22 JUNE 2017

CHEMRING GROUP PLC

("Chemring" or "the Group")

INTERIM RESULTS FOR THE SIX MONTHS TO 30 APRIL 2017

	H1 2017 #	H1 2016
Revenue (£m)	**249.6**	180.1
Underlying EBITDA*(£m)	**30.0**	16.3
Underlying operating profit* (£m)	**17.2**	3.8
Underlying profit/(loss) before tax* (£m)	**11.3**	(4.0)
Underlying earnings/(loss) per share* (pence)	**3.2**	(1.3)
Statutory loss before tax (£m)	**(6.8)**	(16.8)
Underlying diluted earnings/(loss) per share* (pence)	**3.1**	(1.3)
Dividend per share (pence)	**1.0p**	-
Net debt at 30 April (£m)	**111.7**	114.4

Highlights

- Operational and financial performance continues to progress in line with expectations, with improved first half weighting delivering underlying operating profit of £17.2m
- Net debt increased since year end to £111.7m reflecting investment in working capital in Energetics segment and improvements to supplier payment practices
- Safety performance continues to be strong
- Operational Excellence Programme underway with initiatives launched in support of lean operations, supply chain management, integrated sales and marketing operations and safety maturity
- Site consolidation restructuring programme on schedule
- Key US programmes continue to develop, with significant achievements on F-35 and HMDS programmes
- Return on sales improved to 6.9% (H1 2016: 2.1%), driven by greater operational consistency across the Group
- Order intake in H1 of £217.9m (H1 2016: £173.8m). Order book at half year £556.2m (FY 2016: £592.9 m), of which approximately £260m is currently expected to be recognised as revenue in H2 2017, representing cover of approximately 85% of expected H2 revenues
- Board declared interim dividend of 1.0p per share (H1 2016: nil)

Michael Flowers, Chemring Group Chief Executive, commented:

"In the first half of 2017 the Group has continued to build on its H2 2016 performance, with solid order intake and revenue delivery from its operations. The consistency of manufacturing operations across all sites continues to improve, delivering more predictable revenue flow and improved margins.

The Operational Excellence Programme, designed to further enhance safety, improve gross margins and cash conversion, is underway with initiatives launched in support of lean operations, supply chain management, integrated sales and marketing operations and safety maturity. Combined with ongoing site consolidation and cost base management efforts, this is expected to improve both delivery and margin performance over time.

Major programmes underpinning current performance and medium term growth, continue to plan. The four major US Programs of Record continue to evolve, with solid progress made on both the F-35 and HMDS programmes. On the chemical and biological detection programmes, development work has continued, with major customer reviews and tendering activities being the focus of our efforts in the second half.

The Board's expectations for FY 2017 are unchanged."

Notes:

[#] IFRS 15 has been adopted as at 1 November 2016 and the figures stated for H1 2017 include the impact of this adoption. Further details can be found in Note 18.

*The Directors believe that underlying measures provide a more useful comparison of business trends and performance. Underlying results exclude discontinued operations, exceptional items and the amortisation of acquired intangibles. The term underlying is not defined under IFRS and may not be comparable with similarly titled measures used by other companies.

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

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

Group:	**Underlying**	**Non-underlying**	**Statutory**
EBITDA (£m)	30.0	(9.4)	20.6
Operating profit/(loss) (£m)	17.2	(18.1)	(0.9)
Profit/(loss) before taxation (£m)	11.3	(18.1)	(6.8)
Tax (charge)/credit (£m)	(2.4)	5.8	3.4
Profit/(loss) after tax (£m)	8.9	(12.3)	(3.4)
Basic earnings/(loss) per share (pence)	3.2	(4.4)	(1.2)
Diluted earnings/(loss) per share (pence)	3.1	(4.3)	(1.2)
Segments:			
Countermeasures EBITDA (£m)	7.0	(0.5)	6.5
Countermeasures operating profit/(loss) (£m)	1.0	(2.0)	(1.0)
Sensors EBITDA (£m)	7.5	(4.2)	3.3

Sensors operating profit/(loss) (£m)	4.5	(8.7)	(4.2)
Energetics EBITDA (£m)	19.9	(2.7)	17.2
Energetics operating profit (£m)	16.8	(6.9)	9.9

The adjustments comprise:

- amortisation of acquired intangibles of £7.7m (H1 2016: £6.7m, 2016: £14.8m)
- exceptional items of £nil (H1 2016: £0.2m, 2016: £0.3m) relating to acquisition and disposal related costs
- exceptional items of £11.1m (H1 2016: £0.6m, 2016: £5.4m) relating to business restructuring and incident costs
- exceptional items of £0.2m (H1 2016: £0.2m credit, 2016: £0.6m credit) relating to claim related costs
- gain on the movement in the fair value of derivative financial instruments of £0.9m (H1 2016: £0.3m loss, 2016: £1.0m loss)
- tax credit on adjustments of £5.8m (H1 2016: £3.0m, 2016: £5.6m)
- discontinued operations credits of £1.2m (H1 2016 £1.8m, 2016: £4.6m)

Further details are provided in note 2.

For further information:

Rupert Pittman	Group Director of Corporate Affairs, Chemring Group PLC	+44 (0) 1794 833901
Andrew Jaques James White	MHP Communications	+44 (0) 20 3128 8100

Cautionary statement

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

Notes to editors

- Chemring is a global business that specialises in the manufacture of high technology products and the provision of services to the aerospace, defence and security markets
- Employing approximately 2,500 people worldwide, and with production facilities in four countries, Chemring meets the needs of customers in more than fifty countries
- Chemring is organised under three strategic product segments: Countermeasures, Sensors, and Energetics
- Chemring has a diverse portfolio of products that deliver high reliability solutions to protect people, platforms, missions and information against constantly changing threats
- Operating in niche markets and with strong investment in research and development (“R&D”), Chemring has the agility to rapidly react to urgent customer needs

www.chemring.co.uk

Presentation
The presentation slides and a live audio webcast of the presentation to analysts will be available at the Chemring Group results centre www.chemring.co.uk/resultscentre at 09.30 (UK time) on Thursday 22 June 2017. 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 Nessyah Hart, MHP Communications: nessyah.hart@mhpc.com / tel: +44 (0) 20 3128 8100.

INTERIM MANAGEMENT REPORT

Group overview

The Group has had a solid first half year, in line with expectations, continuing the performance of the second half of last year. Revenue increased by 38.6% to £249.6m (H1 2016: £180.1m, 2016: £477.1m) and underlying operating profit was £17.2m (H1 2016: £3.8m, 2016: £48.5m). The first half saw a good performance from the Energetics segment, driven by continued consistency of operational performance across the segment. Net debt was £111.7m at the end of the period (H1 2016: £114.4m, 2016: £87.6m), the increase since 31 October 2016 being largely attributable to the investment in working capital to support the growth in the Energetics segment, together with the Group reverting to more timely supplier payment practices.

