Delivering global protection

Chemring Group PLC

Results for the year ended 31 October 2017

FY17 scorecard

Revenue

£547m

⇧15%

Significant growth achieved in Energetics segment

Operating profit*

£55m

⇧14%

Improvement reflects site consolidations and focus on operational performance

Order book

£478m

⇩19%

Anticipated FY18 revenue 70% covered by orders in hand. Growth in Sensors and Countermeasures

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

FY18 outlook

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

* *References to operating profit and earnings per share are to underlying measures*

Chemring Group

Operational Excellence Programme

Key 2017 Group achievements

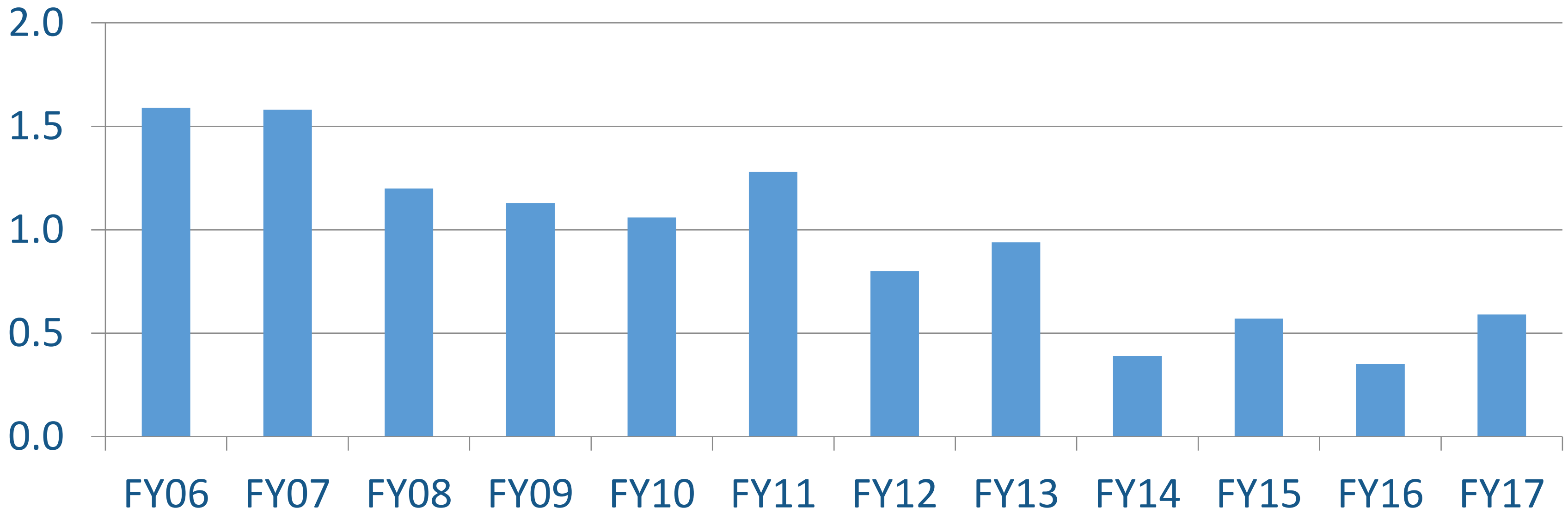
- Margin improvements being achieved in all segments and across multiple lines. Group operating margin 0.6% above initial expectations
- Group level operational improvement initiatives at multiple sites
- Local improvement projects launched at each site
- Lean assessment tool developed and assessments complete
- Safety maturity assessment tool developed and assessments ongoing
- Group wide CRM system rolled out
- Cost in FY17 c. £2m (underlying), net benefit c. £3m, gross benefit £5m

FY22 Targets

- Achieve safety world best practice
- Group margins on a like for like basis improve 300 bps
- Reduce working capital from 24% to below 19% of revenue

Safety

- Safety culture programmes remain key, every employee responsible for ensuring their peers are safe
- Systems and processes across Group to minimise exposure of employees to high hazard conditions
- Continued emphasis on reduction of risk in high hazard activities



The figures above are the Lost Time Incident rate (calculated using USA OSHA rules) per 100 employees per year.

