

FINANCIAL STATEMENTS

For the year ended 31 October 2016

CONTENTS

PRIMARY STATEMENTS

- 86 Consolidated income statement
- 87 Consolidated statement of comprehensive income
- 88 Consolidated statement of changes in equity
- 89 Consolidated balance sheet
- 90 Consolidated cash flow statement

91 Notes to the financial statements

CHEMRING GROUP PLC FINANCIAL STATEMENTS

- 122 Parent company balance sheet
- 123 Parent company statement of comprehensive income
- 123 Parent company statement of changes in equity
- 124 Notes to the parent company financial statements

ACCOUNTING POLICIES

- 128 Group accounting policies
- 136 Chemring Group PLC accounting policies
- 138 Independent auditor's report

CONSOLIDATED INCOME STATEMENT

For the year ended 31 October 2016

		2016			2015		
	Note	Underlying performance £m	Non-underlying items ¹ £m	Total £m	Underlying performance £m	Non-underlying items ¹ £m	Total £m
Continuing operations							
Revenue	1,2	477.1	–	477.1	377.3	–	377.3
Operating profit/(loss)	2,3	48.5	(22.3)	26.2	34.4	(28.9)	5.5
Finance income	2,5	–	–	–	–	–	–
Finance expense	2,6	(14.5)	(3.7)	(18.2)	(14.6)	–	(14.6)
Profit/(loss) before tax	2	34.0	(26.0)	8.0	19.8	(28.9)	(9.1)
Tax (charge)/credit on profit/(loss)	2,7	(7.1)	5.6	(1.5)	(4.1)	7.9	3.8
Profit/(loss) after tax		26.9	(20.4)	6.5	15.7	(21.0)	(5.3)
Discontinued operations							
Profit after tax from discontinued operations	28	–	4.6	4.6	–	4.9	4.9
Profit/(loss) after tax		26.9	(15.8)	11.1	15.7	(16.1)	(0.4)

		2016			2015 ²		
		Underlying performance	Non-underlying items ¹	Total	Underlying performance	Non-underlying items ¹	Total
Earnings/(loss) per ordinary share ²	Note						
Continuing operations							
Basic	9	10.3p	(7.8)p	2.5p	7.1p	(9.5)p	(2.4)p
Diluted	9	10.1p	(7.7)p	2.4p	7.0p	(9.4)p	(2.4)p
Continuing operations and discontinued operations							
Basic	9	10.3p	(6.1)p	4.2p	7.1p	(7.3)p	(0.2)p
Diluted	9	10.1p	(5.9)p	4.2p	7.0p	(7.2)p	(0.2)p

1 Further information about non-underlying items is set out in notes 2 and 3.

2 Comparative restated for rights issue. See note 9 for further information.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 October 2016

	Note	2016 £m	2015 £m
Profit/(loss) after tax attributable to equity holders of the parent as reported		11.1	(0.4)
Items that will not be reclassified subsequently to profit or loss			
Actuarial losses on defined benefit pension schemes	29	(3.8)	–
Movement on deferred tax relating to pension schemes	22	0.8	–
		(3.0)	–
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		33.0	(2.6)
Current tax on items taken directly to equity		0.8	0.6
Deferred tax on exchange differences on translation of foreign operations	22	4.7	(0.6)
		38.5	(2.6)
Total comprehensive income/(loss) attributable to equity holders of the parent		46.6	(3.0)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 October 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
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
	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)
Tax relating to components of other comprehensive income	–	–	–	–	–	–	–	–
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
At 31 October 2015	2.0	230.7	12.9	1.2	(32.3)	85.7	(9.6)	290.6