The Group's order book at 30 April 2017 was £556.2m (H1 2016: £591.3m, 2016: £592.9m), of which approximately £260m is scheduled for delivery during H2 FY2017, representing cover of approximately 85% of expected H2 revenue.

Markets

Against an uncertain geo-political landscape, the nature of threat is changing and nations increasingly have to prepare for nuclear, conventional and asymmetric threats, including chemical and biological attacks. The outlook for global defence spending is therefore expected to be one of modest growth in the coming years. The outlook for US spending is positive as the new administration looks to significantly modernise and invest in defence capabilities; signalling a 4-5% increase in expenditure over coming years. In Western Europe, spending is flat but, importantly, countries with the largest budgets, including the UK, have all signalled growth in coming years, in part due to pressure from the US for NATO nations to meet their commitments to spend 2% of GDP on defence. In the Middle East, outlook for defence spending is uncertain, with the effects of continued 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 starting to show positive signs with an increase in solicitation, bid activity and order intake. The broader global countermeasures market remains more robust with good levels of activity in the UK and Australia, supplemented by export orders.

Customer budgets for Roke's security related consultancy services are rising and we continue to invest in our capability in this area in order to maximise market share. Production awards for Sensors products continue to be subject to on-going R&D programmes and protracted customer decision making processes.

Within Energetics, the current demand for our pyrotechnic and ammunition products is being driven by political unrest in certain parts of the world. The high specification energetic devices businesses are also growing as our customers recognise our niche technological capabilities in this area.

In our long-term growth areas, the US Programs of Record for counter-IED and chemical and biological detection are continuing to develop, with technical solutions and Government procurement approaches maturing. On the F-35 Joint Strike Fighter ("F-35") project, progress is continuing in line with our expectations.

Health and safety

The lost time incident rate (incidents per 100 employees per annum) as at 30 April 2017 was 0.61 (H1 2016: 0.38, 2016: 0.35), resulting from a number of minor occupational safety incidents. It is critical to remember that many of Chemring's manufacturing activities are inherently hazardous, and that despite major investment and process improvements, the Group must continue to improve its facilities, processes, training and risk management to ensure safety performance continues to improve further. Despite this strong performance, Chemring had two notable energetic incidents in the period that interrupted production, and the nature of operations dictates that we are vulnerable to these. 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. We are currently engaged in a series of in-depth audits of all the businesses and managing all corrective actions to closure.

Operational Excellence Programme

Early in the period the Group commenced a programme of leveraging the synergies of the individual businesses and sharing best practice across all areas of the Group’s operations. Six operational excellence teams have been established to create a cohesive operational environment that will help to improve operating margins, working capital and employee engagement, and in doing so aim to deliver enhanced customer satisfaction, an empowered workforce and superior shareholder value.

Whilst the programme is designed to promote continuous operational improvement over the long term, there is evidence of positive results being achieved already. Lean assessments and operational improvement projects have been launched at each site, whilst the introduction of a Group wide Customer Relationship Management system, to improve order intake and forecasting accuracy, is enabling us to better capture and track opportunities across the Group.

In February 2017 Chemring opened an office in the United Arab Emirates as part of its regional management strategy. The Group has won a number of significant contracts in the Middle East in recent years, and in order to maintain and build upon these achievements, a permanent in-region presence is an essential element of customer service and commitment. This initiative has already led to increased opportunities from the region.

Group Financial Performance

The underlying operating profit of £17.2m (H1 2016: £3.8m, 2016: £48.5m), resulted in an underlying operating margin of 6.9% (H1 2016: 2.1%, 2016: 10.2%). The higher margin primarily reflects a higher margin sales mix, phasing of revenue within FY 2017 and operational gearing effect in Energetics.

Foreign exchange translation has had an impact on half year comparison following the significant devaluation of Sterling in June 2016. On a constant currency basis, restating the current period at the H1 FY 2016 average rate, revenue would have been £225.4m and underlying operating profit would have been £14.8m.

After a net underlying finance expense of £5.9m (H1 2016: £7.8m, 2016: £14.5m), there was an underlying profit before tax of £11.3m (H1 2016: £4.0m loss, 2016: £34.0m). The effective tax rate on the underlying profit before tax from continuing operations was 21.2% (H1 2016: 22.5%, 2016: 20.9%). The underlying earnings per share was 3.2p (H1 2016: 1.3p loss, 2016: 10.3p earnings).

Adoption of IFRS 15 – Revenue from contracts with customers

The Group has adopted IFRS 15 for its 2017 financial year and the Board believes that this represents a move to a more prudent basis of revenue recognition. The majority of the Group’s transactions are unaffected by IFRS 15, however when IFRS 15 is applied to a small number of customer contracts this leads to a difference in the timing of recognising revenue. As permitted by the standard, the Group has adopted the modified transitional provisions and as such the 2016 results remain as previously reported. For further details see Note 18.

The net effect of the adoption of IFRS 15 on the Group results for the first half of 2017 was broadly neutral. The impact of adoption on the six month period to 30 April 2017 has been to increase revenue by £14.3m and increase underlying operating profit by £4.1m arising from transactions recognised in prior periods which would have subsequently been recognised in the current period under IFRS 15. Similarly a number of transactions, with a broadly equivalent operating profit impact, will be recognised in the second half of 2017 that could have previously been recognised in the first half. This timing difference is expected to recur at each reporting period end, albeit at a different quantum.

Segmental Review - Countermeasures

Markets

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

Performance

Revenue increased by 2.3% to £53.4m (H1 2016: £52.2m, 2016: £138.3m) and the segment reported an underlying operating profit of £1.0m (H1 2016: £1.4m loss, 2016: £12.8m). The underlying operating margin was 1.9% (H1 2016: (2.7)%, 2016: 9.3%). On a constant currency basis revenue would have fallen 8.2% to £47.9m and operating profit would have been £0.5m.

The period saw significant development on the F-35 program, with production commencing on both Low Rate Initial Production ("LRIP") 6 of the F-35 operational flares and the initial contract for the F-35 training flares. Additionally the programme for qualification of Australia as second source for F-35 countermeasures was successfully completed. Commercial action for supply of F-35 operational and training flares from Australia is ongoing.

