FOR IMMEDIATE RELEASE 24 JUNE 2014

CHEMRING GROUP PLC

INTERIM RESULTS FOR THE SIX MONTHS TO 30 APRIL 2014

	2014	2013
Including discontinued operations		
Revenue	**£277.4m**	£297.4m
Underlying operating profit[1]	**£27.0m**	£35.1m
Underlying operating margin[1]	**9.7%**	11.8%
Underlying profit before tax[1]	**£18.0m**	£25.2m
Net debt	**£229.2m**	£275.1m
Underlying earnings per share[1]	**7.3p**	10.0p
Dividend per share[2]	**2.4p**	3.4p
Total operating (loss)/profit	**£(63.0)m**	£0.7m
Loss before tax	**£(72.0)m**	£(9.2)m
Total loss per share	**(37.5)p**	(1.8)p
Continuing operations		
Revenue	**£208.8m**	£225.4m
Underlying operating profit[1]	**£22.4m**	£28.7m
Underlying operating margin[1]	**10.7%**	12.7%
Underlying profit before tax[1]	**£13.4m**	£19.1m
Underlying earnings per share[1]	**5.4p**	7.4p
Total operating profit/(loss)	**£14.1m**	£(3.1)m
Profit/(loss) before tax	**£5.1m**	£(12.7)m
Total earnings/(loss) per share	**2.4p**	(3.6)p

[1] Underlying measures referred to in this announcement are stated before costs relating to acquisitions and disposals, business restructuring and incident costs, profit on disposal of businesses, items deemed to be of an exceptional nature, impairment of goodwill and acquired intangibles, impairment of other net assets held for sale, amortisation of acquired intangibles and gains/losses on the movement in the fair value of derivative financial instruments, as stated in the 2013 Annual Report and Accounts. Further details of underlying and total measures are shown in notes 2 and 5.

[2] The interim dividend of 2.4p per ordinary share will be paid on 15 August 2014 to shareholders on the register at 25 July 2014. The ex-dividend date is 23 July 2014.

Highlights

- Overall interim results in line with expectations. Full year outlook remains broadly unchanged before the effect of further foreign exchange headwind in the second half
- Strong margins in Sensors & Electronics and good operational progress in Energetic Sub-Systems mitigates ongoing issues in US Countermeasures business
- Significant reduction in net debt to £229.2 million at period end (2013: £275.1 million) before receipt of disposal proceeds, reflecting inherent cash generative nature of the business
- Completed small but significant acquisition of 3d-Radar, which consolidates Chemring's leading international position in ground penetrating radar

Divestment of European Munitions Business

- Strategic disposal completed on 27 May 2014, £134.5 million (€165.3 million) proceeds received
- Chemring is now a focused defence technology business with well-established core competencies and world leading positions in Countermeasures, Sensors & Electronics and Energetic Systems
- Whilst dilutive to earnings, the divestment significantly strengthens Chemring's balance sheet, creating greater flexibility to pursue growth opportunities in chosen markets
- Concludes the disposal process that resulted from the 2013 strategic review

Appointment of Group Chief Executive

- A separate announcement has been made today regarding the appointment of Michael Flowers as Group Chief Executive with immediate effect

Peter Hickson, Chairman of Chemring, commented:

"The Group has made important progress in the period, re-focusing its operations and strengthening the balance sheet to create greater flexibility to invest for growth. The divestment of the European munitions business was a key milestone for Chemring and concludes the disposal processes stemming from the 2013 strategic review.

As a result, we are now moving to a position where we can take advantage of the stronger platform that has been created. The appointment of Michael Flowers, with his proven track record, both within the international defence industry and within Chemring, places us in a strong position to build on our world leading technologies and market positions in Countermeasures, Sensors & Electronics and Energetic Systems.

While end markets remain challenging and customer behaviour difficult to predict, we will continue to drive operational efficiencies. We are also pursuing growth opportunities, particularly in non-NATO and commercial markets. Excluding the effects of further movements in exchange rates, the Board's outlook for the full year remains broadly unchanged."

For further information:

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Michael Flowers	Group Chief Executive, Chemring Group PLC	01489 881880
Steve Bowers	Group Finance Director, Chemring Group PLC	01489 881880
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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 manufacturing business with facilities in four countries, selling high-technology electronics and energetic products to over fifty countries worldwide.

- Chemring has a diverse portfolio of products protecting military people and platforms against constantly changing threats.

- Operating in niche markets with short product development timescales, Chemring has the agility to react rapidly to urgent customer needs.

- Strong research and development investment in new products and improvements in technology enable Chemring to expand its addressable markets.

Presentation

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 Tuesday 24 June 2014. The presentation can also be listened to at that time by dialling +44 (0) 20 3059 8125 and using the participant password of Chemring. A recording of the audio webcast will be available later that day.

Photography

Original high resolution photography is available to the media by contacting Ben Griffiths, MHP Communications: ben.griffiths@mhpc.com / tel: 0203 128 8100.

Interim Management Statement

Chemring's third quarter Interim Management Statement is scheduled to be released on Wednesday 17 September 2014.

INTERIM MANAGEMENT REPORT

Group overview - including discontinued operations

Revenue, including discontinued operations, reduced by 6.7% to £277.4 million (2013: £297.4 million) and underlying profit before tax was 28.6% lower at £18.0 million (2013: £25.2 million). Underlying earnings per share were 7.3p (2013: 10.0p), a reduction of 27.0%. The results were, as anticipated, impacted by lower activity levels, but were also affected by adverse foreign exchange rate movements. On a constant currency basis, revenue was 2.8% lower than the comparative period and underlying profit before tax was 23.2% lower.

The total order book reduced by 12.5% over the period to £591.1 million (October 2013: £675.5 million). Excluding businesses disposed of, the Group's order book at 30 April 2014 was £401.8 million (October 2013: £485.2 million), of which £175.6 million is scheduled for delivery during the current financial year.

Since the period end the Group successfully divested its European munitions business for £134.5 million (€165.3 million). This transaction has re-shaped Chemring for future growth, resulting in a more focused defence technology business with well-established and world leading positions in Countermeasures, Sensors & Electronics and Energetic Systems. At the same time, the disposal significantly strengthened the Group's balance sheet, reducing net debt, providing the Group with greater flexibility to re-invest in the growth opportunities that these market positions create, whilst avoiding expenditure that would otherwise have been required in the near term within the divested business.

Update on Performance Recovery Programme

The two year Performance Recovery Programme, announced in January 2013, is yielding sustainable improvements in operational performance. Further improvements will be made during the second half, providing increased resilience to difficult market conditions.

A key priority was the divestment of non-core businesses and the consequent reduction of net debt. On 19 December 2013, the Group completed the sale of Chemring Energetic Devices' build-to-print business located in Clear Lake, South Dakota for $10.0 million (£5.9 million).

On 27 May 2014, the Group completed the sale of its European munitions business based in Belgium and Italy, for £134.5 million (€165.3 million) and, on the same date, also sold Chemring Defence Germany for £2.2 million (€2.8 million). The related revaluation of net assets related to these businesses has led to an impairment charge of £70.2 million in the period.

This divestment programme, which is now complete, has enabled the Group to strengthen its balance sheet, providing a more stable financial platform and greater flexibility to invest. The Group now has the core technologies, products and market positioning to achieve sustainable improvements in margins and revenue.

Markets

The major declines in defence budgets in the US and the rest of NATO result from the withdrawal from Afghanistan and economic austerity measures. However, the latest analysis of global defence spending confirms the previously identified trends, with the rate of decline moderating through 2015, before stabilising and slowly recovering from 2016.

The US still dominates defence spending, accounting for approximately 40% of the global spend. The US Overseas Contingency Operations budget is contracting rapidly and forward funding remains very uncertain, counteracting proposed increases in the FY16 baseline budget. Specifically for Chemring, the countermeasures market remains at minimum sustaining levels, but key programmes such as the F-35 Joint

Strike Fighter, the Patriot missile enhancement project and the Husky Mounted Detection System ("HMDS") ground penetrating radar Program of Record have the potential to generate substantial revenues over the longer term.

In Europe, defence budgets remain very tight as a result of sustained austerity programmes. A limited recovery in demand for countermeasures has begun and there is continued interest in advanced flare technology.

Growth in defence spending continues in the Middle and Far East. There is some slowing of growth as major procurement programmes complete, but regional tensions continue to drive demand for Chemring's countermeasures and electronics products. The South American market, while still relatively small, continues to grow.

Countermeasures review

The Countermeasures segment had a mixed first half, with revenue reducing by 23.7% to £43.5 million (2013: £57.0 million) and underlying operating profit down 69.4% to £1.5 million (2013: £4.9 million). The operating margin reduced to 3.4% (2013: 8.6%).

The most significant factor in this performance was the tragic incident at Chemring Countermeasures USA's Kilgore facility on 22 February 2014, in which an employee was fatally injured. All production was suspended while an investigation took place. Following regulatory clearance, a structured and controlled re-start commenced in March 2014. The portion of the facility where the incident occurred is in the process of being re-commissioned and, subject to receipt of appropriate regulatory clearances, is expected to re-open in August 2014.

