dollar
Monetary assets (£m)	**57.7**	**0.5**	**8.1**	**2.7**	85.1	–	7.8	6.4
Monetary liabilities (£m)	**(142.5)**	–	**(3.4)**	**(0.9)**	(184.8)	(0.3)	(3.6)	(2.4)

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

	2017				2016			
	US dollar	**Euro**	**Norwegian krone**	**Australian dollar**	US dollar	Euro	Norwegian krone	Australian dollar
Borrowings (£m)	**109.0**	–	–	–	148.1	–	–	–

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

The Group uses forward foreign exchange contracts to hedge its currency risk, most with a maturity of less than one year from inception. The exchange rate which has the most significant effect on the Group is the US dollar. The following table details the forward foreign exchange contracts outstanding:

	Average exchange rate		Expiring within one year		Expiring within one to two years		Expiring within two to five years	
	2017	2016	**2017 £m**	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
US dollar	**1.32**	1.28	**3.3**	41.7	**(1.1)**	0.2	**(1.1)**	–
Euro	**1.15**	–	**(4.0)**	–	**–**	–	**–**	–
AU dollar	**1.72**	1.63	**3.9**	5.1	**–**	0.2	**–**	–
Norwegian Krone	**10.70**	10.63	**1.2**	1.7	**–**	–	**–**	–

The principal amounts of the Group's US dollar loan notes have been accounted for as a net investment hedge of the US businesses. This hedge was effective throughout the year and the gains arising on translation of the loan notes were taken to reserves alongside the losses on retranslation of the US businesses. The Norwegian and Australian businesses have no net investment hedge. The retranslation of these businesses is taken directly to reserves.

Foreign currency sensitivity analysis

The following exchange rates applied during the year:

	2017		2016	
	Average rate	**Closing rate**	Average rate	Closing rate
US dollar	**1.30**	**1.33**	1.28	1.22
AU dollar	**1.68**	**1.73**	1.82	1.60

For the year ended 31 October 2017, a 1 cent decrease in the US dollar exchange rate would have increased reported net debt by approximately £0.8m.

The following table details the Group's sensitivity to a 10 cent movement in the relevant foreign currencies against sterling with regards to its income statement. This sensitivity represents management's assessment of a reasonably possible change in foreign exchange rates. This sensitivity analysis only includes translation of the results of foreign currency denominated companies and so does not reflect the impact on the results of sterling or other currency companies that have transactions in US dollars.

	+10 cents US dollar impact		–10 cents US dollar impact	
	2017 £m	2016 £m	**2017 £m**	2016 £m
Revenue	**(24.0)**	(19.0)	**27.0**	22.0
Underlying operating profit	**(2.4)**	(2.0)	**2.8**	2.3
Interest	**0.5**	0.6	**(0.6)**	(0.7)
Underlying profit before tax	**(1.9)**	(1.4)	**2.2**	1.6

Interest rate risk

The Group finances its operations through a combination of retained profits, bank and loan note borrowings, and finance leases.

The UK borrowings are denominated in sterling and US dollars, and at the shorter end are subject to floating rates of interest.

At 31 October 2017, the Group had outstanding fixed interest loan notes in the US totalling £114.3m (2016: £153.4m). On 21 November 2016, the Group repaid $36.0m of outstanding loan notes out of existing cash resources. The remaining loan notes are repayable in November 2017 (£5.3m and $61.2m) and November 2019 ($83.6m). The loan notes provide a natural hedge against the Group's investment in its US businesses.

As the Group has predominantly fixed interest rate debt, a change in interest rates would not have an immediate significant impact on the income statement. A change in interest rates of 1% would cause the Group's finance expense to change by £0.1m.

Liquidity risk

The table below details the maturity profile of the Group's derivative financial instruments and other assets:

	2017			2016		
	Derivative receivables £m	**Other assets £m**	**Total £m**	Derivative receivables £m	Other assets £m	Total £m
Falling due:						
– within one year	**36.1**	**133.8**	**169.9**	64.0	153.1	217.1
– within one to two years	**1.1**	**–**	**1.1**	0.9	–	0.9
– within two to five years	**1.1**	**–**	**1.1**	–	–	–
	38.3	**133.8**	**172.1**	64.9	153.1	218.0

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

The profile of the Group's financial assets by underlying currency and balance sheet classification is as follows:

	2017 £m	2016 £m
Sterling	**71.3**	114.6
US dollar	**125.1**	135.6
AU dollar	**7.3**	11.6
Euro	**1.6**	2.5
Other currencies	**9.9**	11.5
	215.2	275.8
Overdraft offset	**(43.1)**	(57.7)
	172.1	218.1

	2017 £m	2016 £m
Cash at bank and in hand	**33.6**	63.1
Trade receivables	**92.0**	82.7
Accrued income	**7.0**	4.8
Other receivables	**1.2**	2.6
Derivative financial instruments	**38.3**	64.9
	172.1	218.1

The ageing of financial assets past due but not impaired is as follows:

	2017 £m	2016 £m
Current	**147.6**	202.3
Up to 30 days	**4.2**	2.3
More than 30 days	**20.3**	13.5
	172.1	218.1

The total amount of past due receivables is £24.5m (2016: £15.8m).

The majority of cash balances held in the UK and the US have a right of offset against overdraft balances.

The foreign currency balances are predominantly attributable to overseas business units and therefore do not result in significant exposure to transactional risks for the Group.

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

	2017			2016		
	Derivative payables £m	Loans and overdrafts £m	Total £m	Derivative payables £m	Loans and overdrafts £m	Total £m
Falling due:						
– within one year	**36.2**	**120.4**	**156.6**	66.1	119.9	186.0
– within one to two years	**1.1**	**–**	**1.1**	0.7	55.4	56.1
– within two to five years	**1.1**	**62.0**	**63.1**	–	68.5	68.5
	38.4	**182.4**	**220.8**	66.8	243.8	310.6

The profile of the Group's financial liabilities by underlying currency and balance sheet classification is as follows:

	2017		2016	
	Fixed rate £m	Total £m	Fixed rate £m	Total £m
Sterling	**65.5**	**65.5**	63.0	63.0
US dollar	**189.4**	**189.4**	294.1	294.1
AU dollar	**0.9**	**0.9**	2.8	2.8
Euro	**4.9**	**4.9**	3.6	3.6
Other currencies	**3.2**	**3.2**	4.8	4.8
	263.9	**263.9**	368.3	368.3
Overdraft offset		**(43.1)**		(57.7)
		220.8		310.6

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

	2017 £m	2016 £m
Loan notes	**113.3**	150.5
Preference shares (note 23)	**0.1**	0.1
Short-term borrowings	**0.2**	–
Obligations under finance leases (note 18)	**–**	0.1
	113.6	150.7
Trade payables	**37.7**	53.5
Accruals	**14.2**	13.7
Interest payable	**3.2**	4.1
Other payables	**13.7**	21.7
Derivative financial instruments	**38.4**	66.9
	220.8	310.6

The weighted average interest rate of fixed rate financial liabilities at 31 October 2017 was 6.7% (2016: 6.6%) and the weighted average period of funding was one year (2016: two years).

Derivative financial instruments

The following table details the fair value of derivative financial instrument liabilities recognised in the balance sheet:

	2017 £m	2016 £m
Included in current assets	**0.4**	0.5
Included in current liabilities	**(0.4)**	(2.5)
Forward foreign exchange contracts	**–**	(2.0)

The following table details the (gain)/loss on the movement in the fair value of derivative financial instruments recognised in the income statement:

	2017 £m	2016 £m
(Gain)/loss on the movement in the fair value of derivative financial instruments	**(1.7)**	1.0

Fair value hierarchy

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

The fair value measurement hierarchy is as follows:

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

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

	2017			2016		
	Level 1 £m	Level 2 £m	Total £m	Level 1 £m	Level 2 £m	Total £m
Assets						
Forward foreign exchange contracts	–	**0.4**	**0.4**		0.5	0.5
Total assets	–	**0.4**	**0.4**	–	0.5	0.5

	2017			2016		
	Level 1 £m	Level 2 £m	Total £m	Level 1 £m	Level 2 £m	Total £m
Liabilities						
Borrowings	–	**(113.6)**	**(113.6)**		(150.5)	(150.5)
Forward foreign exchange contracts	–	**(0.4)**	**(0.4)**	–	(2.5)	(2.5)
Total liabilities	–	**(114.0)**	**(114.0)**	–	(153.0)	(153.0)

There were no assets or liabilities that were classed under Level 3 on the fair value hierarchy. The fair value of derivative financial instruments is estimated by discounting the future contracted cash flow, using readily available market data.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT CONTINUED

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables, and derivative financial instruments, which represent the Group's maximum exposure to credit risk in relation to financial assets. Whilst the Group does not have any significant credit risk exposure to any single counterparty in respect of bank balances and cash, the credit risk on liquid funds and derivative financial instruments is monitored on an ongoing basis using credit ratings assigned by international credit rating agencies, the credit default swap market and market capitalisation.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful debts, based on prior experience and an assessment of the current economic environment. Trade receivables are attributable to a small number of customers spread across a diverse geographical area. Customers are mainly multinational organisations or government agencies with whom the Group has long-term business relationships. The Group's principal customers are government defence departments, such as the US Department of Defense, the UK Ministry of Defence and the Kingdom of Saudi Arabia Ministry of Defence and Aviation, US and UK defence prime contractors, such as Lockheed Martin, BAE Systems and General Dynamics, and distributors of products for their onward sale to end users.