In the US, the planned consolidation of the two plants in Philadelphia was delayed due to urgent US requirements for countermeasures. Although resulting in slightly increased revenue, this led to the continuation of a sub-optimal cost base and lower than expected returns. Plant 2 was closed shortly after the half year and we are currently finalising the consolidation and modernisation of Plant 1. The restructuring cost of the consolidation charged in H1 2017 was £1.8m.

Opportunities and outlook

The key strategic focus within the Countermeasures segment remains the Group's position on the F-35 programme. Further progress has been made with the solicitation for LRIP 7 having been received, and the customer finalising requirements for Special Materials Decoys for the F-35. Chemring Australia has now completed all actions necessary for second source qualification on the F-35 programme.

Launch of a new Special Material Decoy has been well received, with initial orders received. Additionally, with the US forces installing BOL countermeasures dispensers on selected platforms, the Group's sole source position on BOL infra-red and chaff countermeasures positions us well.

Countermeasures' order book at 30 April 2017 was £171.5m (H1 2016: £171.5m, October 2016: £177.0m). The decline is as a result of the appreciation of Sterling against the US dollar and at constant currency the order book is 2% higher than at 31 October 2016.

Segmental Review - Sensors

Markets

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

Performance

Revenue for Sensors decreased by 19.7% to £40.3m (H1 2016: £50.2m, 2016: £96.9m) and underlying operating profit decreased to £4.5m (H1 2016: £5.7m, 2016: £11.4m), an underlying operating margin of 11.2% (H1 2016: 11.4%, 2016: 11.8%). The main driver of the decrease was the Sensors business in the US which is currently focused on the research and development phase of the biological and chemical detection Programs of Record. On a constant currency basis revenue would have fallen 23.3% to £38.5m and operating profit would have fallen 17.5% to £4.7m.

The US Department of Defense's ("US DoD") approach to counter-IED through the Husky Mounted Detection System ("HMDS") programme has changed to one of spiral development, with concurrent development, trialling, and manufacturing being undertaken. During the period orders were received for four separate capability requirements, including incorporation and trialling of wire detection, development of advanced radar, and manufacturability studies. In addition to these trials and development efforts, FMS orders were received for 3d-Radar based HMDS systems to be delivered in H2. Initially for nine systems, there are opportunities to secure further orders under the FMS IDIQ contracting mechanism.

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

Opportunities and outlook

In chemical and biological detection, the Group has continued to focus activity on the long-term US DoD Programs of Record. Chemring has progressed to the prototype phase on the Next Generation Chemical Detector ("NGCD") programme. Competitive solicitations to move to the Engineering and Manufacturing Development and Production phases on two of the three variants are expected shortly. Funded development of Chemring's sole source position on the Joint Biological Tactical Detection System ("JBTDS") programme is continuing. Government testing of product is expected to commence in the second half of this year.

The order book for Sensors at 30 April 2017 increased since the year end to £57.5m (H1 2016: £91.5m, October 2016: £49.3m). While the Roke business remains a short cycle order book business, the products businesses have orders of £22.8m for delivery in the second half of the year.

In the first quarter of the period the US Sensors business was restructured with three sites being consolidated into two and the appointment of a new senior management team. A non-cash charge of £5.1m has been recorded as a result of this restructuring.

Segmental Review - Energetics

Markets

Within Energetics, we are seeing increased demand for our products, driven in part by increased level of operations in certain areas of the world and in part by restocking reduced inventory levels. The high specification energetic devices businesses are also growing as our customers recognise our niche technological capabilities in this area.

Performance

Revenue for Energetics increased by 100.6% to £155.9m (H1 2016: £77.7m, 2016: £241.9m), while underlying operating profit increased by 460% to £16.8m (H1 2016: £3.0m, 2016: £31.7m). The underlying operating margin was 10.8% (H1 2016: 3.9%, 2016: 13.1%), reflecting a sales mix biased towards externally sourced production in the first half of 2017. On a constant currency basis revenue would have risen 78.9% to £139.0m and operating profit would have risen 390.0% to £14.7m.

The major contributor to improved performance in the segment was our large 40mm ammunition contract which contributed £44.3m (H1 2016: £6.4m, 2016: £44.5m) to revenue in the half. The letter of credit associated with this contract was extended in April to cover deliveries in the current quarter, however it needs to be further funded to cover planned shipments for the remainder of FY 2017 and early FY 2018. Confirmation of this further funding is expected shortly. In addition, the Group is working on securing funding for two new Middle East 40mm ammunition contracts from a different customer. These are expected to be finalised during the second half.

Increased sales of procured non-standard ammunition ("NSA") product was another key driver of growth in this segment. Due to the externally sourced nature of the products involved, margins on non-standard ammunition sales are typically lower than for manufactured product. Supply of NSA products to the US Government contributed £43.5m (H1 2016: £20.5m, 2016: £62.2m) to revenue in the first half.

Aside from these large contracts, segmental revenue grew by 34.1% reflecting the valued niche technology and capability demonstrated in the energetic devices field. At our devices and propellant facility in Scotland, award of three multi-year contracts for supply of Metron actuators and propellant into the fire suppression, commercial aerospace and marine safety markets, combined with our long term supply agreements with the UK MOD and Martin Baker will see annual revenues from long term contracts near £20m, or 60% of historical revenue levels. Notably our high explosive manufacturing business in Norway has achieved record order intake levels with significant effort being undertaken to enhance capacity.

Opportunities and outlook

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 anticipated to have a total cost of approximately £6m by the time of completion, of which £5m is expected to be a cash cost. The site rationalisation is expected to deliver approximately £4m in annual savings from FY 2019.

Significant new opportunities are developing for our US ordnance business. These include further significant export requirements for 40mm ammunition, and domestic and international requirements for APOBS minefield breaching systems. Development and qualification activity on 57mm naval ammunition continues and positions us to bid for production contracts in 2019.

The order book for Energetics at 30 April 2017 was £327.2m (H1 2016: £328.3m, October 2016: £366.6m), and included £42.0m in respect of the 40mm ammunition contract and £121.3m in respect of NSA. The decrease since 31 October 2016 was attributable to both stronger Sterling and deliveries against the 40mm and NSA contracts.

Finance expenses

Net underlying interest costs were £4.3m (H1 2016: £6.1m, 2016: £10.9m), amortisation of debt finance costs was £1.2m (H1 2016: £1.3m, 2016: £2.8m) and other non-cash finance expenses associated with the defined benefit pension scheme were £0.4m (H1 2016: £0.4m, 2016: £0.8m).