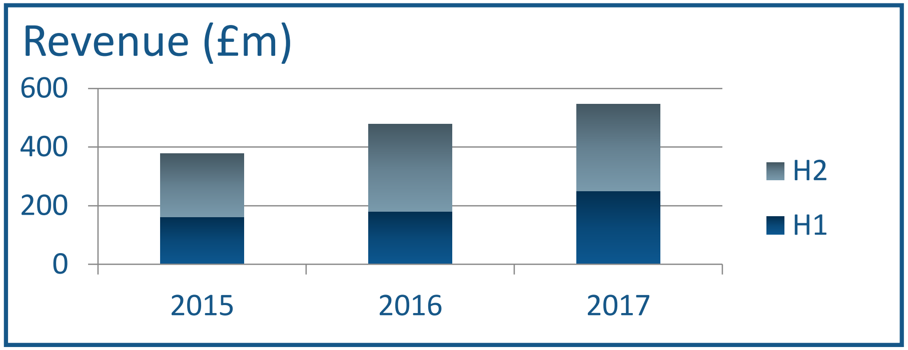
Chemring Group

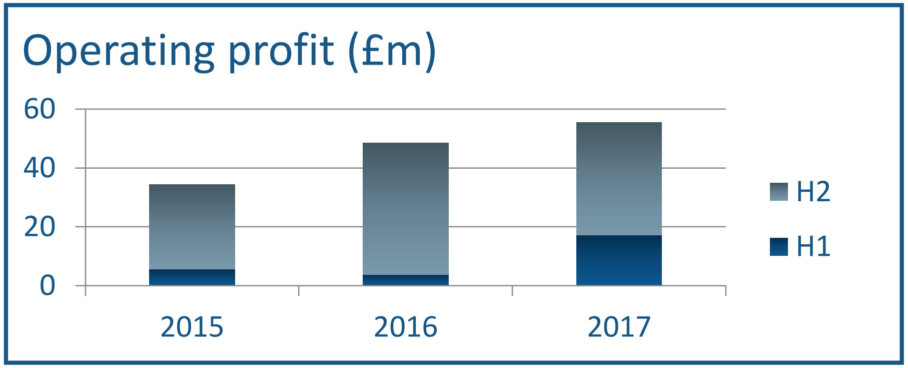
Financial Review

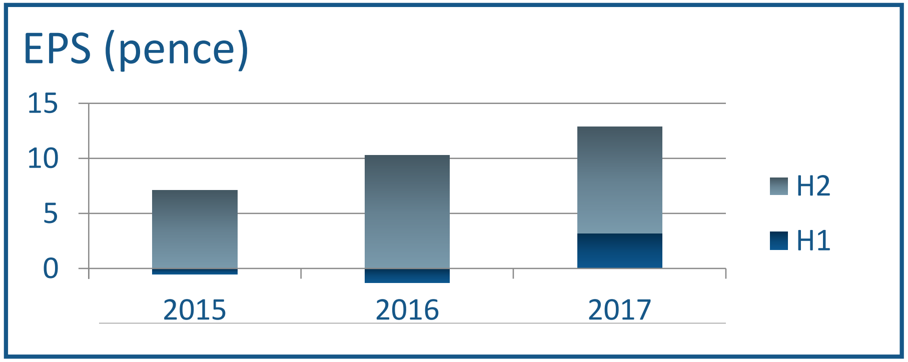
Andrew Lewis – Group Finance Director

Chemring Group

Group performance







FINANCIAL HIGHLIGHTS

- Revenue up by 15%
- Operating profit growth of 14% to £55.4m
- Return on sales of 10.1%
- EBITDA/Revenue of 14.8%
- EPS increased 25% to 12.9p
- Net debt at £80m reflected investment in working capital in Energetics segment and supplier payment practices
- Dividend of 3.0p per share

OPERATIONAL HIGHLIGHTS

- Momentum of safety, operational and financial performance improvement continued
- Strong performance by Energetics, driven by both large contracts and the portfolio of smaller orders
- Order intake up 21% to £450m
- Closing order book of £478m of which £360m is currently expected to be delivered in FY18

Income statement

£m		FY17	FY16
Revenue	⬆ 15%	**547.5**	477.1
Operating profit	⬆ 14%	**55.4**	48.5
Finance expense	⬇ 22%	**(11.3)**	(14.5)
Profit before tax		**44.1**	34.0
Tax rate		**18.4%**	20.9%
Earnings per share		**12.9p**	10.3p
Dividend per share		**3.0p**	1.3p

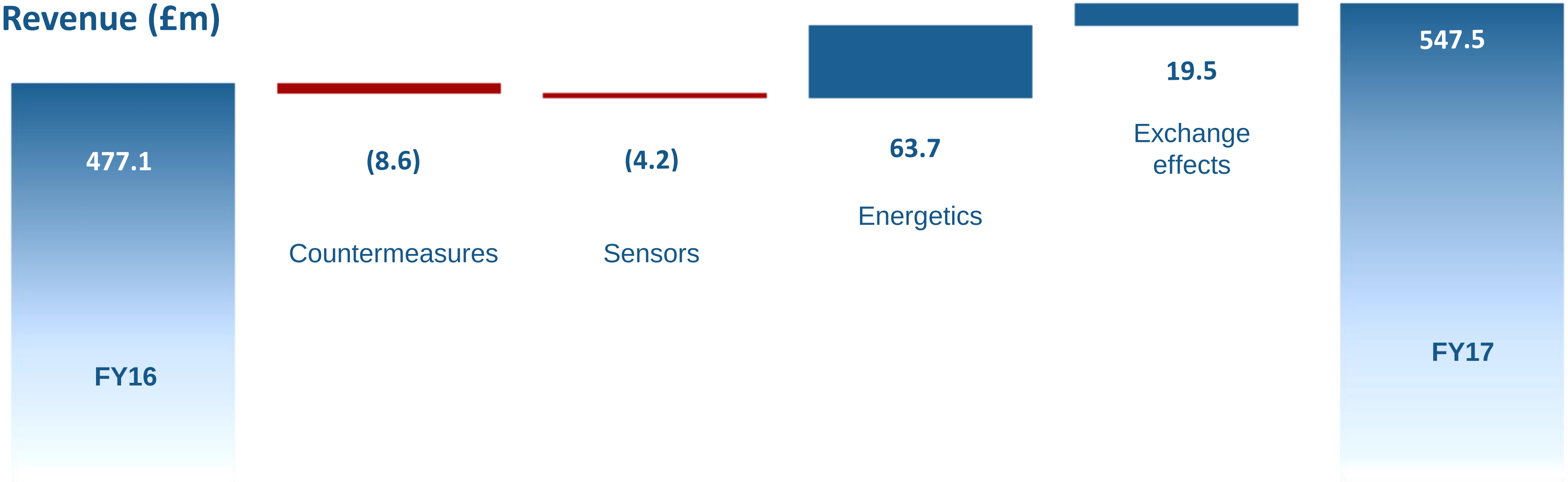
- Finance expense reduced following loan note repayments
- Impact of change to US tax rate will be taken in FY18. Deferred tax asset estimated to reduce by £5m. Impact on effective rate going forward expected to be broadly neutral

