

CHEMRING GROUP PLC

RESULTS FOR THE YEAR ENDED 31 OCTOBER 2017

	Change	As reported 2017 [#]	Change	At 2016 exchange rates 2017	2016
Continuing operations					
Revenue	+ 15%	£547.5m	+ 11%	£528.0m	£477.1m
Underlying EBITDA*	+ 10%	£81.0m	+ 9%	£80.7m	£73.8m
Underlying operating profit*	+ 14%	£55.4m	+ 13%	£55.0m	£48.5m
Underlying profit before tax*	+ 30%	£44.1m	+ 30%	£44.1m	£34.0m
Statutory profit before tax	- 50%	£4.0m			£8.0m
Underlying earnings per share*	+ 25%	12.9p			10.3p
Dividend per share	+131%	3.0p			1.3p
Net debt	- 9%	£80.0m			£87.6m

Highlights

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

Michael Flowers, Chemring Group Chief Executive, commented:

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

"Improvements from Countermeasures and Sensors, together with the Operational Excellence Programme, are due to offset scheduled reductions in Energetics. The Group began the year with approximately £360m of orders due to be recognised as revenue in FY18, representing 70% of targeted FY18 revenues. FY18 trading performance is again likely to have a significant second half weighting.

"Order intake and revenue continues to be solid, and for the longer term, continued progress has been made on all three US Programs of Record, particularly HMDS.

"The Board's expectations for the Group's FY18 performance remain unchanged based on current FX rates."

Notes:-

IFRS 15 *Revenue from Contracts with Customers* has been adopted as at 1 November 2016 and the figures stated for 2017 include the impact of this adoption. Further details can be found in note 12.

*The principal Alternative Performance Measures (“APMs”) presented are the underlying measures of earnings which exclude discontinued operations, exceptional items, gain or loss on the movement on the fair value of derivative financial instruments, and the amortisation of acquired intangibles. The Directors believe that these APMs improve the comparability of information between reporting periods. The term underlying is not defined under IFRS and may not be comparable with similarly titled measures used by other companies.

All profit and earnings per share figures in this announcement relate to underlying business performance (as defined above) unless otherwise stated.

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

Group:	Underlying	Non-underlying	Statutory
EBITDA (£m)	81.0	(24.1)	56.9
Operating profit (£m)	55.4	(40.1)	15.3
Profit before tax (£m)	44.1	(40.1)	4.0
Tax charge (£m)	(8.1)	7.2	(0.9)
Profit after tax (£m)	36.0	(32.9)	3.1
Basic earnings per share (pence)	12.9	(11.8)	1.1
Diluted earnings per share (pence)	12.6	(11.5)	1.1
Segments:			
Countermeasures EBITDA (£m)	29.8	(2.6)	27.2
Countermeasures operating profit (£m)	16.7	(4.0)	12.7
Sensors EBITDA (£m)	20.2	(5.4)	14.8
Sensors operating profit (£m)	14.3	(12.4)	1.9
Energetics EBITDA (£m)	41.2	(16.2)	25.0
Energetics operating profit (£m)	34.8	(23.8)	11.0

The adjustments comprise:

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

Further details are provided in note 3.

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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 2,500 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, and Energetics
- 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 18 January 2018. A recording of the audio webcast will be available later that day. Original high-resolution photography is available to the media by contacting Luke Briggs, MHP Communications: luke.briggs@mhpc.com / tel: 020 3128 8100.

This announcement contains inside information that qualified, or may have qualified, as inside information for the purposes of Article 17 of the Market Abuse Regulation (EU) 596/2014 (MAR). For the purposes of MAR and Article 2 of commission Implementing Regulation (EU) 2016/1055, this announcement is made by Sarah Ellard, Company Secretary, for Chemring Group PLC.

Group overview

2017 has seen the Group build upon many of the efforts of previous years and deliver a strong and consistent performance across all operational and functional areas. The Group has focused on maintaining and developing a safe and sustainable business and by investing in our infrastructure, people and technology, we are creating opportunities to deliver future growth.