CONSOLIDATED BALANCE SHEET

As at 31 October 2016

	Note	2016		2015	
		£m	£m	£m	£m
Non-current assets					
Goodwill	10	132.9		121.2	
Development costs	11	40.9		36.1	
Other intangible assets	11	77.1		74.2	
Property, plant and equipment	12	179.9		168.0	
Deferred tax	22	59.6		47.5	
			490.4		447.0
Current assets					
Inventories	14	104.8		96.2	
Trade and other receivables	15	114.2		93.1	
Cash and cash equivalents	16,32	63.1		7.6	
Derivative financial instruments	20	0.5		0.5	
			282.6		197.4
Total assets			773.0		644.4
Current liabilities					
Borrowings	17,32	(29.5)		–	
Obligations under finance leases	17,18	(0.1)		(0.5)	
Trade and other payables	19	(107.3)		(96.2)	
Provisions	21	(4.5)		(5.1)	
Current tax		(3.1)		(7.9)	
Derivative financial instruments	20	(2.5)		(1.6)	
			(147.0)		(111.3)
Non-current liabilities					
Borrowings	17,32	(121.0)		(161.3)	
Trade and other payables	19	(4.0)		(1.7)	
Provisions	21	(11.7)		(16.3)	
Deferred tax	22	(58.5)		(45.1)	
Preference shares	17,23	(0.1)		(0.1)	
Retirement benefit obligations	29	(17.3)		(17.7)	
Derivative financial instruments	20	–		(0.3)	
			(212.6)		(242.5)
Total liabilities			(359.6)		(353.8)
Net assets			413.4		290.6
Equity					
Share capital	23	2.8		2.0	
Share premium account		305.1		230.7	
Special capital reserve		12.9		12.9	
Revaluation reserve		1.1		1.2	
Translation reserve		(20.7)		(32.3)	
Retained earnings		121.8		85.7	
		423.0		300.2	
Own shares	25	(9.6)		(9.6)	
Equity attributable to equity holders of the parent		413.4		290.6	
Total equity		413.4		290.6	

These financial statements of Chemring Group PLC (registered number 86662) were approved and authorised for issue by the Board of directors on 19 January 2017.

Signed on behalf of the Board

Michael Flowers
Director

Sarah Ellard
Director

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 October 2016

	Note	2016 £m	2015 £m
Cash flows from operating activities			
Cash generated from continuing operations	30	76.4	35.4
Cash generated from discontinued operations		–	–
	30	76.4	35.4
Acquisition and disposal related costs		(0.3)	(0.7)
Business restructuring and incident costs		(2.8)	(7.6)
Claim related costs		(5.0)	(0.1)
		68.3	27.0
Tax paid		(3.1)	(1.3)
Net cash inflow from operating activities		65.2	25.7
Cash flows from investing activities			
Purchases of intangible assets		(6.7)	(8.9)
Purchases of property, plant and equipment		(10.3)	(8.2)
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		(19.4)	(17.1)
Cash flows from financing activities			
Net proceeds of share issue		75.4	–
Dividends paid	8	–	(7.9)
Finance expense paid		(11.9)	(11.8)
Accelerated interest costs		(3.7)	–
Loan note repayment costs		(1.4)	–
Capitalised facility fees paid		(0.5)	(1.8)
Repayments of borrowings		(48.8)	(0.3)
Repayments of obligations under finance leases		(0.3)	(0.9)
Net cash inflow/(outflow) from financing activities		8.8	(22.7)
Increase/(decrease) in cash and cash equivalents		54.6	(14.1)
Cash and cash equivalents at beginning of year		7.6	21.8
Effect of foreign exchange rate changes		0.9	(0.1)
Cash and cash equivalents at end of year	16,32	63.1	7.6

NOTES TO THE GROUP FINANCIAL STATEMENTS

1. Revenue

All of the Group's revenue is derived from the sale of goods, including revenue recognised in respect of contract-accounted arrangements, and the provision of services. The following table provides an analysis of the Group's revenue by destination:

Revenue by destination	2016 £m	2015 £m
Continuing operations		
UK	79.7	63.9
USA	230.1	171.4
Europe	26.2	37.8
Asia Pacific	37.5	49.0
Middle East	101.6	54.0
Rest of the world	2.0	1.2
	477.1	377.3

Revenue from contract accounting for continuing operations within these figures amounted to £9.4 million (2015: £12.8 million).

