

## CHEMRING GROUP PLC

## INTERIM RESULTS FOR THE SIX MONTHS TO 30 APRIL 2016

Continuing operations	H1 2016	H1 2015
Revenue	<b>£180.1m</b>	£161.7m
Underlying operating profit <sup>1</sup>	<b>£3.8m</b>	£5.5m
Underlying loss before tax <sup>1</sup>	<b>£(4.0)m</b>	£(1.3)m
Net debt at 30 April	<b>£114.4m</b>	£148.5m
Net debt at 31 October		£154.3m
Underlying loss per share <sup>1,2</sup>	<b>(1.3)p</b>	(0.5)p
Dividend per share	-	2.4p
 Total operating loss	 <b>£(5.3)m</b>	 £(8.3)m
Loss before tax	<b>£(16.8)m</b>	£(15.1)m
Total loss per share <sup>2</sup>	<b>(5.3)p</b>	(4.9)p

*1 Underlying measures referred to in this announcement are stated before costs relating to acquisitions and disposals, business restructuring and incident costs, profit/(loss) on disposal of businesses, items deemed to be of an exceptional nature, impairment of goodwill and acquired intangibles, impairment of assets held for sale, amortisation of acquired intangibles and gains/losses on the movement in the fair value of derivative financial instruments, as stated in the 2015 Annual Report and Accounts. Further details of underlying and total measures are shown in notes 3 and 6.*

*2 Earnings per share figures for periods prior to the rights issue have been restated to reflect the bonus element of the rights issue.*

## Highlights

- Revenue up 11.4% on comparative period, with increases in all three strategic segments. Underlying operating profit £1.7 million below prior year due principally to lower margin sales mix, phasing of revenue within FY16, and contract-specific issues resolved in the half
- Delayed 40mm ammunition contract now fully effective, with initial revenue recognised
- Order book increased to £591.3 million (31 October 2015: £569.6 million), with deliveries of over £240 million scheduled in H2 representing approximately 90% of expected H2 revenue
- Significant H2 weighting driven by substantial increase in 40mm contract revenues and greater consistency in production
- FY16 full year anticipated to be slightly below market expectations\*
- Successful completion of rights issue and subsequent repayment of £48.8 million of US loan notes, reducing future finance costs
- Renewed focus on operational improvement centred on site rationalisation, process optimisation and working capital management
- Refreshed Board composition, with appointment of Chairman-designate and two further non-executive directors

\* As of 20 June 2016, Chemring's compiled consensus of analysts' forecasts was for FY16 underlying operating profit of £48.7 million

**Michael Flowers, Chemring Group Chief Executive, commented:**

“While revenues increased in every segment, the H1 result was impacted by the slightly later than expected commencement of the 40mm contract, together with a lower margin sales mix, phasing of revenue within FY16, and contract-specific issues resolved in the half. This performance contrasts with a growing sense of momentum across the business as operational improvement initiatives are accelerated following the deleveraging resulting from the rights issue.

We continue to expect our full year FY16 result to be heavily weighted to the second half, due to substantially higher 40mm contract revenues and greater consistency in production. Whilst it is encouraging that approximately 90% of expected H2 revenue is in the order book, the Board’s current assessment is that the FY16 out-turn is likely to be slightly below market expectations.

Having significantly strengthened the balance sheet through the rights issue, we are now able to focus fully on the operational priorities that will underpin our future growth. These priorities include site rationalisation and capacity investment projects, implementing significant cost saving initiatives, ensuring excellence in contract delivery and delivering improved working capital management. This work is being done while maintaining the highest standards of safety and progressing key strategic long-term US programmes.”

**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 2,700 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 & Electronics, and Energetic Systems
- Chemring has a diverse portfolio of products that deliver high reliability solutions to protect people, platforms, missions and information against constantly changing threats
- Operating in niche markets and with strong investment in research and development (“R&D”), Chemring has the agility to rapidly react to urgent customer needs

[www.chemring.co.uk](http://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](http://www.chemring.co.uk/resultscentre) at 09.30 (UK time) on Tuesday 21 June 2016. The presentation can also be listened to at that time by dialling +44 (0)20 3059 8125 and using the participant password ‘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 Tom Horsman, MHP Communications: [tom.horsman@mhpc.com](mailto:tom.horsman@mhpc.com) / tel: +44 (0) 20 3128 8100.

## **INTERIM MANAGEMENT REPORT**

### **Group overview**

Revenue increased by 11.4% to £180.1 million (2015: £161.7 million) and underlying operating profit was £3.8 million (2015: £5.5 million). There was an underlying loss per share of 1.3p (2015: 0.5p). The results were principally impacted by a lower margin sales mix, phasing of revenue within FY16, and contract-specific issues resolved in the half. In H2 FY16, substantially higher 40mm contract revenues and greater consistency in production are expected. These and other factors are expected to lead to a significant H2 weighting of profit and cash generation in FY16, with working capital having risen in H1 in support of expected H2 revenues.

The Group's order book at 30 April 2016 was £591.3 million (31 October 2015: £569.6 million), of which over £240 million is scheduled for delivery during H2 FY16, representing cover of approximately 90% of expected H2 revenue.

### **Markets**

Global levels of defence spending remain broadly flat, and the Board's expectation continues to be one of slow recovery. US spending appears to be levelling, with the outlook for 2017 being slightly more positive at the macro level. In Western Europe, spending is flat but, importantly, countries with the largest budgets, including the UK, have all signalled growth in coming years. In the Middle East, outlook for defence spending is uncertain, with the effects of regional instability conflicting with the constraints of lower oil prices. 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.

Chemring's areas of focus in the defence sector reflect these broader themes, with US countermeasures procurement expected to remain at the current low levels, but the broader global countermeasures market being stronger. Customer budgets for Roke's security-related consultancy services are rising, but production awards for Sensors & Electronics products continue to be subject to protracted customer decision making processes. Within Energetic Systems, uncertainties over the oil price are, as expected, translating into extended funding and procurement delays, particularly for pyrotechnic products. In our long-term growth areas, the US Programs of Record for counter-IED, chemical and biological detection, and the F-35 Joint Strike Fighter ("F-35") project, progress is continuing in line with our expectations, whilst the global market for land-based electronic warfare continues to grow.

Despite the slow recovery expected in global levels of defence spending, growth opportunities continue to be pursued in Chemring's traditional defence markets, as well as in national security and non-defence sectors.

### **Board of directors**

There has been a significant change in the composition of the Board.

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

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

Daniel Dayan joined the Board as a non-executive director on 7 March 2016, becoming Chairman of the Remuneration Committee from that date. Finally, since the period end, Andrew Davies has been appointed as a non-executive director, joining the Board on 17 May 2016.

## **Health and safety**

The lost time incident rate (incidents per 100 employees per annum) as at 30 April 2016 was 0.38 (H1 FY15: 0.51), the lowest at any time on record, evidencing the Group's enhanced safety culture and continuing investment in safety. 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. Despite this strong performance, Chemring continues to have significant energetic incidents, and the nature of operations dictates that this will continue to be the case. What is important is that no injuries were sustained in the period from these incidents, with hazard protection and safety processes all functioning as designed.

The Group continues to improve its process safety management systems and has increased the focus on the reporting and resolving of safety "near misses". The Safety Leadership Programme remains a key aspect of Chemring's safety management, reinforcing safety leadership and providing tools to drive improvements in safety culture.

## **Outlook**

The Group continues to expect the full year FY16 result to be heavily weighted to the second half, due to substantially higher 40mm contract revenues in H2 and increased revenue resulting from greater consistency in production. Whilst it is encouraging that approximately 90% of expected H2 revenue is in the order book, the Board's current assessment is that the FY16 out-turn is likely to be slightly below market expectations.

Having significantly strengthened the balance sheet through the rights issue, Chemring is now able to focus fully on the operational priorities that will underpin its future growth. These priorities include site rationalisation and capacity investment projects, implementing significant cost saving initiatives, ensuring excellence in contract delivery and delivering improved working capital management. This work is being done while maintaining the highest standards of safety and progressing key strategic long-term US programmes. Overall, Chemring continues to make good strategic and operational progress and looks to the future with optimism.

## **Countermeasures review**

The Countermeasures segment had a mixed first half, with revenue increasing by 5.5% to £52.2 million (2015: £49.5 million) and the segment reporting an underlying operating loss of £1.4 million (2015: £4.7 million profit). The underlying operating margin was a 2.7% loss (2015: 9.5% profit).

The decline in margins, and associated profitability, was largely a result of the impact of several energetic incidents in the period, the closing-out of a significant low margin contract and short-term production issues on particular product lines which have now been resolved. It is expected that the resultant shortfall in performance will be recovered in the second half through higher production rates.

Over the past year new systems have been implemented to improve the management of safety and production, and further initiatives are underway to focus on the delivery of production efficiencies, waste reduction and more efficient working capital management.

There has been continued softness in the US countermeasures market, and as a consequence both US businesses are rebalancing their cost base to reflect expected future revenue levels, to ensure long-term competitiveness. At Alloy Surfaces the priority is the reduction from two facilities to one. Planning activities for this plant consolidation have commenced and all necessary approvals are in place. The plant rationalisation is expected to be completed by early 2017, with a pause in production during Q1 FY17 to expedite the rationalisation. The costs of the project are expected to be approximately \$3.0 million, with

the project expected to deliver approximately \$1.4 million in annualised savings from FY18. A significant reduction in headcount is taking place at Kilgore during FY16 as operations are restructured to reflect anticipated lower future demand levels.

