21 JUNE 2018

CHEMRING GROUP PLC

("Chemring" or "the Group")

INTERIM RESULTS FOR THE SIX MONTHS TO 30 APRIL 2018

	As reported		*At H1 2017 exchange rates*		
	H1 2018	*Change*	*H1 2018*	*Change*	H1 2017
Revenue (£m)	**229.3**	- 8%	*244.8*	*- 2%*	249.6
Underlying EBITDA*(£m)	**29.0**	- 3%	*31.1*	*+ 4%*	30.0
Underlying operating profit* (£m)	**18.1**	+ 5%	*19.6*	*+ 14%*	17.2
Underlying profit before tax* (£m)	**14.8**	+ 31%	*16.1*	*+ 42%*	11.3
Statutory profit/(loss) before tax (£m)	**4.3**				(6.8)
Underlying earnings per share* (pence)	**4.1p**	+ 28%	*4.5p*	*+ 41%*	3.2p
Underlying diluted earnings per share* (pence)	**4.0p**	+ 29%			3.1p
Interim dividend per share (pence)	**1.1p**	+ 10%			1.0p
Net debt at 30 April (£m)	**84.6**	-24%	*87.7*	*- 21%*	111.7

Highlights

- Performance continues to progress positively, with improved first half revenue weighting delivering underlying operating profit of £18.1m, despite a currency headwind
- Net debt significantly down year on year
- Net working capital reduction and repayment of loan notes have resulted in finance costs being down 44%
- Impact of recent changes to US tax legislation reflected in the period, resulting in a non-underlying write down of deferred tax assets of £17.4m
- Safety performance continues to be strong
- Operational Excellence Programme delivering improved return on sales, 7.9% (H1 2017: 6.9%) and lower working capital, £129.8m (H1 2017: £135.6m)
- Key US Programs of Record progressing in line with expectations. Contract negotiations ongoing on HMDS, solicitations responded to on chemical and biological detection programmes and testing ongoing on the JBTDS biological programme
- Order intake in H1 of £208m (H1 2017: £218m). Order book at half year £442m (FY 2017: £478m), of which approximately £212m is currently expected to be delivered in H2 2018, representing cover of approximately 80% of expected H2 revenues
- Board declared interim dividend of 1.1p per share (H1 2017: 1.0p)
- Board's expectations for FY 2018 remain unchanged

Michael Flowers, Chemring Group Chief Executive, commented:

"Market conditions and business performance in the first half of 2018 have continued to strengthen, with margins and earnings improving across the Group. We expect this trend to continue as the impact of significant increases to the US Defense budget start to flow through, with the Group maximising the impact of these improvements through improved delivery performance resulting from the Operational Excellence Programme.

Our Countermeasures segment continues to grow, with a strengthening order book and increased global market activity underpinning capital investments in all facilities, most notably our recently approved transformation programme at the Tennessee site. Improved operational performance, improved capability, and an improved market all point to strong future performance in the segment. With contract finalisation on the first phase of the Husky Mounted Detection System program expected shortly and customer decisions on the Next Generation Chemical Detector and Enhanced Maritime Biological Detection programs imminent, the second half is key to our long term growth in the US sensors market.

In light of strong order book cover and improved performance, the Board's outlook for FY 2018 remains positive, with expectations unchanged. As previously highlighted, we expect a stronger contribution from Countermeasures and scheduled reductions in Energetics."

Notes:

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

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

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

Group:	**Underlying**	**Non-underlying**	**Statutory**
EBITDA (£m)	29.0	(2.8)	26.2
Operating profit (£m)	18.1	(10.5)	7.6
Profit before taxation (£m)	14.8	(10.5)	4.3
Tax charge (£m)	(3.3)	(15.8)	(19.1)
Profit/(loss) after tax (£m)	11.5	(26.3)	(14.8)
Basic earnings/(loss) per share (pence)	4.1	(9.4)	(5.3)
Diluted earnings/(loss) per share (pence)	4.0	(9.3)	(5.3)
Segments:			
Countermeasures EBITDA (£m)	12.6	(0.9)	11.7
Countermeasures operating profit (£m)	7.3	(1.8)	5.5
Sensors EBITDA (£m)	8.8	(0.5)	8.3
Sensors operating profit (£m)	6.8	(3.8)	3.0
Energetics EBITDA (£m)	11.3	0.2	11.5
Energetics operating profit (£m)	8.3	(3.3)	5.0

The adjustments comprise:

- amortisation of acquired intangibles of £7.0m (H1 2017: £7.7m, 2017: £15.0m)
- exceptional items of £0.5m (H1 2017: £nil, 2017: £2.3m) relating to acquisition and disposal related costs
- exceptional items of £1.6m (H1 2017: £11.1m, 2017: £14.3m) relating to business restructuring costs
- exceptional items of £1.5m (H1 2017: £0.2m, 2017: £0.4m) relating to claim related costs
- exceptional items of £nil (H1 2017: £nil, 2017: £10.6m) relating to an impairment of a business
- gain on the movement in the fair value of derivative financial instruments of £0.1m (H1 2017: £0.9m, 2017: £1.7m)
- tax credit on adjustments of £1.6m (H1 2017: £5.8m, 2017: £7.2m)
- deferred tax write-off relating to the changes to US tax legislation of £17.4m (H1 2017: £nil, 2017: £nil)
- discontinued operations credits of £nil (H1 2017: £1.2m, 2017: £3.5m)

Further details are provided in note 3.

For further information:

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Cautionary statement

This announcement contains forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could, is confident, or other words of similar meaning. Undue reliance should not be placed on any such statements because they speak only as at the date of this document and, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and Chemring's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements. There are a number of factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. Among the factors that could cause actual results to differ materially from those described in the forward-looking statements are: increased competition, the loss of or damage to one or more key customer relationships, changes to customer ordering patterns, delays in obtaining customer approvals for engineering or price level changes, the failure of one or more key suppliers, the outcome of business or industry restructuring, the outcome of any litigation, changes in economic conditions, currency fluctuations, changes in interest and tax rates, changes in raw material or energy market prices, changes in laws, regulations or regulatory policies, developments in legal or public policy doctrines, technological developments, the failure to retain key management, or the key timing and success of future acquisition opportunities or major investment projects. Chemring undertakes no obligation to revise or update any forward-looking statement contained within this announcement, regardless of whether those statements are affected as a result of new information, future events or otherwise, save as required by law and regulations.

Notes to editors

- Chemring is a global business that specialises in the manufacture of high technology products and the provision of services to the aerospace, defence and security markets
- Employing approximately 2,600 people worldwide, and with production facilities in four countries, Chemring meets the needs of customers in more than fifty countries
- Chemring is organised under three strategic product segments: Countermeasures, Sensors, and Energetics
- Chemring has a diverse portfolio of products that deliver high reliability solutions to protect people, platforms, missions and information against constantly changing threats
- Operating in niche markets and with strong investment in research and development ("R&D"), Chemring has the agility to rapidly react to urgent customer needs

www.chemring.co.uk

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 Thursday 21 June 2018. The presentation can also be listened to at that time by dialling +44 (0)20 3936 2999 and using the participant access code: 94 47 29. A recording of the audio webcast will be available later that day.

Photography
Original high resolution photography is available to the media by contacting Luke Briggs, MHP Communications: luke.briggs@mhpc.com / tel: +44 (0) 20 3128 8100.