The impact on Chemring Countermeasures USA from reduced demand as a result of the drawdown from Afghanistan has been compounded by continued operational issues which the Group is actively addressing. The recently appointed General Manager of the Kilgore site is driving significant improvements which have already been reflected in better process controls and site management. While uncertainties regarding the US defence budget continue to cause delays to orders and sales, there are signs that volumes have stabilised. An encouraging sign of longer term prospects was the receipt in January 2014 of a $1.6 million production order for initial supplies to the F-35 Joint Strike Fighter programme.

Chemring Countermeasures UK had a strong start to the year, with order intake significantly ahead of the comparative period as a number of orders relating to the Typhoon programme and naval countermeasures were received earlier than expected, indicating that customer demand is stabilising. Operational improvements are delivering enhanced quality and productivity.

Chemring Australia's performance was comparable to the prior year, as expenditure by the Australian Defence Force stabilised following the Afghanistan withdrawal. Work on the Joint Strike Fighter project continues to progress towards Chemring Australia's objective of becoming a qualified supplier of the principal flare used on this platform.

Countermeasures' order book of £161.8 million was broadly unchanged during the period (October 2013: £160.8 million).

Sensors & Electronics review

Revenue for Sensors & Electronics decreased by 12.6% to £94.7 million (2013: £108.3 million) and underlying operating profit reduced by 7.5% to £23.3 million (2013: £25.2 million). The operating margin increased to 24.6% (2013: 23.3%), with this strong performance due to operational efficiencies at the US business and the fulfilment of major orders, enabling contract risk reserves to be released.

The integration in 2013 of the US businesses to form Chemring Sensors & Electronic Systems ("CSES") is realising cost benefits, allowing improved leverage of the Group's technology capabilities and enabling better customer interaction. The contract with the US Department of Defense ("DoD") for the supply of the HMDS ground penetrating radar performed strongly, with all orders being completed during the period, slightly ahead of expectations. A final order under this indefinite-delivery/indefinite-quantity contract, previously anticipated in the second half of the current financial year, is now not expected to materialise. However, this is anticipated to be largely offset by a number of funded research and development awards, and ground penetrating radar opportunities with non-NATO customers including some which have resulted from the recent acquisition of 3d-Radar.

On 9 May 2014, Chemring completed the strategically important technology acquisition of 3d-Radar, consolidating its position as a world leader in ground penetrating radar. 3d-Radar, based in Norway, was acquired for a cash consideration of $3.0 million (£1.8 million). 3d-Radar's ground penetrating radar technology is not restricted by US International Traffic in Arms Regulations ("ITAR"), enabling Chemring to target significant opportunities in both non-NATO and commercial markets which were hitherto not accessible to the Group. 3d-Radar is already benefitting from access to Chemring's sales and distribution channels.

The chemical and biological detection systems business delivered a strong performance and was awarded a final contract for the supply of Joint Biological Point Detection Systems to the US Army. A proposal for the DoD's Next Generation Chemical Detection system has been submitted and a funded research and development award is expected in the coming months. CSES also submitted a proposal for the next generation Joint Biological Tactical Detection System, a $179.0 million biological detection development program. CSES's latest product introduction, the JUNO hand-held chemical vapour detector, received its first order from the US Army Corp of Engineers in May 2014.

In the UK, Chemring Technology Solutions had a mixed first half. Revenue reduced slightly due to a number of orders being delayed. The sale of the Resolve electronic warfare manpack system to a new customer in the Middle East was encouraging and an innovative enterprise security solution, Perception, has been launched with technical evaluations now underway.

The order book for Sensors & Electronics at 30 April 2014 was £50.1 million (October 2013: £106.2 million). As anticipated, this reduction reflects the fulfilment of a number of US based product orders. Programs such as HMDS and certain chemical detection products are commencing the transition from being funded as Urgent Operational Requirements to being funded as Programs of Record within the DoD's base budget. Bid submissions for a total of $271.1 million of contracts were made in the period and funded development contract awards are anticipated in the second half of the current financial year.

Pyrotechnics & Munitions review

Revenue for Pyrotechnics & Munitions rose by 20.7% to £107.7 million (2013: £89.2 million); however, underlying operating profit reduced to £4.8 million (2013: £5.0 million). The resulting operating margin of 4.5% (2013: 5.6%) reflects both product mix and heightened competitive pressures in certain end markets. These factors have outweighed the benefits of operational improvement, which have been manifested in greater consistency in production quality.

The order book for Pyrotechnics & Munitions at 30 April 2014 was £297.6 million (October 2013: £315.5 million). Market conditions continue to be mixed; however, the prevailing themes remain reduced spending within NATO and the deferment of order placement in non-NATO markets.

The divestment of the European munitions business, which comprised Mecar, based in Belgium, and Simmel, located in Italy, was completed on 27 May 2014. There were positive order intake signs during the period, but this was offset by weakness in the naval munitions sector. Since the period end, the Group has received gross proceeds of £134.5 million (€165.3 million) from the disposal of the European munitions business.

On 27 May 2014, the Group also completed the disposal of Chemring Defence Germany, which specialises in the supply of pyrotechnic products and training rounds, for £2.2 million (€2.8 million).

The disposed businesses had revenue in the period of £68.6 million (2013: £72.0 million) and achieved an operating profit of £4.6 million (2013: £6.4 million). Their order book at 30 April 2014 was £189.3 million (31 October 2013: £180.6 million). These businesses have been classified as discontinued operations, with their net assets being classified as held for sale at 30 April 2014. The related revaluation of these net assets has led to an impairment charge of £70.2 million arising in the period.

The remaining businesses within the Pyrotechnics & Munitions segment are Chemring Defence UK and Chemring Ordnance, which is based in the US. Chemring Defence UK continues to experience difficult trading conditions due to reduced UK demand and delays on the placement of certain Middle Eastern orders. Indicators of potential impairment of assets relating to Chemring Defence have been considered but no impairment is required at the current time. Chemring Ordnance is delivering much improved performance, with greater consistency in its production processes, which has enabled significant growth in revenue compared to the comparative period. Following the disposals, these two businesses are being combined within the existing Energetic Sub-Systems segment and will in future be reported as Energetic Systems.

Energetic Sub-Systems review

Revenue for Energetic Sub-Systems reduced by 26.6% to £31.5 million (2013: £42.9 million) and underlying operating profit was 53.8% lower at £2.4 million (2013: £5.2 million). This was, in part, a result of the disposal of the Clear Lake business in January 2014, but the reduction in operating profit was primarily due to the phasing of activity which will be weighted toward the second half of the current financial year. The operating margin was 7.6% (2013: 12.1%), reflecting the impact of lower volumes on operations that have a relatively high proportion of fixed costs.

In the UK, activity reduced as a result of the phasing of demand and delays in the resolution of technical issues relating to its Next Generation Light Anti-tank Weapon. These issues have now been resolved, enabling deliveries under this contract to be completed.

In the US, the integration of Hi-Shear into Chemring Energetic Devices is progressing well. Chemring Energetic Devices' enterprise resource planning system has been implemented at the Hi-Shear site, enabling much improved workflow management. The process of transferring elements of Hi-Shear's production and engineering workload to other US sites continues. Encouragingly, US order intake exceeded the comparative period, with strong order intake of aircraft pyrotechnic safety products for aircrew egress.

The order book for Energetic Sub-Systems at 30 April 2014 was £81.6 million (October 2013: £93.0 million).

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, in line with past practice, certain items are classed as non-underlying as set out below. The non-underlying items relate to both continuing and discontinued operations.

	2014 £m	2013 £m
Acquisition and disposal related costs	**9.1**	2.3
Business restructuring and incident costs	**3.0**	5.6
Profit on disposal of business	**(0.5)**	-
Impairment of goodwill and acquired intangibles held for sale	**56.6**	15.7
Impairment of other net assets held for sale	**13.6**	-
Intangible amortisation arising from business combinations	**9.2**	10.4
(Gain)/loss on fair value movements on derivative financial instruments	**(1.0)**	0.4
Total non-underlying items	**90.0**	34.4
Analysed as:		
Continuing operations	**8.3**	31.8
Discontinued operations	**81.7**	2.6
	90.0	34.4

Acquisition and disposal related costs of £9.1 million include fees and provisions of £8.5 million relating to the disposal of the European munitions business. Business restructuring and incident costs of £3.0 million include £0.9 million relating to the Kilgore incident and £0.7 million associated with the relocation of the Group's corporate head office to Chemring Technology Solutions' site in Romsey, one of the final restructuring projects being undertaken as part of the Performance Recovery Programme.

The European munitions disposal gave rise to an impairment of goodwill and intangible assets of £56.6 million, wholly in relation to Simmel. There was an impairment of other net assets of £13.6 million, of which £7.3 million related to Simmel and £6.3 million was in respect of Chemring Defence Germany.

Intangible amortisation arising from business combinations was £9.2 million (2013: £10.4 million), with the decrease reflecting the fact that certain intangible assets are now fully amortised.

Including non-underlying items, operating profit from continuing operations improved to £14.1 million (2013: £3.1 million loss), due mainly to the reduced level of non-underlying costs in respect of continuing operations. Including non-underlying items, profit before tax from continuing operations similarly improved to £5.1 million (2013: £12.7 million loss). The effective tax rate on the profit before tax from continuing operations was 7.8% (2013: 45.7%), due to a higher proportion of expenses not deductible for tax purposes in the comparative period.