Under a new leadership team, the US countermeasures business continues to improve its operational performance. At Alloy Surfaces, production was focused on manufacture of MJU-66 countermeasures for the US, and a critical further \$9.0 million order for MJU-66 flares was received in April. This order provides production volumes for the remainder of 2016. Kilgore's focus has been continued support to the JSF programme, closing out the legacy, low margin M212 programme and improving performance on its other programmes. It is encouraging to report that a \$24.9 million order for countermeasures was received from the US Department of Defense ("DoD") in June 2016, providing key production volumes for the next twelve months.

The UK countermeasures business had a mixed first half. While revenue was in line with expectations, margins were adversely impacted by technical issues on one product line. Order intake has remained strong, and an additional production shift is currently being put in place which, together with a more favourable product mix, is expected to yield improvement in margins in H2. The automated mixing and pressing facility continues to contribute valuable additional production capacity, which will enable greater flexibility in future production planning as the facility is qualified to manufacture a growing range of countermeasures. A full period of operation of this facility led to an increase in depreciation of £1.4 million.

At Chemring Australia, year-on-year revenues reduced due to a strong comparator period and the phasing of FY16 revenue. The Australian site was impacted by an incident that occurred at its automated countermeasure production facility in March. Following a recommissioning of the facility, production restarted in early May.

On 25 November 2015, the Group announced that it had reached agreement with Esterline Corporation to buy patents, equipment, stock and selected contracts relating to its UK-based subsidiary, Wallop Defence Systems, for an initial cash consideration of £2.5 million. Having received approval by the UK Ministry of Defence ("MoD") and the UK Competition and Markets Authority, the asset purchase completed on 4 May 2016. The assets acquired relate to air countermeasures and pyrotechnic products that will be manufactured at Chemring's existing UK operations. Conditional on the future receipt of specific orders, additional payments of up to £9.0 million may be made to Wallop Defence Systems over the next three years.

The key strategic focus within Countermeasures remains the Group's position on the F-35 programme, on which further progress has been made. In the US, production and delivery of flares is supporting initial operational capability for the US Navy and US Air Force. Chemring Australia made steady progress in the period towards qualification as the second source manufacturer of countermeasures for the F-35.

Countermeasures' order book at 30 April 2016 was £171.5 million (October 2015: £184.1 million, April 2015: £199.3 million). The decline principally reflects the gradual depletion of the order books at Alloy Surfaces and Kilgore, as a result of improved production consistency and the progressive working through of orders placed in earlier years.

### **Sensors & Electronics review**

Revenue for Sensors & Electronics increased by 21.3% to £50.2 million (2015: £41.4 million). The restructuring of Roke and Chemring Technology Solutions undertaken in FY15 has resulted in improved performance in this segment, with underlying operating profit increasing to £5.7 million (2015: £0.9 million). The underlying operating margin was 11.4% (2015: 2.2%).

In the US, Sensors & Electronics activity has continued to focus on the progression of the long-term US Programs of Record and on production opportunities for customers in the Middle East. The engineering and

manufacturing development (“EMD”) phase of the Husky Mounted Detection System (“HMDS”) A2 variant, was awarded a further \$5.8 million R&D contract in March 2016. The next award is expected in H2, providing funding to the end of 2016. The next major milestone for the HMDS A2 Program of Record is a design review expected to be concluded in February 2017. Customer engagement in the Middle East remains encouraging, with vehicle mounted ground penetrating radar (“GPR”) variants being evaluated by a number of potential customers.

The Group has continued to build on its success in transferring vehicle mounted GPR technology to the hand-held market. Orders for hand-held detection equipment with a value of approximately \$10.0 million were received in the period, and negotiations with potential customers in the Middle and Far East are ongoing. The Group is positioning itself for key US programmes in this area.

In chemical and biological detection the Group has continued to focus activity on the long-term DoD Programs of Record. Chemring has progressed to the prototype phase on two of the three variants of the Next Generation Chemical Detector programme, and is awaiting a decision on contract award on the third. Funded development of Chemring’s sole source position on the Joint Biological Tactical Detection System programme is continuing.

In the UK, the separation of the contract R&D activities of Roke from the products-based business undertaken by Chemring Technology Solutions, is delivering increasingly positive results. Roke’s orders and revenue in the period were above expectations, and utilisation rates have continued to rise. This has been driven by significant opportunities in the communications intelligence and cyber areas, combined with the impact of the new operating model. In response to increased customer demand, Roke is establishing a satellite office in Gloucester to build closer links with key customers and to broaden access to new talent.

Chemring continues to focus its efforts in Electronic Warfare (“EW”) and force protection, with a wider portfolio in communications and cyber protection. The Resolve EW product has broadened its user base, with recent orders and sales achieved in relation to new customers in Europe and the Far East; however, the market in the Middle East remains subdued as uncertainties over oil prices continue to translate into extended funding and procurement delays. The existing Resolve customer base continues to view the product as the premium man-portable tactical EW capability, and follow-on order opportunities will be progressed throughout 2016.

The order book for Sensors & Electronics at 30 April 2016 was £91.5 million (October 2015: £75.8 million, April 2015: £88.8 million).

### **Energetic Systems review**

Revenue for Energetic Systems increased by 9.7% to £77.7 million (2015: £70.8 million), while underlying operating profit fell by 16.7% to £3.0 million (2015: £3.6 million). The underlying operating margin was 3.9% (2015: 5.1%), reflecting a sales mix biased towards externally sourced product. Margins are expected to increase in H2, due to the anticipated ramp-up of the 40mm contract and to normal seasonal variations.

On 4 April 2016, the Group announced that the letter of credit was in place and that it had received the advance payment associated with the 40mm ammunition contract to an end user in the Middle East. This has enabled initial revenues of £6.4 million to be recognised in the period and deliveries will be ongoing during H2. The 40mm contract remains a significant contributor to FY16 and its delayed start has therefore resulted in a heavier H2 weighting and a slightly lower than expected contribution to the full year. Expectations for the ramp up in 40mm production and subsequent contribution to FY16 are conditional on an assumed level of volume of product from suppliers.

Chemring Ordnance achieved strong growth in sales of procured non-standard ammunition product. In March 2016, Chemring Ordnance and Alliant Techsystems Operations LLC were jointly awarded an indefinite delivery, indefinite quantity (“IDIQ”) contract to supply non-standard ammunition to the US DoD valued at up to \$750.0 million. The IDIQ contract is spread over five years and each individual award will be

subject to competitive tendering. Due to the externally-sourced nature of the products involved, margins on non-standard ammunition sales are typically lower than for manufactured product. Previously reported delays in DoD acceptance for the Anti-Personnel Obstacle Breaching System ("APOBS") experienced towards the end of FY15 were all overcome during the period. Initial export sales of the APOBS system will be undertaken in H2.

The planned closure of the Torrance California facility in 2018 is progressing according to plan, and the fit-out and occupation of the new building at the Illinois facility has commenced, with all planning approvals in place. This project is still anticipated to cost approximately \$7.0 million, with the site rationalisation expected to deliver approximately \$5.0 million in annual savings from FY19.

In the UK, the business continues to diversify into the civil market, maintaining the order book for the Metron range of pyro-mechanical devices. The Group has also built upon its position and experience as the supplier of choice for demolition stores for the UK MoD, and is developing a range of bespoke high explosive products for decommissioning purposes in the oil and gas market.

In Norway, recent investment in capacity and manufacturing processes at Chemring Nobel has delivered positive results and has been reflected in a record order book and higher revenues. This is particularly encouraging when set against the backdrop of a declining oil and gas market, which represented a third of traditional business. There remains a need to continue to invest in the Norwegian site to ensure production capacity keeps pace with growing volumes.

The global demand for pyrotechnics continues to soften, and procurement timescales of Middle East customers have lengthened. These factors are having a particularly marked impact at Chemring Defence, where order intake in the period has been subdued. Reductions in headcount are being implemented at Chemring Defence to ensure the anticipated lower production volumes can be handled profitably.

The order book for Energetic Systems at 30 April 2016 was £328.3 million (October 2015: £309.7 million, April 2015: £214.7 million), and included over £100.0 million in respect of the 40mm ammunition contract.

## **Financial performance**

The underlying operating profit of £3.8 million (2015: £5.5 million), after unallocated central costs, resulted in an underlying operating margin of 2.1% (2015: 3.4%). The lower margin primarily reflects a lower margin sales mix, phasing of revenue within FY16, and contract-specific issues resolved in the half. On the basis of the prevailing exchange rates in H1 FY15 revenue would have been £175.6 million and underlying operating profit would have been £3.9 million.

After a net underlying finance expense of £7.8 million (2015: £6.8 million), there was an underlying loss before tax of £4.0 million (2015: £1.3 million). The effective tax rate on the underlying loss before tax from continuing operations was 21.5% (2015: 20.3%). The underlying loss per share was 1.3p (2015: 0.5p).

Including non-underlying items, details of which are set out below, the operating loss from continuing operations was £5.3 million (2015: £8.3 million), reflecting the reduction in underlying operating profit offset by a reduction in the level of non-underlying items. Including non-underlying items, the loss before tax from continuing operations was £16.8 million (2015: £15.1 million loss). The effective tax rate on the result before tax from continuing operations was 23.2% (2015: 28.5%). The total loss per share was 5.3p (2015: 4.9p).

## Dividend

As previously announced, the Board is not proposing an interim dividend in respect of the period ended 30 April 2016.