IFRS 15 has been adopted in FY17. For further details, see appendix 9

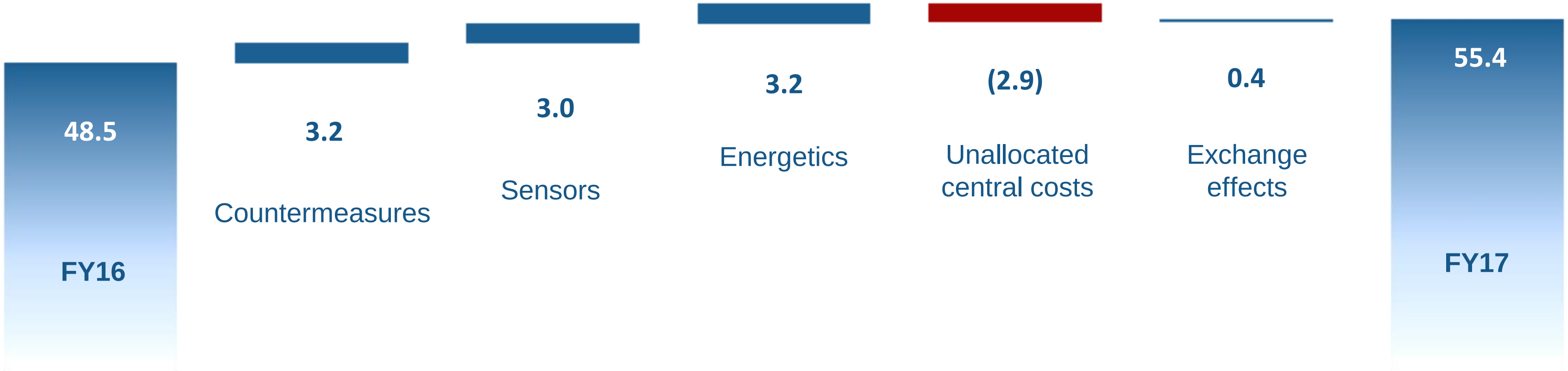
References to revenue, operating profit, finance expense, profit before tax and earnings per share are to underlying measures

Revenue and profit bridges

Revenue (£m)



Operating profit (£m)



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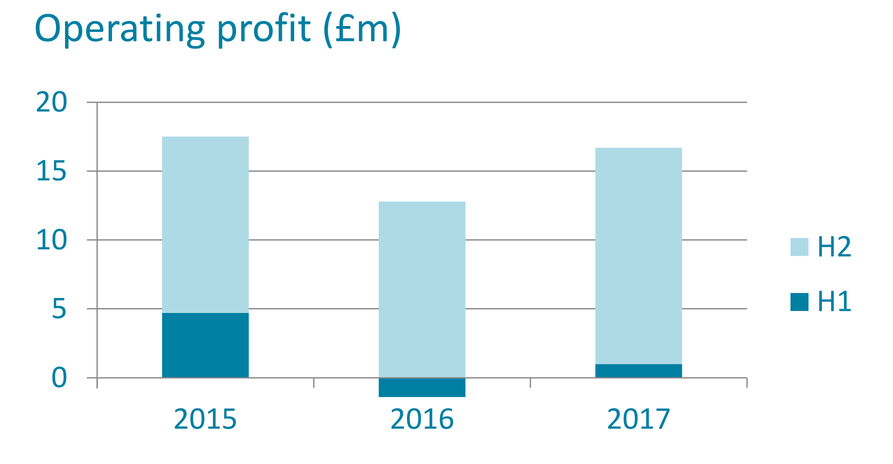
Countermeasures

		FY17 £m	FY16 £m
Revenue	↓ 3%	**134.8**	138.3
EBITDA	↑ 18%	**29.8**	25.2
EBITDA margin		**22.1%**	18.2%
Operating profit	↑ 30%	**16.7**	12.8
Operating margin		**12.4%**	9.3%
Order book		**178.6**	177.0

- US market outlook improving
- F-35 programme progressing as expected
- Strong performance in Australia
- Capturing international market share through greater collaboration
- Plant 2 in Philadelphia closed and start up of modernised Plant 1 complete
- Closing order book of £179m, £113m for delivery in FY18, covering 80% of expected revenue

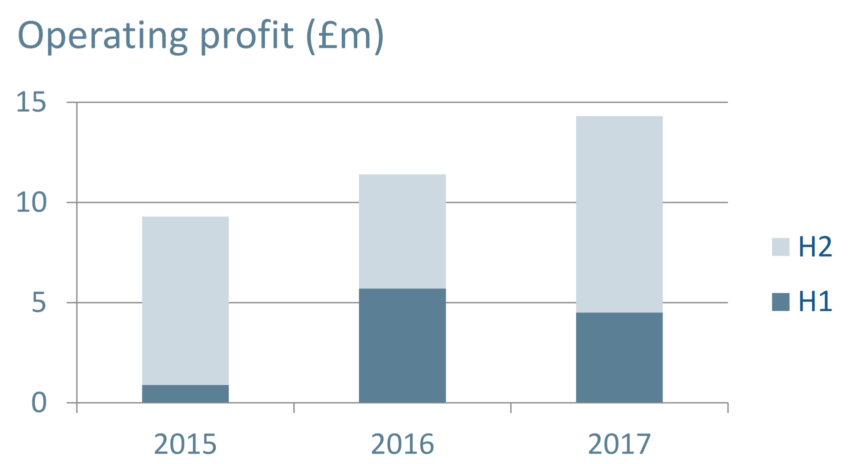


References to EBITDA, operating profit and operating margin are to underlying measures

Sensors

		FY17 £m	FY16 £m
Revenue	↓ 2%	**94.5**	96.9
EBITDA	↑ 12%	**20.2**	18.0
EBITDA margin		**21.4%**	18.6%
Operating profit	↑ 25%	**14.3**	11.4
Operating margin		**15.1%**	11.8%
Order book		**55.4**	49.3

- Positive momentum on HMDS programme
- Chemical & Biological Detection Programs of Record progressing from R&D phases
- Strong performance in Land EW market
- Cyber security budgets continue to grow
- Closing order book of £55m, £36m for delivery in FY18, covering 34% of expected revenue