Counterparties are monitored on an ongoing basis for credit risk and, at the balance sheet date, the risk was deemed to be low. Ongoing credit evaluation is performed on the financial condition of accounts receivable and action is taken to minimise credit risk.

The Group's accounting policies and control procedures require letters of credit to be put in place for the majority of contracts with overseas customers.

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

Capital management

The Board seeks to maintain a strong capital base so as to maintain investor, creditor and market confidence, and to sustain future development of the business. From time to time, the Group purchases its own shares in the market; the timing of these purchases depends on market prices. Primarily, such shares are intended to be used for satisfying awards under the Group's share-based incentive schemes. Buy and sell decisions are made on a specific transaction basis by the Board.

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

21. PROVISIONS

	Legal provision £m	Environmental provision £m	Warranty provision £m	Restructuring provision £m	Disposal provision £m	Other provision £m	Total £m
At 1 November 2016	3.1	4.1	0.1	1.3	7.6	–	16.2
Provided	–	0.2	–	6.7	–	0.4	7.3
Foreign exchange adjustments	(0.2)	(0.3)	–	–	0.1	–	(0.4)
Paid	(1.2)	(0.2)	(0.1)	(2.1)	(0.5)	(0.2)	(4.3)
Released	(0.1)	(0.7)	–	–	(2.7)	–	(3.5)
At 31 October 2017	**1.6**	**3.1**	**–**	**5.9**	**4.5**	**0.2**	**15.3**

These provisions are classified on the balance sheet as follows:

	2017 £m	2016 £m
Included in current liabilities	**6.5**	4.5
Included in non-current liabilities	**8.8**	11.7
	15.3	16.2

The legal provision represents the estimated legal liabilities faced by the Group at the balance sheet date. Further details of the Group's contingent liabilities are set out in note 34.

The environmental provision is held in respect of potential liabilities associated with the Group's facility in Chicago, USA.

The restructuring provision relates to the closure of a Countermeasures facility in Philadelphia, USA and an Energetics facility in California, USA.

The disposal provision relates to estimated liabilities faced by the Group in respect of Mecar and Simmel under the terms of their respective sale agreements. The risk of economic outflow relating to these reduces with the passage of time.

Provisions are subject to uncertainty in respect of the outcome of future events. Legal provisions will be utilised based on the outcome of cases and the level of costs incurred defending the Group's position. Environmental provisions will be utilised based on the outcome of further environmental studies and remediation work. Restructuring provisions will be utilised based on actual costs incurred for redundancy, dead rent and dilapidations and these will be impacted by the final negotiated settlement of any claims with landlords. Disposal provisions will be utilised based on the outcome of certain events which are specified in sale and purchase agreements. It is not possible to estimate more accurately the expected timing of any resulting outflows of economic benefits.

22. DEFERRED TAX

The following are the principal deferred tax liabilities/(assets) recognised by the Group and movements thereon:

	Accelerated tax depreciation £m	Pensions £m	US interest deductions £m	Tax losses £m	Acquired intangibles £m	Other £m	Total £m
At 1 November 2015	14.0	(3.5)	(16.2)	(3.3)	11.9	(5.3)	(2.4)
Charge/(credit) to income	1.8	1.0	7.3	(4.1)	(2.6)	3.4	6.8
Charge/(credit) to equity	0.8	(0.8)	(5.7)	–	0.5	(0.3)	(5.5)
At 1 November 2016	16.6	(3.3)	(14.6)	(7.4)	9.8	(2.2)	(1.1)
Charge/(credit) to income	(4.6)	1.2	(10.8)	5.7	0.9	(2.2)	(9.8)
Charge/(credit) to equity	0.3	2.0	2.8	0.2	(0.4)	(3.7)	1.2
At 31 October 2017	**12.3**	**(0.1)**	**(22.6)**	**(1.5)**	**10.3**	**(8.1)**	**(9.7)**

The Finance Act 2016, which provided for reductions in the main rate of UK corporation tax from 20% to 19% effective from 1 April 2017 and to 17% effective from 1 April 2020, was substantively enacted on 19 September 2016.

The closing UK deferred tax asset as at 31 October 2017 has been calculated at the rates which will be in force when the assets and liabilities are expected to reverse.

The Group's deferred tax provision at the balance sheet date includes an asset of £22.6m (2016: £14.6m) in relation to amounts carried forward under the US interest limitation regulations. These carried forward amounts are available for offset in future periods in accordance with the regulations, subject to available US taxable profits. Management prepare long-term forecasts for the upcoming five-year period for all entities in the Group and have used these to determine the amount of the deferred tax asset which should be recognised at the balance sheet date. Due to the inherent uncertainties associated with preparing long-term forecasts, particularly in the current global environment, the final outcome may vary significantly, whilst a range of outcomes is reasonably possible, the extent of this range is potential additional assets of up to £13.6m or a reduction in the asset of up to £22.6m.

The US Tax Cuts and Jobs Act ("TCJA") was substantively enacted on 22 December 2017. The TCJA provides for a reduction in the main rate of federal corporate income tax from 35% to 21% for accounting periods beginning on or after 1 January 2018. As the legislation was not substantively enacted at the balance sheet date its effect has not been included in these financial statements. If the changes had been taken into account in preparing the financial statements the impact would have been to reduce the value of the Deferred Tax Asset by approximately £5m.

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

	2017 £m	2016 £m
Non-current liabilities	**53.5**	58.5
Non-current assets	**(63.2)**	(59.6)
	(9.7)	(1.1)

At the balance sheet date, the Group had unrecognised tax losses of £27.5m (2016: £8.0m) potentially available for offset against future profits in certain circumstances, the increase arising primarily as a result of the tax losses arising in the UK. No deferred tax asset has been recognised in respect of this amount because of the unpredictability of future taxable qualifying profit streams.

23. SHARE CAPITAL

	2017 £m	2016 £m
Issued and fully paid		
281,588,075 (2016: 281,425,256) ordinary shares of 1p each	**2.8**	2.8

During the year, 162,819 ordinary shares (2016: 5,337) were issued for cash to employees under the Group's approved savings-related share schemes.

On 24 February 2016, 85,915,828 new ordinary shares were issued pursuant to the rights issue, with four new ordinary shares issued for every nine existing ordinary shares held.

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

24. RESERVES

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

Included within retained earnings are £3.6m (2016: £3.0m) relating to the share-based payment reserve and £nil (2016: £nil) of the Company's own shares held by the Group's Employee Share Ownership Plan Trust.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

25. OWN SHARES

	2017 £m	2016 £m
At beginning and end of the year	**9.6**	9.6

The own shares reserve represents the cost of shares in the Company purchased in the market and held by the Group to satisfy awards under the Group's share-based incentive schemes, details of which are set out in note 27. No ordinary shares (2016: nil) were acquired during the year and no ordinary shares (2016: nil) were distributed following the vesting of awards under the PSP. The total number of ordinary shares held in treasury at 31 October 2017 was 2,198,814 (2016: 2,198,814), with an average cost of 439.0p (2016: 439.0p) per share.

This represents 0.8% (2016: 0.8%) of the total issued and fully-paid ordinary share capital.

26. OBLIGATIONS UNDER NON-CANCELLABLE OPERATING LEASES

	2017 £m	2016 £m
Minimum lease payments under operating leases recognised in the income statement	**1.8**	1.9

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, falling due as follows:

	2017 £m	2016 £m
Within one year	**2.3**	2.7
In the second to fifth years	**3.0**	5.2
Over five years	**0.2**	0.4
	5.5	8.3

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.

27. SHARE-BASED PAYMENTS

The Group operates share-based compensation arrangements to provide incentives to the Group's senior management and eligible employees. The Group recognised a net charge of £1.9m (2016: £1.0m) in respect of share-based payments during the year.

Details of the four schemes which operated during the year are set out below.

The Chemring Group Performance Share Plan (the "PSP") and The Chemring Group Performance Share Plan 2016 (the "2016 PSP")

Under the PSP and the 2016 PSP, conditional awards of ordinary shares are made at nil cost to employees. Awards ordinarily vest on the third anniversary of the award date. The PSP commenced in March 2006 and expired in March 2016, when it was replaced by the 2016 PSP, which has broadly similar terms. Awards remain outstanding under the PSP but all new awards will now be made under the 2016 PSP.

	PSP Number of conditional shares		2016 PSP Number of conditional shares	
	2017	2016	2017	2016
Outstanding at beginning of the year	**4,503,592**	3,966,720	**–**	–
Adjustments relating to rights issue	**–**	704,701	**–**	–
Awarded	**–**	2,313,385	**2,295,577**	–
Lapsed	**(1,333,619)**	(2,481,214)	**(111,690)**	–
Outstanding at end of the year	**3,169,973**	4,503,592	**2,183,887**	–
Subject to vesting at end of the year		–		–

The following awards were outstanding at 31 October 2017:

Date of award	Number of ordinary shares under award	Vesting price per share Pence	Date when awards due to vest
26 January 2015	1,237,868	nil	26 January 2018
25 January 2016	1,673,526	nil	25 January 2019
7 March 2016	258,579	nil	7 March 2019
24 March 2017[1]	2,183,887	nil	24 March 2020

1 These awards were granted under the 2016 PSP.

27. SHARE-BASED PAYMENTS CONTINUED

The Group has applied a discount to the share-based payments, to reflect the anticipated achievement of the stipulated targets for each PSP and 2016 PSP award based on the predicted figures within the Group's financial projections and the expected number of leavers over the life of the awards.