## Analysis of non-underlying items

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

	H1 2016	H1 2015
	£m	£m
Continuing operations:		
Acquisition related costs	0.2	0.3
Business restructuring and incident costs	0.6	1.8
Claim related (credit)/costs	(0.2)	4.7
Loan note repayment and covenant amendment fees	1.5	-
Intangible amortisation arising from business combinations	6.7	7.1
Loss/(gain) on fair value movement of derivative financial instruments	0.3	(0.1)
<b>Non-underlying items excluded from underlying operating profit</b>	<b>9.1</b>	<b>13.8</b>
Accelerated interest costs	3.7	-
<b>Non-underlying items excluded from underlying profit before tax</b>	<b>12.8</b>	<b>13.8</b>
Discontinued operations:		
Disposal related credit	(2.0)	(3.0)
<b>Non-underlying items excluded from profit before tax</b>	<b>10.8</b>	<b>10.8</b>

Business restructuring and incident costs of £0.6 million include £0.3 million relating to the initial phase of the restructuring occurring during FY16 at Kilgore. Further restructuring costs will be incurred in H2 FY16 in respect of Chemring Defence and Kilgore.

There was a credit in respect of claim related costs of £0.2 million following agreement being reached with the US Department of Justice relating to historic supplies of product by Kilgore. Of the agreed settlement value of £4.1 million, £0.2 million was paid in the period and the remainder is payable in instalments over five years.

Intangible amortisation arising from business combinations was £6.7 million (2015: £7.1 million).

Fees in relation to the amendments to debt facilities associated with the rights issue and the application of a proportion of the rights issue proceeds in repayment of loan notes were £1.5 million. The repayment of £48.8 million of loan notes in March 2016 led to recognition of accelerated interest costs of £3.7 million.

Disposal related items comprised a credit of £2.0 million in respect of discontinued operations, resulting from the release of certain provisions established on the disposal of businesses in prior years, which are no longer required.

## Working capital

A summary of working capital as at 30 April 2016 and 31 October 2015 is set out below:

	H1 2016	FY 2015
	£m	£m
Inventories	111.8	96.2
Trade receivables	49.1	66.1
Contract receivables	12.6	15.2
Trade payables	(40.5)	(46.7)
Advance payments	(10.9)	(11.5)
Other items	(18.9)	(37.5)
	<b>103.2</b>	<b>81.8</b>

Working capital rose by £21.4 million in the period, of which £4.7 million was attributable to foreign exchange translation effects, primarily in respect of working capital held in the US. The remaining increase was principally driven by the anticipated significant H2 weighting of FY16 revenue. As previously announced, cash generation is expected to be heavily weighted to H2, due to the rise in working capital in H1 that has been necessary to support expected H2 revenues.

Inventory rose at all three operating segments; however, the majority of the increase arose in Energetic Systems. Inventory at Chemring Ordnance rose by £3.6 million, principally in relation to the APOBS programme, as customer-funded inventory levels fell whilst US DoD acceptance issues were finalised, in order to ensure the smooth re-start of deliveries that has now taken place. Inventory at Chemring Energetic Devices rose by £3.7 million, in part due to a lengthening of customer timescales for completing product acceptance. Inventory also rose at the procurement business, as Middle East customers delayed settlement of invoices for energetic products, resulting in further shipments of inventory being held back. Countermeasures and Sensors & Electronics accounted for £4.9 million of the inventory increase, with inventory rising in respect of multi-year contracts for which advance payments were received in FY15, and in anticipation of higher revenue levels in H2.

Trade receivables reduced by £17.0 million to £49.1 million. Whilst this partly reflects a lower level of invoicing during April 2016 compared to the prior year end, benefit was also seen from prompt collections at a number of business units. At 30 April 2016, the receivable due in respect of the 40mm Middle East contract, net of the advance payment received in the period, was £7.3 million. As noted above, there has been some delay in settlement of invoices from Middle East customers, unrelated to the 40mm contract; however, this has largely been mitigated to date by the deferral of associated payments to the supply chain.

There was a reduction in trade payables and advance payments, reflecting supply chain contractual requirements and procurement timescales.

The net liability for other working capital items reduced due to advances made to supply chain partners in respect of future supplies of product for the 40mm Middle East contract, and due to lower levels of accruals and provisions, in part resulting from the payment of £4.8 million of claim related costs during the period.

Significant management focus is being applied to improve working capital management, and a number of initiatives were commenced in the period. Improved accuracy in forecasting production levels, the completion of the implementation of new IT systems at several sites, and resolution of overdue debtor balances are some of the workstreams that are underway.

## Balance sheet

On 24 February, the Group successfully completed a 4 for 9 rights issue, raising £80.8 million in gross proceeds. The rights issue has reduced Chemring's structural indebtedness and is enabling the Group to pursue certain growth opportunities. The net proceeds of the rights issue after equity issue costs were £75.2 million, with £0.8 million of these costs to be paid after the period end.

A summary of changes in net debt during the six months to 30 April 2016 and 30 April 2015 is set out below:

	H1 2016	H1 2015
	£m	£m
Net debt at start of period	(154.3)	(135.6)
Net rights issue proceeds	76.0	-
Accelerated interest payment and related fees	(4.5)	-
Other changes in net debt, including operating cash flows	(20.5)	(6.9)
Effect of foreign exchange rate changes	(11.1)	(6.0)
Net debt at end of period	(114.4)	(148.5)

Net debt reduced by £39.9 million in the period. This principally reflected the £76.0 million proceeds from the rights issue received in the period, offset by a £11.1 million foreign exchange translation effect on US dollar denominated debt and the net effect of all other items of £25.0 million.

Within H1, cash generation improved markedly in the second quarter, with debt reducing from £198.4 million at the start of the second quarter of the financial year to £114.4 million at the period end.

Capital expenditure, including capitalised development costs, was £7.3 million (2015: £7.6 million), principally comprising spend on enhancements of production facilities, and development spend related to the chemical and biological detection Programs of Record in the US.

## Loan note repayment

Following the rights issue, £48.8 million (\$67.7 million) was applied in repayment of outstanding US private placement loan notes, representing just over 60% of the gross proceeds of the rights issue, with an accelerated interest payment becoming due based on the contractual interest payments due over the remaining term of the notes repaid. The principal value of loan notes repaid represented 26.5% of the principal outstanding prior to the repayment. Following the repayment, the remaining loan notes amount to £128.7 million, repayable in November 2016 (£24.6 million), November 2017 (£47.0 million) and November 2019 (£57.1 million).

## Debt facilities

In January 2016, changes were made to covenants under the revolving credit facility and loan notes in respect of the permitted ratios at the 31 October 2015 and 31 January 2016 test dates. Certain of these changes, in respect of the 31 January 2016 test date only, came into effect unconditionally. These unconditional changes were an increase in the permitted leverage ratio under the revolving credit facility from 3.00x to 3.50x at the 31 January 2016 test date and an increase in the permitted adjusted debt leverage ratio under the private placement loan notes from 3.00x to 4.00x at the 31 January 2016 test date.

The remaining amendments to covenant ratios were conditional on the successful completion of the rights issue and, in the case of amendments relating to the loan notes, on the application of 60% of the gross proceeds of the rights issue being applied to repay loan notes during the period. These amendments therefore became effective on these events having occurred during the period. The amendments had the

effect of increasing the permitted leverage ratio under the revolving credit facility from 3.00x to 3.90x at the 31 October 2015 and 31 January 2016 test dates, and of reducing the permitted interest cover ratio under that facility from 4.00x to 3.50x at the 31 October 2015 and 31 January 2016 test dates. For the private placement loan notes, these amendments were an increase in the permitted adjusted debt leverage ratio from 3.00x to 4.00x at the 31 October 2015 test date, and the permitted total debt leverage ratio from 3.75x to 4.00x at the 31 October 2015 and 31 January 2016 test dates.

The table below details the results of the covenant tests at 30 April 2016 and at 31 October 2015:

	<b>30 April 2016</b>	<b>31 October 2015</b>
<b>Covenant ratios - revolving credit facility</b>		
Maximum allowed ratio of net debt to underlying EBITDA	<b>3.00x</b>	3.90x
Actual ratio of net debt to underlying EBITDA	<b>2.00x</b>	2.83x
Minimum allowed ratio of underlying EBITDA to finance costs	<b>4.00x</b>	3.50x
Actual ratio of underlying EBITDA to finance costs	<b>4.77x</b>	4.75x
<b>Covenant ratios - loan note agreements</b>		
Maximum allowed ratio of adjusted debt to underlying EBITDA	<b>3.00x</b>	4.00x
Actual ratio of adjusted debt to underlying EBITDA	<b>2.02x</b>	2.84x
Maximum allowed ratio of total debt to underlying EBITDA	<b>3.75x</b>	4.00x
Actual ratio of total debt to underlying EBITDA	<b>2.10x</b>	2.92x
Minimum allowed ratio of underlying EBITDA to finance costs	<b>3.50x</b>	3.50x
Actual ratio of underlying EBITDA to finance costs	<b>4.60x</b>	4.67x

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 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. Further details are set out in note 1.

The table below details net debt at 30 April 2016 and at 31 October 2015:

	<b>30 April 2016</b>	<b>31 October 2015</b>
	<b>£m</b>	<b>£m</b>
Loan notes, net of facility fees	<b>(124.6)</b>	(161.3)
Revolving credit facility	-	-
Other loans and finance leases	<b>(0.3)</b>	(0.6)
Gross debt	<b>(124.9)</b>	(161.9)
Cash	<b>10.5</b>	7.6
Net debt	<b>(114.4)</b>	(154.3)

The majority of the Group's net debt is denominated in US dollars and is treated as a net investment hedge, matched against US dollar denominated assets. A one cent movement in the value of the US dollar against sterling leads to the value of reported net debt changing by approximately £1 million. A significant

proportion of the Group's revenue arises in the US, and the Group's US dollar denominated interest expense provides a partial hedge against the translation risk in the income statement.