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

2. Business segments

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. The principal activities of each segment are as follows:

Countermeasures	Development and manufacture of expendable countermeasures for air, sea and land platforms, and land-based electronic warfare equipment.
Sensors & Electronics	Development and manufacture of IED detection equipment, chemical and biological threat detection equipment, IED electronic countermeasures, network protection technologies and explosive ordnance disposal equipment.
Energetic Systems	Development, procurement and manufacture of signals and illumination devices and payloads, cartridge/propellant actuated devices, pyrotechnic devices for satellite launch and deployment, missile and ammunition components, 40mm ammunition, propellants, warheads, fuses, separation sub-systems, actuators and energetic materials.

A segmental analysis of revenue and operating profit is set out below:

Revenue	2016 £m	2015 £m
Continuing operations		
Countermeasures	138.3	125.8
Sensors & Electronics	96.9	99.1
Energetic Systems	241.9	152.4
	477.1	377.3
Underlying operating profit		
Continuing operations		
Countermeasures*	12.8	17.5
Sensors & Electronics	11.4	9.3
Energetic Systems	31.7	15.1
	55.9	41.9
Unallocated corporate costs	(7.4)	(7.5)
	48.5	34.4

*The year ended 31 October 2016 includes £2.8 million of insurance proceeds in relation to a business interruption claim following an earlier energetic incident.

NOTES TO THE GROUP FINANCIAL STATEMENTS

continued

2. Business segments continued

	Continuing Underlying £m	Continuing Total £m	Discontinued Underlying £m	Discontinued Total £m	Total Underlying £m	Total £m
Year ended 31 October 2016						
Underlying operating profit	48.5	48.5	–	–	48.5	48.5
Acquisition (costs) and disposal related credits (note 28)	–	(0.3)	–	4.7	–	4.4
Business restructuring and incident costs	–	(5.4)	–	–	–	(5.4)
Claim related credit	–	0.6	–	–	–	0.6
Intangible amortisation arising from business combinations (note 11)	–	(14.8)	–	–	–	(14.8)
Loan note repayment costs	–	(1.4)	–	–	–	(1.4)
Loss on the movement in the fair value of derivative financial instruments (note 20)	–	(1.0)	–	–	–	(1.0)
Non-underlying items	–	(22.3)	–	4.7	–	(17.6)
Operating profit	48.5	26.2	–	4.7	48.5	30.9
Finance income	–	–	–	–	–	–
Finance expense	(14.5)	(14.5)	–	–	(14.5)	(14.5)
Non-underlying accelerated interest costs	–	(3.7)	–	–	–	(3.7)
Profit before tax	34.0	8.0	–	4.7	34.0	12.7
Tax	(7.1)	(1.5)	–	(0.1)	(7.1)	(1.6)
Profit after tax	26.9	6.5	–	4.6	26.9	11.1

	Continuing Underlying £m	Continuing Total £m	Discontinued Underlying £m	Discontinued Total £m	Total Underlying £m	Total £m
Year ended 31 October 2015						
Underlying operating profit	34.4	34.4	–	–	34.4	34.4
Acquisition (costs) and disposal related credits (note 28)	–	(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 (note 11)	–	(14.0)	–	–	–	(14.0)
Gain on the movement in the fair value of derivative financial instruments (note 20)	–	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 income	–	–	–	–	–	–
Finance expense	(14.6)	(14.6)	–	–	(14.6)	(14.6)
Profit/(loss) before tax	19.8	(9.1)	–	4.9	19.8	(4.2)
Tax	(4.1)	3.8	–	–	(4.1)	3.8
Profit/(loss) after tax	15.7	(5.3)	–	4.9	15.7	(0.4)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in the accounting policies section.

Segmental profit represents the profit earned by each segment, before allocation of corporate costs including directors' salaries, non-underlying items, finance income and expense, and tax. This is the measure reported to the Group Chief Executive for the purpose of resource allocation and assessment of segment performance.

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.