Dividend

The Board has declared an interim dividend of 2.4p per ordinary share (2013: 3.4p), with the dividend continuing to be three times covered by underlying earnings per share. The interim dividend will be paid on 15 August 2014 to shareholders on the register at 25 July 2014.

Balance sheet

The Group's net debt decreased by £19.5 million during the period to £229.2 million (October 2013: £248.7 million; April 2013: £275.1 million). This decrease was principally due to £11.8 million of exchange rate effects attributable to the strengthening of sterling giving rise to a lower translated value of US dollar denominated debt.

Working capital decreased during the period by £16.3 million to £109.2 million, of which £43.8 million related to discontinued operations. This reflects the heavy working capital requirement of the European munitions business. Capital expenditure, including capitalised development costs, was £10.8 million (2013: £7.6 million), principally comprising investment in Sensors & Electronics product development and health and safety related investment in production facilities.

Since the period end, the Group has received gross proceeds of £134.5 million (€165.3 million) from the disposal of the European munitions business.

Debt facilities

During the period, Chemring successfully concluded a revision of financial covenants with the holders of its loan notes, enabling greater flexibility in the application of disposal proceeds. The revised covenants give Chemring the ability to offer a proportion of disposal proceeds to loan note holders to repay outstanding notes at par. To the extent that note holders do not accept this offer of repayment, the Company is entitled to offset rejected proceeds against gross debt to derive an adjusted debt value that is used in calculating covenant compliance. Following receipt of disposal proceeds in May 2014, the loan note leverage test will be calculated based on the ratio of earnings before interest, tax, depreciation and amortisation ("EBITDA") to this adjusted debt value, such ratio not to exceed 3.00x. In addition, a covenant based upon total debt is retained but at an alleviated level of 3.50x EBITDA at the April 2014 test date. Following completion of the disposal of the European munitions business, this gross debt covenant is set at a permanently increased level of 3.75x EBITDA.

During May 2014, £113.3 million of proceeds from the divestment of the European munitions business were offered to note holders. Acceptances received from note holders will lead to £14.6 million of loan notes being repaid at par by July 2014.

The revolving credit facility net debt covenant was increased to 3.25x EBITDA for the April 2014 test date, reverting to 3.00x for the July 2014 and subsequent test dates. The revolving credit facility is due to expire on 30 April 2015 and the Company has commenced discussions with debt providers in the normal course in relation to the refinancing of this facility.

The directors have acknowledged the latest guidance on going concern. The refinancing of the revolving credit facility is ongoing and discussions with potential providers of finance are positive. As a result of the status of these negotiations, the directors do not believe the refinancing of the revolving credit facility represents a material uncertainty. Management have considered the latest forecasts available to them and additional sensitivity analysis has been prepared on the covenant forecasts to consider the impact on covenants of any reduction in anticipated levels of EBITDA. This sensitised scenario includes identified mitigating actions that can be taken if needed and, based on the application of these, shows headroom on all covenant test dates.

After consideration of the above, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the half-yearly condensed financial statements. Further details are set out in note 1.

The Group complied with its financial covenants throughout the period and this compliance is expected by the directors to continue for the foreseeable future.

The following tables detail the results of the covenant tests at the period end and at 31 October 2013, together with the composition of gross and net debt:

	2014	2013
Covenant ratios - revolving credit facility		
Maximum allowed ratio of consolidated net debt to underlying EBITDA	**3.25x**	3.25x
Actual ratio of consolidated net debt to underlying EBITDA	**2.72x**	2.65x
Minimum allowed ratio of underlying EBITDA to finance costs	**4.00x**	4.00x
Actual ratio of underlying EBITDA to finance costs	**4.97x**	4.98x
Covenant ratios - loan note agreements		
Maximum allowed ratio of consolidated total debt to underlying EBITDA	**3.50x**	3.50x
Actual ratio of consolidated total debt to underlying EBITDA	**2.98x**	2.78x
Minimum allowed ratio of underlying EBITDA to finance costs	**3.50x**	3.50x
Actual ratio of underlying EBITDA to finance costs	**5.24x**	5.61x

	£m	£m
Loan notes	**(247.0)**	(259.1)
Revolving credit facility	**-**	-
Other loans and finance leases	**(2.8)**	(3.8)
Gross debt	**(249.8)**	(262.9)
Cash	**20.6**	14.2
Net debt	**(229.2)**	(248.7)

Cash at 30 April 2014 includes £5.7 million relating to businesses held for sale.

Board of directors

On 24 June 2014, Chemring announced Michael Flowers' appointment as Group Chief Executive with immediate effect. Mark Papworth stepped down from the Board of Chemring with effect from that date.

Health and safety

The incident at Kilgore on 22 February 2014 tragically resulted in the death of one of our employees. In addition to external regulatory investigations, a full internal review of the cause of the incident was launched. The factors which led to this incident have been addressed and the Group has introduced a number of changes to prevent an incident of this nature happening again. It is recognised that a deeper cultural challenge needs to be overcome at the Kilgore facility and this is being actively addressed.

The Group continues to make health and safety its first priority, investing substantial funds and effort in improving the safety of its operations and protecting employees, especially those who work with volatile and energetic materials. Capital expenditure continues to be invested in order to automate processes and enable employees to be isolated from sensitive operations.

Principal risks and uncertainties

The principal risks and uncertainties which could have a material impact on the Group's performance over the remaining six months of the financial year, and could cause actual results to differ materially from expected and historical results, have not changed from those set out in the "Principal Risks and Uncertainties" section of the Group's 2013 Annual Report and Accounts. A detailed description of the

Group's principal risks and uncertainties and the ways they are mitigated can be found at Annex 1. These can be summarised as:

- Health and safety risks
- Possible defence budget cuts
- Timing and value of orders
- Political risks
- Operational risks
- Introduction of new products
- Product liability and other customer claims
- Management resource
- Compliance and corruption risks
- Environment laws and regulations
- Financial risks

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

Outlook

The Group has made important progress in the period, re-focusing its operations and strengthening the balance sheet to create greater flexibility to invest for growth. The divestment of the European munitions business was a key milestone for Chemring and concludes the disposal processes stemming from the 2013 strategic review.

As a result, Chemring is now moving to a position where it can take advantage of the stronger platform that has been created. The appointment of Michael Flowers, with his proven track record, both within the international defence industry and within Chemring, places the Group in a strong position to build on its world leading technologies and market positions in Countermeasures, Sensors & Electronics and Energetic Systems.

While end markets remain challenging and customer behaviour difficult to predict, Chemring will continue to drive operational efficiencies. The Group is also pursuing growth opportunities, particularly in non-NATO and commercial markets. Excluding the effects of further movements in exchange rates, the Board's outlook for the full year remains broadly unchanged.

Cautionary statement

This Interim Management Report has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The Interim Management Report should not be relied on by any other party or for any purpose.

The Interim Management Report contains certain forward-looking statements. These statements are made by the directors in good faith based on information available to them up to the time of their approval of this report but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for the maintenance and integrity of the Company website.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

a) the Condensed Set of Financial Statements has been prepared in accordance with IAS 34 *Interim Financial Reporting*;

b) the Interim Management Report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

c) the Interim Management Report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

Michael Flowers	**Steve Bowers**
Group Chief Executive	**Group Finance Director**
24 June 2014	**24 June 2014**

CONDENSED CONSOLIDATED INCOME STATEMENT
for the half year to 30 April 2014

	Note	**Unaudited Half year to 30 April 2014**			Unaudited Half year to 30 April 2013		
		Underlying business performance £m	**Non-underlying items* £m**	**Total £m**	Underlying business performance (restated)# £m	Non-underlying items* £m	Total (restated)# £m
Revenue from continuing operations		**208.8**	**-**	**208.8**	225.4	-	225.4
Discontinued operations		**68.6**	**-**	**68.6**	72.0	-	72.0
Total revenue		**277.4**	**-**	**277.4**	297.4	-	297.4
Operating profit/(loss) from continuing operations		**22.4**	**(8.3)**	**14.1**	28.7	(31.8)	(3.1)
Discontinued operations		**4.6**	**(81.7)**	**(77.1)**	6.4	(2.6)	3.8
Total operating profit/(loss)		**27.0**	**(90.0)**	**(63.0)**	35.1	(34.4)	0.7
Finance income		**0.2**	**-**	**0.2**	-	-	-
Finance expense		**(9.2)**	**-**	**(9.2)**	(9.6)	-	(9.6)
Profit/(loss) before tax from continuing operations		**13.4**	**(8.3)**	**5.1**	19.1	(31.8)	(12.7)
Tax	4	**(2.9)**	**2.5**	**(0.4)**	(4.8)	10.6	5.8
Profit/(loss) after tax from continuing operations		**10.5**	**(5.8)**	**4.7**	14.3	(21.2)	(6.9)
Discontinued operations							
Profit/(loss) after tax from discontinued operations	8	**3.6**	**(80.8)**	**(77.2)**	5.2	(1.7)	3.5
Profit/(loss) after tax for the period	2	**14.1**	**(86.6)**	**(72.5)**	19.5	(22.9)	(3.4)
Earnings/(loss) per ordinary share	5						
Continuing operations							
Basic		**5.4p**		**2.4p**	7.4p		(3.6)p
Diluted		**5.3p**		**2.4p**	7.2p		(3.6)p
Continuing and discontinued operations							
Basic		**7.3p**		**(37.5)p**	10.0p		(1.8)p
Diluted		**7.1p**		**(37.5)p**	9.8p		(1.8)p

* Further information about non-underlying items can be found in note 2.