### **Principal risks and uncertainties**

The principal risks and uncertainties which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results have not changed significantly from those set out in the Group's 2015 Annual Report and Accounts. A detailed description of the Group's principal risks and uncertainties and the ways they are mitigated can be found at Annex 1. 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;
- technological risks;
- product liability and other customer claims;
- compliance and corruption risks;
- cyber-related risks; and
- financial risks.

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

**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**  
**Group Chief Executive**  
**21 June 2016**

**Steve Bowers**  
**Group Finance Director**  
**21 June 2016**

# CONDENSED CONSOLIDATED INCOME STATEMENT

for the half year to 30 April 2016

		Unaudited Half year to 30 April 2016			Unaudited Half year to 30 April 2015		
	Note	Underlying performance* £m	Non- underlying items* £m	Total £m	Underlying performance* £m	Non- underlying items* £m	Total £m
<b>Continuing operations</b>							
Revenue		180.1	-	180.1	161.7	-	161.7
Operating profit/(loss)		3.8	(9.1)	(5.3)	5.5	(13.8)	(8.3)
Finance expense		(7.8)	(3.7)	(11.5)	(6.8)	-	(6.8)
<b>Loss before tax</b>		(4.0)	(12.8)	(16.8)	(1.3)	(13.8)	(15.1)
Tax credit on loss	5	0.9	3.0	3.9	0.3	4.0	4.3
<b>Loss after tax</b>		(3.1)	(9.8)	(12.9)	(1.0)	(9.8)	(10.8)
<b>Discontinued operations</b>							
Profit after tax from discontinued operations	3,10	-	1.8	1.8	-	3.0	3.0
<b>Loss after tax for the period</b>	3	(3.1)	(8.0)	(11.1)	(1.0)	(6.8)	(7.8)

		Unaudited Half year to 30 April 2016			Unaudited Half year to 30 April 2015 As restated		
		Underlying performance* £m	Non- underlying items* £m	Total £m	Underlying performance* £m	Non- underlying items* £m	Total £m
<b>Loss per ordinary share</b>							
<b>Continuing operations</b>							
Basic	6	(1.3)p	(4.0)p	(5.3)p	(0.5)p	(4.4)p	(4.9)p
Diluted	6	(1.3)p	(4.0)p	(5.3)p	(0.5)p	(4.4)p	(4.9)p
<b>Continuing operations and discontinued operations</b>							
Basic	6	(1.3)p	(3.3)p	(4.6)p	(0.5)p	(3.0)p	(3.5)p
Diluted	6	(1.3)p	(3.3)p	(4.6)p	(0.5)p	(3.0)p	(3.5)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 2016

				Audited Year to 31 Oct 2015
	Note	Underlying performance* £m	Non- underlying items* £m	Total £m
<b>Continuing operations</b>				
Revenue		377.3	-	377.3
Operating profit/(loss)		34.4	(28.9)	5.5
Finance expense		(14.6)	-	(14.6)
<b>Profit/(loss) before tax</b>		19.8	(28.9)	(9.1)
Tax (charge)/credit on profit/(loss)	5	(4.1)	7.9	3.8
<b>Profit/(loss) after tax</b>		15.7	(21.0)	(5.3)
<b>Discontinued operations</b>				
Profit after tax from discontinued operations	3,10	-	4.9	4.9
<b>Profit/(loss) after tax for the year</b>	3	15.7	(16.1)	(0.4)

		Audited Year to 31 Oct 2015 As restated		
		Underlying performance* £m	Non- underlying items* £m	Total £m
<b>Earnings/(loss) per ordinary share</b>				
<b>Continuing operations</b>				
Basic	6	7.1p	(9.5)p	(2.4)p
Diluted	6	7.0p	(9.4)p	(2.4)p
<b>Continuing operations and discontinued operations</b>				
Basic	6	7.1p	(7.3)p	(0.2)p
Diluted	6	7.0p	(7.2)p	(0.2)p

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

**CONDENCED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
for the half year to 30 April 2016

	Unaudited Half year to 30 April 2016 £m	Unaudited Half year to 30 April 2015 £m	Audited Year to 31 Oct 2015 £m
<b>Loss after tax attributable to equity holders of the parent</b>	<b>(11.1)</b>	<b>(7.8)</b>	<b>(0.4)</b>
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Actuarial (losses)/gains on defined benefit pension schemes	(1.9)	1.0	-
Movement on deferred tax relating to pension schemes	-	(0.6)	-
	<b>(1.9)</b>	<b>0.4</b>	<b>-</b>
<b>Items that may be reclassified subsequently to profit or loss</b>			
Exchange differences on translation of foreign operations	6.4	2.0	(2.6)
Current tax on items taken directly to equity	-	-	0.6
Deferred tax on exchange differences on translation of foreign operations	-	-	(0.6)
	<b>6.4</b>	<b>2.0</b>	<b>(2.6)</b>
<b>Total comprehensive loss attributable to equity holders of the parent</b>	<b>(6.6)</b>	<b>(5.4)</b>	<b>(3.0)</b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
for the half year to 30 April 2016

	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2015	2.0	230.7	12.9	1.2	(32.3)	85.7	(9.6)	290.6
Loss after tax	-	-	-	-	-	(11.1)	-	(11.1)
Other comprehensive (loss)/income	-	-	-	-	(0.6)	5.1	-	4.5
Total comprehensive loss	-	-	-	-	(0.6)	(6.0)	-	(6.6)
Ordinary shares issued	0.8	74.4	-	-	-	-	-	75.2
Share-based payments (net of settlement)	-	-	-	-	-	1.0	-	1.0
<b>At 30 April 2016</b>	<b>2.8</b>	<b>305.1</b>	<b>12.9</b>	<b>1.2</b>	<b>(32.9)</b>	<b>80.7</b>	<b>(9.6)</b>	<b>360.2</b>
	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2014	2.0	230.7	12.9	1.2	(32.6)	95.7	(9.6)	300.3
Loss after tax	-	-	-	-	-	(7.8)	-	(7.8)
Other comprehensive income	-	-	-	-	2.0	0.4	-	2.4
Total comprehensive income/(loss)	-	-	-	-	2.0	(7.4)	-	(5.4)
Share-based payments (net of settlement)	-	-	-	-	-	0.6	-	0.6
<b>At 30 April 2015</b>	<b>2.0</b>	<b>230.7</b>	<b>12.9</b>	<b>1.2</b>	<b>(30.6)</b>	<b>88.9</b>	<b>(9.6)</b>	<b>295.5</b>
	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2014	2.0	230.7	12.9	1.2	(32.6)	95.7	(9.6)	300.3
Loss after tax	-	-	-	-	-	(0.4)	-	(0.4)
Other comprehensive income/(loss)	-	-	-	-	0.3	(2.9)	-	(2.6)
Total comprehensive income/(loss)	-	-	-	-	0.3	(3.3)	-	(3.0)
Dividends paid	-	-	-	-	-	(7.9)	-	(7.9)
Share-based payments (net of settlement)	-	-	-	-	-	1.2	-	1.2
<b>At 31 October 2015</b>	<b>2.0</b>	<b>230.7</b>	<b>12.9</b>	<b>1.2</b>	<b>(32.3)</b>	<b>85.7</b>	<b>(9.6)</b>	<b>290.6</b>

# CONDENSED CONSOLIDATED BALANCE SHEET

as at 30 April 2016

	Note	Unaudited As at 30 April 2016 £m	Unaudited As at 30 April 2015 £m	Audited As at 31 Oct 2015 £m
<b>Non-current assets</b>				
Goodwill		123.6	121.4	121.2
Development costs		36.5	35.2	36.1
Other intangible assets		71.0	81.5	74.2
Property, plant and equipment		168.7	174.1	168.0
Deferred tax		48.9	33.5	47.5
	3	448.7	445.7	447.0
<b>Current assets</b>				
Inventories		111.8	96.3	96.2
Trade and other receivables		85.7	87.5	93.1
Cash and cash equivalents	8	10.5	13.4	7.6
Derivative financial instruments		0.8	1.4	0.5
		208.8	198.6	197.4
<b>Total assets</b>		657.5	644.3	644.4
<b>Current liabilities</b>				
Borrowings		(24.2)	(0.1)	-
Obligations under finance leases		(0.2)	(0.5)	(0.5)
Trade and other payables		(85.1)	(95.1)	(96.2)
Provisions		(5.0)	(6.7)	(5.1)
Current tax		(5.3)	(2.9)	(7.9)
Derivative financial instruments		(2.1)	(3.0)	(1.6)
		(121.9)	(108.3)	(111.3)
<b>Non-current liabilities</b>				
Borrowings		(100.4)	(160.8)	(161.3)
Obligations under finance leases		-	(0.4)	-
Trade and other payables		(3.5)	(1.3)	(1.7)
Provisions		(10.4)	(20.4)	(16.3)
Deferred tax		(43.6)	(38.0)	(45.1)
Preference shares		(0.1)	(0.1)	(0.1)
Retirement benefit obligations	11	(17.4)	(18.6)	(17.7)
Derivative financial instruments		-	(0.9)	(0.3)
		(175.4)	(240.5)	(242.5)
<b>Total liabilities</b>		(297.3)	(348.8)	(353.8)
<b>Net assets</b>		360.2	295.5	290.6
<b>Equity</b>				
Share capital		2.8	2.0	2.0
Share premium account		305.1	230.7	230.7
Special capital reserve		12.9	12.9	12.9
Revaluation reserve		1.2	1.2	1.2
Translation reserve		(32.9)	(30.6)	(32.3)
Retained earnings		80.7	88.9	85.7
		369.8	305.1	300.2
Own shares		(9.6)	(9.6)	(9.6)
Equity attributable to equity holders of the parent		360.2	295.5	290.6
<b>Total equity</b>		360.2	295.5	290.6