Tax

The continuing statutory tax credit totalled £3.4m (H1 2016: £3.9m, 2016: £1.5m charge) on a continuing statutory loss before tax of £6.8m (H1 2016: £16.8m, 2016: £8.0m profit). The continuing effective statutory tax rate for the period is a credit of 50.0% (H1 2016: 23.2% credit, 2016: 18.8% charge). The increase in the continuing effective rate of tax on the results of the Group is primarily due to the geographic mix of profits, changes to the amounts of deferred tax assets considered recoverable in respect of both tax losses and US interest limitations, prior year adjustments and the recent reduction in UK corporation tax rates.

The continuing underlying effective tax rate, where the tax charge and the profit before taxation are adjusted for non-underlying items and the amortisation of acquired intangibles, is 21.2% (H1 2016: 22.5%, 2016: 20.9%).

Earnings per share

Underlying earnings per share were 3.2p (H1 2016: 1.3p loss, 2016: 10.3p) and diluted underlying earnings per share were 3.1p (H1 2016: 1.3p loss, 2016: 10.1p earnings).

Net debt and cash flow

Net debt at 30 April 2017 was £111.7m (H1 2016: £114.4m, 2016: £87.6m).

Operating activities absorbed cash of £7.9m (H1 2016: generated £7.4m, 2016: generated £81.4m), reflecting the investment made in working capital associated with fulfilling contracts in the Energetics segment, together with the normal seasonality of the rest of the Group's business, offset by the collection of year end receivables which were at a high level due to strong final quarter trading. In addition, the Group has returned its supplier payment practices to normal industry standards. This has resulted in a one off investment in working capital in the period of £20m. Improved relationships with suppliers is expected to assist the Group in improving future operational performance.

On 21 November 2016, the Group repaid $36.0m of outstanding loan notes out of existing cash resources and debt facilities. The remaining loan notes are repayable in November 2017 (£5.3m and $61.2m) and November 2019 ($83.6m).

Debt facilities

The Group's principal debt facilities comprise £117.2m of private placement loan notes and a £100.0m revolving credit facility. The revolving credit facility was established in July 2014, is with a syndicate of three banks and had a four-year initial term. On 27 April 2017 this was extended by one year to July 2019. The Group had £105.0m (H1 2016: £78.5m, 2016: £108.0m) of undrawn borrowing facilities at the half year.

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

Dividends

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

The Board has also declared an interim dividend in respect of 2017 of 1.0p per ordinary share, which will be paid on 15 September 2017 to shareholders on the register on 1 September 2017.

In accordance with accounting standards neither of these dividends has been recorded as a liability as at 30 April 2017.

Outlook

Approximately 85% of expected H2 revenue is in order book. Except for the requirement to extend the funding on the letter of credit for the 40mm ammunition contract, the bulk of orders awaited being small routine orders for products or services, with no other significant contracts required to be finalised for full year delivery. This, combined with improved operational delivery and improvements being made under the Operational Excellence Programme, gives the Board confidence in the Group's future outlook.

The Board's expectations for FY 2017 remain unchanged.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

Responsibility statement

We confirm that to the best of our knowledge:

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

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

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

By order of the Board

Michael Flowers	**Andrew Lewis**
Group Chief Executive	**Group Finance Director**
22 June 2017	**22 June 2017**

CONDENSED CONSOLIDATED INCOME STATEMENT
for the half year to 30 April 2017

	Note	Underlying performance* £m	Non-underlying items* £m	**Unaudited Half year to 30 April 2017** Total £m	Underlying performance* £m	Non-underlying items* £m	Unaudited Half year to 30 April 2016 Total £m
Continuing operations							
Revenue		**249.6**	**-**	**249.6**	180.1	-	180.1
Operating profit/(loss)		**17.2**	**(18.1)**	**(0.9)**	3.8	(9.1)	(5.3)
Finance expense		**(5.9)**	**-**	**(5.9)**	(7.8)	(3.7)	(11.5)
Profit/(loss) before tax		**11.3**	**(18.1)**	**(6.8)**	(4.0)	(12.8)	(16.8)
Tax (charge)/credit on profit/(loss)	4	**(2.4)**	**5.8**	**3.4**	0.9	3.0	3.9
Profit/(loss) after tax		**8.9**	**(12.3)**	**(3.4)**	(3.1)	(9.8)	(12.9)
Discontinued operations							
Profit after tax from discontinued operations	2,9	**-**	**1.2**	**1.2**	-	1.8	1.8
Profit/(loss) after tax for the period		**8.9**	**(11.1)**	**(2.2)**	(3.1)	(8.0)	(11.1)

		Underlying performance*	Non-underlying items*	**Unaudited Half year to 30 April 2017** Total	Underlying performance*	Non-underlying items*	Unaudited Half year to 30 April 2016 Total
Earnings/(loss) per ordinary share							
Continuing operations							
Basic	5	**3.2p**	**(4.4)p**	**(1.2)p**	(1.3)p	(4.0)p	(5.3)p
Diluted	5	**3.1p**	**(4.3)p**	**(1.2)p**	(1.3)p	(4.0)p	(5.3)p
Continuing operations and discontinued operations							
Basic	5	**3.2p**	**(4.0)p**	**(0.8)p**	(1.3)p	(3.3)p	(4.6)p
Diluted	5	**3.1p**	**(3.9)p**	**(0.8)p**	(1.3)p	(3.3)p	(4.6)p

* Further information about non-underlying items is set out in note 2.

CONDENSED CONSOLIDATED INCOME STATEMENT (continued)
for the half year to 30 April 2017

	Note	Underlying performance* £m	Non-underlying items* £m	Audited Year to 31 Oct 2016 Total £m
Continuing operations				
Revenue		477.1	-	477.1
Operating profit/(loss)		48.5	(22.3)	26.2
Finance expense		(14.5)	(3.7)	(18.2)
Profit/(loss) before tax		34.0	(26.0)	8.0
Tax (charge)/credit on profit/(loss)	4	(7.1)	5.6	(1.5)
Profit/(loss) after tax		26.9	(20.4)	6.5
Discontinued operations				
Profit after tax from discontinued operations	2,9	-	4.6	4.6
Profit/(loss) after tax for the year		26.9	(15.8)	11.1

	Note	Underlying performance* £m	Non-underlying items* £m	Audited Year to 31 Oct 2016 Total £m
Earnings/(loss) per ordinary share				
Continuing operations				
Basic	5	10.3p	(7.8)p	2.5p
Diluted	5	10.1p	(7.7)p	2.4p
Continuing operations and discontinued operations				
Basic	5	10.3p	(6.1)p	4.2p
Diluted	5	10.1p	(5.9)p	4.2p

* Further information about non-underlying items is set out in note 2.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the half year to 30 April 2017

