FOR IMMEDIATE RELEASE 19 January 2017

CHEMRING GROUP PLC

RESULTS FOR THE YEAR ENDED 31 OCTOBER 2016

	As reported		At 2015 exchange rates		
	Change	**2016**	Change	***2016***	2015
Continuing operations					
Revenue	+ 26.5%	**£477.1m**	*+ 16.7%*	***£440.3m***	£377.3m
Underlying operating profit[1]	+ 41.0%	**£48.5m**	*+ 25.0%*	***£43.0m***	£34.4m
Underlying profit before tax[1]	+ 71.7%	**£34.0m**	*+ 47.0%*	***£29.1m***	£19.8m
Net debt	- 43.2%	**£87.6m**	*- 57.7%*	***£65.2m***	£154.3m
Underlying earnings per share[1 2]	+ 45.1%	**10.3p**			7.1p
Dividend per share[2]		**1.3p**			2.1p
Total operating profit		**£26.2m**			£5.5m
Total profit/(loss) before tax		**£8.0m**			£(9.1)m
Total earnings/(loss) per share[2]		**2.5p**			(2.4)p

1 Underlying measures referred to in this announcement 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. A reconciliation of underlying and total operating profit is set out in note 3.

2 Prior year figure restated as a result of the rights issues. See note 4 for further details.

Highlights

- Operational and financial performance improved in H2 with strong 40mm volumes and favourable currency impact
- Cash generation improved with cash flows from operating activities of £76.4 million (2015: £35.4 million), giving cash conversion* of underlying operating profit of 123% (2015: 53%)
- Net debt reduced to £87.6 million; net debt to EBITDA at 1.15x
- Continued improvement in safety performance, with LTI rate the lowest on record
- Continued progress on R&D phases of key US Programs of Record and on F-35
- Operational Excellence Programme launched to drive further improvements in safety, knowledge sharing, gross margins and cash generation
- New Group Finance Director appointed post period end
- Order book at year end of £592.9 million (2015: £569.6 million), of which £368.0 million is currently expected to be recognised as revenue in FY17
- Board recommending a final dividend of 1.3p per share (2015: nil)

* See note 5 for further details

Michael Flowers, Chemring Group Chief Executive, commented:

"2016 was a busy year for Chemring, both from a corporate and operational perspective, and it is pleasing to see that the efforts of so many have delivered a positive result. Order intake and revenue has been solid across the Group, and strong in the Energetics segment. Subsequent to the completion of the rights issue and with good cash conversion, the balance sheet is now strengthened, positioning us well for the future.

Against the backdrop of a stronger balance sheet and improving delivery performance, I see continued opportunities for the Group. The ongoing execution against the US Programs of Record within the Sensors businesses, combined with a slow but steady ramp up of F-35 countermeasure requirements, are key to future growth, as is the continued level of performance at Roke. Our base business in Energetic Systems and Countermeasures continues to be solid, and the order book provides good visibility.

Progress on site and business consolidations in 2017, combined with efforts to ensure our cost base matches market need, is expected to underpin profitability, and the Board's expectations for FY17 are unchanged, based on current FX rates. The initiation of an Operational Excellence Programme, designed to further enhance safety, improve gross margins and cash conversion, is expected to deliver improved returns in the coming years."

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Cautionary statement

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

Notes to editors

- Chemring is a global business that specialises in the manufacture of high technology products and the provision of services to the aerospace, defence and security markets
- Employing approximately 2,700 people worldwide, and with production facilities in four countries, Chemring meets the needs of customers in more than fifty countries
- Chemring is now organised under three strategic product segments: Countermeasures, Sensors & Electronics, and Energetic Systems
- Chemring has a diverse portfolio of products that deliver high reliability solutions to protect people, platforms, missions and information against constantly changing threats
- Operating in niche markets and with strong investment in research and development, Chemring has the agility to rapidly react to urgent customer needs

www.chemring.co.uk

Presentation and photography

The presentation slides and a live audio webcast of the presentation to analysts will be available at the Chemring Group results centre www.chemring.co.uk/resultscentre at 09.30 (UK time) on 19 January 2017. A recording of the audio webcast will be available later that day. Original high-resolution photography is available to the media by contacting Kirsty Wilson, MHP Communications: kirsty.wilson@mhpc.com / tel: 020 3128 8100.

Overview

2016 has been a year of progress with the Group continuing its recent focus on operational and safety improvements, in addition to restructuring its balance sheet. After a disappointing first half that was impacted by delayed contract starts and operational issues, full year performance was heavily weighted to the second half. Production and delivery performance across all sites in the second half was at or above target levels and the Group therefore met the Board's expectations for the year.

This improved performance reflects the progress that has been made, and continues to be made, across the Group. Improved operational focus and greater collaboration amongst the businesses is delivering tangible benefit in a market that is starting to recover from multi-year softness, while the Programs of Record in the Sensors & Electronics segment offer opportunities for future growth.

In January 2016, the Company raised £80.8 million via a rights issue, the primary purpose of which was to alleviate the constraints that its indebtedness was putting on growth opportunities. £48.8 million of the proceeds was used to repay a proportion of the Group's outstanding US loan notes, reducing the Group's future finance costs.

Having strengthened the balance sheet, the Group is now fully focusing on the operational priorities that will underpin its future growth. These priorities include capacity investment projects, implementing significant cost saving initiatives, ensuring excellence in contract delivery and delivering improved working capital management.

The effects of this renewed focus are visible in these results and, in particular, the improving operational performance across the Group in the second half of the year.

Safety

As always, safety remains the Group's first priority and the Group continues to drive improvement in this area.

Lost time injury performance continues to improve, and the lost time injury rate of 0.35 is the best result to date. Of the nine lost time injuries, only one resulted from an energetic incident. This improvement in performance has been driven by a four pronged approach to safety - process improvement, capital improvement, enhanced leadership engagement and cultural improvement. Capital investment in safety has continued, with key projects undertaken during the year including the automated countermeasure slurry process at Kilgore, detonator loading at Chemring Energetics and improvements to energetic waste disposal facilities.

Despite best efforts, some energetic incidents did occur during the year, most notably at the Australian and US countermeasures facilities. Whilst these caused some disruption to operations and impacted first half financial performance, these incidents resulted in no injuries, with all safety systems operating as planned, protective equipment exceeding design performance, and personnel response appropriate.

In the forthcoming year we shall prioritise our effort to reduce further the exposure of our people to potentially lethal hazards. The focus will be on removing the hazard where possible, followed by the reduction in exposure through plant and engineering controls and automation.

Strategy and organisation

Countermeasures

The Countermeasures strategy remains unchanged as the Group seeks to strengthen its position in the global market. A new special material decoy has been launched with initial and follow-on orders received. In Australia, qualification as the second source supplier for F-35 Joint Strike Fighter ("F-35") flares continues, with three of the four qualification phases now completed. In the US, Low Rate Initial Production ("LRIP") 5 F-35 deliveries were completed, the Group is under contract for LRIP 6, and has won the competition for initial supply of F-35 training flares. The acquisition of key assets and technology from Wallop Defence Systems in the UK, which was completed in May 2016, has further strengthened the air countermeasures portfolio and positioning, particularly in the European market.