The 2016 PSP awards made in the year ended 31 October 2017 had targets based on earnings per share growth and total shareholder return. The awards have been valued using the following modelling inputs:

	Date awarded		
	24 March 2017	25 January 2016	7 March 2016
Share price at valuation	**196p**	138p	134p
Exercise price	**nil**	nil	nil
Risk-free rate	**0.2%**	0.7%	0.4%
Expected volatility	**28.8%**	36.4%	38.6%
Fair value	**165.5p**	107.0p	85.5p

The weighted average fair value of awards made during the year was 165.5p (2016: 102.4p).

No awards were exercised in the year ended 31 October 2017 or the year ended 31 October 2016. The charge recognised in respect of the awards is based on their fair value at the grant date.

The Chemring Group Restricted Share Plan (the "RSP")

Under the RSP, deferred awards of ordinary shares are made at nil cost to employees. Awards ordinarily vest on the second or third anniversary of the award date. The first awards under the RSP were made in February 2013.

	Number of deferred shares	
	2017	2016
Outstanding at beginning of the year	**50,000**	130,000
Awarded	**–**	50,000
Exercised	**–**	(130,000)
Outstanding at end of the year	**50,000**	50,000
Subject to vesting at end of the year	**–**	–

The following RSP awards were outstanding at 31 October 2017:

Date of award	Number of ordinary shares under award	Vesting price per share Pence	Date when award due to vest
7 March 2016	50,000	nil	7 March 2019

The Group has applied a discount to the share-based payment relating to the RSP, to reflect the expected number of leavers over the life of the RSP awards.

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

Options were granted during the year on 27 July 2017.

	2017		2016	
	Number of share options	**Weighted average exercise price Pence**	Number of share options	Weighted average exercise price Pence
Outstanding at beginning of the year	**1,728,037**	**128.1**	1,302,225	186.4
Adjustment relating to the rights issue	**–**	**–**	172,519	186.4
Granted	**528,998**	**148.0**	1,031,147	105.0
Exercised	**(162,819)**	**141.3**	(5,337)	163.0
Lapsed	**(280,563)**	**166.7**	(772,517)	163.5
Outstanding at end of the year	**1,813,653**	**126.7**	1,728,037	128.1
Subject to exercise at end of the year	**74,792**	**150.7**	53,441	255.9

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

27. SHARE-BASED PAYMENTS CONTINUED

The following options were outstanding at 31 October 2017:

Date of award	Number of ordinary shares under award	Exercise price per share Pence	Dates between which options may be exercised
30 July 2012	12,283	195.0	1 October 2017 – 31 March 2018
30 July 2013	29,218	209.0	1 October 2018 – 31 March 2019
30 July 2014	62,509	142.0	1 October 2017 – 31 March 2018
30 July 2014	54,615	142.0	1 October 2019 – 31 March 2020
30 July 2015	153,909	152.0	1 October 2018 – 31 March 2019
30 July 2015	33,848	152.0	1 October 2020 – 31 March 2021
27 July 2016	874,013	105.0	1 October 2019 – 31 March 2020
27 July 2016	78,853	105.0	1 October 2021 – 31 March 2022
27 July 2017	435,760	148.0	1 October 2020 – 31 March 2021
27 July 2017	78,645	148.0	1 October 2022 – 31 March 2023

The weighted average fair value of options granted in the year was 37.0p (2016: 26.0p).

The weighted average fair value of options exercised in the year was 36.7p (2016: 41.3p).

The weighted average share price on exercise of the options during the year was 141.3p (2016: 146.6p).

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

28. ACQUISITIONS AND DISPOSALS

On 4 May 2016, the Group acquired patents, equipment, inventory and selected contracts relating to Esterline's UK-based subsidiary, Wallop Defence Systems Limited, for an initial cash consideration of £2.5m. Additional payments of up to £9.0m, which are conditional upon the receipt of specific orders in the period after acquisition, may be made over the next two years. At 31 October 2017 an accrual for £1.6m has been made and this may increase if further orders are received.

Recognised amounts of identifiable assets acquired and liabilities assumed	£m
Inventory	0.2
Property, plant and equipment	0.2
Identifiable intangible assets	2.1
Total consideration	2.5
Satisfied by:	
Cash	2.5
Total consideration transferred	2.5
Net cash outflow arising on acquisition	
Cash consideration	2.5
Less: cash and cash equivalents acquired	–
Cash outflow from investing activities	2.5

Acquisition-related costs (included in administrative expenses in the consolidated income statement) for the year ended 31 October 2016 amounted to £0.2m.

There were no disposals during the year, however the £3.5m credit (2016: £4.6m) from discontinued operations relates to disposals made in prior years.

	2017 £m	2016 £m
European munitions businesses disposal	**2.7**	4.1
Disposed property dilapidations	**0.1**	0.6
Marine business disposal	**0.7**	–
Tax on discontinued operations	**–**	(0.1)
	3.5	4.6

29. RETIREMENT BENEFIT OBLIGATIONS

In the UK, the Group operates a defined benefit scheme (the "Chemring Group Staff Pension Scheme"). In Norway, Chemring Nobel operates a defined benefit scheme (the "Chemring Nobel Scheme"). The Group's other UK and overseas pension arrangements are all defined contribution schemes, with a combined cost of £6.1m (2016: £6.2m).

The Chemring Group Staff Pension Scheme is a funded scheme and the assets of the scheme are held in a separate trustee administered fund. The scheme was closed to future accrual on 6 April 2012. A full actuarial valuation of the Chemring Group Staff Pension Scheme as at 6 April 2015 has been completed and updated to 31 October 2017 by a qualified actuary, using the projected unit credit method. The main assumptions for the scheme are detailed below. The deficit of the Chemring Group Staff Pension Scheme was £0.6m at 31 October 2017 (2016: £17.3m).

Under the funding plan agreed with the trustees following the 2015 actuarial valuation, the Company has agreed to eliminate the deficit indicated by that valuation over a period of four years. This funding plan provides for contributions of £5.0m per annum to be paid in monthly instalments until June 2019. The Company and the trustees monitor funding levels annually, and a new funding plan is agreed with the trustees every three years, based on actuarial valuations. The Group considers that the current contribution rates agreed with the trustees are sufficient to eliminate the calculated deficit over the agreed period.

The Group has given a bank guarantee and letter of credit totalling £7.2m (2016: £8.5m) to the scheme in respect of future contributions, which are progressively reducing as contributions are paid under the agreed funding schedule.

The trust deed provides for an unconditional right to a return of surplus assets in the event of a plan wind-up. The trustees gave no rights to unilaterally wind up or augment the benefits due to members of the scheme. Based on these rights, any net surplus in the UK scheme is recognised in full.

The Chemring Nobel Scheme is an unfunded scheme. The actuarial liability has been calculated at 31 October 2017 by a qualified actuary using the projected unit credit method. The main assumptions used were a discount rate of 2.0% and rate of increase in deferred pensions of 3.5%. The net surplus of the Chemring Nobel Scheme was £nil at 31 October 2017 (2016: £nil) and as such is immaterial for further detailed disclosures.

The movement in the net defined benefit liability is as follows:

	Defined benefit obligations		Defined benefit asset		Net defined benefit liability	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
At 1 November	**(94.7)**	(81.1)	**77.4**	63.4	**(17.3)**	(17.7)
Included in profit or loss						
Net interest cost	**(2.5)**	(3.0)	**2.1**	2.2	**(0.4)**	(0.8)
	(2.5)	(3.0)	**2.1**	2.2	**(0.4)**	(0.8)
Included in other comprehensive income						
Remeasurement gain/(loss):						
Actuarial gain/(loss) arising from:						
– Demographic and financial assumptions	**7.6**	(16.5)	**–**	–	**7.6**	(16.5)
– Experience adjustment	**1.8**	2.7	**–**	–	**1.8**	2.7
– Return on plan assets excluding interest income	**–**	–	**2.5**	10.0	**2.5**	10.0
	9.4	(13.8)	**2.5**	10.0	**11.9**	(3.8)
Other						
Contributions by the employer	**–**	–	**5.0**	5.0	**5.0**	5.0
Additional contributions by the employer	**–**	–	**0.2**	–	**0.2**	–
Net benefits paid out	**4.0**	3.2	**(4.0)**	(3.2)	**–**	–
At 31 October	**(83.8)**	(94.7)	**83.2**	77.4	**(0.6)**	(17.3)

The Chemring Group Staff Pension Scheme had 1,030 members at the end of the year (2016: 1,071). Of these members 53.1% (2016: 51.1%) were pensioners drawing benefits from the scheme and the balance were deferred members. The duration of the liability is long with pension payments expected to be made for at least the next 40 years.