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the half year to 30 April 2016

	Note	Unaudited Half year to 30 April 2016 £m	Unaudited Half year to 30 April 2015 £m	Audited Year to 31 Oct 2015 £m
<b>Cash flows from operating activities</b>				
Cash generated from underlying operations	13	4.9	12.9	35.4
Acquisition and disposal related costs		(0.2)	(0.2)	(0.7)
Business restructuring and incident costs		(2.2)	(3.6)	(7.6)
Claim related costs		(4.8)	-	(0.1)
		(2.3)	9.1	27.0
Tax paid		(2.5)	(2.8)	(1.3)
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(4.8)</b>	<b>6.3</b>	<b>25.7</b>
<b>Cash flows from investing activities</b>				
Purchases of intangible assets		(2.8)	(4.5)	(8.9)
Purchases of property, plant and equipment		(4.5)	(3.1)	(8.2)
<b>Net cash outflow from investing activities</b>		<b>(7.3)</b>	<b>(7.6)</b>	<b>(17.1)</b>
<b>Cash flows from financing activities</b>				
Net proceeds of share issue		76.0	-	-
Dividends paid		-	-	(7.9)
Finance expense paid		(10.7)	(6.2)	(11.8)
Loan note repayment costs		(0.8)	-	-
Capitalised facility fees paid		(0.3)	(0.6)	(1.8)
Repayments of borrowings		(48.8)	(0.2)	(0.3)
Repayments of finance leases		(0.3)	(0.5)	(0.9)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>15.1</b>	<b>(7.5)</b>	<b>(22.7)</b>
<b>Increase/(decrease) in cash and cash equivalents</b>		<b>3.0</b>	<b>(8.8)</b>	<b>(14.1)</b>
Cash and cash equivalents at beginning of period/year		7.6	21.8	21.8
Effect of foreign exchange rate changes		(0.1)	0.4	(0.1)
<b>Cash and cash equivalents at end of period/year</b>		<b>10.5</b>	<b>13.4</b>	<b>7.6</b>

## 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 2016, 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 18. 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 Conduct 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 2016 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 Conduct Authority.

### Deloitte LLP

Chartered Accountants and Statutory Auditors  
London, United Kingdom  
21 June 2016

## 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 2016 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 21 June 2016. The information for the year ended 31 October 2015 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. Full accounts for the year ended 31 October 2015, 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 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.

#### 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 2015.

## 2. REVENUE BY DESTINATION

	Unaudited Half year to 30 April 2016 £m	Unaudited Half year to 30 April 2015 £m	Audited Year to 31 Oct 2015 £m
UK	36.4	31.9	63.9
USA	86.7	75.4	171.4
Europe	15.7	14.1	37.8
Asia Pacific	16.1	20.6	49.0
Middle East	23.9	19.0	54.0
Rest of the world	1.3	0.7	1.2
<b>Total</b>	<b>180.1</b>	<b>161.7</b>	<b>377.3</b>

The directors consider the only countries that are significant in accordance with IFRS 8 *Operating Segments* are the USA and UK.

## 3. SEGMENTAL ANALYSIS

IFRS 8 *Operating Segments* requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group Chief Executive and the Board to allocate resources to the segments and to assess their performance. For management purposes, the Group's operating and reporting structure clusters similar businesses together within the following three operating segments - Countermeasures, Sensors & Electronics, and Energetic Systems. These segments are the basis on which the Group reports its segmental information.

Segmental analyses of revenue and underlying operating profit are set out below:

	Unaudited Half year to 30 April 2016 £m	Unaudited Half year to 30 April 2015 £m	Audited Year to 31 Oct 2015 £m
<b>Revenue</b>			
Countermeasures	52.2	49.5	125.8
Sensors & Electronics	50.2	41.4	99.1
Energetic Systems	77.7	70.8	152.4
<b>Total</b>	<b>180.1</b>	<b>161.7</b>	<b>377.3</b>

	Unaudited Half year to 30 April 2016 £m	Unaudited Half year to 30 April 2015 £m	Audited Year to 31 Oct 2015 £m
<b>Underlying operating (loss)/profit</b>			
Countermeasures	(1.4)	4.7	17.5
Sensors & Electronics	5.7	0.9	9.3
Energetic Systems	3.0	3.6	15.1
Unallocated corporate costs	(3.5)	(3.7)	(7.5)
<b>Total</b>	<b>3.8</b>	<b>5.5</b>	<b>34.4</b>

Analyses of operating profit to (loss)/profit before tax are set out below, with separate reconciliations provided for continuing and discontinued operations, and for the underlying and total measures of profit:

Unaudited Half year to 30 April 2016						
	Continuing Underlying £m	Continuing Total £m	Discontinued Underlying £m	Discontinued Total £m	Total Underlying £m	Total £m
<b>Underlying operating profit</b>	<b>3.8</b>	<b>3.8</b>	-	-	<b>3.8</b>	<b>3.8</b>
Acquisition and disposal related (costs)/credit	-	(0.2)	-	2.0	-	<b>1.8</b>
Business restructuring and incident costs	-	(0.6)	-	-	-	<b>(0.6)</b>
Claim related credit	-	0.2	-	-	-	<b>0.2</b>
Loan note repayment and covenant amendment fees	-	(1.5)	-	-	-	<b>(1.5)</b>
Intangible amortisation arising from business combinations	-	(6.7)	-	-	-	<b>(6.7)</b>
Loss on fair value movement of derivative financial instruments	-	(0.3)	-	-	-	<b>(0.3)</b>
<b>Non-underlying items</b>	<b>-</b>	<b>(9.1)</b>	<b>-</b>	<b>2.0</b>	<b>-</b>	<b>(7.1)</b>
<b>Operating profit/(loss)</b>	<b>3.8</b>	<b>(5.3)</b>	<b>-</b>	<b>2.0</b>	<b>3.8</b>	<b>(3.3)</b>
Finance expense	(7.8)	(7.8)	-	-	<b>(7.8)</b>	<b>(7.8)</b>
Non-underlying accelerated interest costs	-	(3.7)	-	-	-	<b>(3.7)</b>
<b>(Loss)/profit before tax for the period</b>	<b>(4.0)</b>	<b>(16.8)</b>	<b>-</b>	<b>2.0</b>	<b>(4.0)</b>	<b>(14.8)</b>
Tax credit/(charge) on (loss)/profit	0.9	3.9	-	(0.2)	<b>0.9</b>	<b>3.7</b>
<b>(Loss)/profit after tax for the period</b>	<b>(3.1)</b>	<b>(12.9)</b>	<b>-</b>	<b>1.8</b>	<b>(3.1)</b>	<b>(11.1)</b>

	Unaudited Half year to 30 April 2015					
	Continuing Underlying £m	Continuing Total £m	Discontinued Underlying £m	Discontinued Total £m	Total Underlying £m	Total £m
Underlying operating profit	5.5	5.5	-	-	5.5	5.5
Acquisition and disposal related (costs)/credit	-	(0.3)	-	3.0	-	2.7
Business restructuring and incident costs	-	(1.8)	-	-	-	(1.8)
Claim related costs	-	(4.7)	-	-	-	(4.7)
Intangible amortisation arising from business combinations	-	(7.1)	-	-	-	(7.1)
Gain on the movement in the fair value of derivative financial instruments	-	0.1	-	-	-	0.1
Non-underlying items	-	(13.8)	-	3.0	-	(10.8)
Operating profit/(loss)	5.5	(8.3)	-	3.0	5.5	(5.3)
Finance expense	(6.8)	(6.8)	-	-	(6.8)	(6.8)
(Loss)/profit before tax for the period	(1.3)	(15.1)	-	3.0	(1.3)	(12.1)
Tax credit on loss/profit	0.3	4.3	-	-	0.3	4.3
(Loss)/profit after tax for the period	(1.0)	(10.8)	-	3.0	(1.0)	(7.8)

  

	Audited Year to 31 October 2015					
	Continuing Underlying £m	Continuing Total £m	Discontinued Underlying £m	Discontinued Total £m	Total Underlying £m	Total £m
Underlying operating profit	34.4	34.4	-	-	34.4	34.4
Acquisition and disposal related (costs)/credit	-	(0.5)	-	4.9	-	4.4
Business restructuring and incident costs	-	(6.4)	-	-	-	(6.4)
Claim related costs	-	(8.5)	-	-	-	(8.5)
Intangible amortisation arising from business combinations	-	(14.0)	-	-	-	(14.0)
Gain on the movement in the fair value of derivative financial instruments	-	0.5	-	-	-	0.5
Non-underlying items	-	(28.9)	-	4.9	-	(24.0)
Operating profit	34.4	5.5	-	4.9	34.4	10.4
Finance expense	(14.6)	(14.6)	-	-	(14.6)	(14.6)
Profit/(loss) before tax for the year	19.8	(9.1)	-	4.9	19.8	(4.2)
Tax (charge)/credit on profit/(loss)	(4.1)	3.8	-	-	(4.1)	3.8
Profit/(loss) after tax for the year	15.7	(5.3)	-	4.9	15.7	(0.4)

There are no material intra-group transactions included within the revenue and profit values disclosed in this note.