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

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

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

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

Health & Safety

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

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

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

Strategy

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

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

Countermeasures

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

Sensors

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

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

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

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

Energetics

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

Operational overview

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

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

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

Operational Excellence Programme

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

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

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

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

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

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

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

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

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

Segmental review – Countermeasures

- Revenue: £134.8m (2016: £138.3m)
- Underlying operating profit: £16.7m (2016: £12.8m)
- Underlying operating margin: 12.4% (2016: 9.3%)

Performance

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

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

The facility consolidation at Philadelphia from two sites to one, originally planned for the second quarter of FY17, was delayed due to urgent requirements from our US customer. This adversely impacted margins in the first half as we continued to run a sub-optimal cost base. Shortly after the half-year the second site was closed and the consolidation and modernisation of the remaining site was completed in the second half. The restructuring cost in 2017 was £1.6m, of which £1.1m was a cash cost, and it has delivered £1.3m of annualised savings from the beginning of the second half of 2017.

Opportunities and outlook

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

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

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

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

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

With a solid order book in place, FY18 trading performance for Countermeasures is expected to be positive, albeit with a significant bias towards the second half.

Segmental review – Sensors

- Revenue: £94.5m (2016: £96.9m)
- Underlying operating profit: £14.3m (2016: £11.4m)
- Underlying operating margin: 15.1% (2016: 11.8%)

Performance

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

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

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

Roke's historical end markets were subdued in 2017 due to continued budgetary pressure from its largest Government customer, yet despite this the improving performance trend from 2016 continued.

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

Opportunities and outlook

The focus for Sensors continues to be on expanding the Group's product, service and capability offerings in the areas of tactical electronic warfare and cyber-security, and securing positions on the US DoD Programs of Record. In September 2017 a Request for Proposal ("RFP") was received for the EMD and production phase for the first of the three NGCD variants. Government decision is expected in mid-2018. The RFP was in line with the Group's expectations and the overall size of the programme is significant. Tenders for other phases of NGCD are expected in 2018. Funded development of Chemring's sole source position on the JBTDS program is continuing with Government testing of product ongoing. Critical Design Review, led by the Joint Program Executive Office for Chemical and Biological Defense, occurred in November 2017. The review concluded that the program was sufficiently advanced to progress to the next stage of customer testing, which would occur during FY18. In addition a further \$5m of funding was provided to cover on-going development activity.

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

Investment at Roke shall continue to focus on its people, to ensure their training and development matches emergent market needs, and organisational development to ensure we can recruit and retain the right mix of staff

in a resource constrained market. Having consolidated our position in traditional markets, we shall now look to expand our offerings, particularly in the cyber-security market, to international and commercial customers.

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

FY18 trading performance for Sensors is expected to show an improvement on FY17, driven primarily by Roke and HMDS awards.

Segmental review - Energetics

- Revenue: £318.2m (2016: £241.9m)
- Underlying operating profit: £34.8m (2016: £31.7m)
- Underlying operating margin: 10.9% (2016: 13.1%)

Performance

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

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

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

Aside from these large contracts, segmental revenue grew by 16% reflecting the valued niche technology and capability demonstrated in the energetic devices field. At our devices and propellant facility in Scotland, award of three multi-year contracts for supply of Metron actuators and propellant into the fire suppression, commercial aerospace and marine safety markets, combined with our long-term supply agreements with the UK MOD and Martin Baker will see annual revenues from long term contracts near £20m, or 60% of historical revenue levels. Our high explosive manufacturing business in Norway has achieved record order intake levels with significant investment being undertaken to enhance capacity, which will continue in 2018.

Opportunities and outlook

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

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

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

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

FY18 trading performance for Energetics is expected to show a reduction on FY17, driven primarily by lower volumes of 40mm ammunition.