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

INTERIM MANAGEMENT REPORT

Group overview

The Group has had a good first half year, in line with the Board's expectations, and continuing the performance improvement of last year. In particular, the first half saw a good performance from the Countermeasures segment, driven by improving customer demand and continued consistency of operational performance across the segment. At constant currency the Group's underlying operating profit was up 14% and underlying earnings per share was up 41%. As expected, revenue at constant currency decreased by 2% driven by lower deliveries of 40mm ammunition to customers in the Middle East. Reported revenue was £229.3m (H1 2017: £249.6m, 2017: £547.5m) and underlying operating profit was £18.1m (H1 2017: £17.2m, 2017: £55.4m).

Net debt was £84.6m at the end of the period (H1 2017: £111.7m, 2017: £80.0m), the increase since 31 October 2017 being largely attributable to the normal seasonality of the Group. Underlying operating cash inflow of £21.4m (H1 2017: £7.9m absorbed, 2017: £47.1m) represented 74% (H1 2017: (26%), 2017: 58%) of EBITDA.

The Group's order book at 30 April 2018 was £441.5m (H1 2017: £556.2m, 2017: £478.0m), of which approximately £212.0m is scheduled for delivery during H2 2018, representing cover of approximately 80% of expected H2 revenue. The reduction since 31 October 2017 is attributable to the weaker US Dollar and delivery of 40mm and Non-Standard Ammunition orders, offset by an increase in Countermeasures driven by strong order intake in the US and UK.

Markets

Geopolitical unrest in multiple markets, particularly the Middle East, appears to be growing in complexity. This increased tension has brought defence spending into greater focus as nations respond to increased threats, and consequently we are seeing signs of improvement in some markets.

Indications are that global growth in defence spending will be sustained at around 3% per annum, although in certain areas growth is likely to be stronger. The US remains the dominant market and the Presidential Budget Request for Fiscal Year 2019 sees the largest military budget in US history, at $700 billion.

Spending in Western Europe remains relatively subdued and in the UK, exchange rate pressures and major platform acquisitions are constraining other expenditure. The UK market is expected to remain flat until the Defence Modernisation Programme, to be completed later this summer, provides clarity on future procurement priorities. It should be noted that the UK MOD now represents less than 5% of Group revenues.

The Middle East defence market remains volatile and difficult to predict. While regional tensions remain high, and oil prices are still recovering, defence spending remains strong but customers are having to prioritise procurement. Consequently order placements and payments are regularly being delayed. In the Asia Pacific region, there is growth in defence spending in Chemring's key markets in the region, including Australia, India, Japan and Singapore in response to increased activity by China.

Chemring's areas of focus at a segmental level broadly reflect these macro trends. In the US the countermeasures market has continued to show good growth with increased solicitation, bid activity and order intake, together with evidence that we are growing market share. The wider countermeasures market also remains positive with increased activity in the UK and Australia, and growing activity in other international markets.

The recent use of chemical weapons in Douma, Syria and also in Salisbury, UK has highlighted the need for Chemring's products in the Sensors segment. The Group continues to maintain its position on the US Programs of Record for chemical and biological detection, and counter-IED detection, however, production awards continue to be subject to on-going development, customer testing programmes and customer decision making processes.

The increasing threat to information security, together with the proliferation of autonomous systems and artificial intelligence is seeing customer budgets for Roke's consultancy services continue to improve. Continued investment in capability in this area is ongoing in order to optimise the opportunity for Chemring.

Within Energetics, the high specification energetic devices businesses continue to grow as customers recognise niche technological capabilities in this area, particularly in space and missile applications, and also in the production of high explosive material. Demand for pyrotechnic and ammunition products is being driven by political unrest in certain parts of the world, although, as expected, is reducing from recent high levels.

Health and safety

The lost time incident rate (incidents per 100 employees per annum) as at 30 April 2018 was 0.29, the lowest on record (H1 2017: 0.61, 2017: 0.59), resulting from a number of minor occupational safety incidents. It is critical to remember that many of Chemring's manufacturing activities are inherently hazardous, and that despite major investment and process improvements, the Group must continue to improve its facilities, processes, training and risk management to ensure safety performance continues to improve further. Chemring had no energetic incidents in the period that resulted in serious injury to an employee.

This year we are increasing our focus on human factors that might contribute to an incident and reviewing in detail our mitigation arrangements for all of our major accident scenarios.

Group Financial Performance

The underlying operating profit of £18.1m (H1 2017: £17.2m, 2017: £55.4m), resulted in an underlying operating margin of 7.9% (H1 2017: 6.9%, 2017: 10.1%). The improved margin on H1 2017 primarily reflects a higher margin sales mix with increased contribution from Countermeasures, together with improved operational performance driven by the Group's Operational Excellence Programme.

Foreign exchange translation has had a dampening impact on half year comparison. While exchange rates have been volatile in the period, there has been a strengthening of Sterling against the US Dollar compared to the equivalent period in 2017. On a constant currency basis, restating the current period at the H1 2017 average rate, revenue would have been higher at £244.8m and underlying operating profit would have been £19.6m.

Statutory operating profit was £7.6m (H1 2017: £0.9m loss, 2017: £15.3m) and after statutory finance expenses of £3.3m (H1 2017: £5.9m, 2017: £11.3m), statutory profit before tax was £4.3m (H1 2017: £6.8m loss, 2017: £4.0m) as a result of improved underlying performance as discussed above and reduced level of non-underlying business restructuring costs from H1 2017.

The statutory loss per share of 5.3p (H1 17: 1.2p, 2017: 1.1p earnings) was as a result of the improved operating performance and lower finance expenses, offset by the non-underlying deferred tax asset write-off arising from the new US tax legislation.

Following the repayment of £51.4m private placement loan notes in November 2017, the net finance expense fell to £3.3m (H1 2017: £5.9m, 2017: £11.3m). This resulted in an underlying profit before tax of £14.8m (H1 2017: £11.3m, 2017: £44.1m). The effective tax rate on the underlying profit before tax from continuing operations was 22.3% (H1 2017: 21.2%, 2017: 18.4%). The underlying earnings per share was 4.1p (H1 2017: 3.2p, 2017: 12.9p).

Segmental Review - Countermeasures

Markets

The countermeasures market is starting to show some positive signs with an increase in solicitation, bid activity and orders, particularly within the US. The broader global countermeasures market remains more robust with improving levels of activity in the UK and Australia, supplemented by growing export order opportunities.

Performance

Revenue increased by 4.7% to £55.9m (H1 2017: £53.4m, 2017: £134.8m) and the segment reported an underlying operating profit of £7.3m (H1 2017: £1.0m, 2017: £16.7m). The underlying operating margin improved to 13.1% (H1 2017: 1.9%, 2017: 12.4%). On a constant currency basis revenue would have increased by 11.2% to £59.4m and operating profit would have been £7.8m.

Order intake in the period has been strong with significant orders for both air and naval countermeasures received from UK MOD, International and US customers in particular. The Group's new Special Material Decoy continues to progress and there is evidence of growth in market share.

Margins have improved as the Operational Excellence Programme begins to deliver tangible results. In Countermeasures the focus has been on achieving "right first time" production thereby reducing the costs of rework, scrap and labour under-utilisation.

The period saw significant development on the F-35 program, with over half of the units on Low Rate Initial Production ("LRIP") 6 of the F-35 operational flares now delivered. The contract for LRIP 7 has been awarded and delivery is due to commence in H2, and the contract for LRIP 8 is expected to be awarded in H2.

Opportunities and outlook

After a number of years of weakness in the countermeasures markets that followed the end of the Iraq and Afghanistan conflicts, the outlook for the segment is increasingly positive. Segment focus remains on maintaining and growing the Group's market leading position, in particular on key platforms such as the F-35 as it begins to enter service in increasing numbers, and in the important Special Material Decoy market.