The pension schemes' assets are analysed as follows:

	2017 £m	2016 £m	**2017 %**	2016 %
Equities	**54.6**	52.3	**65.6**	67.5
Liability Driven Investment	**20.7**	14.7	**24.9**	19.0
Corporate bonds	**7.5**	9.5	**9.0**	12.3
Cash	**0.4**	0.9	**0.5**	1.2
	83.2	77.4	**100.0**	100.0

The schemes' assets are invested in accordance with the statement of investment principles after taking professional advice from the schemes' investment advisers. The investment strategy is to split the assets into a growth portfolio of index trading equity funds and real return funds, and a matching portfolio of leveraged liability driven pooled funds.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

29. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

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

	2017 %	2016 %
Discount rate	**2.7**	2.7
Rate of increase in deferred pensions	**3.0**	3.4
Rate of increase in pensions in payment (where applicable)	**3.0**	3.4
Inflation – RPI	**3.1**	3.6
– CPI	**2.0**	2.7

In determining defined benefit obligations, the Group uses mortality assumptions which are based on published mortality tables. For the Chemring Group Staff Pension Scheme, the actuarial table currently used is SAPS Normal Health pensioner tables with future improvements in line with CMI 2016 and a 1.25% long-term trend rate.

This results in the following life expectancies at age 65:

		2017	2016
Future pensioners	– male	**88.5**	88.1
	– female	**90.5**	90.6
Current pensioners	– male	**87.1**	86.5
	– female	**89.0**	88.8

The most significant assumptions in the pension valuation are the discount rate applied to the liabilities, the inflation rate to be applied to pension payments and the mortality rates. If the discount rate used in determining retirement benefit obligations were to change by 0.1% then it is predicted that the deficit in the scheme would change by approximately £1.3m. A change in the rate of inflation by 0.1% is predicted to change the deficit by approximately £0.5m and a one year change to the longevity assumption would change the deficit by approximately £2.9m. The principal risks to the schemes are that the investments do not perform as well as expected, the discount rate continues to fall driven by lower market interest rates and that the rate of improvement in mortality assumed is insufficient and life expectancies continue to rise.

The Group anticipates contributions to the defined benefit schemes for the year ending 31 October 2018 will be £5.0m (2017: £5.0m).

30. CASH GENERATED FROM OPERATING ACTIVITIES

	2017 £m	2016 £m
Operating profit from continuing operations	**15.3**	26.2
Operating profit from discontinued operations	**3.5**	4.7
	18.8	30.9
Amortisation of development costs	**6.9**	6.8
Intangible amortisation arising from business combinations	**15.0**	14.8
Amortisation of patents and licences	**0.2**	0.1
Loss on disposal of property, plant and equipment	**0.3**	0.2
Depreciation of property, plant and equipment	**18.5**	18.4
(Gain)/loss on the movement in the fair value of derivative financial instruments	**(1.7)**	1.0
Share-based payment expense	**1.9**	1.0
Operating cash flows before movements in working capital	**59.9**	73.2
(Increase)/decrease in inventories	**(6.0)**	13.6
(Increase) in trade and other receivables	**(32.3)**	(5.8)
Increase/(decrease) in trade and other payables	**2.3**	(1.1)
(Decrease) in provisions	**(0.1)**	(0.3)
	23.8	79.6
Add back non-underlying items:		
Acquisition and disposal related credits	**(1.2)**	(4.4)
Business restructuring and incident costs	**14.3**	5.4
Claim related costs/(credits)	**0.4**	(0.6)
Impairment of business	**9.8**	–
Loan note repayment costs	**–**	1.4
Cash generated from underlying operating activities	**47.1**	81.4
Cash impact of non-underlying items	**(6.3)**	(8.1)
Cash generated from operating activities	**40.8**	73.3

31. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2017 £m	2016 £m
(Decrease)/increase in cash and cash equivalents	**(29.4)**	54.6
Decrease in debt and lease financing due to cash flows	**29.4**	49.6
Decrease in net debt resulting from cash flows	**–**	104.2
Effect of foreign exchange rate changes	**10.0**	(34.7)
Amortisation of debt finance costs	**(2.4)**	(2.8)
Movement in net debt	**7.6**	66.7
Net debt at beginning of the year	**(87.6)**	(154.3)
Net debt at end of the year	**(80.0)**	(87.6)

32. ANALYSIS OF NET DEBT

	At 1 November 2016 £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	At 31 October 2017 £m
Cash at bank and in hand	63.1	(29.4)	–	(0.1)	**33.6**
Debt due within one year	(29.5)	28.8	(54.5)	3.6	**(51.6)**
Debt due after one year	(121.0)	0.5	52.1	6.5	**(61.9)**
Finance leases	(0.1)	0.1	–	–	**–**
Preference shares	(0.1)	–	–	–	**(0.1)**
	(87.6)	–	(2.4)	10.0	**(80.0)**

33. ADOPTION OF IFRS 15

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") for its 2017 financial year. The majority of the Group's transactions are unaffected by IFRS 15, however when IFRS 15 is applied to a small number of customer contracts this leads to a difference in the timing of recognising revenue. As permitted by the standard, the Group has taken advantage of the modified transitional provisions and as such the 2016 results remain as previously reported. Under the modified approach the cumulative approach of initially applying the standard is recognised at 1 November 2016 with no restatement of prior periods.

An adjustment to brought forward retained earnings of £10.2m has been recognised in the Consolidated Statement of Changes in Equity, representing the reversal of certain revenue that met the criteria for revenue recognition under previously applicable accounting standards but does not do so under IFRS 15. This also reduced receivables and payables but increased inventory as at 1 November 2016.

The impact of adoption in the year to 31 October 2017 can be seen below and arises from revenue recognised in prior years which would instead have been deferred to the current year under IFRS 15.

	Pre IFRS 15 £m	IFRS 15 adjustment £m	As reported £m
Continuing operations – underlying			
Revenue	531.2	16.3	547.5
Operating profit	50.5	4.9	55.4
Finance expense	(11.3)	–	(11.3)
Profit before tax	39.2	4.9	44.1
Tax charge	(7.2)	(0.9)	(8.1)
Profit after tax	32.0	4.0	36.0

In addition, a number of transactions, with a broadly equivalent operating profit impact, will now be recognised in 2018 that could have previously been recognised in 2017. This timing difference is expected to recur at each reporting period end, albeit at a different quantum.

The adoption of IFRS 15 had the effect of increasing revenue by £0.2m and operating profit by £0.5m in Countermeasures, increasing revenue by £2.8m and operating profit by £1.5m in Sensors, and increasing revenue by £13.3m and operating profit by £2.9m in Energetics.

The affected contracts are a combination of contracts for the provision of products. The significant risks and rewards of ownership had transferred but there remained an element of control, typically an undertaking to arrange elements of shipping on behalf of the customer, and hence the timing of revenue recognition is later under IFRS 15.

NOTES TO THE GROUP FINANCIAL STATEMENTS continued

34. CONTINGENT LIABILITIES

The Group enters into contracts which have offset commitments. These requirements are valued at the time of the contract being awarded. The cost of the offsets are reviewed throughout the contract life and provided for within the contract costings to the extent of the potential liability.

At 31 October 2017, the Group had contingent liabilities in respect of bank and contractual performance guarantees and other matters arising in the ordinary course of business. Where it is expected that a material liability will arise in respect of these matters, appropriate provision is made within the financial statements. As the conditions of these guarantees are currently being met, no obligating event is foreseeable and therefore no provision has been made.

The Group is, from time to time, party to legal proceedings and claims, and is involved in correspondence relating to potential claims, which arise in the ordinary course of business.

A dispute between Alloy Surfaces Company, Inc. and the US Army, in relation to disputed pricing of a certain historic contract fulfilled by Alloy Surfaces Company, Inc., proceeded to a hearing in front of the US Armed Services Board of Contract Appeals ("ASBCA") in April 2017. ASBCA is expected to take approximately two years to issue its decision in relation to this matter. The range of possible outcomes is between £nil to £12.0m. A provision of £1.1m (2016: £1.8m) exists to cover estimated legal costs for the Group with regards to this issue.

The Serious Fraud Office (the "SFO") is currently undertaking a formal investigation into concerns about bribery, corruption and money laundering involving intermediaries who previously represented one of the Group's UK-based subsidiaries, Chemring Technology Solutions Limited ("CTSL") and its predecessor companies. The investigation commenced following a voluntary report made by CTSL relating to two specific historic contracts, the first of which was awarded prior to the Group's ownership of the business concerned and the second in 2011, neither of which are considered to be material in the context of the Group. It is too early to predict the outcome of the SFO's investigation, in which the Group continues to co-operate fully.

The Group has a £2.5m deductible per claim under its material damage and business interruption insurance policy, subject to a maximum aggregate deductible of £3.5m in any one year.

35. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions with the Group's pension schemes are disclosed in note 29.

Trading transactions

There were no trading activities between the Group and its associate in this period or the comparative period.

Remuneration of key management personnel

For the purposes of remuneration disclosure, key management personnel includes only the executive directors and excludes the other senior business managers and members of the Executive Committee. Their remuneration is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*. Further information on the remuneration of individual directors is provided in the audited part of the directors' remuneration report on pages 64 to 74.

The directors of the Company had no material transactions with the Company during the year, other than in connection with their service agreements. The remuneration of the executive directors is determined by the Remuneration Committee, having regard to the performance of the individuals and market trends. The remuneration of the non-executive directors is determined by the Board, having regard to the practice of other companies and the particular demands of the Group.

	2017 £m	2016 £m
Remuneration of key management personnel	**2.1**	2.0

Further detail can be found in the directors' remuneration report on pages 56 to 74.

36. EVENTS SINCE THE END OF THE YEAR

On 13 November 2017, the Group repaid £5.3m and $61.2m of outstanding loan notes out of existing bank debt facilities and cash resources.