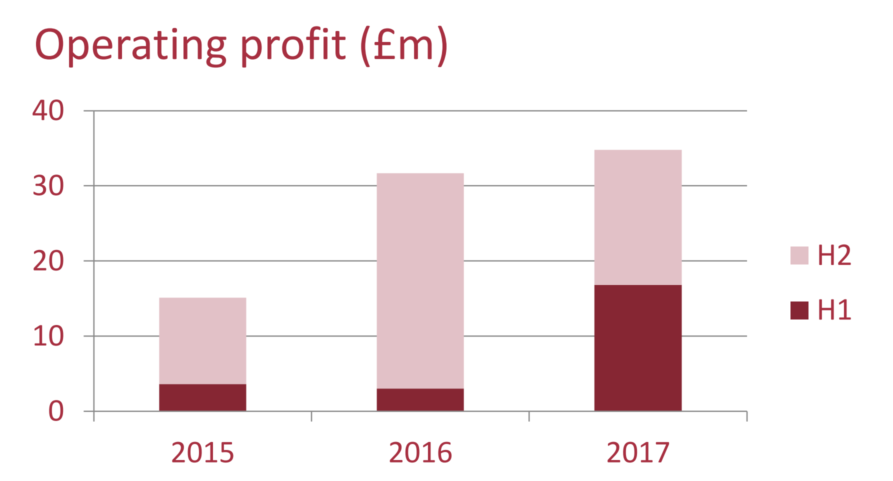


References to EBITDA, operating profit and operating margin are to underlying measures

Energetics

		FY17 £m	FY16 £m
Revenue	↑ 32%	**318.2**	241.9
EBITDA	↑ 9%	**41.2**	37.8
EBITDA margin		**12.9%**	15.6%
Operating profit	↑ 10%	**34.8**	31.7
Operating margin		**10.9%**	13.1%
Order book		**245.1**	366.6

- Strong performance across segment
- 40mm and NSA contracts performed well
- Portfolio of energetic devices growing, strong long term orders at Norway and Ardeer
- California site closure continues to plan, expected completion end FY18
- Closing order book of £245m, £212m for delivery in FY18, covering 78% of expected revenue



References to EBITDA, operating profit and operating margin are to underlying measures

Cash flow

£m	FY17	FY16
Cash flow before non-underlying items	**47.1**	81.4
Cash flow of non-underlying items	**(6.3)**	(8.1)
Cash flow from operations	**40.8**	73.3
Pension scheme deficit recovery contributions	**(5.0)**	(5.0)
Tax	**(3.6)**	(3.1)
Capital expenditure	**(16.5)**	(16.9)
Acquisitions	**-**	(2.5)
Dividends paid	**(6.4)**	-
Finance expense	**(9.3)**	(11.9)
Amortisation of debt finance costs	**(2.4)**	(2.8)
Loan note early repayment costs	**-**	(5.1)
Net proceeds of share issue	**-**	75.4
Foreign exchange translation	**10.0**	(34.7)
Movement in net debt	**7.6**	66.7
Opening net debt	**(87.6)**	(154.3)
Closing net debt	**(80.0)**	(87.6)

- Investment in working capital in Energetics and to normalise supplier payment practices
- £29m repayment of PP loan notes in November 2016

Balance sheet

£m	**FY17**	FY16
Goodwill & intangibles	**182.4**	210.0
Capitalised R&D	**33.7**	40.9
Property, plant & equipment	**160.1**	179.9
Working capital	**131.5**	122.0
Other	**(25.9)**	(34.5)
	481.8	518.3
Net debt	**(80.0)**	(87.6)
	401.8	430.7
Pension deficit	**(0.6)**	(17.3)
Net assets	**401.2**	413.4

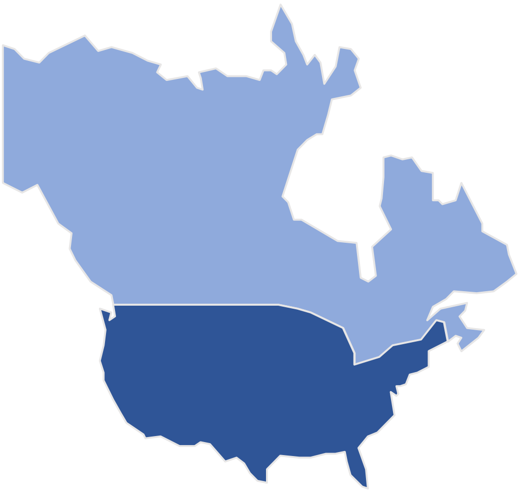
- Net debt : EBITDA ratio of 0.99x
- £100m bank facility extended to July 2019. £51m of PP loan notes were repaid November 2017
- Increase in working capital due to investment in Energetics and to normalise supplier payment practices
- Capitalised R&D – amortisation now running ahead of capitalisation
- IAS19 Pension deficit significantly reduced

Chief Executive's Review

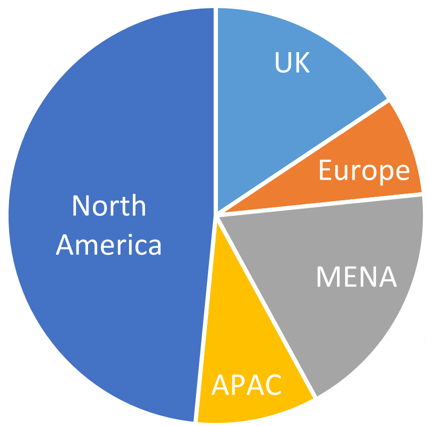
Michael Flowers

Our markets are slowly recovering

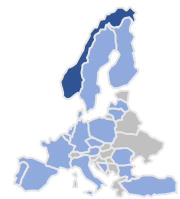
North America, 48.4% of sales
- Strong growth forecasted, tempered by Continuing Resolution
- Growth in CHG domain circa 18% over 5 years
- Broad bilateral support for defense
- Increasing certainty of Programs of Record



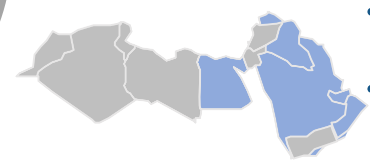
Chemring Sales



UK, 15.6% of sales
- Defence spend remains tight given budgetary constraints and major platform acquisitions
- MoD less than 5% of Group sales
- Growth in national cyber security



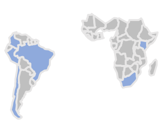
Europe, 7.7% of sales
- US pressure to increase spending to 2% of GDP to meet NATO commitments
- Growing market for energetic materials, countermeasures and sensors



MENA, 18.5% of sales
- Regional security remains fragile, driving demand
- Low oil price driving delays in orders and payment

APAC, 9.5% of sales
- Australian market (c.7% of Group sales) is growing with strong support for F-35 and EW programmes
- Rest of the region maintaining high states of readiness in response to the regional threats

RoW, 0.3% of sales



Key to maps
- Home market
- 2017 customer

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Operational Excellence Programme

Key 2018 objectives
- Safety – no injuries from energetic incidents, no life altering injuries
- Group operating margin – increase 75bps on a like for like basis
- Working capital – reduced by £10m

Key 2022 objectives
- Safety – LTI rate maintained below 0.5, no injuries from energetic incidents, no life altering injuries
- Group margins improve 300 bps on a like for like basis
- Working capital – reduce 5% from 24% of revenue to below 19% of revenue

Cost Benefit
- Program cost c. £2m per annum, not including capital
- Year by year GM benefit 75 points Years 1 & 2, 50 points Years 3-5.
- Year by year working capital benefit greater than £5m pa.