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

Segmental analyses of depreciation and amortisation are set out below. All depreciation is reflected in both underlying and total measures of operating profit. The analysis of amortisation is shown for both the underlying and total operating profit measures.

	Unaudited Half year to 30 April 2016 £m	Unaudited Half year to 30 April 2015 £m	Audited Year to 31 Oct 2015 £m
<b>Depreciation</b>			
Countermeasures	4.7	3.6	8.0
Sensors & Electronics	1.1	1.3	2.5
Energetic Systems	2.5	2.4	4.8
Unallocated corporate items	0.6	0.2	1.0
	<b>8.9</b>	<b>7.5</b>	<b>16.3</b>

	Within underlying operating profit			Within total operating profit		
	Unaudited Half year to 30 April 2016 £m	Unaudited Half year to 30 April 2015 £m	Audited Year to 31 Oct 2015 £m	Unaudited Half year to 30 April 2016 £m	Unaudited Half year to 30 April 2015 £m	Audited Year to 31 Oct 2015 £m
<b>Amortisation</b>						
Countermeasures	0.9	0.7	1.6	0.9	0.7	1.6
Sensors & Electronics	2.4	1.8	3.6	5.7	5.5	10.8
Energetic Systems	0.3	0.4	1.0	3.7	3.8	7.8
Unallocated corporate items	-	0.2	0.2	-	0.2	0.2
	<b>3.6</b>	<b>3.1</b>	<b>6.4</b>	<b>10.3</b>	<b>10.2</b>	<b>20.4</b>

An analysis of non-underlying items charged in determining operating profit by segment is provided below:

	Unaudited Half year to 30 April 2016 £m	Unaudited Half year to 30 April 2015 £m	Audited Year to 31 Oct 2015 £m
<b>Non-underlying items by segment</b>			
Countermeasures	0.3	4.8	4.4
Sensors & Electronics	3.3	5.2	13.1
Energetic Systems	3.6	3.4	11.3
Discontinued operations	(2.0)	(3.0)	(4.9)
Unallocated	1.9	0.4	0.1
	<b>7.1</b>	<b>10.8</b>	<b>24.0</b>

Unallocated items in the period to 30 April 2016 include £1.5 million (H1 2015: £nil, 2015: £nil) of costs associated with the repayment of loan notes and covenant amendments.

In the period to 30 April 2016, there was an acquisition and disposal related credit of £1.8 million (H1 2015: £2.7 million, 2015: £4.4 million) which includes a £2.0 million credit in respect of discontinued operations, resulting from the release of certain provisions established on the disposal of businesses in prior years, which are no longer required, and the retranslation of remaining provisions. This £2.0 million credit has been included with discontinued operations. The remaining £0.2 million cost in the period to 30 April 2016 relates to acquisition related costs.

In the period to 30 April 2016, restructuring and incident costs were £0.6 million (H1 2015: £1.8 million, 2015: £6.4 million) and included £0.3 million relating to the restructuring of Kilgore. In the period to 30 April 2015, restructuring and incident costs were associated with the restructuring of Chemring Technology Solutions in the UK. In the year to 31 October 2015, restructuring costs included £4.6 million relating to restructuring of the UK Sensors & Electronics businesses, £1.3 million relating to restructuring of the US Sensors & Electronics businesses, and £0.5 million relating to simplification and integration activities at other business units.

There was a credit in respect of claim related costs of £0.2 million (H1 2015: £4.7 million cost, 2015: £8.5 million cost) following agreement being reached with the US Department of Justice relating to historic supplies of product by Kilgore. Of the agreed settlement value of £4.1 million, £0.2 million was paid in the first half and the remainder is payable in instalments over the next five years. In the period to 30 April 2015, the claim related costs also related to this matter. In the year to 31 October 2015, claim related costs included £4.2 million in relation to these historic supplies of product by Kilgore and £4.3 million in settlement of claims regarding the manufacture of certain components for the Next Generation Light Anti-Tank Weapon ("NLAW") combat weapon by Chemring Energetics.

In addition to the amounts detailed above, there was a non-underlying finance expense of £3.7 million (H1 2015: £nil, 2015: £nil) in respect of accelerated interest due on early repayment of loan notes.

### Non-current assets by location

The Group does not disclose assets or liabilities by segment in the monthly management accounts provided to the Group Chief Executive and the Board. 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 making 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 2016 £m	Unaudited As at 30 April 2015 £m	Audited As at 31 Oct 2015 £m
<b>Non-current assets by location</b>			
UK	240.3	233.3	244.4
USA	180.7	184.2	177.1
Europe	4.4	4.8	4.3
Australia	23.3	23.4	21.2
	<b>448.7</b>	<b>445.7</b>	<b>447.0</b>

### 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

Including discontinued operations, the effective tax rate on underlying profit before tax for the period is 21.5% (H1 2015: 20.3%, 2015: 20.7%) 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 25.9% (H1 2015: 37.0%, 2015: 32.9%). The tax rate on total profit before tax, including discontinued operations, is therefore 25.0% (H1 2015: 35.5%, 2015: 90.5%). The full year effective tax rate on total profit before tax, including discontinued operations, is currently forecast to be 18.7% (H1 2015: 35.5%, 2015: 90.5%).

### 6. (LOSS)/EARNINGS PER SHARE

On 24 February 2016, 85,915,828 new ordinary shares were issued pursuant to the rights issue, with four new ordinary shares issued for every nine existing ordinary shares held. As a result, the total share capital increased to 279,226,442 ordinary shares. For the calculation of earnings per share, the weighted average number of shares in issue for periods prior to the rights issue has been increased by 14.2% to reflect the bonus element of the rights issue.

(Loss)/earnings per share are based on the average number of shares in issue, excluding own shares held, 241,914,294 (H1 2015 (as restated): 220,674,248, 2015 (as restated): 220,675,049) and the loss on continuing operations after tax of £12.9 million (H1 2015: £10.8 million loss, 2015: £5.3 million loss). Diluted earnings per share has been calculated using a diluted average number of shares in issue, excluding own shares held, of 241,914,294 (H1 2015 (as restated): 220,674,248, 2015 (as restated): 220,675,049) and the loss on continuing operations after tax of £12.9 million (H1 2015: £10.8 million loss, 2015: £5.3 million loss).

No dilution has been recognised for the purposes of basic earnings per share from continuing operations due to there being a loss per share for the period to 30 April 2016, the period to 30 April 2015 and for the year to 31 October 2015. In addition, no dilution has been recognised for the purposes of underlying earnings per share for the period to 30 April 2016 and for the period to 30 April 2015, due to there being a loss per share for those periods. Dilution has, however, been recognised in the calculation of underlying earnings per share for the year to 31 October 2015, using a diluted average number of shares in issue, excluding own shares held, of 225,030,669 (as restated).

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

	<b>Unaudited Half year to 30 April 2016 Number 000s</b>	Unaudited Half year to 30 April 2015 Number 000s	Audited Year to 31 Oct 2015 Number 000s
<b>Average number of shares in issue before adjustment to reflect bonus element of rights issue</b>	<b>214,537</b>	193,297	193,298
Impact of bonus element of the rights issue	<b>27,377</b>	27,377	27,377
<b>Weighted average number of shares used to calculate basic and diluted loss per share</b>	<b>241,914</b>	220,674	220,675
Additional shares issuable other than at fair value in respect of options outstanding	-	-	4,356
<b>Weighted average number of shares used to calculate diluted underlying (loss)/earnings per share</b>	<b>241,914</b>	220,674	225,031

#### Continuing operations

	<b>Unaudited Half year to 30 April 2016</b>		<b>Unaudited Half year to 30 April 2015</b>		<b>Audited Year to 31 Oct 2015</b>	
	<b>Basic £m</b>	<b>Diluted £m</b>	<b>Basic £m</b>	<b>Diluted £m</b>	<b>Basic £m</b>	<b>Diluted £m</b>
Underlying (loss)/profit after tax	<b>(3.1)</b>	<b>(3.1)</b>	(1.0)	(1.0)	15.7	15.7
Non-underlying items	<b>(9.8)</b>	<b>(9.8)</b>	(9.8)	(9.8)	(21.0)	(21.0)
<b>Total loss after tax</b>	<b>(12.9)</b>	<b>(12.9)</b>	(10.8)	(10.8)	(5.3)	(5.3)
	<b>Basic Pence</b>	<b>Diluted Pence</b>	<b>Basic Pence As restated</b>	<b>Diluted Pence As restated</b>	<b>Basic Pence As restated</b>	<b>Diluted Pence As restated</b>
Loss per share	<b>(5.3)</b>	<b>(5.3)</b>	(4.9)	(4.9)	(2.4)	(2.4)
Underlying (loss)/earnings per share	<b>(1.3)</b>	<b>(1.3)</b>	(0.5)	(0.5)	7.1	7.0

#### Continuing and discontinued operations

	<b>Unaudited Half year to 30 April 2016</b>		<b>Unaudited Half year to 30 April 2015</b>		<b>Audited Year to 31 Oct 2015</b>	
	<b>Basic £m</b>	<b>Diluted £m</b>	<b>Basic £m</b>	<b>Diluted £m</b>	<b>Basic £m</b>	<b>Diluted £m</b>
Underlying (loss)/profit after tax	<b>(3.1)</b>	<b>(3.1)</b>	(1.0)	(1.0)	15.7	15.7
Non-underlying items	<b>(8.0)</b>	<b>(8.0)</b>	(6.8)	(6.8)	(16.1)	(16.1)
<b>Total loss after tax</b>	<b>(11.1)</b>	<b>(11.1)</b>	(7.8)	(7.8)	(0.4)	(0.4)
	<b>Basic Pence</b>	<b>Diluted Pence</b>	<b>Basic Pence As restated</b>	<b>Diluted Pence As restated</b>	<b>Basic Pence As restated</b>	<b>Diluted Pence As restated</b>
Loss per share	<b>(4.6)</b>	<b>(4.6)</b>	(3.5)	(3.5)	(0.2)	(0.2)
Underlying (loss)/earnings per share	<b>(1.3)</b>	<b>(1.3)</b>	(0.5)	(0.5)	7.1	7.0

## 7. DIVIDENDS

	Unaudited Half year to 30 April 2016 £m	Unaudited Half year to 30 April 2015 £m	Audited Year to 31 Oct 2015 £m
<b>Dividends paid on ordinary shares of 1p each</b>			
Final dividend for the year to 31 October 2014: 1.7p	-	-	3.2
Interim dividend for the year to 31 October 2015: 2.4p	-	-	4.7
<b>Total dividends</b>	-	-	7.9

## 8. CASH AND CASH EQUIVALENTS

Included within cash is £0.1 million of restricted cash (H1 2015: £0.4 million, 2015: £0.1 million).