Sensors & Electronics

Within Sensors & Electronics, 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. Progression against the US Programs of Record continues, with the progression into stage 3 (prototype development) of the Next Generation Chemical Detector ("NGCD") most noteworthy. Success on the major US Programs of Record remains the Group's absolute focus, both due to the financial return from these programmes, and the leading global technological position that will result.

Multiple orders have been received for the Resolve tactical EW system, including repeat orders in Europe and the Middle East, with the winning of the Land 500 programme in Australia being the largest order achieved to date. Post year end, a further order was received from a new NATO customer. Post year end negotiations have commenced with the US Government for the first hardware test stage for Husky Mounted Detection System ("HMDS") enhanced systems, with supply of an initial eight systems for trial in-theatre. In addition, the Group received an upgrade contract for the same enhanced capability from another NATO HMDS user.

Roke's focus will remain on delivering consultancy and contract R&D services to critical government and commercial customers. Investment focus shall be on people, to ensure their training and development matches emergent market needs. Having opened a new satellite office in Gloucester to better service the needs of the customer base, further geographic expansion may be undertaken as market needs dictate.

Energetic Systems

The Energetic Systems businesses continue to be managed in order to maximise market position in their operating niches, maintain product qualification, and ensure safe and effective operations. Recognising that this segment is far more commodity based than the other segments, with price being the key discriminator, cost base management, footprint and delivery performance remain critical to ensure maximum returns.

Given its strong position in the space, missile and aerospace market, the Group shall continue to invest in the niche market positions held by Chemring Energetic Devices. Future investment will focus on new devices for forthcoming satellite applications, development of an in-house precision manufacturing capability, and relocation of the primary explosives capability from California to Illinois. This will result in a single, vertically integrated facility that will better meet emergent customer needs.

During 2016 the US management structure has been revised to improve efficiency.

Trading summary

Revenue from continuing operations was £477.1 million (2015: £377.3 million). This revenue generated an underlying operating profit of £48.5 million (2015: £34.4 million). Including non-underlying items, total operating profit was £26.2 million (2015: £5.5 million).

Underlying profit before tax increased by 71.7% from £19.8 million to £34.0 million, resulting in underlying earnings per share of 10.3p (2015: 7.1p).

The closing order book for continuing operations increased by £23.3 million during the year and at 31 October 2016 was £592.9 million (2015: £569.6 million).

The Group's net debt at 31 October 2016 was £87.6 million (2015: £154.3 million).

Operational overview

Following a disappointing first half, driven by delayed contract starts and operational execution that was below expectations, the Group delivered a strong second half with production and delivery performance across all sites at or above targeted levels, leading to £297 million of revenue and £45 million of operating profit in the half.

This improved performance has been driven by improvements in consistency of production at the Countermeasures businesses, with prior investment in design and process control starting to bear fruit. Production gains have been made at Chemring Ordnance, where 40mm ammunition manufacture quickly ramped-up. Similarly, second half performance at other Energetic Systems sites has met expectations.

The major restructuring completed at Roke during 2015 has delivered positive results, with operating profit and cash flow returns improving year-on-year. Other structural, cost base optimisation and site consolidation efforts are delivering to plan, with further initiatives in development.

In late 2016 a Group-wide Operational Excellence Programme was initiated with the clear aims of further improving safety, increasing operating margins, and delivering greater levels of cash conversion. This programme includes initiatives driven at the Group's centre, such as process alignment and further investment prioritisation; however, the key elements of the programme are business and segment focused. These centre around knowledge and best practice sharing to enable all businesses to meet internal best practice, combined with external benchmarking to further enhance operations. The programme has also identified a number of business unit and segment specific activities that will be progressed, such as further vertical integration in the Group's space and missile energetic components businesses, lean and engineering process control implementation within all businesses, and alternate energetic material mixing technologies for countermeasures.

Countermeasures

- Revenue: £138.3 million (2015: £125.8 million)
- Underlying operating profit: £12.8 million (2015: £17.5 million)
- Underlying operating margin: 9.3% (2015: 13.9%)

Countermeasures revenue reflected the continued recovery in the segment, increasing by 9.9% on the prior year to £138.3 million (2015: £125.8 million). The impact of the production issues and energetic incidents that were experienced in the first half were partly offset by £2.8 million of insurance proceeds related to an earlier energetic incident. This resulted in a decline in margins from 13.9% to 9.3% and an underlying profit of £12.8 million, compared with £17.5 million in 2015. On a constant currency basis using 2015 rates, revenue was £127.8 million and underlying operating profit was £11.7 million.

The closing order book for Countermeasures was £177.0 million, down 3.9% on 2015. The decline, principally in the US, reflects the improved production consistency and the progressive working through of orders placed in earlier years, but also reflects the budget constraints that continue to be experienced with many customers. The transition from legacy aircraft to next generation platforms together with the continued depletion of customer inventory, built up during the Iraq and Afghanistan conflicts, is currently resulting in low order placement. Encouragingly however, low rate initial production contracts on the next generation platforms including the F-35 are beginning to be placed more frequently.

Against this backdrop the US businesses have focused on rebalancing their cost base and driving production efficiencies in order to ensure long term competitiveness.

The facility consolidation at Philadelphia continues to plan. All necessary approvals are in place and, depending on customer delivery requirements, will complete in Q2 FY17. The remaining site will temporarily close in Q2 FY17 to enable the relocation of assets and the modification of the plant's layout and services. The cash costs of the project are expected to be approximately $3.0 million, with the project expected to deliver approximately $1.4 million in annualised savings from 2018.

The implementation of a long-term manufacturing plan in the US, incorporating productivity improvements, waste and waste removal cost reduction, personnel reduction and overhead reduction is underway. This initiative is expected to position the business well for the future.

The UK Countermeasures business had an improved second half, overcoming technical issues on one product line that occurred in the first half, although the resolution of these issues meant operating margins were lower than expected. The stronger second half performance was further aided through a shift in product mix utilising existing spare capacity. In particular, demand for chaff products was higher than in previous years and this increased demand was met through manufacturing efficiency improvements implemented during the previous twelve months.

2017 trading performance for Countermeasures, while underpinned by a good order book, is expected to be slightly down year on year, as production will be impacted by US site consolidation activities in the first half.

Sensors & Electronics

- Revenue: £96.9 million (2015: £99.1 million)
- Underlying operating profit: £11.4 million (2015: £9.3 million)
- Underlying operating margin: 11.8% (2015: 9.4%)

Revenue in the Sensors & Electronics segment decreased by 2.2% from the prior year to £96.9 million (2015: £99.1 million), reflecting the completion of production contracts with the US Department of Defense in the comparative period, although revenue grew at the UK businesses. Margins improved from 9.4% to 11.8% and Sensors & Electronics increased its operating profit by 22.6% to £11.4 million (2015: £9.3 million). On a constant currency basis using 2015 rates, revenue was £92.4 million and underlying operating profit was £11.3 million.