	2016 £m	2015 £m
Depreciation		
Countermeasures	9.6	8.0
Sensors & Electronics	2.2	2.5
Energetic Systems	5.3	4.8
Unallocated corporate items	1.3	1.0
	18.4	16.3

2. Business segments continued

	2016		2015	
	Within underlying operating profit £m	Within total operating profit £m	Within underlying operating profit £m	Within total operating profit £m
Amortisation				
Countermeasures	1.8	2.0	1.6	1.6
Sensors & Electronics	4.4	11.5	3.6	10.8
Energetic Systems	0.6	8.1	1.0	7.8
Unallocated corporate items	0.1	0.1	0.2	0.2
	6.9	21.7	6.4	20.4

Intra-group transactions

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

Acquisition (costs) and disposal related credits

Disposal related credits of £4.7 million (2015: £4.9 million) primarily relate to the expiry of certain tax, environmental and property liabilities arising from the disposal of several businesses in prior years. For further information on the acquisition costs and disposal related credits see note 28.

Business restructuring and incident costs

In 2016, business restructuring and incident costs of £5.4 million principally comprise 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 2015, restructuring costs of £6.4 million 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.

In 2016 there was a £2.6 million difference between the business restructuring and incident costs recognised in the income statement and the outflow appearing in the cash flow statement due to the timing of payments and non-cash movements.

Claim related credit/(costs)

In 2016, the claim related credit of £0.6 million relates 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 over a five year period commencing 2016.

In 2015, claim related costs of £8.5 million comprised £4.2 million in relation to a claim brought by the US Department of Justice relating to historical supplies of product by Kilgore, which has now been settled, and £4.3 million in respect of the settlement of claims regarding the manufacture of certain components for the Next Generation Light Anti-Tank Weapon ("NLAW") combat weapon by Chemring Energetics. The estimated value of these claim related costs were reflected as a non-underlying item due to their scale and unusual nature. The cash payment associated with settlement of the NLAW claim occurred in November 2015.

Non-underlying items

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

	2016 £m	2015 £m
Non-underlying items by segment		
Countermeasures	1.1	4.4
Sensors & Electronics	7.9	13.1
Energetic Systems	10.8	11.3
Discontinued operations	(4.7)	(4.9)
Unallocated	6.2	0.1
	21.3	24.0

Unallocated items include £3.7 million (2015: £nil) of accelerated interest due on early repayment of loan notes, £1.4 million (2015: £nil) of loan note repayment costs and a £1.0 million loss (2015: £0.5 million gain) on the movement in fair value of derivative financial instruments.

NOTES TO THE GROUP FINANCIAL STATEMENTS

continued

2. Business segments continued

Information on major customers

Included in segmental revenues for continuing operations are revenues of £147.6 million (2015: £110.6 million), which arose from sales to the Group's largest customer. The largest customer had sales reported in all of the Group's business segments. This was the only individual customer where direct sales accounted for more than 10% of Group revenue from continuing and discontinued operations for the year.

The Group does not disclose assets or liabilities by segment in the monthly management accounts provided to the Executive Committee or 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 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:

Non-current assets by location	2016 £m	2015 £m
UK	249.1	244.4
USA	209.1	177.1
Europe	5.4	4.3
Australia	26.8	21.2
	490.4	447.0

3. Operating profit

An analysis of operating profit from continuing operations is set out below:

	2016 £m	2015 £m
Revenue	477.1	377.3
Cost of sales	(353.7)	(272.5)
Administrative expenses	(74.9)	(70.4)
Acquisition and disposal related costs (note 28)	(0.3)	(0.5)
Business restructuring and incident costs (note 2)	(5.4)	(6.4)
Claim related credit/(costs) (note 2)	0.6	(8.5)
Intangible amortisation arising from business combinations (note 11)	(14.8)	(14.0)
Loan note repayment	(1.4)	–
(Loss)/gain on the movement in the fair value of derivative financial instruments (note 20)	(1.0)	0.5
Non-underlying items	(22.3)	(28.9)
Operating profit	26.2	5.5

Operating profit is stated after charging/(crediting):