## 9. FINANCIAL INSTRUMENTS

As at 30 April 2016, there were no significant differences between the book value and fair value (as determined by market value) of the Group's financial assets and liabilities.

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 2016, the total fair value of forward foreign exchange contracts recognised in the condensed consolidated balance sheet were an asset of £0.8 million (H1 2015: £1.0 million, 2015: £0.5 million) and a liability of £2.1 million (H1 2015: £3.9 million, 2015: £1.9 million). The fair value of interest rate swap contracts recognised in the condensed consolidated balance sheet was an asset of £nil (H1 2015: £0.4 million asset, 2015: £nil).

## 10. ACQUISITIONS AND DISCONTINUED OPERATIONS

In the period to 30 April 2016 there was a non-underlying credit of £2.0 million (H1 2015: £3.0 million, 2015: £4.9 million) resulting from the release of certain provisions established on the disposal of businesses in prior years, which were no longer required, and the retranslation of remaining provisions.

## 11. PENSIONS

The defined benefit obligations are calculated using an actuarial valuation as at 30 April 2016. In the period to 30 April 2016, retirement benefit obligations decreased to £17.4 million (H1 2015: £18.6 million, 2015: £17.7 million), 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 2013, offset by actuarial losses in the period.

The difference between the expected return on assets and the actual return on assets has been recognised as an actuarial gain/(loss) on defined benefit pension schemes in the condensed consolidated statement of comprehensive income in accordance with the Group's accounting policy.

## 12. RELATED PARTY TRANSACTIONS

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

### 13. CASH GENERATED FROM UNDERLYING OPERATIONS

	Unaudited Half year to 30 April 2016 £m	Unaudited Half year to 30 April 2015 £m	Audited Year to 31 Oct 2015 £m
Operating (loss)/profit from continuing operations	(5.3)	(8.3)	5.5
Operating profit from discontinued operations	2.0	3.0	4.9
	(3.3)	(5.3)	10.4
Amortisation of development costs	3.5	3.0	6.2
Amortisation of intangible assets arising from business combinations	6.7	7.1	14.0
Amortisation of patents and licenses	0.1	0.1	0.2
Loss on disposal of non-current assets	0.1	-	0.3
Depreciation of property, plant and equipment	8.9	7.5	16.3
Loss/(gain) on the movement in the fair value of derivative financial instruments	0.3	(0.1)	(0.5)
Share-based payment expense	1.2	0.6	1.2
Employer contributions to retirement pension obligations	(2.5)	(2.5)	(5.0)
Operating cash flows before movements in working capital	15.0	10.4	43.1
Increase in inventories	(10.7)	(16.8)	(19.1)
Decrease/(increase) in trade and other receivables	6.6	6.0	(3.1)
(Decrease)/increase in trade and other payables	(2.1)	9.6	9.3
Decrease in provisions	(4.0)	(0.1)	(5.3)
	4.8	9.1	24.9
Add back non-underlying items:			
Acquisition and disposal related credit	(1.8)	(2.7)	(4.4)
Business restructuring and incident costs	0.6	1.8	6.4
Claim related (credit)/costs	(0.2)	4.7	8.5
Loan note repayment and covenant amendment fees	1.5	-	-
<b>Cash generated from underlying operations</b>	<b>4.9</b>	<b>12.9</b>	<b>35.4</b>

### 14. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Unaudited Half year to 30 April 2016 £m	Unaudited Half year to 30 April 2015 £m	Audited Year to 31 Oct 2015 £m
Increase/(decrease) in cash and cash equivalents	3.0	(8.8)	(14.1)
Decrease in debt and lease financing due to cash flows	49.4	1.3	3.0
Decrease/(increase) in net debt resulting from cash flows	52.4	(7.5)	(11.1)
Effect of foreign exchange rate changes	(11.1)	(6.0)	(5.5)
Accrued debt finance costs	-	1.5	-
Amortisation of debt finance costs	(1.4)	(0.9)	(2.1)
Movement in net debt	39.9	(12.9)	(18.7)
Net debt at beginning of the period/year	(154.3)	(135.6)	(135.6)
<b>Net debt at end of the period/year</b>	<b>(114.4)</b>	<b>(148.5)</b>	<b>(154.3)</b>

## 15. ANALYSIS OF NET DEBT

	As at 1 Nov 2015 £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	As at 30 April 2016 £m
Cash at bank and in hand	7.6	3.0	-	(0.1)	<b>10.5</b>
Debt due within one year	-	-	(24.2)	-	<b>(24.2)</b>
Debt due after one year	(161.3)	49.1	22.8	(11.0)	<b>(100.4)</b>
Finance leases	(0.5)	0.3	-	-	<b>(0.2)</b>
Preference shares	(0.1)	-	-	-	<b>(0.1)</b>
	<b>(154.3)</b>	<b>52.4</b>	<b>(1.4)</b>	<b>(11.1)</b>	<b>(114.4)</b>

## 16. 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.

The Group is currently engaged in pre-action correspondence with the Defense Contract Audit Agency of the US Department of Defense in relation to disputed pricing calculations on certain contracts fulfilled by Alloy Surfaces.

In light of the current status of these matters, the directors do not consider the outcome of all the proceedings, actions and claims in which it is currently involved, either individually or in aggregate, will have a material adverse effect upon the Group's financial position. A provision of £3.4 million (H1 2015: £8.6 million, 2015: £7.9 million) exists to cover estimated legal costs for the Group with regards to pending and probable legal actions.

## 17. EVENTS AFTER THE BALANCE SHEET DATE

On 4 May 2016, following receipt of regulatory approval, the Group acquired patents, equipment, stock and selected contracts relating to Esterline's UK-based subsidiary, Wallop Defence Systems Limited, for an initial cash consideration of £2.5 million. Additional payments of up to £9.0 million, which are conditional on the receipt of specific orders in the future, may be made over the next three years.

## 18. CORPORATE WEBSITE

Further information on the Group and its activities can be found on the corporate website at [www.chemring.co.uk](http://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 five year plan for each business, the most significant health and safety risks identified at each site, and the risk control procedures implemented. The Committee reports quarterly to the Board, and through this process, the Board has identified the following principal risks currently facing the Group. The mitigating actions taken by the Group management to address these risks are also set out below. The Group's key performance indicators also give insight into how these risks and uncertainties are being managed. The Group mitigates certain elements of its risk exposure through an insurance programme that covers property and liability risks, where it is appropriate and cost effective to do so.

- **Health and safety risks** – The Group's operations which utilise energetic materials are subject to inherent health and safety risks. Upset conditions can occur during manufacturing operations which may expose employees to increased quantities of hazardous materials. The handling and disposal of energetics waste can result in unplanned ignitions.

Incidents may occur which could result in harm to employees, the temporary shutdown of facilities or other disruption to manufacturing processes. The Group may be exposed to financial loss, regulatory action, potential liabilities for workplace injuries and fatalities.

The Board believes that responsibility for the delivery of world-class safety standards is an integral part of operational management accountability. The Board is committed to ensuring that the Group's leadership operates with health and safety as the top priority, and that the strength of the Group's safety culture and the quality of its protective systems deliver operations where all employees and visitors feel and are absolutely safe.

The Group's Safety Leadership Programme continues to be rolled-out across the businesses, and has now been attended by more than 130 senior employees. A "train-the-trainer" module has been developed to enable the business units to run the programme locally.

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

A culture assessment tool has been developed for the internal health and safety audit programme.

The Group continues to invest in state-of-the-art process safety systems and equipment. The Group's safety and loss prevention programmes require detailed pre-construction reviews of process changes and new operations, and safety audits of operations are undertaken on a regular basis.

Improved processes for managing upset conditions have been adopted.

Following an incident at Chemring Australia's burning ground, all waste burning sites and associated processes were audited during the year, and an improvement programme has since been implemented to raise standards across the Group.

All businesses are expected to pro-actively manage their own risks but, in addition, the most significant site risks at each business and their associated mitigation programmes are reviewed quarterly by the Risk Management Committee.