Group Financial Performance

Revenue from continuing operations was £547.5m (2016: £477.1m). This revenue generated an underlying operating profit of £55.4m (2016: £48.5m).

Underlying profit before tax increased by 30% from £34.0m to £44.1m, resulting in underlying earnings per share of 12.9p (2016: 10.3p), an increase of 25%.

The closing order book decreased by £114.9m during the year and at 31 October 2017 was £478.0m (2016: £592.9m). The fall was partly attributable to foreign exchange translation and partly due to the fulfilment of large contracts in the Energetics segment.

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

Adoption of IFRS 15 – Revenue from contracts with customers

The Group has adopted IFRS 15 for its 2017 financial year and the Board believes that this represents a move to a more prudent basis of revenue recognition. The majority of the Group's transactions are unaffected by IFRS 15, however when IFRS 15 is applied to a small number of customer contracts this leads to a difference in the timing of recognising revenue. As permitted by the standard, the Group has adopted the modified transitional provisions and as such the 2016 results remain as previously reported. For further details see Note 12.

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

Finance expenses

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

Tax

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

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

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

Earnings per share

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

Net debt and cash flow

Net debt at 31 October 2017 was £80.0m (2016: £87.6m).

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

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

Debt facilities

The Group's principal debt facilities comprised £114.3m of private placement loan notes, of which £51.4m was repaid on 13 November 2017, and a £100.0m revolving credit facility. The revolving credit facility was established in July 2014, is with a syndicate of three banks and had a four-year initial term. On 27 April 2017 this was extended by one year to July 2019. The Group had £106.0m (2016: £108.0m) of undrawn borrowing facilities at the year end.

The Group is subject to two key financial covenants, which are tested quarterly. These covenants relate to the leverage ratio between underlying EBITDA and debt; and the interest cover ratio between underlying EBITDA and finance costs. The calculation of these ratios involves the translation of non-Sterling denominated debt using average, rather than closing, rates of exchange. The revolving credit facility and the loan notes have differing covenant compliance calculations. The Group was in compliance with the covenants throughout the year.

Retirement benefit obligations

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

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

Dividends

The Board is recommending a final dividend in respect of the year to 31 October 2017 of 2.0p (2016: 1.3p) per ordinary share. With the interim dividend of 1.0p per share (2016: nil), this results in a total dividend of 3.0p (2016: 1.3p). If approved, the final dividend will be paid on 20 April 2018 to shareholders on the register on 6 April 2018. In accordance with accounting standards, this final dividend has not been recorded as a liability as at 31 October 2017.

Board of Directors

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

Current trading and outlook

Trading since the start of FY18 has been in line with expectations across all businesses.

While we continue to work towards a more balanced delivery of revenue and profit, the expected profile of orders, revenue and margins in FY18, combined with the routine seasonality within the business, means that the Group again expects to reflect a significant second-half weighting to trading performance.

The order book as at 31 October 2017 was £478.0m, of which £360.9m is currently expected to be recognised as revenue in FY18.

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

The Board's expectations for the Group's performance for FY18 remain unchanged, based on current foreign exchange rates.

Going concern

The Group's business activities, key performance indicators, and principal risks and uncertainties are described within the 2017 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 2019, being at least twelve months after the date of approval of the financial statements. This is in addition to the Group's longer-term strategic planning process. In assessing the forecast, the directors have considered:

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

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

The directors have acknowledged the latest guidance on going concern. They have made appropriate enquiries and taken into account factors which are detailed in the strategic report within the 2017 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.