The restatement relates to the prior period interest charge as a result of the adoption of IAS 19 (Revised) *Employee Benefits*. See note 10 for further details.

CONDENSED CONSOLIDATED INCOME STATEMENT (continued)

for the half year to 30 April 2014

	Note	Underlying business performance (restated)# £m	Non-underlying items* £m	Audited Year to 31 Oct 2013 Total (restated)# £m
Revenue from continuing operations		472.3	-	472.3
Discontinued operations		152.6	-	152.6
Total revenue		624.9	-	624.9
Operating profit/(loss) from continuing operations		56.3	(103.0)	(46.7)
Discontinued operations		15.8	(6.0)	9.8
Total operating profit/(loss)		72.1	(109.0)	(36.9)
Finance income		0.2	-	0.2
Finance expense		(20.0)	-	(20.0)
Profit/(loss) before tax from continuing operations		36.5	(103.0)	(66.5)
Tax	4	(6.5)	17.4	10.9
Profit/(loss) after tax from continuing operations		30.0	(85.6)	(55.6)
Discontinued operations				
Profit/(loss) after tax from discontinued operations	8	11.0	(3.7)	7.3
Profit/(loss) after tax for the year	2	41.0	(89.3)	(48.3)
Earnings/(loss) per ordinary share	5			
Continuing operations				
Basic		15.5p		(28.8)p
Diluted		15.2p		(28.8)p
Continuing and discontinued operations				
Basic		21.2p		(25.0)p
Diluted		20.8p		(25.0)p

* Further information about non-underlying items can be found in note 2.

The restatement relates to the prior period interest charge as a result of the adoption of IAS 19 (Revised) *Employee Benefits*. See note 10 for further details.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the half year to 30 April 2014

	Unaudited Half year to 30 April 2014 £m	Unaudited Half year to 30 April 2013 £m	Audited Year to 31 Oct 2013 £m
Loss after tax for the period/year attributable to equity holders of the parent as reported	**(72.5)**	(3.0)	(47.5)
Restatement of finance expense (IAS19 Revised)	**-**	(0.4)	(0.8)
Loss after tax for the period/year attributable to equity holders of the parent restated	**(72.5)**	(3.4)	(48.3)
Items that will not be reclassified subsequently to profit or loss			
Actuarial (losses)/gains on defined benefit pension schemes	**(2.4)**	(4.8)	1.5
Movement on deferred tax relating to pension schemes	**(0.4)**	1.4	(0.9)
	(2.8)	(3.4)	0.6
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	**(7.5)**	14.5	13.6
Deferred tax on items taken directly to equity	**-**	-	(1.8)
	(7.5)	14.5	11.8
Total comprehensive (expense)/income for the period/year attributable to equity holders of the parent	**(82.8)**	7.7	(35.9)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the half year to 30 April 2014

	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 2013	2.0	230.7	12.9	1.3	(26.0)	172.5	(9.6)	383.8
Loss after tax for the period	-	-	-	-	-	(72.5)	-	(72.5)
Other comprehensive expense for the period	-	-	-	-	(7.5)	(2.8)	-	(10.3)
Total comprehensive expense for the period	-	-	-	-	(7.5)	(75.3)	-	(82.8)
Share-based payments (net of settlement)	-	-	-	-	-	0.6	-	0.6
At 30 April 2014	**2.0**	**230.7**	**12.9**	**1.3**	**(33.5)**	**97.8**	**(9.6)**	**301.6**

	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 2012	2.0	230.7	12.9	1.3	(39.6)	235.8	(9.6)	433.5
Loss after tax for the period	-	-	-	-	-	(3.4)	-	(3.4)
Other comprehensive income/(expense) for the period	-	-	-	-	14.5	(3.4)	-	11.1
Total comprehensive income/(expense) for the period	-	-	-	-	14.5	(6.8)	-	7.7
Share-based payments (net of settlement)	-	-	-	-	-	0.6	-	0.6
At 30 April 2013	2.0	230.7	12.9	1.3	(25.1)	229.6	(9.6)	441.8

	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 2012	2.0	230.7	12.9	1.3	(39.6)	235.8	(9.6)	433.5
Loss after tax for the year	-	-	-	-	-	(48.3)	-	(48.3)
Other comprehensive income/(expense) for the year	-	-	-	-	13.6	(1.2)	-	12.4
Total comprehensive income/(expense) for the year	-	-	-	-	13.6	(49.5)	-	(35.9)
Dividends paid	-	-	-	-	-	(14.7)	-	(14.7)
Share-based payments (net of settlement)	-	-	-	-	-	0.9	-	0.9
At 31 October 2013	2.0	230.7	12.9	1.3	(26.0)	172.5	(9.6)	383.8

CONDENSED CONSOLIDATED BALANCE SHEET

as at 30 April 2014

	Note	**Unaudited As at 30 April 2014**	Unaudited As at 30 April 2013	Audited As at 31 Oct 2013
Non-current assets		**£m**	£m	£m
Goodwill		**117.5**	220.5	168.3
Development costs		**29.7**	31.7	32.7
Other intangible assets		**87.4**	146.8	135.5
Property, plant and equipment		**175.5**	242.2	222.3
Interest in associate		**1.5**	1.4	1.5
Deferred tax		**11.9**	24.2	21.7
	2	**423.5**	666.8	582.0
Current assets				
Inventories		**83.4**	139.3	113.7
Trade and other receivables		**89.5**	197.2	203.9
Cash and cash equivalents	7	**14.9**	25.9	14.2
Derivative financial instruments		**1.7**	0.5	1.5
		189.5	362.9	333.3
Assets held for sale	9	**195.0**	-	6.7
Total assets		**808.0**	1,029.7	922.0
Current liabilities				
Borrowings		**(0.4)**	(26.3)	(0.4)
Obligations under finance leases		**(1.6)**	(0.9)	(1.6)
Trade and other payables		**(94.6)**	(180.3)	(176.7)
Provisions		**(3.2)**	(3.3)	(2.7)
Current tax		**(8.8)**	(7.1)	(15.4)
Derivative financial instruments		**(2.1)**	(0.8)	(0.4)
Liabilities held for sale	9	**(94.7)**	-	(1.1)
		(205.4)	(218.7)	(198.3)
Non-current liabilities				
Borrowings		**(247.2)**	(270.8)	(259.4)
Obligations under finance leases		**(0.5)**	(2.9)	(1.4)
Trade and other payables		**(2.0)**	(1.4)	(2.3)
Provisions		**(7.7)**	(6.8)	(10.3)
Deferred tax		**(22.4)**	(53.6)	(38.8)
Preference shares		**(0.1)**	(0.1)	(0.1)
Retirement benefit obligations	10	**(20.8)**	(31.7)	(25.1)
Derivative financial instruments		**(0.3)**	(1.9)	(2.5)
		(301.0)	(369.2)	(339.9)
Total liabilities		**(506.4)**	(587.9)	(538.2)
Net assets		**301.6**	441.8	383.8
Equity				
Share capital		**2.0**	2.0	2.0
Share premium account		**230.7**	230.7	230.7
Special capital reserve		**12.9**	12.9	12.9
Revaluation reserve		**1.3**	1.3	1.3
Translation reserve		**(33.5)**	(25.1)	(26.0)
Retained earnings		**97.8**	229.6	172.5
		311.2	451.4	393.4
Own shares		**(9.6)**	(9.6)	(9.6)
Equity attributable to equity holders of the parent		**301.6**	441.8	383.8
Total equity		**301.6**	441.8	383.8

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the half year to 30 April 2014

	Note	**Unaudited Half year to 30 April 2014 £m**	Unaudited Half year to 30 April 2013 £m	Audited Year to 31 Oct 2013 £m
Cash flows from operating activities				
Cash generated from continuing underlying operations		**11.7**	14.7	80.5
Cash generated from/(absorbed by) discontinued underlying operations		**15.5**	(9.7)	(11.9)
Cash generated from underlying operations	12	**27.2**	5.0	68.6
Acquisition and disposal related costs		**(2.3)**	(3.3)	(3.8)
Business restructuring and incident costs		**(1.6)**	(3.3)	(8.9)
		23.3	(1.6)	55.9
Tax (paid)/received		**(0.5)**	1.3	(0.5)
Net cash inflow/(outflow) from operating activities		**22.8**	(0.3)	55.4
Cash flows from investing activities				
Purchases of intangible assets		**(5.5)**	(1.9)	(7.4)
Purchases of property, plant and equipment		**(5.3)**	(5.7)	(12.3)
Receipt of finance income		**0.2**	-	0.2
Receipts from sales of trades and businesses (net of cash transferred)	8	**6.2**	-	-
Net cash outflow from investing activities		**(4.4)**	(7.6)	(19.5)
Cash flows from financing activities				
Dividends paid		**-**	-	(14.7)
Finance expense paid		**(9.7)**	(11.4)	(20.6)
New borrowings		**-**	27.0	-
Capitalised facility fees paid		**(0.8)**	-	(1.7)
Repayments of borrowings		**(0.3)**	(77.6)	(79.1)
Repayment of finance leases		**(0.8)**	(0.9)	(1.7)
Net cash outflow from financing activities		**(11.6)**	(62.9)	(117.8)
Increase/(decrease) in cash and cash equivalents during the period/year		**6.8**	(70.8)	(81.9)
Cash and cash equivalents at beginning of the period/year		**14.2**	96.0	96.0
Effect of foreign exchange rate changes		**(0.4)**	0.7	0.1
Cash and cash equivalents at end of the period/year		**20.6**	25.9	14.2