Many of the Group's Sensors and Electronics products relate to long-term counter-IED, chemical and biological detection Programs of Record for the US DoD. These programmes are currently transitioning through research and development phases, where contract sizes and margins are significantly smaller than full rate production contracts. The closing order book for Sensors & Electronics was £49.3 million, a decrease of 34.9% on 2015. This decrease principally reflects the reversing of an order from Turkey that was booked in 2014. The progression of this contract in its originally envisaged form is now considered unlikely given the overall political uncertainty within Turkey. The Board therefore considered it prudent to de-book this contract until greater clarity exists.

Activity in the US has primarily focused on the progression of long-term Programs of Record for the US DoD, and good progress has been made this year.

In response to identified capability needs, the US Government realigned the HMDS upgrade programme to incorporate spiral development. The next major milestone for the Program of Record will be contract award for deliveries of enhanced capability detectors for in-theatre trial, to be followed, if successful, by contracting for fleet upgrade. Concurrently, further customer funded R&D will be undertaken to develop ongoing system enhancements. Overall funding allocation is unchanged. Customer engagement in the Middle East remains encouraging, with vehicle mounted ground penetrating radar ("GPR") variants being evaluated by a number of potential customers.

In chemical and biological detection, the Group has also continued to focus activity on the long-term DoD Programs of Record. In addition to the progress being made on the NGCD programme, funded development of Chemring's sole source position on the Joint Biological Tactical Detection System programme is ongoing. In 2017 it is expected that the JBTDS programme, for which Chemring is the sole source supplier, will move from the engineering and manufacturing development ("EMD") phase into low rate initial production. The NGCD programme, for which the Group is contracted for the R&D phase of all three streams, is expected to move into the EMD phase in 2017. Winning of these phases will be subject to competitive tender.

While good progress has been made, the transition through research and development phases and the resulting pause in manufacturing for some of the Group's key sensors and electronics products has resulted in a decline in earnings derived from these products. Chemring Sensors & Electronic Systems ("CSES") has therefore taken the necessary action to address its structure and cost base. NIITEK and Chemring Detection Systems have been merged into a single legal entity under one senior management team. The merger of these two businesses will facilitate the closure of one facility. Overhead reduction measures continue to be balanced with the need for continued investment in research and development capability.

In the UK, the separation of the contract R&D activities of Roke from the products-based business undertaken by Chemring Technology Solutions has delivered positive results. Roke exceeded its order and revenue targets and utilisation rates have continued to rise. A growing number of opportunities in the communications intelligence and cyber areas, combined with the impact of the new operating model, have driven an increase in profitability.

2017 trading performance for Sensors & Electronics is expected to benefit from the continued improvement in profitability in the UK businesses, primarily in electronic warfare and cyber security. Research and development activities in the US are expected, subject to contract award, to transition to engineering and manufacturing development ("EMD") and low rate initial production ("LRIP") phases as the year progresses.

Energetic Systems

- Revenue: £241.9 million (2015: £152.4 million)
- Underlying operating profit: £31.7 million (2015: £15.1 million)
- Underlying operating margin: 13.1% (2015: 9.9%)

Revenue for the Energetic Systems segment increased by £89.5 million to £241.9 million (2015: £152.4 million). This improved performance was primarily as a result of the 40mm ammunition contract with a customer in the Middle East which, despite its delayed start, has performed well and contributed £44.5 million of revenue. Margins improved from 9.9% to 13.1% and Energetic Systems increased its operating profit by 109.9% to £31.7 million (2015: £15.1 million). On a constant currency basis using 2015 rates, revenue was £220.1 million and underlying operating profit was £27.4 million.

With the exception of Chemring Defence, which continues to experience very challenging markets, every business within the segment saw order book growth. The closing order book for Energetic Systems was £366.6 million, an increase of 18.4% on 2015.

Delays in necessary permits and export approvals associated with the 40mm ammunition contract meant that production under this contract did not fully commence until late in the first half of the year. This resulted in a heavier second half weighting and slightly lower than expected contribution to the full year. Production and deliveries ramped-up during the second half, in line with expectations. The contract continues to perform well and, assuming the extension of the existing letter of credit, is expected to be a strong contributor to 2017 performance.

At Chemring Energetic Devices, the consolidation of the Downers Grove, Illinois and Torrance, California facilities is progressing in line with expectations, with all planning approvals in place. Over 40% of the Torrance product line has now been successfully transferred, and the NASA Standard Initiator qualification at Downers Grove, the most critical element of the transition, is progressing to plan. Manufacture of Torrance product at Downers Grove is achieving improved on-time in-full performance, with initial evidence showing gross margin improvement in addition to the overhead savings to be achieved once the Torrance site is closed. Customers continue to support the efforts to transition production to the Illinois facility, and this improved adherence to customers' delivery schedules has resulted in increased order intake. This project is still anticipated to have a cash cost of approximately $7.0 million, with the site rationalisation expected to deliver approximately $5.0 million in annual savings from 2019.

Chemring Defence has for some time been operating in very challenging markets and has recently experienced a substantial downturn in customer requirements. Depressed oil prices and significantly reduced budgets have led to changing customer needs, and many of the expected orders from the business's largest customers have been delayed or have failed to materialise. In light of these reduced customer requirements, a major restructuring programme has been implemented in order to reduce the current overcapacity within the business and place it on a more sustainable footing for the future.

2017 trading performance for Energetic Systems is again expected to be strong, with the segment benefiting from a strong order book, and continued improvement in delivery performance across the segment.

Rights issue

The rights issue was successfully completed on 23 February 2016 raising £80.8 million. The net proceeds of the rights issue after equity issue costs were £75.2 million, and £48.8 million was immediately used to pay down loan notes. The balance of the raise was used for make-whole premiums pursuant to the terms of the loan notes (£3.7 million), repayment costs (£1.4 million) and general corporate purposes. In respect of the latter, the scheduled repayment of loan notes due in November 2016 of $36.0 million was repaid from cash at hand, enabled in part by rights issue funds.

The high level of indebtedness has ceased to be a day-to-day management issue for the business subsequent to the rights issue, allowing focus to be placed on operational and strategic initiatives that will support growth and deliver shareholder value. As advised when launching the rights issue, the Group's target capital structure is 1.0x – 1.5x net debt to EBITDA, a range the Group was well within at the end of 2016.

Board of Directors

This year has seen the Group reshape the membership of the Board.

Peter Hickson retired as a director at the end of June, having been appointed as Chairman of the Group in October 2010. During Peter's tenure the Group transitioned through a period of unprecedented change within the defence industry, following the end to the wars in Iraq and Afghanistan. This was not an easy period and Peter deserves the Group's gratitude for his leadership and commitment.

Carl-Peter Forster joined the Board on 1 May 2016 as an independent non-executive director and Chairman-designate. He succeeded Peter Hickson as Chairman of the Board following Peter's retirement on 30 June 2016.

Daniel Dayan joined the Board as an independent non-executive director on 7 March 2016, becoming Chairman of the Remuneration Committee from that date.

Ian Much and Andy Hamment stood down from the Board on 21 March 2016 and 20 April 2016 respectively. Nigel Young succeeded Ian Much as Senior Independent Director with effect from 21 March 2016.

Andrew Davies joined the Board as an independent non-executive director on 17 May 2016.

On 29 June 2016, the Group announced that Steve Bowers, Group Finance Director, had informed the Board of his intention to leave the Group. Steve left the Group on 30 September 2016 and his role has since been covered on an interim basis by Andrew P. Davies, Deputy Group Finance Director.