Key 2018 activities
- Ongoing Lean implementation
- ERP enhancement and integration with CRM
- Kilgore transformation programme
- Norway systems development and capacity enhancement
- US Sensors business major business systems enhancement to deliver Programs of Record
- Torrance final closure, Downers Grove systems and capability enhancement
- Naval countermeasures production line modernisation
- Development and roll out of consistent production planning process across manufacturing sites

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Operational Excellence Programme
Site Example

Focus Area	Activity	HY 17	FY 17	2017 Cost	2018 Benefit ($)	Future Performance
CAPITAL	Installation of new high explosive press capability	GM 28% Rate 1100 / day	GM 44% Rate 2250 / day	$750K	$618K	GM 48% Rate 3100 / day
CAPITAL	Installation of enhanced assembly machinery	GM 48% Rate 2400 / day	GM 49% Rate 4000 / day	$370k	$200k Principally required for throughput	GM >50% Rate 6000 / day
LEAN MANUFACTURING **SUPPLY CHAIN OUTSOURCING**	Specification change Line balancing Parts outsourcing	GM 0% Rate 1800 / day	GM 19% Rate 3555 / day	$10k	$1042k	TBD
LEAN MANUFACTURING	Line reconfiguration and balancing. Revised shift arrangements	GM 27% Rate 2500 / day	GM 48% Rate 3300 / day	$25k	$867k	
SUPPLY CHAIN INSOURCING	Supply chain management enhancements	Inventory HY $9.5m	Inventory FY $5.3m	$0	Ongoing WC reduction	$705k GM improvement 2018, $905k improvement 2020

FY18 Priorities - Countermeasures

F-35 programme	Second source qualification completed at CHA, currently in solicitation cycle for LRIP 8 operational flares and multi year IDIQ for training flares. New Alloy SMD into qualification cycle, will complete in FY18.
Kilgore operational improvement	Implement Phase 1 of Kilgore transformation (site demolitions, and upgrade of required long term capabilities, particularly press complex).
Alloy Surfaces consolidation	Subsequent to plant consolidation, ramp operations to enable four concurrent production lines, delivering faster turnaround against multiple customer requirements. Achieve qualification of Alloy's F-35 SMD solution.
Chemring Countermeasures	Development of next generation countermeasures suite in support of global customer base. Investment in flexible manufacturing capabilities.
New products	Deliver new design Naval countermeasure to RN. Progress US naval market. Progress development of advanced spectral and MTV countermeasures.

FY18 Outlook – 2018 performance is underpinned by a strengthening order book, particularly in the US businesses. Revenue expected to improve, with a greater level of improvement in earnings based upon returns from Operational Excellence Programme. Significant capability and capacity enhancement at all sites.

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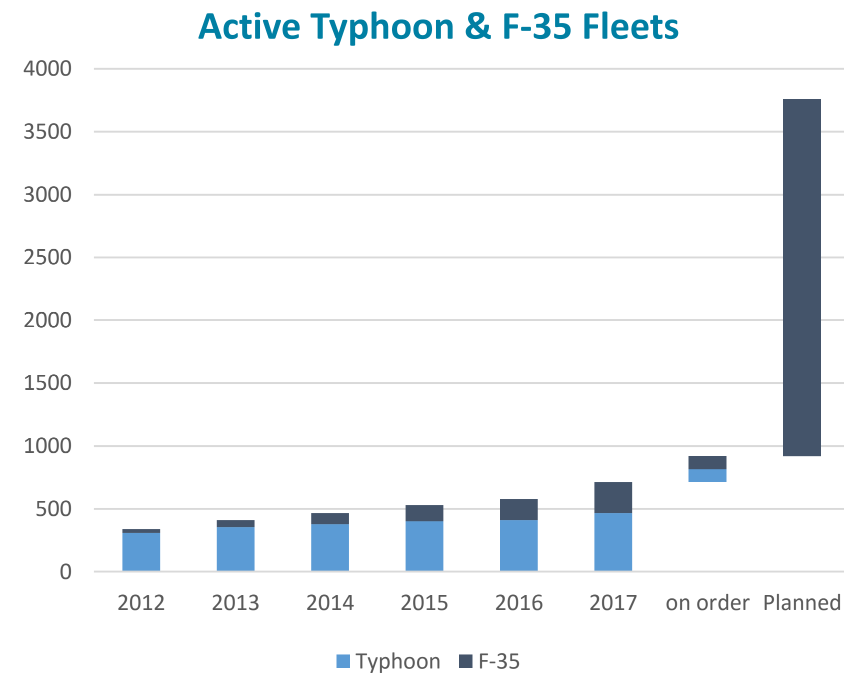
Major Countermeasures Programmes

- CHA qualified for production of operational and training flares
- Orders being received routinely for MJU 61, 68 and 66 flares. Multi year IDIQ for MJU 61 and 66 expected CY18
- Sole source but expected to eventually go multi-source
- Routine business rather than specific new opportunity
- F-35 growth contributes to ongoing market strength, particularly in US market



- Global sole source provider for all CM variants
- Solid business at steady state within NATO users
- Strong international position with Middle East users
- Ongoing platform growth; Qatar, potentially Saudi, Kuwait
- Development of future CM capabilities ongoing

FY18 Priorities – Sensors

Roke	Grow business base and utilisation. Establish improved internal cyber skills staff development program. Grow second operational site (Gloucester).
Tactical Electronic Warfare	Continued focus on sales of existing systems, supplement by capabilities provided by strategic partners. Progress development of Next Generation Tactical EW system.
Husky Mounted Detection System ("HMDS") program	Commence effort on HMDS fleet refurbishment and upgrade programs to meet Army Acquisition Objective. Developments in support of future capability.
Next Generation Chemical Detection ("NGCD") program	NGCD1 decision expected early H2. Tendering activity on NGCD3 anticipated in H1. Ongoing focus on detection system sales into export and commercial markets.
Joint Biological Tactical Detection System ("JBTDS") program	Critical Design Review held. Ongoing support to USG system assessment phase, whilst concurrently completing further integration efforts under increased program scope. Move into LRIP FY19.