During the period the Board approved a project amounting to approximately $50m to transform the Tennessee facility. The project, which is expected to take approximately three years to complete, will result in an automated capability with additional capacity reflecting expected customer demand over the medium term. The majority of the investment will be capital, but some demolition, remediation work and asset write offs will be expensed in 2018 as non-underlying costs. This investment, which is expected to safeguard and expand the Group's position in the Global countermeasures market, will see fully automated production lines in place at the Group's countermeasures facilities in the US, UK and Australia.

Countermeasures' order book at 30 April 2018 was £193.4m (H1 2017: £171.5m, October 2017: £178.6m). The increase is as a result of strong order intake in the US and UK, and at constant currency the order book is 11.6% higher than at 31 October 2017. Of the 30 April 2018 order book, approximately £73m is currently expected to be delivered in the second half of 2018.

Segmental Review - Sensors

Markets

The Sensors sector remains Chemring's principal long-term growth area, with customer budgets for Roke's security related consultancy services rising and ongoing development efforts in support of US Programs of Record in the counter-IED, chemical and biological detection markets. Production awards for new Sensors products continue to be subject to on-going development and testing programmes and protracted customer decision-making processes.

Performance

Revenue for Sensors increased by 10.4% to £44.5m (H1 2017: £40.3m, 2017: £94.5m) and underlying operating profit increased to £6.8m (H1 2017: £4.5m, 2017: £14.3m), an underlying operating margin improved to 15.3% (H1 2017: 11.2%, 2017: 15.1%). The Sensors business in the US continues to focus on the development and testing phases of the biological and chemical detection Programs of Record. On a constant currency basis revenue would have risen 14.1% to £46.0m and operating profit would have been up 55.6% to £7.0m.

The US Department of Defense ("US DoD") remains committed to counter-IED through the Husky Mounted Detection System ("HMDS") programme. During the period Chemring responded to sole-source solicitations for fleet refurbishment and upgrade, and we expect the outcome of these to be known during the second half of 2018. These contracts cover development and manufacture and are expected to run over the next three years.

The cyber-security market, in which Roke is a leading participant, was buoyant in the period. Roke's focus on investing in its people ensures it has the right mix of skills to meet market requirements and has supported its success and revenue growth in the period.

During the period Chemring disposed of its 3d-Radar business, but retained the rights to use the technology in the military market.

Opportunities and outlook

In chemical and biological detection, the Group has continued to focus activity on the long-term US DoD Programs of Record. Chemring has progressed to the prototype phase on the Next Generation Chemical Detector ("NGCD") program. We responded to a competitive solicitation to move to the Engineering and Manufacturing Development and Production phases in November 2017 on one of the three variants, and we expect a second solicitation for a further variation shortly. Funded development of Chemring's sole-source position on the Joint Biological Tactical Detection System ("JBTDS") programme is continuing with US Government testing of the product commencing in this period.

The order book for Sensors at 30 April 2018 decreased since the year end to £44.2m (H1 2017: £57.5m, October 2017: £55.4m). While the Roke business remains a short-cycle order book business, the division has orders of approximately £30m for delivery in the second half of the year.

Segmental Review - Energetics

Markets

Within Energetics, the Group is seeing a medium-term trend of increased demand for specialist products, particularly for applications in the space, missile and aerospace markets, balanced by some decline in the more commodity based pyrotechnics and ammunition products. Demand for high grade high explosive materials continues to grow, with this seen as a positive driver in future years.

Performance

As expected, revenue for Energetics decreased by 17.3% to £128.9m (H1 2017: £155.9m, 2017: £318.2m), while underlying operating profit decreased by 50.6% to £8.3m (H1 2017: £16.8m, 2017: £34.8m). The underlying operating margin was 6.4% (H1 2017: 10.8%, 2017: 10.9%), reflecting the decline in 40mm ammunition revenue and a sales mix biased towards lower margin externally sourced non-standard ammunition ("NSA") revenue in the first half of 2018. On a constant currency basis, revenue would have fallen 10.6% to £139.4m and operating profit would have fallen 45.8% to £9.1m.

The expected decline in performance in the segment was due to the completion of the large 40mm ammunition contract to a customer in the Middle East. The final shipment under this contract was completed early in the period and therefore 40mm ammunition only contributed £11.2m (H1 2017: £44.3m, 2017: £64.2m) to revenue in the first half. The Group continues to see a number of smaller opportunities for 40mm ammunition but is not building its plans around a repeat of the size of orders won in 2016 and 2017.

Sales of procured NSA product grew in the period. Due to the externally sourced nature of the products involved, margins on NSA sales are significantly lower than for manufactured product. Supply of NSA products to the US Government contributed £60.6m (H1 2017: £43.5m, 2017: £97.6m) to revenue in the first half.

Aside from these large contracts, the Group's specialist devices businesses remain healthy. The planned closure of the Torrance facility and integration into a modernised Downers Grove facility has caused some operational disruption which is expected to delay some revenues to 2019.

Chemring's high explosive manufacturing business in Norway has again achieved record order intake levels with significant effort being undertaken to enhance capacity. This investment is supported by a strategy of engaging customers in long-term agreements for supply, which has proved successful with a number of customers moving to this arrangement to secure their continuity of supply.

Opportunities and outlook

The Group's niche propellant and devices businesses in Ardeer and Chicago are increasingly securing long-term contracts with customers supporting greater short and medium-term visibility and providing a framework for long-term planning and investment decisions. Similarly, demand for high quality high explosives has enabled Chemring Nobel in Norway to work proactively with its customer base on long term contracting models, providing much improved visibility. Whilst the 'commodity' type pyrotechnic and ammunition lines are seeing revenue decline, greater focus in niche and higher margin products is expected to deliver a return to growth in the medium term.

The order book for Energetics at 30 April 2018 was £203.9m (H1 2017: £327.2m, October 2017: £244.0m), and included £nil (H1 2017: £42.0m, 2017: £11.2m) in respect of the 40mm ammunition contract and £29.5m in respect of NSA (H1 2017: £121.3m, 2017: £83.7m). The decrease since 31 October 2017 was attributable to both stronger Sterling and deliveries against the 40mm and NSA contracts. Of the order book approximately £109m is expected to be delivered in the second half of the financial year.

Finance expenses

Following the repayment of £51.4m of private placement loan notes in November 2017, the total finance expense fell to £3.3m (H1 2017: £5.9m, 2017: £11.3m).

Total finance expenses included interest costs of £2.8m (H1 2017: £4.3m, 2017: £8.5m), amortisation of debt finance costs of £0.5m (H1 2017: £1.2m, 2017: £2.4m) and other non-cash finance expenses associated with the defined benefit pension scheme of £nil (H1 2017: £0.4m, 2017: £0.4m).

Tax

The continuing statutory tax charge totalled £19.1m (H1 2017: £3.4m credit, 2017: £0.9m) on a continuing statutory profit before tax of £4.3m (H1 2017: £6.8m loss, 2017: £4.0m). The increase in the continuing effective rate of tax on the results of the Group is primarily due to recently enacted US tax legislation which reduces the US corporate tax rate and changes the rules regarding US interest tax deduction limitations. In addition, the rate is impacted by the geographic mix of profits, changes to the amounts of deferred tax assets considered recoverable in respect of both tax losses and prior year adjustments.

The continuing underlying tax charge totalled £3.3m (H1 2017: £2.4m, 2017: £8.1m) on a continuing underlying profit before tax of £14.8m (H1 2017: £11.3m, 2017: £44.1m). The effective tax rate on underlying profit before tax for the period is a charge of 22.3% (H1 2017: 21.2%, 2017: 18.4%) and is based on the estimated effective tax rate on underlying profit before tax for the full year.