	Unaudited Half year to 30 April 2017 £m	Unaudited Half year to 30 April 2016 £m	Audited Year to 31 Oct 2016 £m
(Loss)/profit after tax attributable to equity holders of the parent	**(2.2)**	(11.1)	11.1
Items that will not be reclassified subsequently to profit or loss			
Actuarial gains/(losses) on defined benefit pension schemes	**3.8**	(1.9)	(3.8)
Movement on deferred tax relating to pension schemes	-	-	0.8
	3.8	(1.9)	(3.0)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	**(8.6)**	6.4	33.0
Current tax on items taken directly to equity	**-**	-	0.8
Deferred tax on exchange differences on translation of foreign operations	**-**	-	4.7
	(8.6)	6.4	38.5
Total comprehensive (loss)/profit attributable to equity holders of the parent	**(7.0)**	(6.6)	46.6

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the half year to 30 April 2017

	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2016	2.8	305.1	12.9	1.1	(20.7)	121.8	(9.6)	413.4
Impact of adoption of IFRS 15 (note 18)	-	-	-	-	-	(10.2)	-	(10.2)
Loss after tax	-	-	-	-	-	(2.2)	-	(2.2)
Other comprehensive loss	-	-	-	-	(1.7)	(3.1)	-	(4.8)
Total comprehensive loss	-	-	-	-	(1.7)	(5.3)	-	(7.0)
Share-based payments (net of settlement)	-	-	-	-	-	0.5	-	0.5
At 30 April 2017	**2.8**	**305.1**	**12.9**	**1.1**	**(22.4)**	**106.8**	**(9.6)**	**396.7**

	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
At 30 April 2016	2.8	305.1	12.9	1.2	(32.9)	80.7	(9.6)	360.2

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

CONDENSED CONSOLIDATED BALANCE SHEET

as at 30 April 2017

	Note	**Unaudited As at 30 April 2017 £m**	Unaudited As at 30 April 2016 £m	Audited As at 31 Oct 2016 £m
Non-current assets				
Goodwill		**130.2**	123.6	132.9
Development costs		**36.6**	36.5	40.9
Other intangible assets		**65.7**	71.0	77.1
Property, plant and equipment		**169.7**	168.7	179.9
Deferred tax		**59.5**	48.9	59.6
	2	**461.7**	448.7	490.4
Current assets				
Inventories		**113.3**	111.8	104.8
Trade and other receivables		**128.7**	85.7	114.2
Cash and cash equivalents	7,14	**5.0**	10.5	63.1
Derivative financial instruments		**0.6**	0.8	0.5
		247.6	208.8	282.6
Total assets		**709.3**	657.5	773.0
Current liabilities				
Borrowings	7,14	**(53.0)**	(24.2)	(29.5)
Obligations under finance leases		**(0.1)**	(0.2)	(0.1)
Trade and other payables		**(112.3)**	(85.1)	(107.3)
Provisions		**(8.9)**	(5.0)	(4.5)
Current tax		**-**	(5.3)	(3.1)
Derivative financial instruments	8	**(0.4)**	(2.1)	(2.5)
		(174.7)	(121.9)	(147.0)
Non-current liabilities				
Borrowings	7,14	**(63.5)**	(100.4)	(121.0)
Trade and other payables		**(3.2)**	(3.5)	(4.0)
Provisions		**(8.4)**	(10.4)	(11.7)
Deferred tax		**(51.4)**	(43.6)	(58.5)
Preference shares		**(0.1)**	(0.1)	(0.1)
Retirement benefit obligations	10	**(11.3)**	(17.4)	(17.3)
		(137.9)	(175.4)	(212.6)
Total liabilities		**(312.6)**	(297.3)	(359.6)
Net assets		**396.7**	360.2	413.4
Equity				
Share capital		**2.8**	2.8	2.8
Share premium account		**305.1**	305.1	305.1
Special capital reserve		**12.9**	12.9	12.9
Revaluation reserve		**1.1**	1.2	1.1
Translation reserve		**(22.4)**	(32.9)	(20.7)
Retained earnings		**106.8**	80.7	121.8
		406.3	369.8	423.0
Own shares		**(9.6)**	(9.6)	(9.6)
Total equity		**396.7**	360.2	413.4

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the half year to 30 April 2017

	Note	**Unaudited Half year to 30 April 2017 £m**	Unaudited Half year to 30 April 2016 £m	Audited Year to 31 Oct 2016 £m
Cash flows from operating activities				
Cash (used in)/generated from underlying operations	12	**(7.9)**	7.4	81.4
Cash impact of non-underlying items		**(2.4)**	(7.0)	(7.8)
Acquisition and disposal related costs		**(0.4)**	(0.2)	(0.3)
		(10.7)	0.2	73.3
Retirement benefit deficit recovery contributions		**(2.5)**	(2.5)	(5.0)
Tax paid		**(3.3)**	(2.5)	(3.1)
Net cash (outflow)/inflow from operating activities		**(16.5)**	(4.8)	65.2
Cash flows from investing activities				
Purchases of intangible assets		**(2.1)**	(2.8)	(6.7)
Purchases of property, plant and equipment		**(6.1)**	(4.5)	(10.3)
Acquisition of subsidiary undertaking, net of cash acquired		**-**	-	(2.5)
Proceeds on disposal of property, plant and equipment		**-**	-	0.1
Net cash outflow from investing activities		**(8.2)**	(7.3)	(19.4)
Cash flows from financing activities				
Net proceeds of share issue		**-**	76.0	75.4
Finance expense paid		**(5.2)**	(7.0)	(11.9)
Accelerated interest costs		**-**	(3.7)	(3.7)
Loan note repayment costs		**-**	(0.8)	(1.4)
Capitalised facility fees paid		**(0.2)**	(0.3)	(0.5)
Repayments of borrowings		**(27.7)**	(48.8)	(48.8)
Repayments of finance leases		**-**	(0.3)	(0.3)
Net cash (outflow)/inflow from financing activities		**(33.1)**	15.1	8.8
(Decrease)/increase in cash and cash equivalents		**(57.8)**	3.0	54.6
Cash and cash equivalents at beginning of period/year		**63.1**	7.6	7.6
Effect of foreign exchange rate changes		**(0.3)**	(0.1)	0.9
Cash and cash equivalents at end of period/year		**5.0**	10.5	63.1

NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of preparation
The condensed consolidated financial information for each of the six month periods does not constitute statutory accounts as defined by section 435 of the Companies Act 2006 and have not been delivered to the Registrar of Companies. The half-yearly financial report was approved by the Board of Directors on 22 June 2017. The information for the year ended 31 October 2016 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. Full accounts for the year ended 31 October 2016, 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 2016, except for the adoption of IFRS15 as disclosed in note 18.