FY18 Outlook – Trading expected to continue its positive course in both revenue and earnings. Major US program developments in 2018 start to contribute, particularly HMDS, for which fleet upgrade expected to commence in H2. Success on NGCD competitive awards, to be decided mid year, sees program move from R&D to EMD, with JBTDS moving from EMD to LRIP post US Government system assessment.

Husky Mounted Detection System ("HMDS")

- Feb 2017 contract received for ten trial systems
- Capability Requirement and Program plan realigned by USG
- Army Acquisition Objective agreed and program funded to this level (369 HMDS systems)
- Fleet will comprise both refurbished and new HMDS
- Technology upgrade programs will run in parallel
- Potential autonomous requirement
- Initial IDIQ for up to $93m expected to be contract mid CY18
- Program valued at >$500m

HMDS PROGRAM PLAN
(PER RISK ADJUSTED PROGRAM OFFICE MEMORANDUM AND COMPANY ESTIMATES AGPR AND DBD)

	2018 $m	2019 $m	2020 $m	2021 $m	2022 $m	On-going
ONGOING RDT&E	5	5	5	5	5	5 PA
FLEET REFURBISHMENT AND WIRE DETECTION UPGRADE	15	30	40	65	50	
OBSOLESCENCE MANAGEMENT AND MAINTENANCE	5	5	5	5	5	5 PA
ADVANCED GPR (AGPR)						200+
DEEP BURIED DETECTION (DBD)						100+

Technologies developed under HMDS contribute to export market potential. Two NATO users upgraded in 2017 and expected to upgrade further in 2018/19. Further countries are looking to upgrade. Initial FMS orders delivered to Middle Eastern customers, further orders expected in FY18.

Next Generation Chemical Detection ("NGCD")

- NGCD1. RFP for EMD, LRIP and FRP competitive contract responded to in Nov 17, USG decision anticipated Apr – Jul 18. Two year EMD phase, followed by two year LRIP phase followed by six year FRP phase. Contracts may be awarded to two contractors
- NGCD2. RDT&E phase nearing completion, specification unable to be met by all contractors. USG assessing best way forward
- NGCD3. EMD phase expected to be contracted H1 CY18. Contract to run 2018 – 24. Likely award value not to exceed $200m
- All variants are competitive and Chemring remains on all three

CURRENT ESTIMATED FUNDING (TBC ON RELEASE OF 2018 PROGRAM OFFICE MEMORANDUM)					
2018 RDT&E	2019 RDT&E / LRIP	2020 LRIP / FRP	2021 FRP	2022 FRP	Ongoing FRP
$10m	$10m	$35m	$35m	$95m	$500m +

Technologies and products developed under NGCD support other opportunities globally, particularly NGCD1 which will result in state of the art handheld chemical detector.

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Joint Biological Tactical Detection System ("JBTDS")

- Engineering and manufacturing development, Critical Design Review successfully held in Nov 2017
- Additional elements such as Detection on the Move brought into scope
- All technological requirements have been met and verified
- Biological Point System Assessment commences in Mar 2018 and this is likely to run for 12 months
- Post qualification test program, USG will make Milestone C decision, required to commence LRIP

CURRENT ESTIMATED FUNDING (PER RISK ADJUSTED PROGRAM OFFICE MEMORANDUM)					
2018	2019	2020	2021	2022	Ongoing
RDT&E	RDT&E / LRIP	LRIP / FRP	FRP	FRP	FRP
$5-10m	$5-10m	$35m	$50m	$60m	$150m +

Related programs are being pursued on the back of both JBPDS and JBTDS. These include the Enhanced Maritime Biological Detection system and the Next Generation Diagnostics System.

FY18 Priorities - Energetics

Chemring Ordnance	Littoral Combat Ship Ammunition - Continue to progress product qualification in year. Solicitation for initial awards expected. Next Generation APOBS - Strengthen supply chain and deliver manufacturing efficiencies in preparation for FY19 solicitation. 40mm – Deliver current contracts. Further contracts for lesser quantities expected Q2.
Chemring Energetic Devices	Complete closure of Torrance facility and uplift of Downers Grove facility. Cease primary explosive operations at Santa Clarita and commence transition to Downers Grove.
Chemring Norway	Ongoing implementation of strategic plan for CHN site aiming to double throughput from 2016 levels by 2020.
Portfolio Review	Ongoing review of product and capability portfolio and optimise in line with higher margin niche and specialist market strategy. Continued drive for long term contracting arrangements.

FY18 Outlook – trading expected to soften post completion of major ammunition orders, although impact on earnings partially mitigated by operational improvements. Continued focus on moving away from short term commodity product cycles to longer term contracting in more niche product areas.