The US Tax Cuts and Jobs Act (“TCJA”) was substantively enacted on 22 December 2017. The TCJA provides for a reduction in the main rate of US federal corporate income tax from 35% to 21% for the period after 1 January 2018, thus first impacting Chemring for part of its 2018 financial year, however the impact on the deferred tax asset has been recognised in full during the first half of 2018.

The impact on Chemring has been two-fold; the reduction in the main rate of US federal corporate income tax has resulted in a write-off of deferred tax of £8.6m associated with tax losses and interest restrictions, offset by a £3.9m credit on the revaluation of the deferred tax liabilities associated with US related acquired intangibles. This has resulted in a net write-off of £4.7m in respect of the rate change. In addition, the introduction of restrictions on the availability of interest deductions has resulted in a write-off of deferred tax of £12.7m. The total impact of £17.4m has been treated as a non-underlying item in 2018, see note 3.

Earnings per share

Underlying earnings per share were 4.1p (H1 2017: 3.2p, 2017: 12.9p) and diluted underlying earnings per share were 4.0p (H1 2017: 3.1p, 2017: 12.6p). Statutory profit before tax was £4.3m (H1 2017: £6.8m loss, 2017: £4.0m), giving statutory loss per share of 5.3p (H1 17: 1.2p, 2017: 1.1p earnings).

Net debt and cash flow

Net debt at 30 April 2018 was £84.6m (H1 2017: £111.7m, 2017: £80.0m).

Underlying operating activities generated cash of £21.4m (H1 2017: £7.9m absorbed, 2017: £47.1m), reflecting the normal seasonality of the Group’s business and the collection of year end receivables which were particularly high from increased levels of 40mm deliveries and sales to the US Government in the last quarter of FY17, offset by payments made to suppliers for 40mm.

In November 2017, the Group repaid £5.3m and $61.2m of outstanding loan notes out of existing cash resources and debt facilities. The remaining loan notes of $83.6m are repayable in November 2019.

Debt facilities

The Group's principal debt facilities comprise $83.6m of US private placement loan notes and a £100.0m revolving credit facility. The revolving credit facility is with a syndicate of three banks and runs to July 2019. The Group had £67.6m (H1 2017: £105.0m, 2017: £106.0m) of undrawn borrowing facilities at the half year.

Contingent liabilities

As announced in January 2018, the Serious Fraud Office ("SFO") is currently undertaking a formal investigation into concerns about bribery, corruption and money laundering involving intermediaries who previously represented one of the Group's UK-based subsidiaries, Chemring Technology Solutions Limited ("CTSL") and its predecessor companies.

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

Board changes

As announced on 1 May 2018, Michael Flowers has informed the Board of his decision to retire. Michael will be stepping down from the Board of Chemring on 30 June 2018, and will leave the Group on 31 October 2018. Following a comprehensive search process, the Board proposed the appointment of Michael Ord as Michael Flowers' successor, who joined Chemring on 1 June 2018. Michael Ord will take over as Group Chief Executive on 1 July 2018.

Auditor

As outlined in the FY 2017 Annual Report and Accounts, the Group undertook a tender process for the selection and appointment of a new external auditor to replace Deloitte LLP, who had provided external audit services to the Group for more than fifteen years. The Board of Chemring appointed KPMG LLP as the Group's external auditor on 23 March 2018 and this is subject to confirmation by the shareholders at the 2019 Annual General Meeting.

Dividends

At the Annual General Meeting on 20 March 2018 the shareholders approved a final dividend in respect of the year ended 31 October 2017 of 2.0p per ordinary share. This was paid on 20 April 2018 to shareholders on the register on 6 April 2018.

The Board has also declared an interim dividend in respect of 2018 of 1.1p per ordinary share which will be paid on 14 September 2018 to shareholders on the register on 31 August 2018. In accordance with accounting standards this dividend has not been recorded as a liability as at 30 April 2018.

Outlook

Approximately 80% of expected H2 revenue is in the current order book or has been delivered to date. The bulk of orders awaited are small routine orders for products or services, with no significant contracts required to be finalised for full year delivery. Based on this, current exchange rates and combined with improved operational delivery and improvements being made under the Operational Excellence Programme, the Board's expectations for FY 2018 remain unchanged. As previously highlighted, we expect a stronger contribution from Countermeasures and scheduled reductions in Energetics.

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 details 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	**Andrew Lewis**
Group Chief Executive	**Group Finance Director**
21 June 2018	**21 June 2018**

CONDENSED CONSOLIDATED INCOME STATEMENT
for the half year to 30 April 2018

	Note	**Underlying performance* £m**	**Non-underlying items* £m**	**Total £m**	Underlying performance* £m	Non-underlying items* £m	Total £m
				Unaudited Half year to 30 April 2018			Unaudited Half year to 30 April 2017
Continuing operations							
Revenue		**229.3**	**-**	**229.3**	249.6	-	249.6
Operating profit/(loss)		**18.1**	**(10.5)**	**7.6**	17.2	(18.1)	(0.9)
Finance expense		**(3.3)**	**-**	**(3.3)**	(5.9)	-	(5.9)
Profit/(loss) before tax		**14.8**	**(10.5)**	**4.3**	11.3	(18.1)	(6.8)
Tax (charge)/credit on profit/(loss)	5	**(3.3)**	**(15.8)**	**(19.1)**	(2.4)	5.8	3.4
Profit/(loss) after tax		**11.5**	**(26.3)**	**(14.8)**	8.9	(12.3)	(3.4)
Discontinued operations							
Profit after tax from discontinued operations	3,9	**-**	**-**	**-**	-	1.2	1.2
Profit/(loss) after tax for the period		**11.5**	**(26.3)**	**(14.8)**	8.9	(11.1)	(2.2)

	Note	**Underlying performance***	**Non-underlying items***	**Total**	Underlying performance*	Non-underlying items*	Total
				Unaudited Half year to 30 April 2018			Unaudited Half year to 30 April 2017
Earnings/(loss) per ordinary share							
Continuing operations							
Basic	6	**4.1p**	**(9.4)p**	**(5.3)p**	3.2p	(4.4)p	(1.2)p
Diluted	6	**4.0p**	**(9.3)p**	**(5.3)p**	3.1p	(4.3)p	(1.2)p
Continuing operations and discontinued operations							
Basic	6	**4.1p**	**(9.4)p**	**(5.3)p**	3.2p	(4.0)p	(0.8)p
Diluted	6	**4.0p**	**(9.3)p**	**(5.3)p**	3.1p	(3.9)p	(0.8)p

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

CONDENSED CONSOLIDATED INCOME STATEMENT (continued)
for the half year to 30 April 2018

	Note	Underlying performance* £m	Non-underlying items* £m	Audited Year to 31 Oct 2017 Total £m
Continuing operations				
Revenue		547.5	-	547.5
Operating profit		55.4	(40.1)	15.3
Finance expense		(11.3)	-	(11.3)
Profit before tax		44.1	(40.1)	4.0
Tax charge	5	(8.1)	7.2	(0.9)
Profit after tax		36.0	(32.9)	3.1
Discontinued operations				
Profit after tax from discontinued operations	3,9	-	3.5	3.5
Profit after tax for the year		36.0	(29.4)	6.6

	Note	Underlying performance* £m	Non-underlying items* £m	Audited Year to 31 Oct 2017 Total £m
Earnings per ordinary share				
Continuing operations				
Basic	6	12.9p	(11.8)p	1.1p
Diluted	6	12.6p	(11.5)p	1.1p
Continuing operations and discontinued operations				
Basic	6	12.9p	(10.5)p	2.4p
Diluted	6	12.6p	(10.3)p	2.3p