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

- **Environmental laws and regulations** – The Group's operations and ownership or use of real property are subject to a number of federal, state and local environmental laws and regulations, including those relating to discharge of hazardous materials, remediation of contaminated sites, and restoration of damage to the environment. At certain sites that the Group owns or operates, or formerly owned or operated, there is known or potential contamination for which there may be 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 ISO 14001, which requires the setting of environmental goals and objectives focused on local aspects and impacts.

The Group has monitoring programmes at certain sites, for which appropriate financial provision has been made. In certain circumstances, the Group procures environmental liability insurance, subject to applicable insurance conditions.

- **Possible defence budget cuts** – Defence spending depends on a complex mix of political considerations, budgetary constraints and the requirements of the armed forces to address specific threats and perform certain missions. Defence spending may therefore be subject to significant fluctuations from year to year. Given the large budget deficits and the prevailing economic conditions in many NATO countries, there may be continued downward pressure on defence budgets.

The Group's financial performance may be adversely impacted by lower defence spending by its major customers. Short-term trading and cash constraints may impact on the Group's ability to invest in longer-term technologies and capabilities.

In recognition of the issues affecting the Group's traditional NATO markets, business development activities are being focused on non-NATO markets, where defence expenditure is forecast to grow strongly over the next five to ten years. The Group continues to make progress on developing its routes to market in the Middle East, India and the Far East.

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

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

- **Timing and value of orders** – The Group's profits and cash flows are dependent, to a significant extent, on the timing of award of defence contracts. In general, the majority of the Group's contracts are of a relatively short duration and, with the exception of framework contracts with key customers, do not cover multi-year requirements. The Group anticipates that delays in the placement of orders by NATO customers, as a result of budgetary constraints, are likely to continue in the short to medium term.

An unmitigated delay in the receipt of orders could affect the Group's earnings and achievement of its budget, in any given financial year.

If the Group's businesses are unable to continue trading profitably during periods of lower order intake, financial performance will deteriorate and assets may be impaired.

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

Maximising order intake remains a key objective for the businesses, and they continue to address this through the strengthening of their sales and marketing resources. The businesses also continue to pursue long-term, multi-year contracts with their major customers wherever possible.

The Group has undertaken various restructuring projects over the last year, aimed at restoring the profitability of those Group businesses which have suffered most from order delays.

Site optimisation plans continue to be refined to ensure that the Group utilises its manufacturing facilities as efficiently as possible, within the constraints imposed by export control legislation and customer requirements.

- **Contract-related risks** – The Group’s government contracts may be terminated at any time and may contain other unfavourable provisions. The Group may need to commit resources in advance of contracts becoming fully-effective, to ensure prompt fulfilment of orders or to enable conditions precedent to be met.

The Group may suffer financial loss if its contracts are terminated by customers, or a termination arising out of the Group’s default may have an adverse effect on its ability to re-compete for future contracts and orders.

The Group negotiates with customers to ensure that the most favourable contractual terms are agreed. Areas of significant judgment or enhanced risk require the review and approval of the executive directors. The Group endeavours to negotiate stage payments with its customers wherever possible, in order to minimise exposure to significant cash outflows on contracts which may be terminated at short notice.

- **Political risks** – The Group is active in several countries that are suffering from political, social and economic instability. In addition, there is a significant risk of political unrest and changes in the political structure in certain non-NATO countries to which the Group currently sells.

The Group’s business in certain countries may be adversely affected in a way that is material to the Group’s financial position and the results of its operations.

Political changes could impact future defence expenditure strategy and the Group’s ability to export products to certain countries. During periods of unrest, delays in obtaining export licences can result in delayed revenues.

The Group’s businesses strive to maintain relationships at all levels within the political structure of certain key countries, in order to ensure that they are aware of and can react to proposed changes, if and when they occur.

Wherever possible, the businesses implement financing arrangements, such as letters of credit and advance payments, for contracts with high-risk customers, which are intended to mitigate the impact of a deterioration in the customer’s financial position, and in certain circumstances, they may also procure political risks insurance.

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

- **Management resource** – The Group requires competent management to lead it through the next stage of its development. In challenging markets and difficult times, there is an increased risk of loss of key personnel. As the shape of the Group’s business also changes, with an increased focus on electronics, there is a need to ensure that the businesses build an appropriate skill base to enable them to compete successfully in new markets and product areas.

If key personnel are not incentivised appropriately to remain within the Group, its operations may suffer from loss of management expertise and knowledge.

Incentivisation arrangements have been streamlined and improved in certain areas of the business, to ensure that employees are suitably incentivised to deliver key strategic objectives.

Succession plans are being developed further throughout the business.

- **Manufacturing risks** – The Group’s manufacturing activities may be exposed to business continuity risks, arising from plant failures, supplier interruptions or quality issues.

Site consolidation plans may not be effectively implemented.

Interruptions to production and sales could result in financial loss, reputational damage and loss of future business.

Failure to complete planned site consolidation activities may result in long-term inefficiencies, and increasing misalignment of organisational skills and market requirements.

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

The Group continues to refine its requirements for reporting of key performance indicators, in order to provide better visibility on operational performance, and to facilitate the identification of potential production and quality issues at an early stage.

The Group insures certain business interruption risks where appropriate.

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

- **Technological risks** – The Group may fail to maintain its position on key future programmes due to issues with capability development, technology transfer or cost-effective manufacture.

The Group needs to continually add new products to its current range, through innovation and continuing emphasis on research and development. New product development may be subject to delays, or may fail to achieve the requisite standards to satisfy volume manufacturing requirements and the production of products against high reliability and safety criteria to meet customer specifications.

The Group also needs to ensure that it continues to upgrade its existing product range to compete with emerging technologies.

Failure to obtain production contracts on major development programmes may significantly impact the future performance and value of individual businesses. Failure to complete planned product development and upgrades successfully may have financial and reputational impacts, and may result in obsolescence or loss of future business.

Close relationships are maintained with customers on all key future programmes, to ensure product and capability development aligns with customer requirements.

The Group has introduced a more focused product development and technology investment approach, in order to ensure that resources are applied appropriately across the Group in support of the five year plan. A Technology Review Board has been established to review all proposed research and development projects, to ensure that key initiatives are being prioritised and to eliminate possible duplication of effort in different parts of the Group. Working groups have been established to drive and co-ordinate the Group's technology growth in certain key areas, such as cyber-security.

- **Product liability and other customer claims** – The Group may be subject to product liability and other claims from customers or third parties, in connection with (i) the non-compliance of products or services with the customer's requirements, due to faults in design or production; (ii) the delay or failed supply of the products or the services indicated in the contract; or (iii) possible malfunction or misuse of products.

As many of the Group's products are single-use devices, it is often impossible to conduct functional testing without destroying the product, 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 its financial position. In addition, any accident, product failure, incident or liability, even if fully insured, could negatively affect the Group's reputation among customers and the public, thereby making it more difficult for the Group to compete effectively.

Material breaches in the performance of contractual obligations may also lead to contract termination and the calling of performance bonds.

The businesses maintain rigorous control of their production processes, monitoring critical parameters on a batch or unit basis. State-of-the-art techniques, including statistical process control or Six Sigma, are applied and, where appropriate, processes are automated to reduce the scope for human error. Detailed assessments of incoming components and materials are conducted to ensure compliance with specifications.

Product liability claims from third parties for damage to property or persons are generally covered by the Group's insurance policies, subject to applicable insurance conditions.

- **Compliance and corruption risks** – The Group operates in over fifty countries worldwide, in a highly-regulated environment, and is subject to applicable laws and regulations of each of these jurisdictions. The Group must ensure that all of its businesses, its employees and third parties providing services on its behalf comply with all relevant legal obligations.

The nature of the Group's operations could also expose it to government investigations relating to import-export controls, money laundering, false accounting, and corruption or bribery.

The Group requires a significant number of permits, licences and approvals to operate its business, which may be subject to non-renewal or revocation.

Non-compliance could result in administrative, civil or criminal liabilities, and could expose the Group to fines, penalties, suspension or debarment, and reputational damage.

Loss of key operating permits and approvals could result in temporary or permanent site closures, and loss of business.

The Group has a central legal and compliance function which assists and monitors all Group businesses, supported by dedicated internal legal resource in the US. The Group's internal audit activities also incorporate a review of legal risks.

The Group operates under a Global Code of Business Principles, which stipulates the standard of acceptable business conduct required from all employees and third parties acting on the Group's behalf. The Group has also adopted a Bribery Act Compliance Manual, incorporating all of its anti-bribery policies and procedures.

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

- **Cyber related risks** – Cyber security and related risks are key emergent areas of critical importance for all businesses, particularly for those involved in the defence and security sector. Threats emanate from a wide variety of sources and could target a range of systems for a wide range of purposes, making response particularly difficult. The data and systems which need to be protected include customer classified or sensitive information, commercially sensitive information, employee-related data and safety-critical manufacturing systems.

The Group may suffer from critical systems failures, or its intellectual property, or that of its customers, may fall into the hands of third parties.

In addition to business interruption and financial loss, the Group may suffer reputational damage and its business of providing cyber-security services to customers may be irreparably damaged.

A detailed threat assessment has been completed, and an action plan to counter the Group's identified major threats has been implemented.

The Group adopts a number of cyber security defence measures, encompassing, as appropriate to the nature of the threat and the sensitivity of data or systems being protected, hardware, software, system, process or people-based solutions. Where appropriate, government or commercial accreditation of networks and systems is obtained in support of the overall cyber security programme.

A review of the Group's IT and security systems is included within the internal audit programme.

- **Financial risks** – Details of the financial risks to which the Group is potentially exposed and details of mitigating factors are set out in the financial review and note 24 of the group financial statements within the 2015 Annual Report and Accounts.