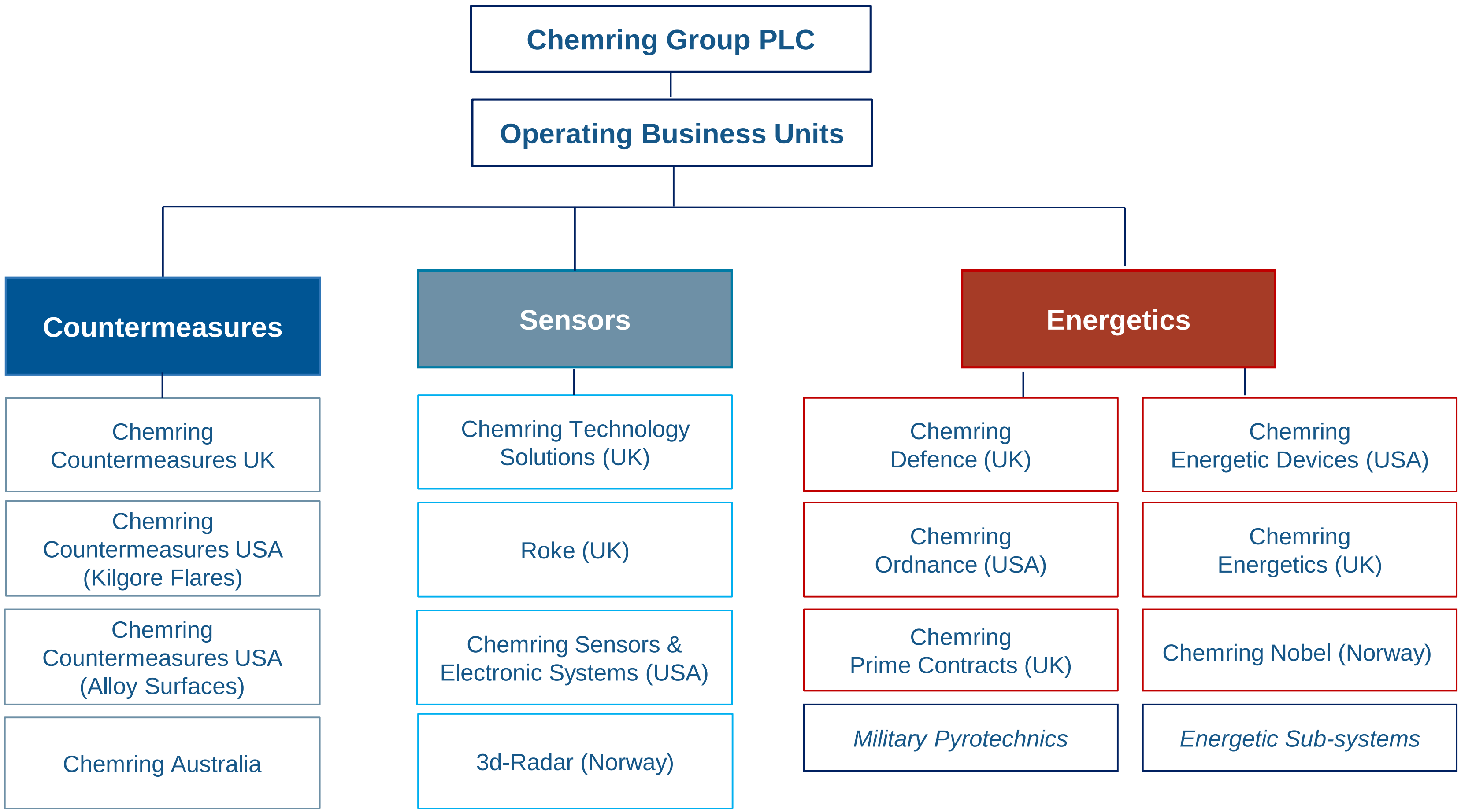
Summary and Outlook

- Strong performance across the Group, earnings improvement in all segments
- Safety remains an imperative
- Operational Excellence Programme progressing well with positive results already being seen
- Order book solid, 70% of expected FY18 revenue covered
- Major growth programs continue to progress, underpinning medium term outlook
- Improving outlook for global defence spending, particularly in US market
- Board's expectations for the Group's FY18 performance remain unchanged based on current FX rates

Q&A

Appendices

Appendix 1. Organisation chart



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Appendix 2. Our strategy

Chemring Group	Hold the ground already won	Transform our capabilities	Invest for growth
Countermeasures	Collaborate to consolidate global lead	Operational Excellence – Safety and operational performance	Upgrade Tennessee facility to meet F-35 demand
Sensors – Products	Deliver development phase of growth programmes	Operational Excellence – New Products	Targeted R&D investment to secure growth programmes
Contract R&D	Recruit skilled people at Roke to meet current demand	Operational Excellence – Operational Performance	Diversify customer base
Energetics	Match facilities to demand levels Complete restructuring and site rationalisation	Operational Excellence – Safety & Operational Performance Exploit synergies in internal supply and routes to market	Deliver cash to fund growth

Appendix 3. Countermeasures

2017 Priorities	2017 Performance
F-35 programme	Second source qualification completed at CHA, currently in solicitation cycle for LRIP 8 operational flares and multi year IDIQ for training flares. New Alloy SMD into qualification cycle, will complete in FY18.
Kilgore operational improvement	Enhancement to operational performance continues, combined with best safety performance over recent years. Initial stages of transformation programme commenced. Delivery performance improved and margins improved. Market share gains being seen.
Alloy Surfaces consolidation	Alloy Plant 1 closed and Plant 2 modernised, with start up completed early H2. All lines operational and delivering improved performance.
New products	New air countermeasures under development in both UK and US with significant domestic and export customer support. Project launched to enhance global technology and capability sharing in line with customer requirements.

Appendix 4. Sensors

2017 Priorities	2017 Performance
Roke	Government customer budgets constrained during FY17, but returning to normal. Full year order expectations met. Pursuing significant opportunities in commercial sector as well as selective export activities.
Husky Mounted Detection System ("HMDS")	USG Milestone B decision made Aug 17, confirming funding allocations and scope. Fleet refurbishment and acquisition of new systems to meet Army Acquisition Objective confirmed, completion mid 2021. Technological upgrades ongoing, wire detection trials successfully completed, urgent operational needs being responded to, fleet upgrade expected over coming 24 months.
Next Generation Chemical Detection ("NGCD")	Tender response submitted for NGCD1, USG decision expected Q3 2018. NGCD tender expected early FY18.
Joint Biological Tactical Detection System ("JBTDS")	EMD phase ongoing, customer critical design review successfully completed late 17. Scope of program broadened with major customer test activity scheduled for FY18 pre exercise of low and full rate production options.
Tactical Electronic Warfare	Sales continue to be strong with further orders received from multiple new and repeat customers. Development programme for Next Generation Tactical EW system launched.