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the half year to 30 April 2018

	Unaudited Half year to 30 April 2018 £m	Unaudited Half year to 30 April 2017 £m	Audited Year to 31 Oct 2017 £m
(Loss)/profit after tax attributable to equity holders of the parent	**(14.8)**	(2.2)	6.6
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains on defined benefit pension schemes	**1.5**	3.8	11.9
Movement on deferred tax relating to pension schemes	**(0.1)**	-	(2.0)
	1.4	3.8	9.9
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	**(10.1)**	(8.6)	(11.6)
Current tax on items taken directly to equity	**(0.6)**	-	(3.1)
Deferred tax on exchange differences on translation of foreign operations	**1.6**	-	0.8
	(9.1)	(8.6)	(13.9)
Total comprehensive (loss)/profit attributable to equity holders of the parent	**(22.5)**	(7.0)	2.6

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the half year to 30 April 2018

Unaudited half year to 30 April 2018

	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 2017	2.8	305.3	12.9	1.1	(24.8)	113.5	(9.6)	401.2
Loss after tax	-	-	-	-	-	(14.8)	-	(14.8)
Other comprehensive loss	-	-	-	-	(4.9)	(3.7)	-	(8.6)
Tax relating to components of other comprehensive loss	-	-	-	-	-	0.9	-	0.9
Total comprehensive loss	-	-	-	-	(4.9)	(17.6)	-	(22.5)
Ordinary shares issued	-	0.1	-	-	-	-	-	0.1
Share-based payments (net of settlement)	-	-	-	-	-	0.1	-	0.1
Dividends paid	-	-	-	-	-	(5.6)	-	(5.6)
Transactions in own shares	-	-	-	-	-	-	1.8	1.8
At 30 April 2018	**2.8**	**305.4**	**12.9**	**1.1**	**(29.7)**	**90.4**	**(7.8)**	**375.1**

Unaudited half year to 30 April 2017

	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2016	2.8	305.1	12.9	1.1	(20.7)	121.8	(9.6)	413.4
Impact of adoption of IFRS 15	-	-	-	-	-	(10.2)	-	(10.2)
Loss after tax	-	-	-	-	-	(2.2)	-	(2.2)
Other comprehensive loss	-	-	-	-	(1.7)	(3.1)	-	(4.8)
Total comprehensive loss	-	-	-	-	(1.7)	(5.3)	-	(7.0)
Share-based payments (net of settlement)	-	-	-	-	-	0.5	-	0.5
At 30 April 2017	2.8	305.1	12.9	1.1	(22.4)	106.8	(9.6)	396.7

Audited year to 31 October 2017

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

CONDENSED CONSOLIDATED BALANCE SHEET
as at 30 April 2018

	Note	**Unaudited As at 30 April 2018 £m**	Unaudited As at 30 April 2017 £m	Audited As at 31 Oct 2017 £m
Non-current assets				
Goodwill		**123.5**	130.2	125.4
Development costs		**31.6**	36.6	33.7
Other intangible assets		**47.9**	65.7	57.0
Property, plant and equipment		**156.7**	169.7	160.1
Deferred tax	5	**45.6**	59.5	63.2
Retirement benefit surplus	10	**3.5**	-	-
		408.8	461.7	439.4
Current assets				
Inventories		**95.6**	113.3	97.6
Trade and other receivables		**114.5**	128.7	131.0
Cash and cash equivalents	13	**0.5**	5.0	33.6
Derivative financial instruments	8	**0.4**	0.6	0.4
		211.0	247.6	262.6
Total assets		**619.8**	709.3	702.0
Current liabilities				
Borrowings	13	**-**	(53.0)	(51.6)
Obligations under finance leases		**-**	(0.1)	-
Trade and other payables		**(89.5)**	(112.3)	(111.9)
Provisions		**(7.3)**	(8.9)	(6.5)
Current tax		**(5.4)**	-	(5.5)
Derivative financial instruments	8	**(0.3)**	(0.4)	(0.4)
		(102.5)	(174.7)	(175.9)
Non-current liabilities				
Borrowings	13	**(85.0)**	(63.5)	(61.9)
Trade and other payables		**-**	(3.2)	-
Provisions		**(6.9)**	(8.4)	(8.8)
Deferred tax	5	**(50.2)**	(51.4)	(53.5)
Preference shares	13	**(0.1)**	(0.1)	(0.1)
Retirement benefit obligations	10	**-**	(11.3)	(0.6)
		(142.2)	(137.9)	(124.9)
Total liabilities		**(244.7)**	(312.6)	(300.8)
Net assets		**375.1**	396.7	401.2
Equity				
Share capital		**2.8**	2.8	2.8
Share premium account		**305.4**	305.1	305.3
Special capital reserve		**12.9**	12.9	12.9
Revaluation reserve		**1.1**	1.1	1.1
Translation reserve		**(29.7)**	(22.4)	(24.8)
Retained earnings		**90.4**	106.8	113.5
		382.9	406.3	410.8
Own shares		**(7.8)**	(9.6)	(9.6)
Total equity		**375.1**	396.7	401.2

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the half year to 30 April 2018

	Note	**Unaudited Half year to 30 April 2018 £m**	Unaudited Half year to 30 April 2017 £m	Audited Year to 31 Oct 2017 £m
Cash flows from operating activities				
Cash generated from/(used in) underlying operations	12	**21.4**	(7.9)	47.1
Cash impact of non-underlying items		**(1.7)**	(2.8)	(6.3)
Cash flows from operating activities		**19.7**	(10.7)	40.8
Retirement benefit deficit recovery contributions		**(2.5)**	(2.5)	(5.0)
Tax paid		**(4.1)**	(3.3)	(3.6)
Net cash inflow/(outflow) from operating activities		**13.1**	(16.5)	32.2
Cash flows from investing activities				
Purchases of intangible assets		**(1.5)**	(2.1)	(3.9)
Purchases of property, plant and equipment		**(7.7)**	(6.1)	(12.6)
Acquisition – deferred consideration		**(0.7)**	-	-
Proceeds on disposal of property, plant and equipment		**0.4**	-	-
Net cash outflow from investing activities		**(9.5)**	(8.2)	(16.5)
Cash flows from financing activities				
Dividends paid	7	**(5.6)**	-	(6.4)
Finance expense paid		**(3.8)**	(5.2)	(9.3)
Capitalised facility fees paid		**(0.2)**	(0.2)	(0.5)
Repayments of borrowings		**(26.5)**	(27.7)	(28.8)
Repayments of finance leases		**-**	-	(0.1)
Net cash outflow from financing activities		**(36.1)**	(33.1)	(45.1)
Decrease in cash and cash equivalents		**(32.5)**	(57.8)	(29.4)
Cash and cash equivalents at beginning of period/year		**33.6**	63.1	63.1
Effect of foreign exchange rate changes		**(0.6)**	(0.3)	(0.1)
Cash and cash equivalents at end of period/year		**0.5**	5.0	33.6

NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of preparation
The condensed consolidated financial information for each of the six month periods does 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 21 June 2018. The information for the year ended 31 October 2017 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. Full accounts for the year ended 31 October 2017, 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.

Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards ("IFRSs"), this announcement does not itself contain sufficient information to comply with IFRSs. The 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 cost reduction programmes and operational improvements;
- mitigating actions available should business activities fall behind current expectations, including the deferral of discretionary overheads and restricting cash outflows; and
- 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. 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 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.