Analysis of continuing and discontinued cash and cash equivalents

	Unaudited Half year to 30 April 2014 £m	Unaudited Half year to 30 April 2013 £m	Audited Year to 31 Oct 2013 £m
Cash and cash equivalents at the end of the period/year			
- continuing operations	**14.9**	25.9	14.2
- discontinued operations – assets held for sale	**5.7**	-	-
Cash and cash equivalents at the end of the period/year	**20.6**	25.9	14.2

INDEPENDENT REVIEW REPORT TO CHEMRING GROUP PLC

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 April 2014, which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated balance sheet, the condensed consolidated cash flow statement, and related notes 1 to 16. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"* issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, *"Interim Financial Reporting",* as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *"Review of Interim Financial Information Performed by the Independent Auditor of the Entity"* issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 April 2014 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
24 June 2014

NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of preparation

The condensed consolidated income statement for each of the six month periods and the condensed consolidated balance sheet as at 30 April 2014 do not constitute statutory accounts as defined by section 435 of the Companies Act 2006 and have not been delivered to the Registrar of Companies. The half-yearly financial report was approved by the Board of Directors on 24 June 2014. The information for the year ended 31 October 2013 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. Full accounts for the year ended 31 October 2013, which include an unqualified audit report, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006, have been delivered to the Registrar of Companies.

These half-yearly financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), as adopted by the European Union. The condensed set of financial statements included in the half-yearly financial report has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

Going concern

The directors believe the Group is well placed to manage its business risks successfully, despite the current uncertain economic outlook. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current committed facilities.

As part of their regular assessment of Chemring's working capital and financing position, the directors have prepared a detailed trading and cash flow forecast for a period which covers at least twelve months after the date of approval of the financial statements. In assessing the forecast, the directors have considered:

- trading risks presented by the current economic conditions in the defence market, particularly in relation to government budgets and spending
- the impact of macroeconomic factors, particularly interest rates and foreign exchange rates
- the status of the Group's financial arrangements and associated covenant requirements
- progress made in developing and implementing outcomes from the Performance Recovery Programme
- mitigating actions available should business activities fall behind current expectations, including the deferral of discretionary overheads and restricting cash outflows
- the long-term nature of the Group's business which, taken together with the Group's order book, provides a satisfactory level of confidence to the Board in respect of trading

The directors have acknowledged the latest guidance on going concern. The refinancing of the revolving credit facility is ongoing and discussions with potential providers of finance are positive. As a result of the status of these negotiations, the directors do not believe the refinancing of the revolving credit facility represents a material uncertainty. Management have considered the latest forecasts available to them and additional sensitivity analysis has been prepared on the covenant forecasts to consider the impact on covenants of any reduction in anticipated levels of EBITDA. This sensitised scenario includes identified mitigating actions that can be taken if needed and, based on the application of these, shows headroom on all covenant test dates. After consideration of the above, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the half-yearly condensed financial statements.

Accounting policies

Other than explained below, the accounting policies applied by the Group in this half-yearly financial report are the same as those applied by the Group in its consolidated financial statements for the year ended 31 October 2013.

In the period ended 30 April 2014, IAS 19 (Revised) *Employee Benefits* was adopted. The impact of the change in accounting policy is to increase the finance expense and to re-analyse items within the statement of comprehensive income. Further details are shown in note 10.

2. SEGMENTAL ANALYSIS

A segmental analysis of revenue and results is set out below:

	Unaudited Half year to 30 April 2014 £m	Unaudited Half year to 30 April 2013# £m	Audited Year to 31 Oct 2013# £m
Revenue			
Countermeasures	**43.5**	57.0	125.0
Sensors & Electronics	**94.7**	108.3	211.3
Pyrotechnics & Munitions	**39.1**	17.2	48.0
Energetic Sub-Systems	**31.5**	42.9	88.0
Revenue from continuing operations	**208.8**	225.4	472.3
Revenue from discontinued operations			
Pyrotechnics & Munitions	**68.6**	72.0	152.6
Total revenue	**277.4**	297.4	624.9
Underlying operating profit/(loss)			
Countermeasures	**1.5**	4.9	13.2
Sensors & Electronics	**23.3**	25.2	44.7
Pyrotechnics & Munitions	**0.2**	(1.4)	(2.8)
Energetic Sub-Systems	**2.4**	5.2	11.3
Unallocated corporate costs	**(5.0)**	(5.2)	(10.1)
Underlying operating profit from continuing operations	**22.4**	28.7	56.3
Underlying operating profit from discontinued operations			
Pyrotechnics & Munitions	**4.6**	6.4	15.8
Total underlying operating profit	**27.0**	35.1	72.1
Acquisition and disposal related costs	**(0.4)**	(2.3)	(2.6)
Business restructuring and incident costs	**(3.0)**	(5.6)	(11.7)
Profit on disposal of business	**0.5**	-	-
Impairment of goodwill and acquired intangibles	**-**	(15.7)	(66.6)
Impairment of other net assets held for sale	**-**	-	(8.8)
Amortisation of intangibles arising from business combinations	**(6.6)**	(7.7)	(13.4)
Gain/(loss) on fair value movements of derivative financial instruments	**1.2**	(0.5)	0.1
Non-underlying items	**(8.3)**	(31.8)	(103.0)
Operating profit/(loss) from continuing operations	**14.1**	(3.1)	(46.7)
Finance income	**0.2**	-	0.2
Finance expense	**(9.2)**	(9.6)	(20.0)
Profit/(loss) before tax for the period/year from continuing operations	**5.1**	(12.7)	(66.5)
Tax	**(0.4)**	5.8	10.9
Profit/(loss) after tax for the period/year from continuing operations	**4.7**	(6.9)	(55.6)
(Loss)/profit after tax for the period/year from discontinued operations	**(77.2)**	3.5	7.3
Loss after tax for the period/year	**(72.5)**	(3.4)	(48.3)

There were no material inter-segment sales in any of the periods.

Restated as a result of the adoption of IAS 19 (Revised) *Employee Benefits*. See note 10 for further details.

Reconciliation from profit/(loss) before tax to underlying profit after tax

Underlying profit before tax has been defined as earnings before costs relating to acquisitions and disposals, business restructuring and incident costs, profit on disposal of businesses, items deemed to be of an exceptional nature, impairment of goodwill and acquired intangibles, impairment of other net assets held for sale, amortisation of acquired intangibles and gains/losses on the movement in the fair value of derivative financial instruments. The directors consider this measure of profit allows a more meaningful comparison of earnings trends. These are set out below.

Half year to 30 April 2014	Continuing operations £m	Discontinued operations £m	**Total £m**
Profit/(loss) before tax	5.1	(77.1)	**(72.0)**
Tax	(0.4)	(0.1)	**(0.5)**
Profit/(loss) after tax	4.7	(77.2)	**(72.5)**
Non-underlying items			
Acquisition and disposal related costs	0.4	8.7	**9.1**
Business restructuring and incident costs	3.0	-	**3.0**
Profit on disposal of business	(0.5)	-	**(0.5)**
Impairment of goodwill and acquired intangibles held for sale	-	56.6	**56.6**
Impairment of other net assets held for sale	-	13.6	**13.6**
Intangible amortisation arising from business combinations	6.6	2.6	**9.2**
(Gain)/loss on fair value movements of derivative financial instruments	(1.2)	0.2	**(1.0)**
Total non-underlying items	8.3	81.7	**90.0**
Tax on non-underlying items	(2.5)	(0.9)	**(3.4)**
Total non-underlying items after tax	5.8	80.8	**86.6**
Underlying profit after tax	**10.5**	**3.6**	**14.1**

An analysis of non-underlying items by segment is provided below:

	Counter-measures £m	Sensors & Electronics £m	Pyrotechnics & Munitions £m	Energetic Sub-Systems £m	Corp-orate £m	**Total £m**
Acquisition and disposal related costs	-	-	8.7	0.3	0.1	**9.1**
Business restructuring and incident costs	1.5	0.3	0.1	-	1.1	**3.0**
Profit on disposal of business	-	-	-	(0.5)	-	**(0.5)**
Impairment of goodwill and acquired intangibles held for sale	-	-	56.6	-	-	**56.6**
Impairment of other net assets held for sale	-	-	13.6	-	-	**13.6**
Intangible amortisation arising from business combinations	-	3.4	3.7	2.1	-	**9.2**
Loss/(gain) on fair value movements of derivative financial instruments	-	-	0.2	-	(1.2)	**(1.0)**
Total non-underlying items	**1.5**	**3.7**	**82.9**	**1.9**	**-**	**90.0**