On 13 December 2016, the Group announced the appointment of Andrew Lewis as Group Finance Director. He was previously Group Finance Director of Avon Rubber p.l.c. Andrew joined Chemring on 9 January 2017 and will join the Board of Chemring on 19 January 2017 after the approval and announcement of the 2016 results.

Current trading and outlook

Trading since the start of FY17 has been in line with expectations across all businesses.

The Board's expectations for the Group's performance for FY17 remain unchanged, based on current foreign exchange rates.

The expected profile of orders, revenue and margins, combined with routine seasonality within the business, means that the Group continues to expect FY17 to reflect a significant second-half weighting in profitability.

The order book as at 31 October 2016 increased 4.1% to £592.9 million, of which £368.0 million is currently expected to be recognised as revenue in FY17. On a constant currency basis using 2015 rates, the order book was £489.8 million.

The order book at 31 December 2016 was £572.1 million.

Group results

An analysis of underlying and total results is set out below:

	2016 Underlying £m	2016 Total £m	2015 Underlying £m	2015 Total £m
Revenue				
- continuing operations	**477.1**	**477.1**	377.3	377.3
- discontinued operations	-	-	-	-
	477.1	**477.1**	377.3	377.3
Operating profit				
- continuing operations	**48.5**	**26.2**	34.4	5.5
- discontinued operations	**-**	**4.7**	-	4.9
	48.5	**30.9**	34.4	10.4
Net finance expense	**(14.5)**	**(18.2)**	(14.6)	(14.6)
Profit/(loss) before tax	**34.0**	**12.7**	19.8	(4.2)
Tax	**(7.1)**	**(1.6)**	(4.1)	3.8
Profit/(loss) after tax	**26.9**	**11.1**	15.7	(0.4)

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. A reconciliation of underlying and total operating profit is set out in note 3.

During the year, changes in foreign exchange rates, principally the depreciation of sterling against the US dollar, increased reported revenue from continuing operations by £36.8 million. At constant exchange rates, revenue from continuing operations was £440.3 million, an increase of 16.7%.

Chemring's operating segments are Countermeasures, Sensors & Electronics and Energetic Systems. An analysis of segmental revenue and underlying operating profit is set out below:

	2016 Revenue £m	2016 Underlying operating profit £m	2016 Underlying operating margin %	2015 Revenue £m	2015 Underlying operating profit £m	2015 Underlying operating margin %
Countermeasures	**138.3**	**12.8**	**9.3**	125.8	17.5	13.9
Sensors & Electronics	**96.9**	**11.4**	**11.8**	99.1	9.3	9.4
Energetic Systems	**241.9**	**31.7**	**13.1**	152.4	15.1	9.9
	477.1	**55.9**	**11.7**	377.3	41.9	11.1
Unallocated corporate costs	**-**	**(7.4)**	**-**	-	(7.5)	-
Continuing operations	**477.1**	**48.5**	**10.2**	377.3	34.4	9.1

Underlying operating profit from continuing operations was £48.5 million (2015: £34.4 million), an increase of 41.0%. The underlying operating margin was 10.2% (2015: 9.1%).

Discontinued operations mainly comprises the release of disposal provisions relating to the European munitions businesses - Mecar, based in Belgium, and Simmel, located in Italy - which were sold in May 2014.

The total operating profit was £30.9 million (2015: £10.4 million). This includes non-underlying costs of £17.6 million (2015: £24.0 million), split between continuing costs of £22.3 million and discontinued credits of £4.7 million, which are analysed later in this announcement.

Net underlying finance expense was £14.5 million (2015: £14.6 million). The reduction reflects the repayment of loan note debt during the year and lower usage of the revolving credit facility, offset by adverse foreign exchange movements and an increase in the amortisation of prepaid facility fees.

Underlying profit before tax from continuing operations was £34.0 million (2015: £19.8 million), an increase of 71.7%. Tax on underlying profit before tax from continuing operations was £7.1 million (2015: £4.1 million), representing an effective tax rate of 20.9% (2015: 20.7%). The tax rate on underlying profit before tax remains comparable to the UK corporation tax rate, and continues to benefit from the utilisation of R&D and other tax credits. Including non-underlying items, the total profit before tax from continuing operations was £8.0 million (2015: £9.1 million loss).

The effective tax rate on the total profit before tax from continuing operations was 18.8% (2015: 41.8%) 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.

Analysis of non-underlying items

The use of underlying measures, in addition to the total measures noted above, is considered by the Board to improve comparability of business performance between periods and, consistent with past practice, certain items are classed as non-underlying, as set out below:

	2016	2015
Continuing operations:	**£m**	£m
Acquisition and disposal related costs	**0.3**	0.5
Business restructuring and incident costs	**5.4**	6.4
Claim related (credit)/costs	**(0.6)**	8.5
Loan note repayment costs	**1.4**	-
Intangible amortisation arising from business combinations	**14.8**	14.0
Loss/(gain) on fair value movements of derivative financial instruments	**1.0**	(0.5)
Non-underlying items excluded from underlying operating profit	**22.3**	28.9
Accelerated interest costs	**3.7**	-
Non-underlying items excluded from underlying profit before tax	**26.0**	28.9
Discontinued operations:		
Disposal related credit	**(4.7)**	(4.9)
Non-underlying items excluded from profit before tax	**21.3**	24.0

Disposal related credits of £4.7 million relate to the expiry of certain tax and environmental liabilities arising from the disposal of several businesses in prior years. Business restructuring and incident costs of £5.4 million principally comprise of restructuring costs in relation to Chemring Defence UK and across the US businesses.

An impairment analysis, based on value-in-use calculations reflecting current conditions in the defence industry, has been conducted and no impairments are considered to exist at 31 October 2016.

The amortisation of intangible assets arising from business combinations was £14.8 million (2015: £14.0 million). This cost is treated as non-underlying to improve comparability and understanding of the results given its large size and non-cash nature.

The cash outflow from non-underlying items was £8.1 million (2015: £8.4 million).

Research and development

R&D expenditure was £57.8 million (2015: £56.3 million). 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 & Electronics. An analysis of R&D expenditure is set out below:

	2016	2015
	£m	£m
Customer-funded R&D	**43.4**	38.2
Internally-funded R&D		
- expensed to the income statement	**7.7**	9.2
- capitalised	**6.7**	8.9
Total R&D expenditure	**57.8**	56.3

Amortisation of development and patent costs was £6.9 million (2015: £6.4 million), 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 2017 as additional Sensors & Electronics projects complete their development phase.

Pensions

The deficit on the Group's defined benefit pension schemes was £17.3 million (2015: £17.7 million), 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 2016, using the projected unit credit method. This valuation showed a deficit of £17.3 million (2015: £17.8 million). The reduction reflects the funding structure agreed with the trustees in June 2013, under which contributions of £5.0 million were paid in 2016, offset by the effect of changes in actuarial assumptions. The Group has given a bank guarantee and letters of credit totalling £8.5 million (2015: £13.5 million) to the Scheme in respect of future contributions, which are progressively reducing as contributions are paid under the new funding structure.