Long-term viability statement

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

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

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

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

Principal risks and uncertainties

The principal risks and uncertainties which could have material impact on the Group's performance and could cause actual results to differ materially from expected and historical results have not changed significantly from those set out in the Group's 2016 Annual Report and Accounts and the 2017 interim report. A detailed description of the

Group's principal risks and uncertainties and the ways they are mitigated can be found on pages 28 to 33 of the Group's 2017 Annual Report and Accounts. 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 2017. 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 18 January 2018, and has been signed on its behalf by Michael Flowers and Sarah Ellard.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 October 2017

	2017			2016		
	Underlying performance* £m	Non-underlying items* £m	Total £m	Underlying performance* £m	Non-underlying items* £m	Total £m
Continuing operations						
Revenue	547.5	-	547.5	477.1	-	477.1
Operating profit	55.4	(40.1)	15.3	48.5	(22.3)	26.2
Finance expense	(11.3)	-	(11.3)	(14.5)	(3.7)	(18.2)
Profit before tax	44.1	(40.1)	4.0	34.0	(26.0)	8.0
Taxation	(8.1)	7.2	(0.9)	(7.1)	5.6	(1.5)
Profit after tax	36.0	(32.9)	3.1	26.9	(20.4)	6.5
Discontinued operations						
Profit after tax from discontinued operations	-	3.5	3.5	-	4.6	4.6
Profit after tax	36.0	(29.4)	6.6	26.9	(15.8)	11.1
Earnings per ordinary share						
Continuing operations						
Basic	12.9p	(11.8)p	1.1p	10.3p	(7.8)p	2.5p
Diluted	12.6p	(11.5)p	1.1p	10.1p	(7.7)p	2.4p
Continuing operations and discontinued operations						
Basic	12.9p	(10.5)p	2.4p	10.3p	(6.1)p	4.2p
Diluted	12.6p	(10.3)p	2.3p	10.1p	(5.9)p	4.2p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 October 2017

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 October 2017

	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2016	2.8	305.1	12.9	1.1	(20.7)	121.8	(9.6)	413.4
Impact of adoption of IFRS15 (note 12)	-	-	-	-	-	(10.2)	-	(10.2)
Profit after tax	-	-	-	-	-	6.6	-	6.6
Other comprehensive income	-	-	-	-	(4.1)	4.4	-	0.3
Tax relating to components of other comprehensive income	-	-	-	-	-	(4.3)	-	(4.3)
Total comprehensive income	-	-	-	-	(4.1)	6.7	-	2.6
Ordinary shares issued	-	0.2	-	-	-	-	-	0.2
Share-based payments (net of settlement)	-	-	-	-	-	1.6	-	1.6
Dividend paid	-	-	-	-	-	(6.4)	-	(6.4)
At 31 October 2017	2.8	305.3	12.9	1.1	(24.8)	113.5	(9.6)	401.2

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

CONSOLIDATED BALANCE SHEET

as at 31 October 2017

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

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 October 2017

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

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 2017 or 31 October 2016 but is derived from those accounts. Statutory accounts for 2016 have been delivered to the Registrar of Companies, and those for 2017 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 2017.

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 15 February 2018 (see note 14 below).

Recent accounting developments

The following standards, amendments and interpretations have been issued by the International Accounting Standards Board (IASB) or by the IFRS IC. The Group's approach to these is as follows:

i) The following International Financial Reporting Committee ("IFRIC") interpretations, amendments to existing standards and new standards were adopted in the year ended 31 October 2017 but have not materially impacted the reported results or the financial position:

- Amendments to IFRS 10, IFRS 12 and IAS 28, *Investment Entities: Applying the Consolidation Exception*;
- IFRS 11 (amended) *Accounting for Acquisitions of an Interest in a Joint Operation*;
- Amendments to IAS 16 and IAS 38, *Clarification of Acceptable Methods of Depreciation and Amortisation*;
- IAS 1 *Presentation of Financial Statements*, amendments resulting from the disclosure initiative;
- IAS 27 (amended) *Equity Method in Separate Financial Statements*; and
- Annual Improvements to IFRSs 2012-2014 Cycle.

ii) In the year ended 31 October 2017, the following standard was adopted and has affected the amounts reported in 2017 results:

- IFRS 15 *Revenue from Contracts with Customers* (effective for periods beginning on or after 1 January 2018 with early adoption permitted)

iii) At the date of authorisation of this announcement, the following standards and interpretations that are potentially relevant to the Group and which have not yet been applied in these reported results were in issue but not yet effective (and in some cases had not yet been adopted by the European Union):

Effective for periods beginning on or after 1 January 2017

- Amendments to IAS 7 *Statement of Cash Flows*
- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

Effective for periods beginning on or after 1 January 2018

- Amendments to IFRS 2 *Classification and Measurement of Share-based Payment Transactions*;
- IFRS 9 *Financial Instruments Recognition and Measurement* ;
- Annual Improvements to IFRSs 2014-2016 Cycle; and
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

Effective for periods beginning on or after 1 January 2019

- IFRS 16 *Leases*
- Annual Improvements to IFRSs 2015-2017 Cycle
- IFRIC 23 *Uncertainty over Income Tax Treatments*

Effective for periods beginning on or after 1 January 2021

- IFRS 17 *Insurance Contracts*

The Directors do not expect the adoption of these standards and interpretations will have a material impact on the results of the Group in future periods except as follows:

- IFRS 9 *Financial Instruments Recognition and Measurement* will impact the measurement and disclosure of financial instruments; and
- IFRS 16 *Leases* will impact the measurement, recognition, presentation and disclosure of leases, particularly operating leases where the term is longer than 12 months.

The impact of IFRS 16 *Leases* is currently being assessed. Under IFRS 16 *Leases*, lessees will be required to apply a single model to recognise a lease liability and asset for all leases, including those classified as operating leases under current accounting standards, unless the underlying asset has a low value or the lease term is 12 months or less. The adoption of IFRS 16 will have a significant impact on the results as each lease will give rise to a right of use asset which will be depreciated on a straight line basis, and a lease liability with a related interest charge. The depreciation and interest will replace the operating lease payments currently recognised as an expense. The impact will depend on the transition approach and the contracts in effect at the time of the adoption. At 31 October 2017, operating lease commitments were £5.5m and operating lease payments for 2017 were £1.8m.

Beyond this information, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been conducted during 2018.

2. SEGMENTAL ANALYSIS

Year ended 31 October 2017

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

Year ended 31 October 2016

	Countermeasures £m	Sensors £m	Energetics £m	Unallocated £m	Group £m
Revenue	138.3	96.9	241.9	-	477.1
Segment result before depreciation, amortisation and non-underlying items	25.2	18.0	37.8	(7.2)	73.8
Depreciation	(10.6)	(2.2)	(5.5)	(0.1)	(18.4)
Amortisation	(1.8)	(4.4)	(0.6)	(0.1)	(6.9)
Segmental underlying operating profit	12.8	11.4	31.7	(7.4)	48.5
Amortisation of acquired intangibles	(0.2)	(7.1)	(7.5)	-	(14.8)
Non-underlying items	(0.9)	(0.8)	(3.3)	(2.5)	(7.5)
Segmental operating profit	11.7	3.5	20.9	(9.9)	26.2
Finance expense	-	-	-	(18.2)	(18.2)
Profit before tax	11.7	3.5	20.9	(28.1)	8.0
Tax	-	-	-	(1.5)	(1.5)
Profit for the year from continuing operations	11.7	3.5	20.9	(29.6)	6.5
Discontinued operations	-	-	-	4.6	4.6
Profit for the year	11.7	3.5	20.9	(25.0)	11.1

3. ALTERNATIVE PERFORMANCE MEASURES AND DISCONTINUED OPERATIONS

The principal Alternative Performance Measures (“APMs”) presented are the underlying measures of earnings which exclude discontinued operations, exceptional items, gain or loss on the movement on the fair value of derivative financial instruments, and the amortisation of acquired intangibles. The Directors believe that these APMs improve the comparability of information between reporting periods. The term underlying is not defined under IFRS and may not be comparable with similarly titled measures used by other companies.