Half year to 30 April 2013	Continuing operations £m	Discontinued operations £m	Total £m
(Loss)/profit before tax (restated)	(12.7)	3.5	(9.2)
Tax	5.8	-	5.8
(Loss)/profit after tax (restated)	(6.9)	3.5	(3.4)
Non-underlying items			
Acquisition and disposal related costs	2.3	-	2.3
Business restructuring and incident costs	5.6	-	5.6
Profit on disposal of business	-	-	-
Impairment of goodwill and acquired intangibles held for sale	15.7	-	15.7
Impairment of other net assets held for sale	-	-	-
Intangible amortisation arising from business combinations	7.7	2.7	10.4
Loss/(gain) on fair value movements of derivative financial instruments	0.5	(0.1)	0.4
Total non-underlying items	31.8	2.6	34.4
Tax on non-underlying items	(10.6)	(0.9)	(11.5)
Total non-underlying items after tax	21.2	1.7	22.9
Underlying profit after tax (restated)	14.3	5.2	19.5
Year to 31 October 2013	£m	£m	£m
(Loss)/profit before tax (restated)	(66.5)	9.1	(57.4)
Tax	10.9	(1.8)	9.1
(Loss)/profit after tax (restated)	(55.6)	7.3	(48.3)
Non-underlying items			
Acquisition and disposal related costs	2.6	0.6	3.2
Business restructuring and incident costs	11.7	-	11.7
Profit on disposal of business	-	-	-
Impairment of goodwill and acquired intangibles held for sale	66.6	-	66.6
Impairment of other net assets held for sale	8.8	-	8.8
Intangible amortisation arising from business combinations	13.4	5.4	18.8
Gain on fair value movements of derivative financial instruments	(0.1)	-	(0.1)
Total non-underlying items	103.0	6.0	109.0
Tax on non-underlying items	(17.4)	(2.3)	(19.7)
Total non-underlying items after tax	85.6	3.7	89.3
Underlying profit after tax (restated)	30.0	11.0	41.0

In 2014, there were acquisition and disposal related costs of £9.1 million (H1 2013: £2.3 million, 2013: £3.2 million). The costs in the period related to the disposal of the European munitions business and Chemring Defence Germany, as well as ongoing merger and acquisition activity. See note 8 for further details.

In 2014, restructuring and incident costs totalling £3.0 million relate to the ongoing reorganisation of the American businesses, closure of the head office in Fareham, UK and the non-recurring incentive scheme designed to ensure continued service of key personnel. There were £0.9 million of costs incurred in relation to the Kilgore incident in February 2014.

In 2013, the restructuring costs relate to the restructuring of the divisional management structure (£3.1 million), the integration of the US Countermeasures businesses (£1.2 million) and to an incentive scheme designed to ensure the continued service of key personnel during the restructuring process (£0.2 million). In addition, in 2013 there were costs of £0.9 million relating to several smaller restructuring projects and incident related costs of £0.2 million.

In 2014, the impairment of goodwill and acquired intangibles, and the impairment of other net assets relate to the transfer of the European munitions business and Chemring Defence Germany to assets and liabilities held for sale, with the net assets impaired to net realisable value less costs to sell. See note 9 for further details.

In 2013, the £15.7 million charge in respect of acquired intangible assets was recognised in relation to Chemring Energetic Devices, Inc., these assets are therefore fully amortised. This was primarily driven by the lower cash flows within the business plans, reflecting the continuing challenging economic conditions facing the defence industry within the US, and Chemring Energetic Devices, Inc.'s markets in particular. The business operates in the Energetic Sub-Systems segment. The impairment loss was recognised in the income statement as part of non-underlying items within continuing operating profit and was based on value-in-use calculations.

An update of the annual impairment assessment performed for the preparation of the Group's financial statements for the year ended 31 October 2013 has been undertaken, with indicators of potential impairment having been considered. Indicators were identified for Chemring Energetics. A 10% fall in forecast cash flows at Chemring Energetics would require an impairment charge of up to £3.0 million. Chemring Defence UK Limited is expecting to secure a number of orders from the Middle East in the second half of the current financial year. If these orders are not received, an impairment of up to £3.0 million may be required. A 1% increase in the discount rate was modelled, along with setting the long term growth rate beyond the four year forecast period to zero, and in neither case would an impairment be required at any of the remaining cash generating units.

	Unaudited Half year to 30 April 2014 £m	Unaudited Half year to 30 April 2013 £m	Audited Year to 31 Oct 2013 £m
Revenue by destination			
Continuing operations			
UK	**43.0**	51.3	92.0
USA	**127.1**	131.9	278.0
Europe	**16.7**	16.8	34.6
Australia and Far East	**13.0**	16.1	35.3
Middle East	**7.7**	7.7	28.5
Rest of the world	**1.3**	1.6	3.9
	208.8	225.4	472.3
Discontinued operations			
UK	**2.6**	8.9	17.9
USA	**1.6**	0.1	2.7
Europe	**7.0**	11.0	25.9
Australia and Far East	**4.0**	3.5	9.3
Middle East	**37.8**	46.8	95.3
Rest of the world	**15.6**	1.7	1.5
	68.6	72.0	152.6
Total	**277.4**	297.4	624.9

The directors consider the only countries that are significant in accordance with IFRS 8 *Operating Segments* are the UK and USA, as disclosed above, and the Kingdom of Saudi Arabia, which is included within the Middle East category. Sales to the Kingdom of Saudi Arabia generated revenue of £28.6 million (H1 2013: £48.0 million, 2013: £97.6 million).

The Group does not disclose assets or liabilities by segment in the monthly management accounts provided to the Executive Committee or the Board of directors. The *Improvements to IFRSs* amendment document issued in April 2009 only requires to be disclosed that information that is provided to the chief operating decision maker as a key decision making tool. The Group has adopted this amendment in order to clarify that the chief operating decision maker does not use this information as a key decision tool. IFRS 8 *Operating Segments* requires a geographic analysis of non-current assets, and a disclosure of non-current assets by location is therefore shown below:

	Unaudited As at 30 April 2014 £m	Unaudited As at 30 April 2013 £m	Audited As at 31 Oct 2013 £m
Non-current assets by location			
UK	**212.8**	225.7	222.8
USA	**179.8**	269.7	195.8
Europe	**5.7**	141.2	136.8
Australia and Far East	**25.2**	30.2	26.6
Total	**423.5**	666.8	582.0

3. SEASONALITY OF REVENUE
Revenue for all four of the business segments is more weighted towards the second half of the financial year, in line with defence spending.

4. TAX
Including discontinued operations, the effective tax rate on underlying profit before tax for the period is 22.0% (H1 2013: 22.6%, 2013: 20.5%) and is based on the estimated effective tax rate on underlying profit before tax for the full year. The tax credit on non-underlying items for the period, including discontinued operations, results in an effective tax rate of 3.8% (H1 2013: 33.3%, 2013: 18.1%). The tax rate on total profit before tax, including discontinued operations, is therefore 0.7% (H1 2013: 63.0%, 2013: 15.9%). The full year effective tax rate on total profit before tax is currently forecast to be 6.3% (H1 2013: 63.0%, 2013: 15.9%).

5. EARNINGS PER SHARE
Earnings per share are based on the average number of shares in issue of 193,296,213 (H1 2013: 193,292,527) and a loss on ordinary activities after tax and minority interests of £72.5 million (H1 2013: £3.4 million loss). Diluted earnings per share has been calculated using a diluted average number of shares in issue of 197,457,734 (H1 2013: 198,377,126) and a loss on ordinary activities after tax and minority interests of £72.5 million (H1 2013: £3.4 million loss).

No dilution has been recognised for the purposes of basic earnings per share due to there being a loss per share. Dilution has however been recognised in the calculation of underlying earnings per share.

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

Continuing operations

		2014		2013
	Basic	**Diluted**	Basic	Diluted
	£m	**£m**	£m	£m
Underlying profit after tax	**10.5**	**10.5**	14.3	14.3
Non-underlying items (see reconciliation in note 2)	**(5.8)**	**(5.8)**	(21.2)	(21.2)
Total profit/(loss) after tax	**4.7**	**4.7**	(6.9)	(6.9)

		2014		2013
	Basic	**Diluted**	Basic	Diluted
	Pence	**Pence**	Pence	Pence
Underlying earnings per share	**5.4**	**5.3**	7.4	7.2
Non-underlying items	**(3.0)**	**(2.9)**	(11.0)	(10.8)
Earnings/(loss) per share	**2.4**	**2.4**	(3.6)	(3.6)

Continuing and discontinued operations

		2014		2013
	Basic	**Diluted**	Basic	Diluted
	£m	**£m**	£m	£m
Underlying profit after tax	**14.1**	**14.1**	19.5	19.5
Non-underlying items (see reconciliation in note 2)	**(86.6)**	**(86.6)**	(22.9)	(22.9)
Total loss after tax	**(72.5)**	**(72.5)**	(3.4)	(3.4)

		2014		2013
	Basic	**Diluted**	Basic	Diluted
	Pence	**Pence**	Pence	Pence
Underlying earnings per share	**7.3**	**7.1**	10.0	9.8
Non-underlying items	**(44.8)**	**(44.6)**	(11.8)	(11.6)
Loss per share	**(37.5)**	**(37.5)**	(1.8)	(1.8)

The following table shows the effect of share options on the calculation of diluted earnings per share for both continuing operations, and for continuing and discontinued operations:

	2014 Shares Million	2013 Shares Million
Weighted average number of ordinary shares per basic earnings per share calculations	**193.3**	193.3
Additional shares issuable other than at fair value in respect of options outstanding	**4.2**	5.1
Weighted average number of ordinary shares used for diluted earnings per share	**197.5**	198.4

6. DIVIDENDS

	Unaudited Half year to 30 April 2014 £m	Unaudited Half year to 30 April 2013 £m
Dividends on ordinary shares of 1p each		
Interim dividend for the year ended 31 October 2013: 3.4p	**-**	6.6
Final dividend for the year ended 31 October 2013: 3.8p (2012: 4.2p)	**7.3**	8.1
Total dividends	**7.3**	14.7

The proposed interim dividend in respect of the half year ended 30 April 2014 of 2.4p per share will, if approved, absorb approximately £4.6 million of shareholders' funds. No liability for the proposed interim dividend has been included in these half-yearly financial statements.