Cash flow

The cash inflow generated from underlying operations was £76.4 million (2015: £35.4 million). A summary of underlying free cash flow is set out below:

	2016	2015
	£m	£m
Underlying operating profit	**48.5**	34.4
Depreciation and loss on disposal of non-current assets	**18.6**	16.6
Amortisation of development costs, patents and licences	**6.9**	6.4
	74.0	57.4
Decrease/(increase) in working capital	**6.4**	(18.2)
Other movements	**(4.0)**	(3.8)
Cash generated from underlying operations	**76.4**	35.4
Expenditure on capitalised development costs	**(6.7)**	(8.9)
Net expenditure on property, plant and equipment	**(10.3)**	(8.2)
Tax	**(3.1)**	(1.3)
Interest	**(11.9)**	(11.8)
Underlying free cash flow	**44.4**	5.2

Expenditure on property, plant and equipment was £10.3 million (2015: £8.2 million). This comprised various projects related to health and safety improvements, production automation and systems upgrades.

Expenditure on capitalised development projects was £6.7 million (2015: £8.9 million), of which £5.1 million (2015: £7.2 million) related to the Sensors & Electronics segment, where significant investment has been made in technology developed in association with DoD Programs of Record. The carrying value of capitalised development costs at 31 October 2016 was £40.9 million (2015: £36.1 million).

Tax payments were £3.1 million (2015: £1.3 million), with the increase reflecting the higher profitability of the Group.

Working capital

A summary of working capital in respect of continuing operations is set out below:

	2016	*2016 constant currency*	2015
	£m	*£m*	£m
Inventories	**104.8**	*87.1*	96.2
Trade receivables	**82.7**	*70.5*	66.1
Contract receivables	**7.0**	*7.0*	15.2
Prepayments	**22.0**	*15.5*	6.8
Trade payables	**(53.5)**	*(44.9)*	(46.7)
Advance payments	**(12.4)**	*(10.1)*	(11.5)
Other items	**(51.5)**	*(47.0)*	(44.3)
Working capital	**99.1**	*78.1*	81.8

Working capital was £99.1 million (2015: £81.8 million), an increase of £17.3 million, with £21.0 million of this increase attributable to foreign exchange translation. At constant currency (2015 exchange rates) working capital was £78.1 million, a reduction of £3.7 million.

Inventory increased in Countermeasures and Sensors & Electronics but fell in Energetic Systems.

Trade receivables increased by £16.6 million and trade payables increased by £6.8 million as a result of the high levels of activity in the final quarter of the year.

Prepayments increased significantly in the year, principally in Energetic Systems. This was mainly due to advance supplier payments made in order to secure continuing production on supplies needed for the 40mm and other Middle East contracts.

Net debt and covenants

Net debt at 31 October 2016 was £87.6 million (2015: £154.3 million). The Group's principal debt facilities comprise £153.4 million of private placement loan notes and a £100.0 million revolving credit facility. The revolving credit facility was established in July 2014, is with a syndicate of three banks and has a four-year term, and was increased from £70.0 million during the year. The Group had £108.0 million (2015: £78.5 million) of undrawn borrowing facilities at the year end.

In addition to borrowing facilities, the Group has £60.4 million (2015: £62.4 million) of facilities in respect of bonding and trade finance requirements. At 31 October 2016, £23.9 million (2015: £28.0 million) of these facilities were utilised.

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.

In respect of the revolving credit facility, leverage is measured by reference to net debt. The maximum permitted ratio of net debt to underlying EBITDA under the revolving credit facilities is 3.00x. The permitted ratio at October 2015 and January 2016 was amended to 3.90x with the agreement of the revolving credit facility syndicate in January 2016.

The provisions of the private placement loan notes contain two leverage tests, each of which are tested quarterly. The first test measures leverage by reference to total gross debt. The maximum permitted ratio of gross debt to underlying EBITDA is 3.75x. This was amended to 4.00x for the October 2015 and January 2016 tests. The second test measures leverage by reference to adjusted debt, which is calculated as total gross debt less certain disposal proceeds that had previously been offered to the noteholders but had not been accepted. The value of such proceeds at 31 October 2016 was £nil (2015: £4.6 million). The maximum permitted ratio of adjusted debt to underlying EBITDA is 3.00x. For the tests at October 2015 and January 2016 this was also amended to 4.00x.

The Group complied with these covenants throughout the year and the results of covenant tests at the year end are detailed below:

	2016	2015
Covenant ratios - revolving credit facility		
Actual ratio of net debt to underlying EBITDA	**1.15x**	2.83x
Actual ratio of underlying EBITDA to finance costs	**6.82x**	4.75x
Covenant ratios - loan note agreements		
Actual ratio of adjusted debt to underlying EBITDA	**1.89x**	2.84x
Actual ratio of total debt to underlying EBITDA	**1.89x**	2.92x
Actual ratio of underlying EBITDA to finance costs	**6.54x**	4.67x

The composition of gross and net debt is set out below:

	2016	2015
	£m	£m
Loan notes, net of facility fees	**(150.5)**	(161.3)
Other loans and finance leases	**(0.2)**	(0.6)
Gross debt	**(150.7)**	(161.9)
Cash	**63.1**	7.6
Net debt	**(87.6)**	(154.3)

Shareholder returns

Underlying earnings per share from continuing operations were 10.3p (2015: 7.1p as restated), an increase of 45.1%. The total earnings per share from continuing operations were 2.5p (2015: 2.4p loss as restated).

Shareholders' funds were £413.4 million (2015: £290.6 million), with the increase principally comprising the effects of the rights issue, favourable exchange rate movements and the profit after tax for the year.

Exchange rates

The following exchange rates applied during the year:

	Average rate 2016	**Closing rate 2016**	Average rate 2015	Closing rate 2015
US Dollar	**1.28**	**1.22**	1.53	1.54

The translation of foreign currency items in the financial statements are dependent on the prevailing foreign exchange rates. For the year ended 31 October 2016, a 1 cent decrease in the US dollar exchange rate would have increased reported underlying operating profit by approximately £0.2 million and increased reported net debt by approximately £0.9 million.

Dividends

In view of the rights issue that was announced in January 2016, the Board did not recommend a final dividend in respect of 2015, nor did it recommend an interim dividend in respect of the six month period ended 30 April 2016.

Recognising that dividends are an important component of total shareholder returns, and in view of the Group's improved trading performance for 2016, the Board intends to resume paying dividends and is recommending a final dividend for the year ended 30 October 2016 of 1.3p per ordinary share. If approved, the final dividend will be paid on 18 May 2017 to shareholders on the register on 28 April 2017.

Going concern and long-term viability statement

The Group's business activities, key performance indicators, and principal risks and uncertainties are described within the 2016 Annual Report and Accounts. In light of the continued trading volatility, and 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 2018, 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 delivering key contracts, in particular the HMDS and 40mm orders for end users in the Middle East;
- the impact of macroeconomic 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. This sensitised scenario shows 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 within the 2016 Annual Report and Accounts. 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.

The directors have assessed the Group's viability over a three-year period to October 2019 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 2019.