Alternative Performance Measures ("APMs")
In the analysis of the Group's financial performance and position, operating results and cash flows, APMs are presented to provide readers with additional information. The principal APMs presented are underlying measures of earnings including underlying operating profit, underlying profit before tax, underlying profit after tax, underlying EBITDA, underlying earnings per share, and underlying operating cash flow. In addition, EBITDA, net debt, and constant currency revenues are presented which are also considered to be non-IFRS measures. These measures are consistent with information regularly reviewed by management to run the business, including planning, budgeting and reporting purposes and for its internal assessment of the operational performance of individual businesses.

The directors believe that the use of these APMs assist in providing additional information on the underlying trends, performance and position of the Group. APMs are used to improve the comparability of information between reporting periods by adjusting for items that are non-recurring or otherwise non-underlying. Management consider non-underlying items to be:
- amortisation of acquired intangibles;
- discontinued operations;
- exceptional items, for example relating to acquisitions and disposals, restructuring of business and incident costs, and claim costs;
- gains or losses on the movement in the fair value of derivative financial instruments; and
- the tax impact of all of the above.

Our use of APMs is consistent with the prior year and we provide comparatives alongside all current period figures.

Accounting policies
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 2017.

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

i) The following International Financial Reporting Committee ("IFRIC") interpretations, amendments to existing standards and new standards were adopted in the period ending 30 April 2018 but have not materially impacted the reported results or the financial position:

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

ii) At the date of authorisation of this announcement, the following standards and interpretations that are potentially relevant to the Group and which have not yet been applied in these reported results were in issue but not yet effective (and in some cases had not yet been adopted by the European Union):
Effective for periods beginning on or after 1 January 2018

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

Effective for periods beginning on or after 1 January 2019

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

Effective for periods beginning on or after 1 January 2021

- IFRS 17 *Insurance Contracts*

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

- IFRS 16 *Leases* will impact the measurement, recognition, presentation and disclosure of leases, particularly operating leases where the term is longer than 12 months.

The impact of IFRS 16 *Leases* is currently being assessed. Under IFRS 16 *Leases*, lessees will be required to apply a single model to recognise a lease liability and asset for all leases, including those classified as operating leases under current accounting standards, unless the underlying asset has a low value or the lease term is 12 months or less. The adoption of IFRS 16 will have a significant impact on the results as each lease will give rise to a right of use asset which will be depreciated on a straight line basis, and a lease liability with a related interest charge. The depreciation and interest will replace the operating lease payments currently recognised as an expense. The impact will depend on the transition approach and the contracts in effect at the time of the adoption. At 31 April 2018, operating lease commitments were £4.6m and operating lease payments in the period to 30 April 2018 were £0.5m.

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

Critical accounting judgements and sources of estimation uncertainty
When applying the Group's accounting policies, management must make judgements, assumptions and estimates concerning the future that affect the carrying amounts of assets and liabilities at the balance sheet date and the amounts of revenue and expenses recognised during the period. Such judgements, assumptions and estimates are based upon factors including historical experience, the observance of trends in the industries in which the Group operates, and information available from the Group's customers and other external sources.

Critical accounting judgements
Revenue recognition
IFRS 15 *Revenue from Contracts with Customers* recognises revenue on the basis of the satisfaction of performance obligations. The identification of these obligations requires management judgement, particularly with respect to milestone contracts that contain multiple obligations. Additionally, management has to consider whether performance obligations should be recognised at a single point in time, which is generally the case for the sale of products by the Group, or over a period of time, which is more common for certain service contracts.

Key sources of estimation uncertainty
Goodwill impairment
Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit, and to determine a suitable discount rate in order to calculate present value. In reviewing the carrying value of goodwill of the Group's businesses, the Board considers the separate plans and cash flows of these businesses consistent with the requirements of IAS 36 *Impairment of Assets*. The plans and cash flows of these businesses reflect current and anticipated conditions in the defence industry.

Capitalised development costs
IAS 38 *Intangible Assets* requires that development costs, arising from the application of research findings or other technical knowledge to a plan or design of a new substantially improved product, are capitalised, subject to certain criteria being met. Determining the future cash flows generated by the products in development requires estimates which may differ from the actual outcome. In particular, this can depend on the estimation applied to future milestone events to secure long-term positions on production contracts.

Deferred tax assets on tax losses and US interest deductions
Applicable accounting standards permit the recognition of deferred tax assets only to the extent that it is probable that future taxable profits will be available to utilise the tax losses carried forward. The assessment of future taxable profits involves significant estimation uncertainty, principally relating to an assessment of management's projections of future taxable income based on business plans and ongoing tax planning strategies. These projections include assumptions about the future strategy of the Group, the economic and regulatory environment in which the Group operates, future tax legislation, and customer behaviour, amongst other variables.

2. SEGMENTAL ANALYSIS

Period to 30 April 2018 (unaudited)

	Countermeasures **£m**	**Sensors** **£m**	**Energetics** **£m**	**Unallocated** **£m**	**Group** **£m**
Revenue	**55.9**	**44.5**	**128.9**	**-**	**229.3**
Segment result before depreciation, amortisation and non-underlying items	**12.6**	**8.8**	**11.3**	**(3.7)**	**29.0**
Depreciation	**(4.3)**	**(0.8)**	**(2.7)**	**(0.6)**	**(8.4)**
Amortisation	**(1.0)**	**(1.2)**	**(0.3)**	**-**	**(2.5)**
Segmental underlying operating profit	**7.3**	**6.8**	**8.3**	**(4.3)**	**18.1**
Amortisation of acquired intangibles	**(0.2)**	**(3.3)**	**(3.5)**	**-**	**(7.0)**
Non-underlying items	**(1.6)**	**(0.5)**	**0.2**	**(1.6)**	**(3.5)**
Segmental operating profit	**5.5**	**3.0**	**5.0**	**(5.9)**	**7.6**

Period to 30 April 2017 (unaudited)

	Countermeasures £m	Sensors £m	Energetics £m	Unallocated £m	Group £m
Revenue	53.4	40.3	155.9	-	249.6
Segment result before depreciation, amortisation and non-underlying items	7.0	7.5	19.9	(4.4)	30.0
Depreciation	(4.9)	(1.0)	(2.7)	(0.7)	(9.3)
Amortisation	(1.1)	(2.0)	(0.4)	-	(3.5)
Segmental underlying operating profit	1.0	4.5	16.8	(5.1)	17.2
Amortisation of acquired intangibles	(0.2)	(3.6)	(3.9)	-	(7.7)
Non-underlying items	(1.8)	(5.1)	(3.0)	(0.5)	(10.4)
Segmental operating loss	(1.0)	(4.2)	9.9	(5.6)	(0.9)

Year ended 31 October 2017 (audited)

	Countermeasures £m	Sensors £m	Energetics £m	Unallocated £m	Group £m
Revenue	134.8	94.5	318.2	-	547.5
Segment result before depreciation, amortisation and non-underlying items	29.8	20.2	41.2	(10.2)	81.0
Depreciation	(10.8)	(1.8)	(5.8)	(0.1)	(18.5)
Amortisation	(2.3)	(4.1)	(0.6)	(0.1)	(7.1)
Segmental underlying operating profit	16.7	14.3	34.8	(10.4)	55.4
Amortisation of acquired intangibles	(0.4)	(7.0)	(7.6)	-	(15.0)
Non-underlying items	(3.6)	(5.4)	(16.2)	0.1	(25.1)
Segmental operating profit	12.7	1.9	11.0	(10.3)	15.3