PARENT COMPANY BALANCE SHEET
AS AT 31 OCTOBER 2017

	Note	2017 £m	2017 £m	2016 £m	2016 £m
Non-current assets					
Property, plant and equipment	1	**0.3**		0.4	
Investments in subsidiaries	2	**625.2**		511.3	
Deferred tax	10	**-**		6.7	
Amounts owed by subsidiary undertakings	4	**360.3**		376.2	
			985.8		894.6
Current assets					
Trade and other receivables	4	**12.9**		22.5	
Cash and cash equivalents		**25.3**		27.7	
			38.2		50.2
Total assets			**1,024.0**		944.8
Current liabilities					
Trade and other payables	5		**(265.5)**		(164.1)
Non-current liabilities					
Trade and other payables	5	**(124.7)**		(165.4)	
Provisions	6	**(0.2)**		(1.6)	
Deferred tax	10	**(0.4)**		–	
Preference shares	7	**(0.1)**		(0.1)	
Retirement benefit obligations	11	**(0.2)**		(6.3)	
			(125.6)		(173.4)
Total liabilities			**(391.1)**		(337.5)
Net assets			**632.9**		607.3
Equity					
Share capital	8		**2.8**		2.8
Share premium account			**305.3**		305.1
Special capital reserve			**12.9**		12.9
Retained earnings			**321.5**		296.1
			642.5		616.9
Own shares	9		**(9.6)**		(9.6)
Total equity			**632.9**		607.3

Profit attributable to shareholders

In accordance with the concession granted under section 408 of the Companies Act 2006, the profit and loss account of Chemring Group PLC has not been presented separately in these financial statements. There is no material difference between the results disclosed and the results on an unmodified historical cost basis. The Company reported a profit for the year ended 31 October 2017 of £27.4m (2016: £1.5m loss).

These financial statements of Chemring Group PLC (registered number 86662) were approved and authorised for issue by the Board of Directors on 18 January 2018.

Signed on behalf of the Board

Michael Flowers
Director

Sarah Ellard
Director

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 OCTOBER 2017

	2017 £m	2016 £m
Profit/(loss) after tax attributable to equity holders of the parent as reported	**27.4**	(1.5)
Items that will not be reclassified subsequently to profit or loss		
Actuarial gains/(losses) on pension scheme, net of deferred tax	**2.8**	(1.3)
Total comprehensive income/(loss) attributable to the equity holders of the parent	**30.2**	(2.8)

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 OCTOBER 2017

	Share capital £m	Share premium account £m	Special capital reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2016	2.8	305.1	12.9	296.1	(9.6)	607.3
Profit after tax	–	–	–	27.4	–	27.4
Other comprehensive income	–	–	–	2.8	–	2.8
Total comprehensive income	–	–	–	30.2	–	30.2
Ordinary shares issued	–	0.2	–	–	–	0.2
Share-based payments (net of settlement)	–	–	–	1.6	–	1.6
Dividends paid	–	–	–	(6.4)	–	(6.4)
At 31 October 2017	**2.8**	**305.3**	**12.9**	**321.5**	**(9.6)**	**632.9**

	Share capital £m	Share premium account £m	Special capital reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2015	2.0	230.7	12.9	297.9	(9.6)	533.9
Loss after tax	–	–	–	(1.5)	–	(1.5)
Other comprehensive losses	–	–	–	(1.3)	–	(1.3)
Total comprehensive losses	–	–	–	(2.8)	–	(2.8)
Ordinary shares issued	0.8	74.4	–	–	–	75.2
Share-based payments (net of settlement)	–	–	–	1.0	–	1.0
At 31 October 2016	2.8	305.1	12.9	296.1	(9.6)	607.3

The auditor's remuneration for audit and other services is disclosed in note 4 to the Group financial statements.

A final dividend of 2.0p per ordinary share has been proposed. See note 8 to the Group financial statements.

As at 31 October 2017 the Company had distributable reserves of £316.9m (2016: £293.2m). When required, the Company can receive dividends from its subsidiaries to further increase distributable reserves.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

1. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 November 2015	0.1	1.3	1.4
Additions	0.1	0.3	0.4
Disposals	(0.1)	(1.2)	(1.3)
At 31 October 2016	0.1	0.4	0.5
Disposals	–	(0.1)	(0.1)
At 31 October 2017	0.1	0.3	0.4
Depreciation			
At 1 November 2015	–	1.2	1.2
Charge	–	0.1	0.1
Disposals	–	(1.2)	(1.2)
At 31 October 2016	–	0.1	0.1
Charge	–	0.1	0.1
Disposals	–	(0.1)	(0.1)
At 31 October 2016	–	0.1	0.1
Carrying amount			
At 31 October 2017	**0.1**	**0.2**	**0.3**
At 31 October 2016	0.1	0.3	0.4

The Company had no capital commitments as at 31 October 2017 or 31 October 2016. Land and buildings represent leasehold improvements.

2. INVESTMENTS

	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
Cost			
At 1 November 2015 and 31 October 2016	548.6	6.6	555.2
Additions	113.9	–	113.9
At 31 October 2017	662.5	6.6	669.1
Impairment			
At 1 November 2015, 31 October 2016 and 31 October 2017	43.9	–	43.9
Carrying amount			
At 31 October 2017	**618.6**	**6.6**	**625.2**
At 31 October 2016	504.7	6.6	511.3

The additions of £113.9m in the year represent a capital contribution to CHG Overseas Limited.

3. INVESTMENTS IN GROUP UNDERTAKINGS

Details of the Group undertakings at 31 October 2017 are set out in note 13 to the Group financial statements.

The directors consider that the carrying value of the investments does not exceed their fair value.

4. TRADE AND OTHER RECEIVABLES

	2017 £m	2016 £m
Within current assets		
Other receivables	**12.2**	21.2
Corporation tax recoverable	–	0.5
Prepayments and accrued income	**0.7**	0.8
	12.9	22.5
Within non-current assets		
Amounts owed by subsidiary undertakings	**360.3**	376.2
	360.3	376.2

An asset of £0.4m (2016: £0.5m) is recognised within other receivables in respect of the fair value of derivative financial instruments, as set out in note 20 to the Group financial statements. The directors consider that the carrying value of the trade and other receivables approximates to their fair value.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS continued

5. TRADE AND OTHER PAYABLES

	2017 £m	2016 £m
Within current liabilities		
Corporation tax payable	**1.2**	–
Derivative financial instruments (note 20 to the Group financial statements)	**0.4**	2.5
Trade payables	**0.1**	0.9
Amounts owed to subsidiary undertakings	**205.5**	125.9
Other payables	**3.5**	1.0
Other tax and social security	**0.2**	0.2
Accruals and deferred income	**3.2**	4.1
Loan notes	**51.4**	29.5
	265.5	164.1
Within non-current liabilities		
Loan notes	**61.9**	121.0
Amounts owed to subsidiary undertakings	**62.8**	44.4
	124.7	165.4

An analysis of borrowings by maturity is as follows:

	2017 £m	2016 £m
Borrowings falling due:		
– less than one year	**51.4**	29.5
– within one to two years	**–**	53.8
– within two to five years	**61.9**	67.2
	113.3	150.5

The interest incurred on the above borrowings is detailed within notes 6 and 17 to the Group financial statements.

6. PROVISIONS

	Environmental provision £m	Disposal provision £m	Legal provision £m	Total £m
At 1 November 2016	0.7	0.1	0.8	1.6
Released	(0.7)	–	(0.1)	(0.8)
Paid	–	–	(0.6)	(0.6)
At 31 October 2017	**–**	**0.1**	**0.1**	**0.2**

It is not possible to estimate more accurately the expected timing of any resulting outflows of economic benefits. The environmental provision relates to estimated liabilities in respect of the sale of the Marine business in 2012. The legal provision relates to a legacy property lease.

7. PREFERENCE SHARES

	2017 £m	2016 £m
Cumulative preference shares (62,500 shares of £1 each)	**0.1**	0.1

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 a winding-up to receive, in priority to any other classes of shares, the sum of £1 per share together with any arrears of dividends.

8. SHARE CAPITAL

	2017 £m	2016 £m
Issued, allotted and fully paid		
281,588,075 (2016: 281,425,256) ordinary shares of 1p each	**2.8**	2.8

During the year, 162,819 ordinary shares (2016: 5,337) were issued for cash to employees under the Group's approved savings-related share schemes.

On 24 February 2016, 85,915,828 new ordinary shares were issued pursuant to the rights issue, with four new ordinary shares issued for every nine existing ordinary shares held.

The preference shares are presented as a liability and accordingly are excluded from called-up share capital in the balance sheet.

Share-based incentive schemes

Full details of the schemes are set out in note 27 to the Group financial statements.

9. OWN SHARES

	2017 £m	2016 £m
At beginning and end of the year	**9.6**	9.6

The own shares reserve represents the cost of shares in Chemring Group PLC purchased in the market and held by the Group to satisfy awards under the Group's share-based incentive schemes (see note 27 to the Group financial statements). During the year, no ordinary shares (2016: nil) were acquired and no ordinary shares (2016: nil) 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 2017 was 2,198,814 (2016: 2,198,814), with an average cost of 439.0p (2016: 439.0p) per share. This represents 0.8% (2016: 0.8%) of the total issued and fully-paid ordinary share capital.