Recent accounting developments
The following standards, amendments and interpretations have been issued by the International Accounting Standards Board (IASB) or by the IFRS IC.

The Group's approach to these is as follows:

i) Standards, amendments and interpretations effective in H1 2017:

- IFRS 10 *Consolidated Financial Statements* Amendments regarding the application of the consolidation exemption (effective periods beginning on or after 1 January 2016)
- IAS 1 *Presentation of Financial Statements* Amendments resulting from the disclosure initiative (effective periods beginning on or after 1 January 2016)
- IAS 16 *Property, Plant and Equipment* Amendments regarding the clarification of acceptable methods of depreciation and amortisation (effective periods beginning on or after 1 January 2016)
- IAS 27 *Separate Financial Statements* Amendments reinstating the equity method as an accounting option for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements (effective periods beginning on or after 1 January 2016)
- IAS 38 *Intangible Assets* Amendments regarding the clarification of acceptable methods of depreciation and amortisation (effective periods beginning on or after 1 January 2016)
- Amendments resulting from Annual Improvements Cycle 2012 - 2014 (effective periods beginning on or after 1 January 2016).

ii) Standards, amendments and interpretations to existing standards issued but not yet effective in H1 2017 and not adopted early:

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 November 2016, have not been adopted early and are not expected to have a material impact on the Group financial statements:

- IFRS 2 *Share-based payments* Amendments to clarify the classification and measurement of share-based payment transactions (effective periods beginning on or after 1 January 2018)
- IFRS 9 *Financial instruments* (effective periods beginning on or after 1 January 2018)
- IFRS 16 *Leases* (effective periods beginning on or after 1 January 2019)
- IAS 7 *Statement of Cash Flows* Amendments as result of the Disclosure initiative (effective periods beginning on or after 1 January 2017)
- IAS 39 *Financial instruments: Recognition and Measurement* Amendments (effective when IFRS 9 is applied)
- Amendments resulting from Annual Improvements 2014 – 2016 Cycle (effective periods beginning on or after 1 January 2018)
- IAS 12 *Recognition of Deferred tax assets for unrealised losses* (effective periods beginning on or after 1 January 2017).

iii) Standards, amendments and interpretations to existing standards issued but not yet effective in H1 2017, but adopted early:

- IFRS 15 *Revenue from Contracts with Customers* (effective periods beginning on or after 1 January 2018 with early adoption permitted) – early adopted in period ended 30 April 2017

2. 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 and Energetics. 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 2017 £m	Unaudited Half year to 30 April 2016 £m	Audited Year to 31 Oct 2016 £m
Revenue			
Countermeasures	**53.4**	52.2	138.3
Sensors	**40.3**	50.2	96.9
Energetics	**155.9**	77.7	241.9
Total	**249.6**	180.1	477.1

	Unaudited Half year to 30 April 2017 £m	Unaudited Half year to 30 April 2016 £m	Audited Year to 31 Oct 2016 £m
Underlying operating profit/(loss)			
Countermeasures	**1.0**	(1.4)	12.8
Sensors	**4.5**	5.7	11.4
Energetics	**16.8**	3.0	31.7
Unallocated corporate costs	**(5.1)**	(3.5)	(7.4)
Total	**17.2**	3.8	48.5

The finance expense of £5.9m (H1 2016: £7.8m, 2016: £14.5m) is the only item to be deducted to arrive at profit before tax and is all attributable to corporate costs.

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

Period to 30 April 2017

	Countermeasures £m	Sensors £m	Energetics £m	Unallocated £m	Total £m
Claim related costs	-	-	-	(0.2)	(0.2)
Business restructuring and incident costs	(1.8)	(5.1)	(4.2)	-	(11.1)
Intangible amortisation arising from business combinations	(0.2)	(3.6)	(3.9)	-	(7.7)
Gain on the movement in the fair value of derivative financial instruments	-	-	1.2	(0.3)	0.9
Continuing operations	**(2.0)**	**(8.7)**	**(6.9)**	**(0.5)**	**(18.1)**

Unallocated items in the period to 30 April 2017 include £nil (H1 2016: £1.5m, 2016: £1.4m) of costs associated with the repayment of loan notes and covenant amendments.

In the period to 30 April 2017, restructuring and incident costs were £11.1m (H1 2016: £0.6m, 2016: £5.4m) and included £1.8m relating to the restructuring of US Countermeasures, £4.2m relating to the restructuring of US Energetics and £5.1m relating to the restructuring of US Sensors.

In addition to the amounts detailed above, there was a non-underlying finance expense of £nil (H1 2016: £3.7m, 2016: £3.7m) in respect of accelerated interest due on early repayment of loan notes.

Period to 30 April 2016

	Countermeasures £m	Sensors £m	Energetics £m	Unallocated £m	Total £m
Acquisition costs	-	-	-	(0.2)	(0.2)
Claim related credit	0.2	-	-	-	0.2
Business restructuring and incident costs	(0.5)	-	(0.2)	0.1	(0.6)
Intangible amortisation arising from business combinations	-	(3.3)	(3.4)	-	(6.7)
Loan note repayments	-	-	-	(1.5)	(1.5)
Loss on the movement in the fair value of derivative financial instruments	-	-	-	(0.3)	(0.3)
Continuing operations	(0.3)	(3.3)	(3.6)	(1.9)	(9.1)

In the period to 30 April 2016, business restructuring and incident costs were associated with the restructuring of Kilgore. There was a claim related credit of £0.2m relating to the final settlement of the claim brought by the US Department of Justice relating to historical supplies of product by Kilgore. This claim is being settled in cash over a five year period commencing 2016.

Year ended 31 October 2016

	Countermeasures £m	Sensors £m	Energetics £m	Unallocated £m	Total £m
Acquisition costs	-	-	-	(0.3)	(0.3)
Claim related credit	0.6	-	-	-	0.6
Business restructuring and incident costs	(1.5)	(0.8)	(3.3)	0.2	(5.4)
Intangible amortisation arising from business combinations	(0.2)	(7.1)	(7.5)	-	(14.8)
Loan note repayments	-	-	-	(1.4)	(1.4)
Loss on the movement in the fair value of derivative financial instruments	-	-	-	(1.0)	(1.0)
Continuing operations	(1.1)	(7.9)	(10.8)	(2.5)	(22.3)

In the year to 31 October 2016, business restructuring and incident costs principally comprised of restructuring costs in relation to Chemring Defence UK and across the US businesses, partly offset by insurance proceeds in relation to a property damage claim following an earlier energetic incident.