Principal risks and uncertainties

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 2015 Annual Report and Accounts and the 2016 interim report. A detailed description of the Group's principal risks and uncertainties and the ways they are mitigated can be found at Annex 1. In summary, the principal risks relate to:

- health and safety risks;

- environmental laws and regulations;
- possible defence budget cuts;
- timing and value of orders;
- contract-related risks;
- political risks;
- management resource;
- manufacturing risks;
- technological risks;
- product liability and other customer claims;
- compliance and corruption risks;
- cyber-related risks; and
- financial risks.

Management have detailed mitigation plans and assurance processes to manage and monitor these risks.

RESPONSIBILITY STATEMENT OF THE DIRECTORS ON THE ANNUAL REPORT AND ACCOUNTS

The responsibility statement below has been prepared in connection with the Company's full annual report and accounts for the year ended 31 October 2016. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, 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;

2. 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 they face; and

3. the annual report and financial statements, 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.

This responsibility statement was approved by the Board of directors on 19 January 2017, and has been signed on its behalf by Michael Flowers and Sarah Ellard.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 October 2016

			2016			2015
	Underlying performance*	**Non-underlying items***	**Total**	Underlying performance*	Non-underlying items*	Total
	£m	**£m**	**£m**	£m	£m	£m
Continuing operations						
Revenue	**477.1**	-	**477.1**	377.3	-	377.3
Operating profit/(loss)	**48.5**	**(22.3)**	**26.2**	34.4	(28.9)	5.5
Finance expense	**(14.5)**	**(3.7)**	**(18.2)**	(14.6)	-	(14.6)
Profit/(loss) before tax	**34.0**	**(26.0)**	**8.0**	19.8	(28.9)	(9.1)
Tax (charge)/credit	**(7.1)**	**5.6**	**(1.5)**	(4.1)	7.9	3.8
Profit/(loss) after tax	**26.9**	**(20.4)**	**6.5**	15.7	(21.0)	(5.3)
Discontinued operations						
Profit after tax from discontinued operations	-	**4.6**	**4.6**	-	4.9	4.9
Profit/(loss) after tax	**26.9**	**(15.8)**	**11.1**	15.7	(16.1)	(0.4)
Earnings/(loss) per ordinary share †						
Continuing operations						
Basic	**10.3p**	**(7.8)p**	**2.5p**	7.1p	(9.5)p	(2.4)p
Diluted	**10.1p**	**(7.7)p**	**2.4p**	7.0p	(9.4)p	(2.4)p
Continuing operations and discontinued operations						
Basic	**10.3p**	**(6.1)p**	**4.2p**	7.1p	(7.3)p	(0.2)p
Diluted	**10.1p**	**(5.9)p**	**4.2p**	7.0p	(7.2)p	(0.2)p

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

† Comparative restated for rights issue. See note 4 for reconciliation.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 October 2016

	2016	2015
	£m	£m
Profit/(loss) after tax attributable to equity holders of the parent as reported	**11.1**	(0.4)
Items that will not be reclassified subsequently to profit or loss		
Actuarial losses on defined benefit pension schemes	**(3.8)**	-
Movement on deferred tax relating to pension schemes	**0.8**	-
	(3.0)	-
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**33.0**	(2.6)
Current tax on items taken directly to equity	**0.8**	0.6
Deferred tax on exchange differences on translation of foreign operations	**4.7**	(0.6)
	38.5	(2.6)
Total comprehensive income/(loss) attributable to equity holders of the parent	**46.6**	(3.0)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended 31 October 2016

	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**

	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 2014	2.0	230.7	12.9	1.2	(32.6)	95.7	(9.6)	**300.3**
Loss after tax	-	-	-	-	-	(0.4)	-	(0.4)
Other comprehensive income/(loss)	-	-	-	-	0.3	(2.9)	-	(2.6)
Tax relating to components of other comprehensive income	-	-	-	-	-	-	-	-
Total comprehensive income/(loss)	-	-	-	-	0.3	(3.3)	-	(3.0)
Dividends paid	-	-	-	-	-	(7.9)	-	(7.9)
Share-based payments (net of settlement)	-	-	-	-	-	1.2	-	1.2
At 31 October 2015	**2.0**	**230.7**	**12.9**	**1.2**	**(32.3)**	**85.7**	**(9.6)**	**290.6**

CONSOLIDATED BALANCE SHEET
as at 31 October 2016

		2016		2015
	£m	£m	£m	£m
Non-current assets				
Goodwill	**132.9**		121.2	
Development costs	**40.9**		36.1	
Other intangible assets	**77.1**		74.2	
Property, plant and equipment	**179.9**		168.0	
Deferred tax	**59.6**		47.5	
		490.4		447.0
Current assets				
Inventories	**104.8**		96.2	
Trade and other receivables	**114.2**		93.1	
Cash and cash equivalents	**63.1**		7.6	
Derivative financial instruments	**0.5**		0.5	
		282.6		197.4
Total assets		**773.0**		644.4
Current liabilities				
Borrowings	**(29.5)**		-	
Obligations under finance leases	**(0.1)**		(0.5)	
Trade and other payables	**(107.3)**		(96.2)	
Provisions	**(4.5)**		(5.1)	
Current tax	**(3.1)**		(7.9)	
Derivative financial instruments	**(2.5)**		(1.6)	
		(147.0)		(111.3)
Non-current liabilities				
Borrowings	**(121.0)**		(161.3)	
Trade and other payables	**(4.0)**		(1.7)	
Provisions	**(11.7)**		(16.3)	
Deferred tax	**(58.5)**		(45.1)	
Preference shares	**(0.1)**		(0.1)	
Retirement benefit obligations	**(17.3)**		(17.7)	
Derivative financial instruments	**-**		(0.3)	
		(212.6)		(242.5)
Total liabilities		**(359.6)**		(353.8)
Net assets		**413.4**		290.6
Equity				
Share capital		**2.8**		2.0
Share premium account		**305.1**		230.7
Special capital reserve		**12.9**		12.9
Revaluation reserve		**1.1**		1.2
Translation reserve		**(20.7)**		(32.3)
Retained earnings		**121.8**		85.7
		423.0		300.2
Own shares		**(9.6)**		(9.6)
Equity attributable to equity holders of the parent		**413.4**		290.6
Total equity		**413.4**		290.6

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 October 2016

	2016	2015
	£m	£m
Cash flows from operating activities		
Cash generated from continuing underlying operations	**76.4**	35.4
Cash generated from discontinued underlying operations	**-**	-
	76.4	35.4
Acquisition and disposal related costs	**(0.3)**	(0.7)
Business restructuring and incident costs	**(2.8)**	(7.6)
Claim related costs	**(5.0)**	(0.1)
	68.3	27.0
Tax paid	**(3.1)**	(1.3)
Net cash inflow from operating activities	**65.2**	25.7
Cash flows from investing activities		
Purchases of intangible assets	**(6.7)**	(8.9)
Purchases of property, plant and equipment	**(10.3)**	(8.2)
Acquisition of business	**(2.5)**	-
Proceeds on disposal of property, plant and equipment	**0.1**	-
Net cash outflow from investing activities	**(19.4)**	(17.1)
Cash flows from financing activities		
Net proceeds of share issue	**75.4**	-
Dividends paid	**-**	(7.9)
Finance expense paid	**(11.9)**	(11.8)
Accelerated interest paid	**(3.7)**	-
Loan note repayment costs	**(1.4)**	-
Capitalised facility fees paid	**(0.5)**	(1.8)
Repayments of borrowings	**(48.8)**	(0.3)
Repayments of obligations under finance leases	**(0.3)**	(0.9)
Net cash inflow/(outflow) from financing activities	**8.8**	(22.7)
Increase/(decrease) in cash and cash equivalents	**54.6**	(14.1)
Cash and cash equivalents at beginning of the year	**7.6**	21.8
Effect of foreign exchange rate changes	**0.9**	(0.1)
Cash and cash equivalents at end of the year	**63.1**	7.6