3. ALTERNATIVE PERFORMANCE MEASURES AND DISCONTINUED OPERATIONS

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

	Unaudited period to 30 April 2018 £m	Unaudited period to 30 April 2017 £m	Audited year ended 31 October 2017 £m
Acquisition and disposal related costs	**0.5**	-	2.3
Business restructuring costs	**1.6**	11.1	14.3
Claim related costs	**1.5**	0.2	0.4
Impairment of business	**-**	-	9.8
Gain on the movement in the fair value of derivative financial instruments	**(0.1)**	(0.9)	(1.7)
Non-underlying items	**3.5**	10.4	25.1
Less non-underlying depreciation in business restructuring costs	**(0.7)**	(1.0)	(1.0)
Impact of non-underlying items on EBITDA	**2.8**	9.4	24.1
Non-underlying depreciation in business restructuring costs	**0.7**	1.0	1.0
Intangible amortisation arising from business combinations	**7.0**	7.7	15.0
Impact of non-underlying items on operating profit and profit before tax	**10.5**	18.1	40.1
Tax impact of non-underlying items	**(1.6)**	(5.8)	(7.2)
Non-underlying deferred tax write-off	**17.4**	-	-
Impact of non-underlying items on continuing profit after tax	**26.3**	12.3	32.9
Discontinued operations	**-**	(1.2)	(3.5)
Impact of non-underlying items on profit after tax	**26.3**	11.1	29.4

Acquisition and disposal related costs

In the period to 30 April 2018, the Group disposed of its Norwegian subsidiary 3d-Radar resulting in a loss on disposal of £0.5m.

Acquisition and disposal related costs of £2.3m in the year ended 31 October 2017 related to transactions costs and an earnout payment on the acquisition of Wallop Defence Systems' assets for which no provision was made at the time of acquisition.

Business restructuring costs

In the period to 30 April 2018, restructuring costs were £1.6m relating to the initial stages of the transformation programme at our Tennessee facility. These costs comprised a non-cash write-off of demolished assets of £1.1m and the costs of demolition and site remediation of £0.5m.

In the year to 31 October 2017, business restructuring costs of £14.3m (H1 2017: £11.1m) principally comprise of restructuring costs in relation to the site closures/consolidations at facilities in California, Philadelphia and Virginia.

Claim related costs

In the period to 30 April 2018, claim related costs of £1.5m relate to the legal costs of the ongoing Serious Fraud Office investigation.

In the year ended 31 October 2017, claim related costs of £0.4m (H1 2017: £0.2m) related to the legal costs of the ongoing Serious Fraud Office investigation, offset by the final settlement of claims regarding the manufacture of certain components for the Next Generation Light Anti-Tank Weapon ("NLAW") by Chemring Energetics UK.

Impairment of business

In 2017 the Group recognised a total impairment loss of £10.6m which included £0.8m relating to taxation, in respect of the Chemring Defence UK business. This was based on the prevailing market conditions in the military and law enforcement pyrotechnics market.

4. SEASONALITY OF REVENUE

Revenue for all three of the business segments is more weighted towards the second half of the financial year. This second half weighting arises due to customer behaviours in the defence marketplace, the timing of expected contract activity and planned facility maintenance work programmes, and the acceptance testing of product by customers.

5. TAX

	Unaudited period to 30 April 2018 £m	Unaudited period to 30 April 2017 £m	Audited year ended 31 October 2017 £m
Underlying tax charge	**3.3**	2.4	8.1
Tax credit on non-underlying items	**(1.6)**	(5.8)	(7.2)
Non-underlying deferred tax write-off	**17.4**	-	-
Total statutory tax charge/(credit)	**19.1**	(3.4)	0.9

The continuing statutory tax charge totalled £19.1m (H1 2017: £3.4m credit, 2017: £0.9m) on a continuing statutory profit before tax of £4.3m (H1 2017: £6.8m loss, 2017: £4.0m). The increase in the continuing effective rate of tax on the results of the Group is primarily due to recently enacted US tax legislation which reduces the US corporate tax rate and changes the rules regarding US interest tax deduction limitations. In addition, the rate is impacted by the geographic mix of profits, changes to the amounts of deferred tax assets considered recoverable in respect of both tax losses and prior year adjustments.

The effective tax rate on underlying profit before tax for the period is a charge of 22.3% (H1 2017: 21.2%, 2017: 18.4%) and is based on the estimated effective tax rate on underlying profit before tax for the full year.

The US Tax Cuts and Jobs Act ("TCJA") was substantively enacted on 22 December 2017. The TCJA provides for a reduction in the main rate of US federal corporate income tax from 35% to 21% for accounting periods beginning on or after 1 January 2018, thus first impacting Chemring for its 2019 financial year, however the impact on the deferred tax asset has been recognised in 2018.

The impact on Chemring has been two-fold; the reduction in the main rate of US federal corporate income tax has resulted in a write-off of deferred tax of £8.6m associated with tax losses and interest restrictions, offset by a £3.9m credit on the revaluation of the deferred tax liabilities associated with US related acquired intangibles. This has resulted in a net write-off of £4.7m in respect of the rate change. In addition, and the introduction of restrictions on the availability of interest deductions has resulted in a write-off of deferred tax of £12.7m.

Deferred tax balances are analysed on the balance sheet as follows:

	Unaudited Half year to 30 April 2018 £m	Unaudited Half year to 30 April 2017 £m	Audited Year to 31 Oct 2017 £m
Non-current assets	**45.6**	59.5	63.2
Non-current liabilities	**(50.2)**	(51.4)	(53.5)
	(4.6)	8.1	9.7

The following are the principal deferred tax assets/(liabilities) recognised by the Group and movements thereon:

	Accelerated tax depreciation £m	Pensions £m	US Interest deductions £m	Tax losses £m	Acquired intangibles £m	Other £m	Total £m
At 1 November 2017	(12.3)	0.1	22.6	1.5	(10.3)	8.1	9.7
(Charge)/credit to income	(0.1)	-	(21.3)	-	5.6	-	(15.8)
Credit/(charge) to equity	0.4	(0.1)	-	-	1.5	(0.3)	1.5
At 30 April 2018	(12.0)	-	1.3	1.5	(3.2)	7.8	(4.6)

6. EARNINGS PER SHARE

Earnings per share are based on the average number of shares in issue, excluding own shares held, of 279,642,267 (H1 2017: 279,229,427, 2017: 279,244,616). Diluted earnings per share has been calculated using a diluted average number of shares in issue, excluding own shares held, of 285,755,048 (H1 2017: 285,517,552, 2017: 285,023,906).

No dilution has been recognised for the purposes of basic earnings per share from continuing operations in April 2018 and April 2017 due to there being a loss per share for the period to 30 April 2018 and 30 April 2017.

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

	£m	**Basic eps (pence)**	**Unaudited Half year to 30 April 2018 Diluted eps (pence)**	£m	Basic eps (pence)	Unaudited Half year to 30 April 2017 Diluted eps (pence)
Underlying profit after tax	**11.5**	**4.1**	**4.0**	8.9	3.2	3.1
Non-underlying items	**(26.3)**	**(9.4)**	**(9.3)**	(12.3)	(4.4)	(4.3)
Loss from continuing operations	**(14.8)**	**(5.3)**	**(5.3)**	(3.4)	(1.2)	(1.2)
Profit from discontinued operations	-	-	-	1.2	0.4	0.4
Total loss after tax	**(14.8)**	**(5.3)**	**(5.3)**	(2.2)	(0.8)	(0.8)

	£m	Basic eps (pence)	Audited year to 31 October 2017 Diluted eps (pence)
Underlying profit after tax	36.0	12.9	12.6
Non-underlying items	(32.9)	(11.8)	(11.5)
Profit from continuing operations	3.1	1.1	1.1
Profit from discontinued operations	3.5	1.3	1.2
Total profit after tax	6.6	2.4	2.3

7. DIVIDENDS

On 18 May 2017 a dividend of 1.3p per ordinary share was paid to shareholders on the register on 28 April 2017 and an interim dividend of 1.0p per ordinary share was paid on 15 September 2017 to shareholders on the register on 1 September 2017.