10. DEFERRED TAX

	2017 £m	2016 £m
At beginning of the year	**6.7**	8.2
Charge to income statement	**(5.6)**	(1.5)
Charge to other comprehensive income	**(1.5)**	–
Deferred tax (liability)/asset at the end of the year	**(0.4)**	6.7
The amount provided represents:		
Other timing differences	**(0.4)**	6.7

At the balance sheet date, the Company had unrecognised tax losses of £21.1m (2016: £nil) potentially available for offset against future profits in certain circumstances, the increase arising primarily as a result of the current year tax losses arising in the UK. No deferred tax asset has been recognised in respect of this amount because of the unpredictability of future taxable qualifying profit streams.

11. PENSIONS

The Company has assumed its share of the assets and liabilities of the Group's defined benefit pension scheme.

An analysis of the provision balance is shown below:

	Total £m
At 1 November 2015	6.6
Contributions	(2.1)
Other finance costs	0.3
Actuarial movements	1.5
At 31 October 2016	6.3
Contributions	(2.1)
Other finance costs	0.3
Actuarial movements	(4.3)
At 31 October 2017	**0.2**

Further details are set out in note 29 to the Group financial statements.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS
continued

12. STAFF COSTS

	2017 Number	2016 Number
Average monthly number of total employees (including executive directors)	**24**	25

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

	2017 £m	2016 £m
Wages and salaries	**4.3**	4.1
Social security costs	**0.5**	0.7
Other pension costs	**0.4**	0.4
	5.2	5.2

Disclosures in respect of directors' emoluments can be found in the directors' remuneration report on pages 56 to 74.

ACCOUNTING POLICIES

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 Roke Manor, Old Salisbury Lane, Romsey, Hampshire, SO51 0ZN. The nature of the Group's operations and its principal activities are set out in note 2 and in the directors' report on pages 40 to 43. These financial statements are the consolidated financial statements of Chemring Group PLC and its subsidiaries (the "Group").

The financial statements are presented in pounds sterling, being the currency of the primary economic environment in which the Group operates, and rounded to the nearest £0.1m. Foreign operations are included in accordance with the foreign currencies accounting policy.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Group and the Company have adequate resources to continue to adopt the going concern basis of accounting in preparing these financial statements. Further detail is contained in the statement on going concern on pages 50 to 51.

2. ADOPTION OF NEW AND REVISED STANDARDS

The following International Financial Reporting Committee ("IFRIC") interpretations, amendments to existing standards and new standards were adopted in the year ended 31 October 2017 but have not materially impacted the reported results or the financial position:

- Amendments to IFRS 10, IFRS 12 and IAS 28, *Investment Entities: Applying the Consolidation Exception;*
- IFRS 11 (amended) *Accounting for Acquisitions of an Interest in a Joint Operation;*
- Amendments to IAS 16 and IAS 38, *Clarification of Acceptable Methods of Depreciation and Amortisation;*
- IAS 1 *Presentation of Financial Statements*, amendments resulting from the disclosure initiative;
- IAS 27 (amended) *Equity Method in Separate Financial Statements;* and
- Annual Improvements to IFRSs 2012-2014 Cycle.

Early adoption of revised standards and interpretations

In the year ended 31 October 2017, the following standard was adopted and has affected the amounts reported in these financial statements:

- IFRS 15 *Revenue from Contracts with Customers* (effective for periods beginning on or after 1 January 2018 with early adoption permitted)

New and revised standards and interpretations in issue but not yet effective:

At the date of authorisation of these financial statements, the following standards and interpretations that are potentially relevant to the Group and which have not yet been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the European Union):

Effective for periods beginning on or after 1 January 2017

- Amendments to IAS 7 *Statement of Cash Flows*
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

Effective for periods beginning on or after 1 January 2018

- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions;*
- IFRS 9 *Financial Instruments Recognition and Measurement;*
- Annual Improvements to IFRSs 2014-2016 Cycle; and
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

Effective for periods beginning on or after 1 January 2019

- IFRS 16 *Leases*
- Annual Improvements to IFRSs 2015-2017 Cycle
- IFRIC 23 *Uncertainty over Income Tax Treatments*

Effective for periods beginning on or after 1 January 2021

- IFRS 17 *Insurance Contracts*

The directors do not expect the adoption of these standards and interpretations will have a material impact on the financial statements of the Group in future periods except as follows:

- IFRS 9 *Financial Instruments Recognition and Measurement* will impact the measurement and disclosure of financial instruments; and
- IFRS 16 *Leases* will impact the measurement, recognition, presentation and disclosure of leases, particularly operating leases where the term is longer than 12 months.

The impact of IFRS 16 *Leases* is currently being assessed. Under IFRS 16 *Leases*, lessees will be required to apply a single model to recognise a lease liability and asset for all leases, including those classified as operating leases under current accounting standards, unless the underlying asset has a low value or the lease term is 12 months or less. The adoption of IFRS 16 will have a significant impact on the financial statements as each lease will give rise to a right of use asset which will be depreciated on a straight-line basis, and a lease liability with a related interest charge. The depreciation and interest will replace the operating lease payments currently recognised as an expense. The impact will depend on the transition approach and the contracts in effect at the time of the adoption. At 31 October 2017, operating lease commitments were £5.5m and operating lease payments for 2017 were £1.8m.

Beyond this information, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been conducted during 2018.

ACCOUNTING POLICIES continued

3. GROUP ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with IFRS adopted for use in the EU and therefore comply with Article 4 of the EU IAS Regulation. These financial statements have also been prepared in accordance with IAS, IFRS and related 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 EU (collectively referred to as IFRS). These are subject to ongoing review and endorsement by the EU or possible amendment by interpretive guidance from the IASB and the IFRIC, and are therefore still subject to change.

The financial statements are prepared under the historical cost convention, except as described below under the heading of 'Derivative financial instruments and hedge accounting'.

The particular accounting policies adopted have been applied consistently throughout the current and previous year, except for the adoption of IFRS 15 in the year ended 31 October 2017 where the modified transitional provisions have been adopted as described in note 33, and are described below.

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 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.

The Company considers that it has the power to govern the financial and operating policies of the US entities falling within the Special Security Agreement and these entities have therefore been consolidated in these financial statements.

The Company and all of its subsidiaries 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 income and expense. The use of underlying measures, in addition to total measures, is considered by the Board to improve comparability of business performance between periods. Underlying measures referred to are stated before costs relating to acquisitions and disposals, business restructuring and incident costs, profit/loss on disposal of businesses, items deemed to be of an exceptional nature, impairment of goodwill and acquired intangibles, impairment of assets held for sale, amortisation of acquired intangibles and gains/losses on the movement in the fair value of derivative financial instruments, and excludes discontinued operations.

Operating cash conversion

Cash conversion of underlying operating profit is defined as cash generated from underlying operations, less purchases of intangible assets and property, plant and equipment and proceeds on disposal of property, plant and equipment, as a proportion of underlying operating profit.

Revenue recognition

Revenue is measured at the fair value of the consideration which is expected to be received in exchange for the goods and services provided, net of applicable taxes.

Sale of goods

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

- the Group has identified a sales contract with a customer;
- the performance obligations within this contract has been identified;
- the transactions price has been determined;
- this transaction price has been allocated to the performance obligations in the contract; and
- revenue is recognised as or when each performance obligation is satisfied.

Performance obligations are satisfied when the customer gains control of promised goods or services from the contract.

Rendering of services

Revenue from a contract to provide services, including customer funded research and development, is recognised by reference to the stage of completion of the contract. Stage of completion is typically estimated by either completion of relevant milestones or proportion of contract costs incurred for work performed to date, as appropriate.

Investment income

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

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. GROUP ACCOUNTING POLICIES CONTINUED

Acquisitions and disposals

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

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

Where cost exceeds fair value of the net assets acquired, the difference is recorded as goodwill.

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

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

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

In accordance with IFRS 3 (Revised) *Business Combinations*, acquisition and disposal related items are recognised through the income statement. Acquisition and disposal related items refer to credits and costs associated with the acquisition and disposal of businesses, together with the costs of aborted bids and the establishment of joint ventures.

Intangible assets

Goodwill

The purchased goodwill of the Group is regarded as having an indefinite useful economic life and, in accordance with IAS 36 *Impairment of Assets*, is not amortised but is subject to annual tests for impairment. On disposal of a subsidiary, associate or jointly controlled entity, the amount attributable to goodwill is included in the determination of the profit or loss on disposal.

Acquired intangibles

The Group recognises separately from goodwill, intangible assets that are separable or arise from contractual or other legal rights and whose fair value can be measured reliably. These intangible assets are amortised at rates calculated to write down their cost or valuation to their estimated residual values by equal instalments over their estimated useful economic lives, which are:

- technology – average of ten years
- customer relationships – average of ten years
- order books – average of two years

Development costs

Development costs that qualify as intangible assets are capitalised as incurred and, once the relevant intangible asset is ready for use, are amortised on a straight-line basis over their estimated useful lives, averaging five years (2016: five years).

The carrying value of development assets is assessed for recoverability at least annually or when a trigger is identified.

Patents and licences

Patents and licences are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives, averaging seven years (2016: seven years).

Property, plant and equipment

Other than historically revalued land and buildings, property, plant and equipment is held at cost less accumulated depreciation and any recognised impairment loss. Borrowing costs on significant capital expenditure projects are capitalised and allocated to the cost of the project.