In the year to 31 October 2016, the claim related credit of £0.6m related to the final settlement of the claim brought by the US Department of Justice relating to historical supplies of product by Kilgore. This claim is being settled in cash over a five year period commencing 2016.

Non-current assets by location

Assets and liabilities by segment are not reported to the Group Chief Executive on a monthly basis, therefore are not used as a key decision making tool and are not disclosed here. A disclosure of non-current assets by location is shown below:

	Unaudited As at 30 April 2017 £m	Unaudited As at 30 April 2016 £m	Audited As at 31 Oct 2016 £m
Non-current assets by location			
UK	**234.6**	240.3	249.1
USA	**198.0**	180.7	209.1
Europe	**4.8**	4.4	5.4
Australia	**24.3**	23.3	26.8
	461.7	448.7	490.4

3. 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.

4. TAX

The effective tax rate on underlying profit before tax for the period is a charge of 21.2% (H1 2016: 22.5%, 2016: 20.9%) and is based on the estimated effective tax rate on underlying profit before tax for the full year. The tax credit on total non-underlying items for the period results in an effective tax rate of 32.0% (H1 2016: 23.4%, 2016: 21.5%). The tax rate on the statutory loss before tax is a credit of 50.0% (H1 2016: 23.2%, 2016: 18.8%).

5. EARNINGS PER SHARE

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

Earnings per share are based on the average number of shares in issue, excluding own shares held, 279,229,427 (H1 2016: 241,914,294, 2016: 261,386,484) and the loss on continuing operations after tax of £3.4m (H1 2016: £12.9m loss, 2016: £6.5m profit). Diluted earnings per share has been calculated using a diluted average number of shares in issue, excluding own shares held, of 285,517,552 (H1 2016: 241,914,294, 2016: 266,191,422) and the loss on continuing operations after tax of £3.4m (H1 2016: £12.9m loss, 2016: £6.5m profit).

No dilution has been recognised for the purposes of basic earnings per share from continuing operations in April 2017 and April 2016 due to there being a loss per share for the period to 30 April 2017 and for the period to 30 April 2016. Dilution has, however, been recognised in the calculation of basic earnings per share for the year to 31 October 2016 using a diluted average number of shares in issue, excluding own shares held, of 266,191,422.

In addition, no dilution has been recognised for the purposes of underlying earnings per share for the period to 30 April 2016 due to there being a loss per share for that period. Dilution has, however, been recognised in the calculation of underlying earnings per share for the period to 30 April 2017 and year to 31 October 2016, using a diluted average number of shares in issue, excluding own shares held, of 285,517,552 (2016: 266,191,422).

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

	Unaudited Half year to 30 April 2017 Number 000s	Unaudited Half year to 30 April 2016 Number 000s	Audited Year to 31 Oct 2016 Number 000s
Average number of shares in issue before adjustment to reflect bonus element of rights issue	**279,229**	214,537	261,386
Impact of bonus element of the rights issue	**-**	27,377	-
Weighted average number of shares used to calculate basic and diluted loss per share	**279,229**	241,914	261,386
Additional shares issuable other than at fair value in respect of options outstanding	**6,289**	-	4,805
Weighted average number of shares used to calculate diluted underlying earnings/(loss) per share	**285,518**	241,914	266,191

Continuing operations

	Unaudited Half year to 30 April 2017		Unaudited Half year to 30 April 2016		Audited Year to 31 Oct 2016	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m	Basic £m	Diluted £m
Underlying profit/(loss) after tax	**8.9**	**8.9**	(3.1)	(3.1)	26.9	26.9
Non-underlying items	**(12.3)**	**(12.3)**	(9.8)	(9.8)	(20.4)	(20.4)
Total (loss)/profit after tax	**(3.4)**	**(3.4)**	(12.9)	(12.9)	6.5	6.5
	Basic Pence	**Diluted Pence**	Basic Pence	Diluted Pence	Basic Pence	Diluted Pence
(Loss)/earnings per share	**(1.2)**	**(1.2)**	(5.3)	(5.3)	2.5	2.4
Underlying earnings/(loss) per share	**3.2**	**3.1**	(1.3)	(1.3)	10.3	10.1

Continuing and discontinued operations

	Unaudited Half year to 30 April 2017		Unaudited Half year to 30 April 2016		Audited Year to 31 Oct 2016	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m	Basic £m	Diluted £m
Underlying profit/(loss) after tax	**8.9**	**8.9**	(3.1)	(3.1)	26.9	26.9
Non-underlying items	**(11.1)**	**(11.1)**	(8.0)	(8.0)	(15.8)	(15.8)
Total (loss)/profit after tax	**(2.2)**	**(2.2)**	(11.1)	(11.1)	11.1	11.1
	Basic Pence	**Diluted Pence**	Basic Pence	Diluted Pence	Basic Pence	Diluted Pence
(Loss)/earnings per share	**(0.8)**	**(0.8)**	(4.6)	(4.6)	4.2	4.2
Underlying earnings/(loss) per share	**3.2**	**3.1**	(1.3)	(1.3)	10.3	10.1

6. DIVIDENDS

No dividends were paid in the period.

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

The Board has also declared an interim dividend in respect of 2017 of 1.0p per ordinary share which will be paid on 15 September 2017 to shareholders on the register on 1 September 2017.

In accordance with accounting standards neither of these dividends has been recorded as a liability as at 30 April 2017.

7. CASH AND CASH EQUIVALENTS

The Group has a £100m, initial four year term revolving credit facility with a syndicate of three banks expiring in July 2018. On 27 April 2017 this facility was extended by one year to July 2019.

8. FINANCIAL INSTRUMENTS

As at 30 April 2017, 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 2017, the total fair value of forward foreign exchange contracts recognised in the condensed consolidated balance sheet were an asset of £0.6m (H1 2016: £0.8m, 2016: £0.5m) and a liability of £0.4m (H1 2016: £2.1m, 2016: £2.5m).

9. DISCONTINUED OPERATIONS

In the period to 30 April 2017 there was a non-underlying credit of £1.3m (H1 2016: £2.0m, 2016: £4.7m) resulting from the retranslation of provisions established on the disposal of businesses in prior years and the expiry of certain tax liabilities, with an associated non-underlying tax charge of £0.1m (H1 2016: £0.2m, 2016: £0.1m).