At the Annual General Meeting on 20 March 2018 the shareholders approved a final dividend in respect of the year ended 31 October 2017 of 2.0p per ordinary share. This was paid on 20 April 2018 to shareholders on the register on 6 April 2018.

The Board also declared an interim dividend in respect of 2018 of 1.1p per ordinary share which will be paid on 14 September 2018 to shareholders on the register on 31 August 2018. In accordance with accounting standards this dividend has not been recorded as a liability as at 30 April 2018.

8. FINANCIAL INSTRUMENTS

As at 30 April 2018, there were no significant differences between the book value and fair value (as determined by market value) of the Group's derivative financial instruments.

The fair value of derivative financial instruments is estimated by discounting the future contracted cash flow using readily available market data and represents a Level 2 measurement in the fair value hierarchy under IFRS 7 *Financial Instruments: Disclosures*. As at 30 April 2018, the total fair value of forward foreign exchange contracts recognised in the condensed consolidated balance sheet were an asset of £0.4m (H1 2017: £0.6m, 2017: £0.4m) and a liability of £0.3m (H1 2017: £0.4m, 2017: £0.4m).

9. DISCONTINUED OPERATIONS

In the period to 30 April 2018 there was a non-underlying credit of £nil (H1 2017: £1.3m, 2017: £3.5m) resulting from the retranslation of provisions established on the disposal of businesses in prior years and the expiry of certain tax liabilities, with an associated non-underlying tax charge of £nil (H1 2017: £0.1m, 2017: £nil).

10. RETIREMENT BENEFIT SURPLUS/(OBLIGATIONS)

The defined benefit surplus/(obligations) are calculated using an actuarial valuation as at 30 April 2018. In the period to 30 April 2018, retirement benefit surplus/(obligations) improved to a £3.5m surplus (H1 2017: £11.3m obligation, 2017: £0.6m obligation), principally as a result of employer contributions paid in accordance with the funding plan agreed with the trustees of the Chemring Group Staff Pension Scheme in 2015 and actuarial gains in the period, primarily arising from higher than expected returns on assets.

11. RELATED PARTY TRANSACTIONS

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

12. CASH FLOWS FROM UNDERLYING OPERATIONS

	Unaudited Half year to 30 April 2018 £m	Unaudited Half year to 30 April 2017 £m	Audited Year to 31 Oct 2017 £m
Operating profit/(loss) from continuing operations	**7.6**	(0.9)	15.3
Amortisation of development costs	**2.4**	3.4	6.9
Amortisation of intangible assets arising from business combinations	**7.0**	7.7	15.0
Amortisation of patents and licenses	**0.1**	0.1	0.2
Loss on disposal of non-current assets	**-**	-	0.3
Depreciation of property, plant and equipment	**8.4**	9.3	18.5
Non-cash movement of non-underlying items	**1.9**	8.5	20.5
Gain on the fair value of derivative financial instruments	**(0.1)**	(0.9)	(1.7)
Share-based payment expense	**1.3**	0.6	1.9
Operating cash flows before movements in working capital	**28.6**	27.8	76.9
Increase in inventories	**(0.9)**	(16.0)	(6.0)
Decrease/(increase) in trade and other receivables	**17.8**	(19.0)	(32.3)
(Decrease)/increase in trade and other payables	**(25.7)**	(3.4)	2.3
Decrease in provisions	**(0.1)**	(0.1)	(0.1)
Operating cash flow from continuing operations	**19.7**	(10.7)	40.8

Analysed as:-			
Operating cash flow before the impact of non-underlying items	**21.4**	(7.9)	47.1
Cash impact of non-underlying items	**(1.7)**	(2.8)	(6.3)
Operating cash flow from continuing operations	**19.7**	(10.7)	40.8
Discontinued operations			
Profit for the period	**-**	1.2	3.5
Decrease in payables / provisions	-	(1.2)	(3.5)
Cash flow from discontinued operations	-	-	-

13. ANALYSIS OF NET DEBT

	As at 1 Nov 2017 £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	**As at 30 April 2018 £m**
Cash and cash equivalents	33.6	(32.5)	-	(0.6)	**0.5**
Debt due within one year	(51.6)	26.7	21.3	3.6	**-**
Debt due after one year	(61.9)	-	(21.8)	(1.3)	**(85.0)**
Preference shares	(0.1)	-	-	-	**(0.1)**
	(80.0)	(5.8)	(0.5)	1.7	**(84.6)**

The Group has a £100m revolving credit facility with a syndicate of three banks expiring in July 2019. The Group had £67.6m (H1 2017: £105.0m, 2017: £106.0m) of undrawn borrowing facilities at the half year.

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

14. EXCHANGE RATES

The following exchange rates applied during the year:

	Average rate H1 2018	**Closing rate H1 2018**	Average rate H1 2017	Closing rate H1 2017	Average rate 2017	Closing rate 2017
AU Dollar	**1.78**	**1.82**	1.66	1.73	1.68	1.73
US Dollar	**1.39**	**1.38**	1.26	1.29	1.30	1.33

The translation of foreign currency items in the financial statements are dependent on the prevailing foreign exchange rates. For the period ended 30 April 2018, a 10 cent increase in the US dollar exchange rate would have decreased reported underlying operating profit for the first half of 2018 by approximately £1.0m and decreased reported net debt at 30 April 2018 by approximately £3.2m.

15. CONTINGENT LIABILITIES

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

A dispute between Alloy Surfaces Company, Inc. and the US Army, in relation to disputed pricing of a certain historic contract fulfilled by Alloy Surfaces Company, Inc., proceeded to a hearing in front of the US Armed Services Board of Contract Appeals ("ASBCA") in April 2017. ASBCA is expected to take approximately two years to issue its decision in relation to this matter. The range of possible outcomes is between £nil to £12.0m. A provision of £1.0m (H1 2017: £1.3m, 2017: £1.1m) exists to cover estimated legal costs for the Group with regards to this issue.

The Group has benefited from the UK's Controlled Foreign Company (CFC) Finance Company exemption in recent years. The European Commission has launched an investigation into whether the UK's CFC Finance Company exemption breaches state aid rules. No timescale has been set for the review and this could take several years to conclude. If, at the end of the investigation, the regime is considered to be in contravention of the State Aid provisions, the UK government will be required to seek repayment of the lost tax from the relevant tax payers. Given the early stage of the investigation it is too early to determine whether a tax liability is probable.

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

The investigation commenced following a voluntary report made by CTSL relating to two specific historic contracts, the first of which was awarded prior to the Group's ownership of the business concerned and the second in 2011, neither of which are considered to be material in the context of the Group. It is too early to predict the outcome of the SFO's investigation and therefore the timings and amounts of the outcome cannot be estimated reliably. The Group continues to co-operate fully with the SFO in its investigation, and will provide a further update as and when appropriate.

16. EVENTS AFTER THE BALANCE SHEET DATE

There are no material post balance sheet events.

17. PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results have not changed significantly from those set out in the Group's 2017 Annual Report and Accounts. A detailed description of the Group's principal risks and uncertainties and the ways they are mitigated can be found on pages 26 to 33 of the 2017 Annual Report and Accounts. These risks can be summarised as:

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

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

18. CORPORATE WEBSITE

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

INDEPENDENT REVIEW REPORT TO CHEMRING GROUP PLC

Conclusion

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 2018 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 the related explanatory notes.

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 2018 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

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 UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) 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.

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 DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

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.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 reached.

Andrew Campbell-Orde
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21 June 2018