No depreciation is provided on freehold land. On other assets, depreciation is provided at rates calculated to write down their cost or valuation to their estimated residual values by equal instalments over their estimated useful economic lives, which are:

- freehold buildings – up to fifty years
- leasehold buildings – the period of the lease
- plant and equipment – up to ten years

Investments in associates

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

ACCOUNTING POLICIES continued

3. GROUP ACCOUNTING POLICIES CONTINUED

Impairment of non-current assets

Assets that have indefinite lives are allocated to the Group's cash-generating units and tested for impairment at least annually. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever changes in circumstances indicate that the carrying value may not be recoverable. To the extent that the carrying value exceeds the recoverable amount, an impairment loss is recorded for the difference as an expense in the income statement. The recoverable amount used for impairment testing is the higher of the value-in-use and the asset's 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 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 prepare for their intended use, are added to the cost of those assets, until such time as the assets are ready for their intended use. Once the assets are ready for their intended use, these capitalised borrowing costs are depreciated in line with the underlying asset.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Government grants

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

Government grants for staff retraining costs are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

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

Tax

The tax expense represents the sum of current tax and deferred tax.

Current tax is based on taxable profit for the year. Taxable profit differs from 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 excludes items of income or expense 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 represents amounts 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 taxable profit nor the accounting profit.

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

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

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

Special capital reserve

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

3. GROUP ACCOUNTING POLICIES CONTINUED

Foreign currencies

The individual financial statements of each Group company are presented in its functional currency, being the currency of the primary economic environment in which it operates. For the purpose of these Group 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 these financial statements.

In preparing the financial statements of each Group company, transactions in foreign currencies, being currencies other than the entity's functional currency, 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 income statement for the period.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward foreign exchange contracts 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 these financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period.

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

Financial instruments

Financial assets and liabilities are recognised in 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 derivative financial instruments

Financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

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 in 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 to the financial risks of foreign currency transactions, and it uses forward foreign exchange contracts to hedge its exposure to these transactional risks. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are recognised at fair value on the date the derivative contract is entered into and are revalued to fair value at each balance sheet date. The fair values of derivative financial instruments are calculated by external valuers.

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 forward foreign exchange contracts where appropriate, with movements in fair value taken to equity for cash flow hedges and to the income statement for fair value hedges, until such time as the underlying amounts of the contract mature. At maturity or disposal of the net investment, the amounts held in equity will be recycled to the income statement. Changes in fair value of any ineffective portion of net investment hedges and interest rate swap contracts are recognised in the income statement immediately.

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

ACCOUNTING POLICIES continued

3. GROUP ACCOUNTING POLICIES CONTINUED

Hedges of net investments in foreign operations

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the statement of comprehensive income and accumulated in the translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Embedded derivative financial instruments

Embedded derivative financial instruments that are not closely related to the host contract are treated as separate derivative financial instruments, with unrealised gains and losses reported in the income statement.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an administrative expense in the period to which they relate. 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 the statement of comprehensive income in full in the period in which they occur.

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 discount on scheme liabilities less the expected return on scheme assets on defined benefit obligations is included within finance expense.

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 its estimated useful economic life and the lease term. Future instalments under such leases, net of finance charges, are recognised as a liability. The finance element of the instalments is charged to the income statement at a constant rate of interest on the remaining balance of the obligation.

All other leases are operating leases, for which rental charges are recognised in the income statement on a straight-line basis over the life of the lease.

Share-based compensation

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

For grants made under the Group's share-based compensation schemes, the fair value of an award is measured at the date of grant and reflects any market-based vesting conditions. Non-market based vesting conditions are excluded from the fair value of the award. At the date of grant, the Company estimates the number of awards expected to vest as a result of non-market based vesting conditions, and the fair value of this estimated number of awards is recognised as an expense in the income statement on a straight-line basis over the vesting period. At each balance sheet date, the impact of any revision to vesting estimates is recognised in the income statement over the vesting period. Proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium.

For cash-settled share-based grants, the total amount recognised is based on the fair value of the liability incurred. The fair value of the liability is remeasured at each balance sheet date, with changes in the fair value recognised in the income statement.

Provisions

Provisions are recognised when the Group has a present obligation, either 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 estimated cash flows to settle the present obligation, its carrying amount is the present value of those cash flows.

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

Environmental provisions

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

Restructuring provisions

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

3. GROUP ACCOUNTING POLICIES CONTINUED

Warranty provisions

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, based upon the best estimate of the expenditure required to settle the Group's obligations.

Disposal provisions

Disposal provisions relate to estimated liabilities faced by the Group in respect of discontinued operations and other disposed entities under the terms of their respective sale agreements.

Contingent liabilities

The Group exercises judgement in recognising exposures to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement may be necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and/or to quantify the possible range of the financial settlement.

Alternative Performance Measures

In the analysis of the Group's financial performance and position, operating results and cash flows, APMs are presented to provide readers with additional information. The principal APMs presented are underlying measures of earnings including underlying operating profit, underlying profit before tax, underlying profit after tax, underlying EBITDA, underlying earnings per share, and underlying operating cash flow. In addition, EBITDA, net debt, and constant currency revenues are presented which are also considered non-IFRS measures. These measures are consistent with information regularly reviewed by management to run the business, including planning, budgeting and reporting purposes and for its internal assessment of the operational performance of individual businesses.

The directors believe that the use of these APMs assist in providing additional information on the underlying trends, performance and position of the Group. APMs are used to improve the comparability of information between reporting periods by adjusting for items that are non-recurring or otherwise non-underlying. Management consider non-underlying items to be:

- amortisation of acquired intangibles;
- material exceptional items, for example relating to acquisitions and disposals, business and incident costs, and claim costs;
- gains or losses on the movement in the fair value of derivative financial instruments; and
- the tax impact of all of the above.

Our use of APMs is consistent and we provide comparatives alongside all current period figures.

Further detail on the APMs presented within these financial statements, including a reconciliation to the IFRS equivalent, is presented in note 3.

Post balance sheet events

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

4. CHEMRING GROUP PLC ACCOUNTING POLICIES

FRS 101 *Reduced Disclosure Framework*

The financial statements have been prepared in accordance with FRS 101 *Reduced Disclosure Framework*.

The Company operates a multi-employer defined benefit scheme including employees of other Group companies. Following FRS 101, the scheme assets and liabilities have been allocated across the Group companies using a method that management considers to be the most appropriate, based on scheme membership.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- share-based payments;
- business combinations;
- financial instruments;
- fair value measurements;
- presentation of comparative information in respect of certain assets;
- IFRSs issued but not yet effective;
- related party transactions;
- assumptions and sensitivities for impairment review; and
- cash flow.

Investment in Group undertakings

Investments are stated at cost less any provision for impairment in value.

Critical accounting judgements and sources of estimation uncertainty

There are no critical accounting judgements and sources of estimation uncertainty for the Company.

ACCOUNTING POLICIES continued

5. CRITICAL ACCOUNTING JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

When applying the Group's accounting policies, management must make judgements, 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 period. Such judgements, assumptions and estimates are based upon factors including historical experience, the observance of trends in the industries in which the Group operates, and information available from the Group's customers and other external sources.

The key judgements and 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:

Critical accounting judgements

Revenue recognition

During the year the Group adopted IFRS 15 *Revenue from Contracts with Customers*. The standard recognises revenue on the basis of the satisfaction of performance obligations. The identification of these obligations requires management judgement, particularly with respect to milestone contracts that contain multiple obligations. Revenue of £9.9m (2016: £10.3m) was recognised in the current year in respect of such milestone contracts.

Additionally, management has to consider whether performance obligations should be recognised at a single point in time, which is generally the case for the sale of products by the Group, or over a period of time, which is more common for certain service contracts.

In making its judgement about obligations that are satisfied at a point in time, management has to consider at what point control has passed to the customer, allowing revenue to be recognised. This is typically determined through a consideration of customer acceptance testing, contract terms and delivery arrangements.

For obligations that are recognised over time, a separate judgement must be made as to the most appropriate measure of progress. This is often on a straight-line basis over the life of the contract, though an alternative measure of progress may be more appropriate where the work is not evenly spread over the life of the contract.

Key sources of estimation uncertainty

Goodwill impairment

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 estimate the future cash flows expected to arise from the cash-generating unit, and to determine a suitable discount rate in order to calculate present value (see note 10). In reviewing the carrying value of goodwill of the Group's businesses, the Board has considered the separate plans and cash flows of these businesses consistent with the requirements of IAS 36 *Impairment of Assets*. The plans and cash flows of these businesses reflect current and anticipated conditions in the defence industry. The total goodwill intangible asset is set out in note 10, which shows a carrying value of £125.4m at 31 October 2017.

Capitalised development costs

IAS 38 *Intangible Assets* requires that development costs, arising from the application of research findings or other technical knowledge to a plan or design of a new substantially improved product, are capitalised, subject to certain criteria being met. Determining the future cash flows generated by the products in development requires estimates which may differ from the actual outcome. In particular, this can depend on the estimation applied to future milestone events to secure long-term positions on production contracts, for example Programs of Record for the US DoD. The total capitalised development intangible asset is set out in note 11, which shows a carrying value of £33.7m at 31 October 2017. Included in this balance are individually material balances relating to CENTURION (£2.9m), electronic attack (£3.0m), Perception (£2.2m), Joint Biological Tactical Detection System (£8.1m) and Next Generation Chemical Detector (£8.4m).