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

Acquisition and disposal related costs of £2.3m relate to transactions costs and an earnout payment on the acquisition of Wallop Defence Systems' assets for which no provision was made at the time of acquisition.

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

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

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

Included in non-underlying items is a £1.7m gain on the movement in fair value of derivative financial instruments and the amortisation charge arising from business combinations of £15.0m.

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 279,244,616 (2016: 261,386,484).

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

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

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

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

5. CASH GENERATED FROM UNDERLYING OPERATIONS

	2017 £m	2016 £m
Operating profit from continuing operations	15.3	26.2
Operating profit from discontinued operations	3.5	4.7
	18.8	30.9
Amortisation of development costs	6.9	6.8
Intangible amortisation arising from business combinations	15.0	14.8
Amortisation of patents and licences	0.2	0.1
Loss on disposal of property, plant and equipment	0.3	0.2
Depreciation of property, plant and equipment	18.5	18.4
(Gain)/loss on the movement in the fair value of derivative financial instruments	(1.7)	1.0
Share-based payment expense	1.9	1.0
Operating cash flows before movements in working capital	59.9	73.2
(Increase)/decrease in inventories	(6.0)	13.6
(Increase) in trade and other receivables	(32.3)	(5.8)
Increase / (decrease) in trade and other payables	2.3	(1.1)
(Decrease) in provisions	(0.1)	(0.3)
	23.8	79.6
Add back non-underlying items:		
Acquisition and disposal related credits	(1.2)	(4.4)
Business restructuring and incident costs	14.3	5.4
Claim related costs/(credits)	0.4	(0.6)
Impairment of business	9.8	-
Loan note repayment costs	-	1.4
Cash generated from underlying operations	47.1	81.4
Cash impact of non-underlying items	(6.3)	(8.1)
Cash generated from operating activities	40.8	73.3

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

	2017 £m	2016 £m
(Decrease)/increase in cash and cash equivalents during the year	(29.4)	54.6
Decrease in debt and lease financing due to cash flows	29.4	49.6
Decrease in net debt resulting from cash flows	-	104.2
Effect of foreign exchange rate changes	10.0	(34.7)
Amortisation of debt finance costs	(2.4)	(2.8)
Movement in net debt	7.6	66.7
Net debt at beginning of the year	(87.6)	(154.3)
Net debt at end of the year	(80.0)	(87.6)

7. ANALYSIS OF NET DEBT

	As at 1 Nov 2016 £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	As at 31 Oct 2017 £m
Cash at bank and in hand	63.1	(29.4)	-	(0.1)	33.6
Debt due within one year	(29.5)	28.8	(54.5)	3.6	(51.6)
Debt due after one year	(121.0)	0.5	52.1	6.5	(61.9)
Finance leases	(0.1)	0.1	-	-	-
Preference shares	(0.1)	-	-	-	(0.1)
	(87.6)	-	(2.4)	10.0	(80.0)

8. DIVIDEND

As announced on 17 March 2017 a 2016 full year dividend of 1.3p per ordinary share was paid to shareholders on 18 May 2017 to shareholders on the register on 28 April 2017.

An interim dividend in respect of 2017 of 1.0p per ordinary share was paid on 15 September 2017.

The Board is recommending a final dividend in respect of the year to 31 October 2017 of 2.0p (2016: 1.3p) per ordinary share. With the interim dividend of 1.0p (2016: nil), this results in a total dividend of 3.0p (2016: 1.3p) per ordinary share. If approved, the final dividend will be paid on 20 April 2018 to shareholders on the register on 6 April 2018. In accordance with accounting standards this final dividend has not been recorded as a liability as at 31 October 2017.

9. EXCHANGE RATES

The following exchange rates applied during the year:

	Average rate 2017	Closing rate 2017	Average rate 2016	Closing rate 2016
US Dollar	1.30	1.33	1.28	1.22
AU Dollar	1.68	1.73	1.82	1.60

For the year ended 31 October 2017, a 10 cent decrease in the US dollar exchange rate would have increased reported underlying operating profit by approximately £2.8m and increased reported net debt by approximately £8.9m.