10. RETIREMENT BENEFIT OBLIGATIONS

The defined benefit obligations are calculated using an actuarial valuation as at 30 April 2017. In the period to 30 April 2017, retirement benefit obligations decreased to £11.3m (H1 2016: £17.4m, 2016: £17.3m), principally as a result of employer contributions paid in accordance with the funding plan agreed with the trustees of the Chemring Group Staff Pension Scheme in 2015 and actuarial gains in the period, primarily arising from higher than expected returns on assets.

11. RELATED PARTY TRANSACTIONS

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

12. CASH FLOWS FROM OPERATING ACTIVITIES

	Unaudited Half year to 30 April 2017 £m	Unaudited Half year to 30 April 2016 £m	Audited Year to 31 Oct 2016 £m
Operating (loss)/profit from continuing operations	**(0.9)**	(5.3)	26.2
Operating profit from discontinued operations	**1.3**	2.0	4.7
	0.4	(3.3)	30.9
Amortisation of development costs	**3.4**	3.5	6.8
Amortisation of intangible assets arising from business combinations	**7.7**	6.7	14.8
Amortisation of patents and licenses	**0.1**	0.1	0.1
Loss on disposal of non-current assets	**-**	0.1	0.2
Depreciation of property, plant and equipment	**9.3**	8.9	18.4
(Gain)/loss on the fair value of derivative financial instruments	**(0.9)**	0.3	1.0
Share-based payment expense	**0.6**	1.2	1.0
Operating cash flows before movements in working capital	**20.6**	17.5	73.2
(Increase)/decrease in inventories	**(16.0)**	(10.7)	13.6
(Increase)/decrease in trade and other receivables	**(19.0)**	6.6	(5.8)
Decrease in trade and other payables	**(3.4)**	(2.1)	(1.1)
Decrease in provisions	**(0.1)**	(4.0)	(0.3)
	(17.9)	7.3	79.6
Add back non-underlying items:			
Acquisition and disposal related credit	**(1.3)**	(1.8)	(4.4)
Business restructuring and incident costs	**11.1**	0.6	5.4
Claim related costs/(credit)	**0.2**	(0.2)	(0.6)
Loan note repayment and covenant amendment fees	**-**	1.5	1.4
Cash flows from operating activities	**(7.9)**	7.4	81.4

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

	Unaudited Half year to 30 April 2017 £m	Unaudited Half year to 30 April 2016 £m	Audited Year to 31 Oct 2016 £m
(Decrease)/increase in cash and cash equivalents	**(57.8)**	3.0	54.6
Decrease in debt and lease financing due to cash flows	**27.9**	49.4	49.6
(Increase)/decrease in net debt resulting from cash flows	**(29.9)**	52.4	104.2
Effect of foreign exchange rate changes	**7.0**	(11.1)	(34.7)
Amortisation of debt finance costs	**(1.2)**	(1.4)	(2.8)
Movement in net debt	**(24.1)**	39.9	66.7
Net debt at beginning of the period	**(87.6)**	(154.3)	(154.3)
Net debt at end of the period	**(111.7)**	(114.4)	(87.6)

14. ANALYSIS OF NET DEBT

	As at 1 Nov 2016 £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	**As at 30 April 2017 £m**
Cash at bank and in hand	63.1	(57.8)	-	(0.3)	**5.0**
Debt due within one year	(29.5)	27.7	(54.6)	3.4	**(53.0)**
Debt due after one year	(121.0)	0.2	53.4	3.9	**(63.5)**
Finance leases	(0.1)	-	-	-	**(0.1)**
Preference shares	(0.1)	-	-	-	**(0.1)**
	(87.6)	(29.9)	(1.2)	7.0	**(111.7)**

15. EXCHANGE RATES

The following exchange rates applied during the year:

	Average rate H1 2017	**Closing rate H1 2017**	Average rate H1 2016	Closing rate H1 2016	Average rate 2016	Closing rate 2016
AU Dollar	**1.66**	**1.73**	1.97	1.92	1.81	1.60
US Dollar	**1.26**	**1.29**	1.45	1.47	1.28	1.22

The translation of foreign currency items in the financial statements are dependent on the prevailing foreign exchange rates. For the period ended 30 April 2017, a 5 cent decrease in the US dollar exchange rate would have increased reported underlying operating profit by approximately £1.2m and increased reported net debt by approximately £4.2m.

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.

A dispute between Alloy Surfaces Company, Inc. and the US Army, in relation to disputed pricing of a certain historic contract fulfilled by Alloy Surfaces Company, Inc., proceeded to a hearing in front of the US Armed Services Board of Contract Appeals (“ASBCA”) in April 2017. ASBCA is expected to take approximately two years to issue its decision in relation to this matter.

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 £2.6m (H1 2016: £3.4m, 2016: £3.1m) exists to cover estimated legal costs for the Group with regards to pending and probable legal actions.

17. EVENTS AFTER THE BALANCE SHEET DATE

There are no material post balance sheet events.

18. ADOPTION OF IFRS 15

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

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

The impact of adoption in the period to 30 April 2017 can be seen below and arises from revenue recognised in prior periods which would instead have been deferred to the current period under IFRS 15.

	Pre IFRS 15 £m	IFRS 15 adjustment £m	As reported £m
Continuing operations			
Revenue	**235.3**	**14.3**	**249.6**
Operating profit	**13.1**	**4.1**	**17.2**
Finance expense	**(5.9)**	**-**	**(5.9)**
Profit before tax	**7.2**	**4.1**	**11.3**
Tax charge	**(1.5)**	**(0.9)**	**(2.4)**
Profit after tax	**5.7**	**3.2**	**8.9**

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

The adoption of IFRS 15 had the effect of increasing operating profit by £0.7m in Countermeasures, increasing revenue by £1.0m and operating profit by £0.5m in Sensors and increasing revenue by £13.3m and operating profit by £2.9m in Energetics.

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

Under IFRS 15 revenue is recognised on the basis of completion of performance obligations. This is typically determined through a consideration of customer acceptance testing, contract terms and delivery arrangements. Typical payment terms may include an initial deposit, with further receipts based on acceptance and delivery in accordance with the contract.

19. 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 2016 Annual Report and Accounts. A detailed description of the Group’s principal risks and uncertainties and the ways they are mitigated can be found on pages 34 to 40 of the 2016 Annual Report and Accounts. These risks can be summarised as:

- health and safety risks;
- environmental laws and regulations;
- possible defence budget cuts;
- timing and value of orders;
- contract-related risks;
- political risks;
- management resource;
- manufacturing risks;
- 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.

20. CORPORATE WEBSITE

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

INDEPENDENT REVIEW REPORT TO CHEMRING GROUP PLC

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 2017, 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 20. 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 2017 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
Statutory Auditors
London, United Kingdom
22 June 2017