Deferred tax assets on tax losses and US interest deductions

The category of deferred tax asset which contains significant estimation uncertainty and which requires management judgement in assessing its recoverability relates to US interest limitations and tax losses carried forward (see note 22).

Applicable accounting standards permit the recognition of deferred tax assets only to the extent that it is probable that future taxable profits will be available to utilise the tax losses carried forward. The assessment of future taxable profits involves significant estimation uncertainty, principally relating to an assessment of management's projections of future taxable income based on business plans and ongoing tax planning strategies. These projections include assumptions about the future strategy of the Group, the economic and regulatory environment in which the Group operates, future tax legislation, and customer behaviour, amongst other variables.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHEMRING GROUP PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 October 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Chemring Group plc (the 'parent company') and its subsidiaries (the 'Group') which comprise:

- the consolidated income statement;
- the consolidated and parent company statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the accounting policies; and
- the related notes 1 to 36 for the consolidated financial statements and notes 1 to 12 for the company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Valuation of goodwill and other intangible assets; and • The application of IFRS 15 to material contracts. Within this report, any new key audit matters are identified with ↑ and any key audit matters which are the same as the prior year identified with →.
Materiality	The materiality that we used in the current year was £2.1m which was determined on the basis of profit before tax adjusted for certain items which are explained below. This is a change in the current period which is explained later in this report.
Scoping	We have focused our Group audit scope primarily on work at 13 components of which 10 were subject to full scope audit procedures. These locations account for 93% of the Group's net assets, 93% of the Group's revenue, and 95% of the Group's underlying profit before tax. This coverage is consistent with the prior year.
Significant changes in our approach	There have been no significant changes in our approach in the year.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHEMRING GROUP PLC continued

Conclusions relating to principal risks, going concern and viability statement

We have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within the accounting policies in the financial statements and the directors' statement on the longer-term viability of the Group contained within the Corporate Governance report on page 51.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 28 to 33 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation on page 43 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement in the accounting policies about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the directors' explanation on page 51 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions; or
- whether the directors' statements relating to going concern and the prospects of the company required in accordance with Listing Rule 9.8.6R(3) are materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In the financial statements for the year ended 31 October 2016 we included provisioning for taxation and the appropriateness and completeness of provisions as key audit matters. In light of the Group's financial performance in the year and the financial position as at 31 October 2017 we no longer consider these to be key audit matters. Our key audit matter in relation to revenue recognition has been revised in light of the adoption of the new revenue standard.

Valuation of goodwill and other intangible assets

Key audit matter description	The Group recognises goodwill as at 31 October 2017 of £125.4m (2016: £132.9m) and capitalised development costs at 31 October 2017 of £33.7m (2016: £40.9m). Both categories of assets are recognised initially at cost but are assessed against IAS 36 *Impairment of Assets* each year. The assessment of recoverable amount is a judgemental process as a result of the estimation uncertainty in forecasting future cash flows. For example assumptions are required when determining whether certain contracts will be won. Our key audit matter is limited to CGUs and assets where the estimation is critical to supporting the recoverable amount and therefore this area of focus related to the following CGUs and assets: • The CGUs are Chemring Sensors & Electronic Systems Inc., Chemring Technology Solutions Limited, and Chemring Defence UK Limited. An impairment charge of £10.6m has been recognised against the goodwill and other assets of Chemring Defence UK Limited. • The capitalised development costs relate to CENTURION (£2.9m), electronic attack (£3.0m), Joint Biological Tactical Detection System (£8.1m) and Next Generation Chemical Detector (£8.4m). The directors further explain the sources of this estimation uncertainty on page 120 and provide sensitivity disclosures in respect of goodwill and development costs in notes 10 and 11 respectively. This is also identified as a significant issue considered by the Audit Committee on page 54.

How the scope of our audit responded to the key audit matter	The procedures performed focus on the specific uncertainties highlighted above. We have: • Obtained an understanding of the processes and tested the design and implementation of the key controls relevant to the impairment considerations and reviews performed; • Inspected management forecasts and evidenced critical assumptions as well as considering reasonable changes in those assumptions in order to assess the impact that has on the outcome of the impairment models; • Held discussions with management so as to understand future plans for CGUs and whether those have bearing on the valuation used in the impairment model; • Assessed third party evidence including the market capitalisation of the Group and known fixed and firm orders so as to assess internal information against that which is available elsewhere; • Analysed and evidenced sales, and development milestones met in respect of the Programs of Record, for the capitalised development programmes as set out in the key audit matter above; • Reviewed and recalculated the impairment workings for Chemring Defence UK Limited and inspected the support for the eventual fair value attributed to the CGU; and • Evaluated the disclosure against the requirements set out in IAS 36.
Key observations	In our opinion the valuation of goodwill and other assets is reasonable.

The application of IFRS 15 to material contracts

Key audit matter description	Given the transition to IFRS 15 *Revenue from contracts with customers* we identified a key audit matter that revenue could be materially misstated because IFRS 15 is incorrectly applied. We believe that there are a small number of key judgements relevant to Chemring that must be made upon initial application: • The conclusion as to whether to recognise revenue over time or at a point in time; • The identification of performance obligations in contracts where multiple deliverables exist; and • The timing of the recognition of the transfer of control on contracts with material revenue to be recognised at a point in time (i.e. cut-off). Given the complexity and judgement involved in those items listed above, we also determined that there is potential for fraud through possible manipulation of the revenue on material contracts. The directors further explain the critical accounting judgements made on page 120. This is also identified as a significant issue considered by the Audit Committee on page 54.
How the scope of our audit responded to the key audit matter	The procedures performed address the key audit matter identified above. We have: • Obtained an understanding of the processes and tested the design and implementation of key controls relevant to the ongoing and transitional requirements of IFRS 15; • Evaluated each of the contracts identified as complex against the five step model of IFRS 15, in order to arrive at the appropriate revenue and cost recognition for each contract; • Concluded on the most appropriate method of measuring progress on contracts for which the conclusion has been reached to recognise revenue over time. We then compared this to management's assessment of the contract; • Inspected individual contracts on which revenue has been recognised in the year, obtaining supporting invoices, proof of delivery and evidence of transfer of control to the customer where applicable; • Re-calculated the impact to opening reserves, which has occurred as a consequence of the new revenue standard; and • Considered the disclosures against the transitional and ongoing requirements of IFRS 15.
Key observations	In our opinion the requirements of IFRS 15 have been applied correctly to material contracts.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHEMRING GROUP PLC continued

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	£2.1m (2016: £2.1m)
Basis for determining materiality	We determined materiality based on the statutory profit before tax of £4.0m adjusted for the following certain non-underlying or one-off items: • Acquisition and disposal costs (charge of £2.3m); • Business restructuring and incident costs (charge of £14.3m); • Claim related costs (charge of £0.4m); • Impairment of Chemring Defence UK Limited (charge of £9.8m); • Intangible amortisation arising from business combinations (charge of £15.0m); and • Gain on the movement in the fair value of derivative financial instruments (credit of £1.7m). Further details on these items is included in note 3 to the financial statements. Our materiality of £2.1m equates to 4.8% of this profit measure.
Rationale for the benchmark applied	Underlying profit before tax is a key performance measure for the group and it is therefore an appropriate basis on which to determine materiality. Our basis for determining materiality has changed since the financial statements for the year ended 31 October 2016 in which we used a three year averaged profit measure rather than wholly based on the results of reporting period. This change has been made to reflect the increased stability in the business.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.1m (2016: £0.1m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we focused our group audit scope primarily on the audit work at 13 components (2016: 14 components). 10 (2016: 10) of these were subject to full scope audit procedures, whilst the remaining 3 (2016: 4) were subject to either an audit of specified account balances or specified audit procedures. The extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those locations. These 13 components represent the principal business units and account for 93% (2016: 97%) of the Group's net assets, 93% (2016: 96%) of the Group's revenue and 95% (2016: 95%) of the Group's underlying profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the key audit matters identified above. Our audit work at the 13 locations was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £0.2m to £1.4m (2016: £0.3m to £1.4m).

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The group audit team continued to follow a programme of planned visits that has been designed so that the Senior Statutory Auditor or a senior member of the group audit team visits each of the locations where the group audit scope was focused at least once every three years and the most significant of them at least once a year. We visited all full audit scope locations with the exception of Chemring Australia Pty. Ltd. Of the 3 locations subject to specified audit procedures the Senior Statutory Auditor visited Chemring Sensors & Electronic Systems. Every year, regardless of whether we have visited or not, we include the component audit team in our team briefing, direct the scope of their work for the purposes of our group audit, discuss their local risk assessment, and review documentation of the findings from their work.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report including those titled Overview, Strategic Report, Governance, and Other Information, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit committee reporting – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHEMRING GROUP PLC continued

Use of our report

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company financial statements are not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.	**We have nothing to report in respect of these matters.**

Other matters

Auditor tenure

Touche Ross & Co. were appointed by the Board on 20 August 1990 upon their merger with the previous auditor, Spicer & Oppenheim, to audit the financial statements for the year ending 30 September 1990 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is therefore longer than 27 years, covering up to 31 October 2017.

Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

AnnaMarks .

Anna Marks FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Reading, United Kingdom
18 January 2018

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Find out more online

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

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

Chemring Group PLC's Annual Report and Accounts 2017 and the Notice for the Annual General Meeting can also be viewed and downloaded at www.chemring.co.uk/investors

NOTES

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