10. CONTINGENT LIABILITIES

The Group is, from time to time, party to legal proceedings and claims, and is involved in correspondence relating to potential claims, which arise in the ordinary course of business.

A dispute between Alloy Surfaces Company, Inc. and the US Army, in relation to disputed pricing of a certain historic contract fulfilled by Alloy Surfaces Company, Inc., proceeded to a hearing in front of the US Armed Services Board of Contract Appeals ("ASBCA") in April 2017. ASBCA is expected to take approximately two years to issue its decision in relation to this matter. The range of possible outcomes is between £nil to £12.0m. A provision of £1.1m (2016: £1.8m) exists to cover estimated legal costs for the Group with regards to this issue.

The Serious Fraud Office (the "SFO") is currently undertaking a formal investigation into concerns about bribery, corruption and money laundering involving intermediaries who previously represented one of the Group's UK-based subsidiaries, Chemring Technology Solutions Limited ("CTSL") and its predecessor companies.

The investigation commenced following a voluntary report made by CTSL relating to two specific historic contracts, the first of which was awarded prior to the Group's ownership of the business concerned and the second in 2011, neither of which are considered to be material in the context of the Group. It is too early to predict the outcome of the SFO's investigation. The Group continues to co-operate fully with the SFO in its investigation, and will provide a further update as and when appropriate.

11. EVENTS AFTER THE BALANCE SHEET DATE

On 13 November 2017, the Group repaid £5.3m and \$61.2m of outstanding loan notes out of existing bank debt facilities and cash resources.

12. ADOPTION OF IFRS 15

The Group has adopted IFRS 15 for its 2017 financial year. The majority of the Group's transactions are unaffected by IFRS 15, however when IFRS 15 is applied to a small number of customer contracts this leads to a difference in the timing of recognising revenue. As permitted by the standard, the Group has taken advantage of the modified transitional provisions and as such the 2016 results remain as previously reported. Under the modified approach the cumulative approach of initially applying the standard is recognised at 1 November 2016 with no restatement of prior periods.

An adjustment to brought forward retained earnings of £10.2m has been recognised in the Consolidated Statement of Changes in Equity, representing the reversal of certain revenue that met the criteria for revenue recognition under previously applicable accounting standards but does not do so under IFRS 15. This also reduced receivables and payables but increased inventory as at 1 November 2016.

The impact of adoption in the year to 31 October 2017 can be seen below and arises from revenue recognised in prior periods which would instead have been deferred to the current period under IFRS 15.

	Pre IFRS 15 £m	IFRS 15 adjustment £m	Underlying as reported £m
Continuing operations			
Revenue	531.2	16.3	547.5
Underlying operating profit	50.5	4.9	55.4
Finance expense	(11.3)	-	(11.3)
Underlying profit before tax	39.2	4.9	44.1
Tax charge	(7.2)	(0.9)	(8.1)
Underlying profit after tax	32.0	4.0	36.0

In addition, a number of transactions, with a broadly equivalent operating profit impact, will now be recognised in 2018 that could have previously been recognised in 2017. This timing difference is expected to recur at each reporting period end, albeit at a different quantum.

The adoption of IFRS 15 had the effect of increasing revenue by £0.2m and operating profit by £0.5m in Countermeasures, increasing revenue by £2.8m and operating profit by £1.5m in Sensors and increasing revenue by £13.3m and operating profit by £2.9m in Energetics.

The affected contracts are a combination of contracts for the provision of products. The significant risks and rewards of ownership had transferred but there remained an element of control, typically an undertaking to arrange elements of shipping on behalf of the customer, and hence the timing of revenue recognition is later under IFRS 15.

13. 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.

14. 2017 ANNUAL REPORT AND ACCOUNTS

The annual report and accounts for the year ended 31 October 2017 will be posted to shareholders on 15 February 2018, 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.