Notes

1. ACCOUNTS AND AUDITOR'S REPORT

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 October 2016 or 31 October 2015 but is derived from those accounts. Statutory accounts for 2015 have been delivered to the Registrar of Companies, and those for 2016 will be delivered following the Company's Annual General Meeting. The auditors have reported on these accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report, and did not contain any statements required under either section 498(2) or section 498(3) of the Companies Act 2006.

This announcement has been prepared on the basis of the accounting policies set out in the Company's financial statements for the year ended 31 October 2016.

Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards ("IFRSs"), this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to post full financial statements that comply with IFRSs on its website on 14 February 2017 (see note 11 below).

2. ANALYSIS OF UNDERLYING REVENUE, OPERATING PROFIT AND PROFIT BEFORE TAX

	Revenue	**2016 Profit**	Revenue	2015 Profit
	£m	**£m**	£m	£m
Countermeasures	**138.3**	**12.8**	125.8	17.5
Sensors & Electronics	**96.9**	**11.4**	99.1	9.3
Energetic Systems	**241.9**	**31.7**	152.4	15.1
	477.1	**55.9**	377.3	41.9
Unallocated corporate costs	**-**	**(7.4)**	-	(7.5)
Underlying revenue	**477.1**		377.3	
Underlying operating profit		**48.5**		34.4
Net finance expense		**(14.5)**		(14.6)
Underlying profit before tax		**34.0**		19.8

3. RECONCILIATION OF TOTAL OPERATING PROFIT TO UNDERLYING OPERATING PROFIT

Underlying measures are used by the Board to monitor the underlying performance of the Group. Underlying measures 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.

Set out below is a reconciliation of total operating profit from continuing operations to underlying operating profit from continuing operations:

	2016	2015
	£m	£m
Total operating profit from continuing operations	**26.2**	5.5
Add back:		
Acquisition and disposal related costs	**0.3**	0.5
Business restructuring and incident costs	**5.4**	6.4
Claim related (credit)/costs	**(0.6)**	8.5
Loan note repayment costs	**1.4**	-
Intangible amortisation arising from business combinations	**14.8**	14.0
Loss/(gain) on the movement in the fair value of derivative financial instruments	**1.0**	(0.5)
Underlying operating profit from continuing operations	**48.5**	34.4

Further details on the non-underlying items are provided earlier in this announcement.

4. 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 261,386,484 (2015 as restated: 220,675,049) and the profit on continuing operations after tax of £6.5 million (2015: £5.3 million loss). Diluted earnings per share has been calculated using a diluted average number of shares in issue, excluding own shares held, of 266,191,422 (2015 as restated: 220,675,049) and the profit on continuing operations after tax of £6.5 million (2015: £5.3 million loss).

No dilution has been recognised for the purposes of basic earnings per share in 2015 due to there being a loss per share for the year ended 31 October 2015. Dilution has, however, been recognised in the calculation of underlying earnings per share for the year ended 31 October 2016 and 31 October 2015, using a diluted average number of shares in issue, excluding own shares held, of 266,191,422 (2015 as restated: 225,030,669).

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

			2016			2015
		Ordinary shares	**Earnings per**		Ordinary shares	Earnings per
	Profit	**Number**	**share**	Loss	Number	share
	£m	**000s**	**Pence**	£m	000s	Pence
Basic - continuing operations	**6.5**	**261,386**	**2.5**	(5.3)	193,298	(2.7)
Effect of rights issue	**-**	**-**	**-**	-	27,377	0.3
Restated earnings per share	**6.5**	**261,386**	**2.5**	(5.3)	220,675	(2.4)
Additional shares issuable other than at fair value in respect of options outstanding	**-**	**4,805**	**(0.1)**	-	-	-
Diluted - continuing operations	**6.5**	**266,191**	**2.4**	(5.3)	220,675	(2.4)

The number of shares in issue differs from the number held by third parties as the Company holds some of its shares in treasury.

Reconciliation from basic earnings per share to underlying earnings per share

Underlying basic earnings are defined as earnings before acquisition and disposal related costs, business restructuring and incident costs, profit/loss on disposal of business, items deemed to be of an exceptional nature, impairment of goodwill and acquired intangibles, impairment of assets held for sale, intangible amortisation arising from business combinations and gains/losses on the movement in the fair value of derivative financial instruments, net of related tax effects. The directors consider this measure of earnings allows a more meaningful comparison of earnings trends.

	Profit £m	**Ordinary shares Number 000s**	**2016 Earnings per share Pence**	(Loss)/ profit £m	Ordinary shares Number 000s	2015 Earnings per share Pence
Basic - continuing operations	**6.5**	**261,386**	**2.5**	(5.3)	193,298	(2.7)
Non-underlying items	**20.4**	**261,386**	**7.8**	21.0	193,298	10.8
Underlying as previously stated	**26.9**	**261,386**	**10.3**	15.7	193,298	8.1
Effect of rights issue	**-**	**-**	**-**	-	27,377	(1.0)
Underlying - continuing operations	**26.9**	**261,386**	**10.3**	15.7	220,675	7.1

5. CASH GENERATED FROM UNDERLYING OPERATIONS

	2016 £m	2015 £m
Operating profit from continuing operations	**26.2**	5.5
Operating profit from discontinued operations	**4.7**	4.9
	30.9	10.4
Amortisation of development costs	**6.8**	6.2
Intangible amortisation arising from business combinations	**14.8**	14.0
Amortisation of patents and licences	**0.1**	0.2
Loss on disposal of non-current assets	**0.2**	0.3
Depreciation of property, plant and equipment	**18.4**	16.3
Loss/(gain) on the movement in the fair value of derivative financial instruments	**1.0**	(0.5)
Share-based payment expense	**1.0**	1.2
Employer contributions to retirement benefit obligations	**(5.0)**	(5.0)
Operating cash flows before movements in working capital	**68.2**	43.1
Decrease/(increase) in inventories	**13.6**	(19.1)
Increase in trade and other receivables	**(5.8)**	(3.1)
(Decrease)/increase in trade and other payables	**(1.1)**	9.3
Decrease in provisions	**(0.3)**	(5.3)
	74.6	24.9
Add back non-underlying items:		
Acquisition and disposal related credits	**(4.4)**	(4.4)
Business restructuring and incident costs	**5.4**	6.4
Claim related (credit)/costs	**(0.6)**	8.5
Loan note repayment costs	**1.4**	-
Cash generated from underlying operations	**76.4**	35.4

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.

6. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2016	2015
	£m	£m
Increase/(decrease) in cash and cash equivalents during the year	**54.6**	(14.1)
Decrease in debt and lease financing due to cash flows	**49.6**	3.0
Decrease/(increase) in net debt resulting from cash flows	**104.2**	(11.1)
Effect of foreign exchange rate changes	**(34.7)**	(5.5)
Amortisation of debt finance costs	**(2.8)**	(2.1)
Movement in net debt	**66.7**	(18.7)
Net debt at beginning of the year	**(154.3)**	(135.6)
Net debt at end of the year	**(87.6)**	(154.3)

7. ANALYSIS OF NET DEBT

	As at 1 Nov 2015 £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	**As at 31 Oct 2016 £m**
Cash at bank and in hand	7.6	54.6	-	0.9	**63.1**
Debt due within one year	-	-	(29.5)	-	**(29.5)**
Debt due after one year	(161.3)	49.2	26.7	(35.6)	**(121.0)**
Finance leases	(0.5)	0.4	-	-	**(0.1)**
Preference shares	(0.1)	-	-	-	**(0.1)**
	(154.3)	104.2	(2.8)	(34.7)	**(87.6)**

8. DIVIDEND

The final dividend of 1.3p per ordinary share will be paid on 18 May 2017 to all shareholders registered at the close of business on 28 April 2017. The ex-dividend date will be 27 April 2017. The total dividend for the year will therefore be 1.3p (2015 as restated: 2.1p). 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 2016.

9. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed. The directors of the Company had no material transactions with the Company during the year, other than in connection with their service agreements.

10. EVENTS AFTER THE BALANCE SHEET DATE

On 21 November 2016, the Group repaid $36.0 million of outstanding loan notes out of existing cash resources.

On 13 December 2016, the Group announced the appointment of Andrew Lewis as Group Finance Director. He was previously Group Finance Director of Avon Rubber p.l.c. Andrew joined Chemring on 9 January 2017 and will join the Board of Chemring on 19 January 2017, following the publication of the Group's final results for the year ended 31 October 2016.

11. 2016 ANNUAL REPORT AND ACCOUNTS

The annual report and accounts for the year ended 31 October 2016 will be posted to shareholders on 14 February 2017, and a copy will be posted on the Company's website, www.chemring.co.uk, later that day. They will also be available from that date at the registered office, Roke Manor, Old Salisbury Lane, Romsey, Hampshire, SO51 0ZN.

Annex 1

PRINCIPAL RISKS AND UNCERTAINTIES

The Board has constituted a Risk Management Committee, which meets quarterly, to review the key risks associated with the achievement of the annual budget and the five year plan for each business, the most significant health and safety risks identified at each site, and the risk control procedures implemented. The Committee reports quarterly to the Board, and through this process, the Board has identified the following principal risks currently facing the Group. The mitigating actions taken by the Group management to address these risks are also set out below. The Group's key performance indicators also give insight into how these risks and uncertainties are being managed. The Group mitigates certain elements of its risk exposure through an insurance programme that covers property and liability risks, where it is appropriate and cost effective to do so.

- **Health and safety risks** – 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.

  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.

  A Group Safety Policy Manual was introduced during the year, which sets out the best practice standards expected of all of the Group's businesses. The internal audit programme will assess compliance against these standards in 2017.

  The Group's Safety Leadership Programme continues to be rolled-out across the Group, helping to improve culture and behaviours.

  All employees receive a booklet setting out the Group's statements of intent in relation to delivery of its health and safety strategy, and the behaviours required of them as individuals. All employees are encouraged to report potential hazards, and to raise any health and safety concerns through the appropriate channels.

  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 quarterly by the Risk Management Committee.

  Health and safety is included on the agenda at every Board meeting and is discussed at the monthly Group Executive Committee meeting.

- **Environmental laws and regulations** – 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 a requirement to remediate or provide resource restoration.

  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 ISO14001, 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.

- **Possible defence budget cuts** – 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. Given the large budget deficits and the prevailing economic conditions in many NATO countries, there may be continued downward pressure on defence budgets.

  The Group's financial performance may be adversely impacted by lower defence spending by its major customers. 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 affecting the Group's traditional NATO markets, business development activities have been focused more on non-NATO markets in recent years, where defence expenditure is forecast to grow strongly over the next five to ten years. The Group continues to make progress on developing its routes to market in the Middle East, and during the year a local presence was established in the UAE.

  The Group continually assesses whether its planned organic growth strategies and product developments align with government priorities for future funding. Opportunities for development of commercial products are being explored in some areas.

  Actions have been taken to restructure and "right-size" the businesses, and reduce overheads, to ensure the businesses remain sustainable. Further site consolidation continues to be explored, within the constraints imposed by export control legislation and customer requirements.

- **Timing and value of orders** – 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. The Group anticipates that delays in the placement of orders by NATO customers, as a result of budgetary constraints, may continue in the short to medium term.

  An unmitigated delay in the receipt of orders 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.

  To mitigate the order placement dynamics within NATO markets, the Group continues to focus on the expansion of its business in non-NATO markets, where defence expenditure is forecast to increase.

  Maximising order intake remains a key objective for the businesses, and they continue to address this through the strengthening of their sales and marketing resources. A Group-wide customer relationship management system has also been established. The businesses continue to pursue long-term, multi-year contracts with their major customers wherever possible.

  The Group has undertaken various restructuring projects over the last year, 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** – 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.

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.

The Group negotiates with customers to ensure that 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 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** – 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.

  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 revenue.

  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.

  The Group continues to explore opportunities for collaboration on the establishment of local manufacturing operations in certain countries, which may remove some of the uncertainty regarding export of products.

- **Management resource** – The Group requires competent management to lead it through the next stage of its development. In challenging markets and difficult times, 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 areas such as cyber, 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.

  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.

  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** – 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.

  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.

  The Group has established an Operational Excellence Programme, with one of the objectives being to improve the Group's "right-first-time" and on-time delivery performance.

  All of the Group's businesses are required to prepare business continuity plans.

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.

The Group insures certain business interruption risks where appropriate.

Detailed plans are developed for all restructuring and consolidation projects, and progress is monitored by the Group Executive Committee.

- **Technological risks** – 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.

  Failure to obtain production contracts on major development programmes 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 Group has introduced a focused product development and technology investment approach, in order to ensure that resources are applied appropriately across the Group in support of the five year plan. A Technology Review Board has been established to review all proposed research and development projects, to ensure that key initiatives are being prioritised and to eliminate possible duplication of effort in different parts of the Group.

  Working groups have been established to drive and co-ordinate the Group's technology growth in certain key areas, such as cyber security.

- **Product liability and other customer claims** – 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; this increases the risk of possible product failure, either in use or during customers' own sample-based functional tests.

  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 impact 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** – 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.

  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. The Group's internal audit activities have been extended to include a review of compliance with its anti-bribery policies and procedures.

  A significant proportion of the Group's management have received training in relation to ethics and anti-corruption.

- **Cyber-related risks** – 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.

  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 initiated.

  The Group adopts a number of cyber security defence measures, encompassing, as appropriate to the nature of the threat and the 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.

  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 within the 2016 Annual Report and Accounts.