7. CASH AND CASH EQUIVALENTS

Included within cash is £0.6 million of restricted cash (H1 2013: £nil, 2013: £0.8 million).

8. DISPOSALS AND DISCONTINUED OPERATIONS

On 19 December 2013, the Group entered into a sale agreement to dispose of Chemring Energetics Devices' business located in Clear Lake, South Dakota ("the Clear Lake business"). The initial cash proceeds were $10.0 million (£5.9 million) and a further $0.5 million (£0.3 million) was received in the period following finalisation of completion accounts. This disposal was made to generate cash flow and reduce the Group's indebtedness. The disposal was completed on 24 January 2014, on which control passed to the acquirer. During the period, the Clear Lake business made a £0.5 million outflow (H1 2013: £1.2 million inflow; 2013: £1.5 million inflow) to the Group's operating cash flow and had a cash outflow of £nil (H1 2013: £0.4 million; 2013: £1.0 million) in respect of investing activities. At 31 October 2013 the Clear Lake business net assets were treated as held for sale. The profit arising on disposal was £0.5 million.

On 24 April 2014, the Group announced the sale of the European munitions business, comprising Mecar and Simmel to Nexter Systems SA, subject to shareholder and regulatory approval. On 19 May 2014, the disposal of Mecar completed and, following regulatory approval from the Italian government, the sale of the European munitions business was completed with the divestment of Simmel on 27 May 2014, with proceeds of £134.5 million (€165.3 million) being received. As at 30 April 2014, the European munitions business was treated as a discontinued operation and the assets and liabilities associated with the business have been classified as held for sale. On 10 April 2014, the Group agreed to sell Chemring Defence Germany. This sale completed on 27 May 2014. As at 30 April 2014, the net assets of Chemring Defence Germany was treated as a discontinued operation and the assets and liabilities associated with the business have been classified as held for sale. These disposals further the Group's strategic development, and re-shape Chemring for future growth by enabling the Group to refocus on its core competencies. The disposals also strengthen the balance sheet and provide greater financial flexibility.

The results of the discontinued operations included in the consolidated income statement were as follows:

	Unaudited Half year to 30 April 2014 £m	Unaudited Half year to 30 April 2013 £m	Audited Year to 31 Oct 2013 £m
Revenue	**68.6**	72.0	152.6
Underlying expense	**(64.0)**	(65.6)	(136.8)
Non-underlying items	**(81.7)**	(2.6)	(6.0)
Finance expense	**-**	(0.3)	(0.7)
(Loss)/profit before tax	**(77.1)**	3.5	9.1
Attributable tax expense	**(0.1)**	-	(1.8)
(Loss)/profit attributable to discontinued operations after tax	**(77.2)**	3.5	7.3

During the period, impairment of £70.2 million was recognised in respect of Simmel, one of two operations that comprised the European munitions business, and Chemring Defence Germany, together with £8.7 million of disposal related costs. During the second half of the current financial year, a profit on disposal is expected to be recognised, representing the excess of proceeds over carrying value for Mecar, the remaining operation that formed part of the European munitions business.

9. ASSETS HELD FOR SALE

On 24 April 2014, the Group agreed to sell its European munitions business, subject to regulatory and shareholder approval. This sale completed during May 2014, and so the net assets of this business have been classified as a disposal group held for sale and presented separately on the balance sheet. The operations are shown as part of the discontinued operations analysis in note 2. The assets held for sale are held at net realisable value resulting in an impairment charge of £63.9 million. The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	Unaudited As at 30 April 2014 £m
Goodwill and acquired intangibles	**24.4**
Other intangible assets	**4.3**
Property, plant and equipment	**33.9**
Inventories	**28.7**
Trade and other receivables	**93.6**
Cash and cash equivalents	**5.5**
Total assets classified as held for sale	**190.4**
Trade and other payables	**(64.1)**
Tax liabilities	**(17.8)**
Provisions	**(9.0)**
Total liabilities classified as held for sale	**(90.9)**
Net assets of disposal group	**99.5**

On 10 April 2014, the Group agreed to sell Chemring Defence Germany for €2.8 million (£2.2 million). This sale was expected to complete during May 2014, and so the net assets of this business have been classified as a disposal group held for sale and presented separately on the balance sheet. The operations are shown as part of the discontinued operations analysis in note 2. The assets held for sale are held at net realisable value resulting in an impairment charge of £6.3 million. The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	Unaudited As at 30 April 2014 £m
Inventories	**3.6**
Trade and other receivables	**0.8**
Cash and cash equivalents	**0.2**
Total assets classified as held for sale	**4.6**
Trade and other payables	**(1.0)**
Tax liabilities	**(0.4)**
Provisions	**(0.9)**
Retirement benefit obligation	**(1.5)**
Total liabilities classified as held for sale	**(3.8)**
Net assets of disposal group	**0.8**

10. PENSIONS

The defined benefit obligations are calculated using an actuarial valuation as at 30 April 2014. The deficit on the Chemring Group Staff Pension Scheme has decreased to £20.8 million (H1 2013: £30.6 million, 2013: £24.2 million), principally as a result of employer contributions paid in accordance with funding plan agreed with the trustees in 2013. The difference between the expected return on assets and the actual return on assets has been recognised as an actuarial loss in the condensed consolidated statement of comprehensive income in accordance with the Group's accounting policy.

The adoption of IAS 19 (Revised) *Employee Benefits* has resulted in a restatement of the prior period's interest expense which has increased by £0.4 million for H1 2013 and by £0.8 million for 2013. A corresponding decrease in actuarial losses on defined benefit pension schemes has been recorded in the Consolidated Statement of Comprehensive Income.

11. RELATED PARTY TRANSACTIONS

The Group had no related party transactions during the period requiring disclosure.

12. CASH GENERATED FROM OPERATIONS

	Unaudited Half year to 30 April 2014 £m	Unaudited Half year to 30 April 2013 £m	Audited Year to 31 Oct 2013 £m
Operating profit from continuing operations	**14.1**	(3.1)	(46.7)
Operating profit from discontinued operations	**(77.1)**	3.8	9.8
	(63.0)	0.7	(36.9)
Adjustment for:			
Impairment of acquired intangibles/goodwill	**56.6**	15.7	66.6
Impairment of other net assets	**13.6**	-	8.8
Amortisation of development costs	**3.1**	2.2	5.5
Amortisation of intangible assets arising from business combinations	**9.2**	10.4	18.8
Amortisation of patents and licenses	**0.1**	0.2	0.4
Loss on disposal of non-current assets	**0.1**	0.6	2.2
Profit on disposal of business	**(0.5)**	-	-
Depreciation of property, plant and equipment	**9.3**	9.8	20.1
(Gain)/loss on fair value movements of derivative financial instruments	**(1.0)**	0.4	(0.1)
Share-based payment expense	**0.7**	0.6	0.9
Employer contributions towards pension scheme deficit reduction plan	**(4.0)**	-	(1.0)
Difference between pension contributions paid and amount recognised in income statement	**-**	(0.8)	(0.3)
Operating cash flows before movements in working capital	**24.2**	39.8	85.0
(Increase)/decrease in inventories	**(2.0)**	(25.5)	0.1
Decrease/(increase) in trade and other receivables	**27.2**	(4.1)	(15.9)
Decrease in trade and other payables	**(42.6)**	(14.2)	(21.0)
Increase in provisions	**8.3**	1.1	5.5
	15.1	(2.9)	53.7
Acquisition and disposal related costs	**9.1**	2.3	3.2
Restructuring and incident costs	**3.0**	5.6	11.7
Cash generated from operations	**27.2**	5.0	68.6

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

	Unaudited Half year to 30 April 2014 £m	Unaudited Half year to 30 April 2013 £m	Audited Year to 31 Oct 2013 £m
Increase/(decrease) in cash and cash equivalents during the period/year	**6.8**	(70.8)	(81.9)
Decrease in debt and lease financing due to cash flows	**1.9**	51.5	82.5
Change in net debt resulting from cash flows	**8.7**	(19.3)	0.6
Foreign exchange gains/(losses)	**11.8**	(10.1)	(2.5)
Amortisation of debt finance costs	**(1.0)**	(0.9)	(2.0)
Movement in net debt in the period/year	**19.5**	(30.3)	(3.9)
Net debt at beginning of the period/year	**(248.7)**	(244.8)	(244.8)
Net debt at end of the period/year	**(229.2)**	(275.1)	(248.7)

14. ANALYSIS OF NET DEBT

	As at 1 Nov 2013 £m	Cash flow £m	Non-cash changes £m	Exchange rate effects £m	**As at 30 April 2014 £m**
Cash at bank and in hand	14.2	6.8	-	(0.4)	**20.6**
Debt due within one year	(0.4)	0.2	(0.2)	-	**(0.4)**
Debt due after one year	(259.4)	0.8	(0.8)	12.2	**(247.2)**
Finance leases	(3.0)	0.9	-	-	**(2.1)**
Preference shares	(0.1)	-	-	-	**(0.1)**
	(248.7)	8.7	(1.0)	11.8	**(229.2)**

15. EVENTS AFTER THE BALANCE SHEET DATE

On 9 May 2014, the Group acquired the entire share capital of 3d-Radar, a company based in Trondheim, Norway, for a cash consideration of $3.0 million (£1.8 million). The company is a leading developer of commercial three dimensional ground penetrating radar technology.