Appendix 5. Energetics

2017 Priorities	2017 Performance
40mm Systems	Export order for new international customer received, with deliveries commenced in H2, further deliveries in H1 18. Further export opportunities in pipeline.
Littoral Combat Ship Ammunition	Qualification contract awarded. Progressing through USG qualification programme.
Next Generation APOBS	Bridge contract for current system awarded, supply chain activities enhanced. Initial export orders delivered. Continue to complete technical and supply chain developments to ensure win on follow-on contract.
Chemring Energetic Devices	Capability uplift at Downers Grove and transition out of Torrance continues to plan. Expected to complete H1 18 with final TR facility closure end CY18.
Portfolio Review	Ongoing. High explosive capacity investment at CHN critical.

Chemring Group

Appendix 6. Impact of FX translation

Group	Constant currency growth	FY17 restated at 2016 rates £m	FY16 £m	FY17 £m
Revenue	11%	**528.0**	477.1	547.5
EBITDA	9%	**80.4**	73.8	81.0
Operating profit	13%	**55.0**	48.5	55.4
Order book	14%	**511.3**	592.9	478.0

TRANSLATION

- 61% of revenue US$ denominated in FY17
- P&L translation US$1.30 vs US$1.28 in FY16; AUS$1.68 v AUS$1.82 in FY16
- Balance sheet translation rate US$1.33 vs US$1.22 at FY16

SENSITIVITIES

- 10 cent weaker US$ gives £2.4m decrease in annual operating profit

References to EBITDA and operating profit are to underlying measures

Appendix 7. Impact of US $ translation

Group	Constant currency growth	FY17 restated at 2016 rates £m	FY16 £m	FY17 £m
Revenue	↑ 11%	**528.0**	477.1	547.5
EBITDA	↑ 9%	**80.7**	73.8	81.0
Operating profit	↑ 13%	**55.0**	48.5	55.4
Order book	↓ 14%	**511.3**	592.9	478.0

Countermeasures	Constant currency growth	FY17 restated at 2016 rates £m	FY16 £m	FY17 £m
Revenue	↓ 6%	**129.7**	138.3	134.8
EBITDA	↑ 20%	**29.0**	24.2	29.8
Operating profit	↑ 25%	**16.0**	12.8	16.7
Order book	↑ 8%	**191.5**	177.0	178.6

Sensors	Constant currency growth	FY17 restated at 2016 rates £m	FY16 £m	FY17 £m
Revenue	↓ 4%	**92.7**	96.9	94.5
EBITDA	↑ 14%	**20.5**	18.0	20.2
Operating profit	↑ 26%	**14.4**	11.4	14.3
Order book	↑ 16%	**57.4**	49.3	55.4

Energetics	Constant currency growth	FY17 restated at 2016 rates £m	FY16 £m	FY17 £m
Revenue	↑ 26%	**305.6**	241.9	318.2
EBITDA	↑ 10%	**41.4**	37.6	41.0
Operating profit	↑ 10%	**35.0**	31.7	34.8
Order book	↓ 28%	**262.4**	366.6	244.0

References to EBITDA and operating profit are to underlying measures

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Appendix 8. Non-underlying items

FY17 £m	P&L cost	Cash paid
Acquired intangibles amortisation	15.0	-
Business restructuring and incident costs	14.3	4.4
Impairment of business	9.8	-
Other items	1.0	1.9
	40.1	6.3
Disposal credits	(3.5)	-
	36.6	6.3

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Appendix 9. IFRS 15

The Group has adopted IFRS 15 for its 2017 financial year. The Group has taken advantage of the modified transitional provisions and as such the 2016 results remain as previously reported. A summary of the impact of this adoption on the FY17 results is shown below:

Continuing operations (£m)	Pre IFRS 15	IFRS 15 adjustment	As reported
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 FY18 that could have previously been recognised in FY17. This timing difference is expected to recur at each reporting period end, albeit at a different quantum.

Appendix 10. Working capital

£m	FY17	FY16
Inventories	**97.6**	104.8
Receivables	**92.7**	84.9
Trade payables	**(37.7)**	(53.5)
Advance receipts from customers	**(30.7)**	(12.4)
Advance payments to suppliers	**25.8**	17.0
Other items	**(16.2)**	(18.8)
	131.5	122.0

Appendix 11. Modelling Considerations

FY18 Income statement

- H1:H2 revenue split expected to remain H2 biased
- USD rate effect minor - 10¢ weaker USD reduces PBIT by £2.4m on FY17 activity levels
- 2017 average USD/GBP translation rate 1.30 (2016: 1.28)
- FY18 outlook based on USD/GBP translation rate of 1.35
- Underlying interest expected to be c.£9m
- No impact on underlying rate of reduced US Tax rate in FY18
- US Deferred Tax Asset will be written down by c£5m in H1/18 to reflect revised US rate

FY18 Balance sheet

- USD rate effect - 10¢ weaker USD gives c.£7.6m higher debt on FY17 balance sheet
- 2017 closing USD/GBP translation rate 1.32 (2016: 1.22)
- Capex / Capitalised R&D to run in line with depreciation / amortisation

Appendix 12. Glossary

APOBS	Anti-Personnel Obstacle Breaching System
CED	Chemring Energetic Devices
CHG	Chemring Group
EMD	Engineering and Manufacturing Development
EW	Electronic Warfare
F-35	F-35 Joint Strike Fighter
FMS	Foreign Military Sales
HMDS	Husky Mounted Detection System
IDIQ	Indefinite Delivery Indefinite Quantity
IED	Improvised Explosive Device
JBTDS	Joint Biological Tactical Detection System
LRIP	Low Rate Initial Production
MTV	Magnesium Teflon Viton
NASA	National Aeronautics Space Administration
NGCD	Next Generation Chemical Detector
NSA	Non Standard Ammunition
RN	Royal Navy
SMD	Special Material Decoy
US DoD	United States Department of Defense
USG	United States Government
3d-R	3d Radar

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