On 27 May 2014, both the disposal of the European munitions business and the disposal of Chemring Defence Germany were completed.

On 24 June 2014, Chemring announced Michael Flowers' appointment as Group Chief Executive with immediate effect. Mark Papworth stepped down from the Board of Chemring with effect from that date.

16. CORPORATE WEBSITE

Further information on the Group and its activities can be found on the corporate website at www.chemring.co.uk.

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 three 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 biannually to the Audit Committee and 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 mitigates 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. From time to time, incidents may occur which could result in the temporary shutdown of facilities or other disruption to manufacturing processes, causing production delays and resulting in financial loss and potential liability 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, and is committed to ensuring the Group's leadership operates with health and safety as the top priority and that the strength of our safety culture and the quality of our protective systems deliver operations where all employees and visitors feel and are absolutely safe. A new safety leadership programme has been developed this year, which will be attended by the management teams of every business during 2014. All employees now receive a booklet setting out the Group's statements of intent in relation to delivery of our health and safety strategy and the behaviours required of them as individual employees. All employees are encouraged to report potential hazards, and to raise any health and safety concerns through the appropriate channels. We continue to invest in state-of-the-art process safety systems and equipment. Our safety and loss prevention programmes require detailed pre-construction reviews of process changes and new operations, and we undertake routine safety audits of operations on a regular basis. All businesses are expected to proactively manage their own risks but, in addition, the top 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.

- **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. As such, defence spending may be subject to significant fluctuations from year to year. Given the large budget deficits and the prevailing economic conditions in many NATO countries, we expect there to be continued downward pressure on budgets, and consequently, defence expenditure could be severely impacted. In particular, the Group has significant exposure to the US defence market, where there is continuing uncertainty in relation to the potential impact of sequestration on the defence budget for 2014 and 2015.

  In recognition of the issues affecting our traditional NATO markets, we are focusing our business development activities in non-NATO markets, where defence expenditure is forecast to grow strongly over the next five to ten years. We have made good progress on developing our routes to market in India, Saudi Arabia, the United Arab Emirates and Brazil. We have established a more focused international sales and business development team, and implemented new processes to ensure that we are successful in "winning every sales opportunity". We also continually assess whether our planned organic growth strategies and product developments align with government priorities for future funding. Most of our product development programmes take between six and twelve months to complete, and we believe that this gives the Group the agility to quickly re-deploy engineering staff to product areas where funding is more secure. We continue to closely monitor the position in all the key markets in which we operate.

- **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 usually cover multi-year requirements. This means that an unmitigated delay in the receipt of orders could affect our earnings, and achievement of our budget, in any given financial year. We anticipate that delays in the placement of orders by our traditional NATO customers, as a result of budgetary constraints, are likely to continue in the short to medium term. If our businesses are unable to continue trading profitably during periods of lower order intake, our financial performance will deteriorate and our assets may be impaired.

As referred to above, we are focusing on expanding our business in non-NATO markets, where defence expenditure is forecast to increase. Maximising order intake remains a key objective for our businesses, and we continue to address this through the strengthening of our sales and marketing resources. We also continue to pursue long-term, multi-year contracts with our customers wherever possible. We have undertaken various restructuring projects over the last year, which were aimed at restoring the profitability of the Group's businesses which have suffered most from order delays in recent times. We are now developing site optimisation plans to ensure that we utilise our manufacturing facilities as efficiently as possible, within the constraints imposed by export control legislation and customer requirements.

- **Political risks** – The Group is active in several countries that are suffering from political, social and economic instability. Our business in these countries may be adversely affected in a way that is material to the Group's financial position and the results of our operations. In addition, political unrest and changes in the political structure in certain non-NATO countries to which we currently sell could impact on their future defence expenditure strategy and our ability to export products to these countries. During periods of unrest, delays in obtaining export licences can result in delayed revenues.

  Our businesses strive to maintain relationships at all levels within the political structure of certain key countries, in order to ensure that we are aware of and can react to proposed changes, if and when they occur. We implement financing arrangements 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, we may also procure political risks insurance. We are exploring opportunities for collaboration on the establishment of local manufacturing operations in certain countries, which will remove some of the uncertainty regarding export of products. Our planned expansion in non-defence markets should also increase our portfolio of products which are less sensitive from an export control perspective.

- **Operational risks** – Our manufacturing activities may be exposed to business continuity risks, arising from plant failures, supplier interruptions or quality issues. These could result in financial loss, reputational damage and loss of future business.

  We require all of our businesses to prepare business continuity plans. We have introduced new requirements in relation to the reporting of key performance indicators this year, in order to provide better visibility on our operational performance and to enable us to identify potential production and quality issues at an early stage. We insure certain business interruption risks where appropriate.

- **Introduction of new products** – The Group's approach to innovation and continued emphasis on research and development activity ensure that we are continually adding new products to the range. We need to ensure that this new product development is completed in a timely manner, and to a standard which allows us to undertake volume manufacturing and to produce products against high reliability and safety criteria to meet our customers' requirements. Failure to achieve this may have both financial and reputational impacts. We also need to ensure that we continue to upgrade our existing product range to compete with emerging technologies and to avoid the risk of obsolescence or loss of business.

  We have introduced a more focused product development and technology investment approach, in order to ensure that we are applying our resources appropriately across the Group in support of our three 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. We have initiated working groups to drive and co-ordinate our 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 these products or services with the customer's requirements, due to faults in design or production; (ii) the delay or failed supply of the products or the services indicated in the contract; or (iii) possible malfunction or misuse of products. As many of the Group's products are single-use devices, it is often impossible to conduct functional testing without destroying the product, and this increases the risk of possible product failure, either in use or during customers' own sample-based functional tests. Substantial claims could harm the Group's business and our financial position. In addition, any accident, failure, incident or liability, even if fully insured, could negatively affect the Group's reputation among our customers and the public, therefore 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.

We maintain rigorous control of our production processes, monitoring critical parameters on a batch or unit basis. We apply state-of-the-art techniques, including statistical process control or Six Sigma, and where appropriate, automate processes to reduce the scope for human operator error. We also conduct detailed assessments of incoming components and materials 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.

- **Management resource** – The Group requires competent management to lead us through the next stage of our development. In challenging markets and difficult times, there is a need to retain and incentivise senior managers and key employees, in order to ensure that the operations of the Group do not suffer from loss of management expertise and knowledge. As the shape of the Group's business also changes, with an increased focus on electronics, we need to ensure that we build an appropriate skill base to enable us to compete successfully in new markets and product areas.

  A Group Human Resources Director was appointed during 2013, to oversee our future people strategy. We have introduced a new performance management system for 2014, which will facilitate improved monitoring of individual employees' development objectives and requirements. Alongside this, we are developing a talent database, which will provide improved visibility on the skills and resources we have across the Group, and will open up opportunities for employees to progress their careers within different parts of the Group. We have streamlined and improved our incentivisation arrangements in certain areas of the business, to ensure that employees are suitably incentivised to deliver key strategic objectives.

- **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. We must ensure that all of our businesses, our employees and third parties providing services on our behalf comply with all relevant legal obligations, as non-compliance could result in administrative, civil or criminal liabilities, and could expose the Group to fines, penalties, suspension or debarment and reputational damage. The nature of the Group's operations could also expose us to government investigations relating to import-export controls, money-laundering, false accounting, and corruption or bribery.

  The Group has a central legal and compliance function which assists and monitors all Group businesses, assisted by dedicated internal legal resource in the US. The Group's internal audit activities also incorporate a review of legal risks. We operate under a Global Code of Business Principles, which stipulates the standard of acceptable business conduct required from all of our employees and third parties acting on our behalf. The Group has also adopted a Bribery Act Compliance Manual, incorporating all of our anti-bribery policies and procedures. A significant proportion of the Group's management have received training in relation to ethics and anti-corruption.

- **Environmental laws and regulations** – The Group's operations and ownership or use of real property is subject to a number of federal, state, and local environmental laws and regulations, including those for discharge of hazardous materials, remediation of contaminated sites, and restoration of damage to the environment. At certain sites that we own or operate, 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. We have managed monitoring and remediation programmes at certain sites, for which we make appropriate financial provision. In certain circumstances, we procure environmental liability insurance, subject to applicable insurance conditions.

- **Financial risks** – The Group is exposed to financial risks relating to foreign exchange, interest rates and liquidity, and where appropriate it uses financial instruments to manage these risks. Details of the financial risks which the Group is potentially exposed are set out in the financial review and note 24 of the financial statements within the 2013 annual report and accounts.