	2016 £m	2015 £m
Research and development costs		
- customer-funded	43.4	38.2
- internally-funded	7.7	9.2
Amortisation		
- arising from business combinations	14.8	14.0
- development costs	6.8	6.2
- patents and licences	0.1	0.2
Depreciation of property, plant and equipment		
- owned assets	18.3	16.2
- leased assets	0.1	0.1
Loss on disposal of non-current assets	0.2	0.3
Operating lease rentals		
- plant and machinery	1.3	0.8
- other	0.6	0.8
Government grants	(0.3)	(0.1)
Foreign exchange losses	3.3	0.7
Staff costs (note 4)	139.1	123.4
Cost of inventories recognised as an expense	205.1	144.4
Acquisition costs and disposal related (credits) (note 28)		
- continuing operations	0.3	0.5
- discontinued operations	(4.7)	(4.9)
Business restructuring and incident costs (note 2)	5.4	6.4
Claim related (credit)/costs (note 2)	(0.6)	8.5
Loss/(gain) on the movement in the fair value of derivative financial instruments (note 20)	1.0	(0.5)
Loan note repayment costs	1.4	–
Auditor's remuneration	1.8	1.5

3. Operating profit continued

A detailed analysis of the auditor's remuneration on a worldwide basis is set out below:

	2016 £m	2015 £m
Auditor's remuneration		
Fees payable to the Company's auditor and its associates for:		
- the audit of the Company's annual accounts	0.4	0.4
- the audit of the Company's subsidiaries, pursuant to legislation	0.5	0.4
	0.9	0.8
Other services		
Audit-related assurance services	0.1	0.1
Other assurance services	0.5	–
Tax services – compliance	0.3	0.4
Tax services – advisory	–	0.2
	0.9	0.7
	1.8	1.5

Included in the fees for the audit of the Company's annual accounts is £0.2 million (2015: £0.2 million) in respect of the parent company.

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 60 to 63, and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor. No services were provided by the auditor pursuant to contingent fee arrangements.

4. Staff costs

The average monthly number of employees, including executive directors, was:

	2016 Number	2015 Number
Production	2,263	2,353
Administration, sales and marketing	441	445
	2,704	2,798

At the year end, the number of employees was 2,577 (2015: 2,849). The costs incurred in respect of employees, including share-based payments, were:

	2016 £m	2015 £m
Wages and salaries	118.9	105.0
Social security costs	13.0	11.4
Other pension costs	6.2	5.8
Share-based payment charge	1.0	1.2
	139.1	123.4

5. Finance income

	2016 £m	2015 £m
Bank interest income	–	–

NOTES TO THE GROUP FINANCIAL STATEMENTS

continued

6. Finance expense

	2016 £m	2015 £m
Bank overdraft and loan interest	1.2	2.3
Loan notes interest	9.6	9.8
Finance lease interest	0.1	0.1
Amortisation of debt finance costs	2.8	2.1
Interest cost of retirement benefit obligations (note 29)	0.8	0.9
Capitalised interest on qualifying assets (note 12)	–	(0.6)
Finance expense	14.5	14.6

Borrowing costs capitalised in the cost of qualifying assets were calculated by applying a rate of 7% in 2015 to expenditure on such assets.

Tax relief of approximately £nil (2015: £0.1 million) has been recognised on the capitalised interest and included in the tax charge.

Non-underlying items include £3.7 million (2015: £nil) of accelerated interest costs due on early repayment of loan notes. Including this non-underlying item, the total finance expense for continuing operations was £18.2 million (2015: £14.6 million).

7. Tax

	2016 £m	2015 £m
Current tax credit/(charge)	5.3	(2.8)
Deferred tax (charge)/credit (note 22)	(6.8)	6.6
Tax (charge)/credit for continuing operations	(1.5)	3.8

Income tax in the UK is calculated at 20.0% (2015: 20.4%) of the taxable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in those jurisdictions.

The tax credit for continuing operations can be reconciled to the income statement as follows:

	2016 £m	2015 £m
Profit/(loss) before tax from continuing operations	8.0	(9.1)
Tax at the UK corporation tax rate of 20.0% (2015: 20.4%)	(1.6)	1.9
Expenses not deductible for tax purposes	–	(3.1)
Changes in tax rates	(0.2)	0.1
Research and development tax relief	–	(0.3)
Tax losses not recognised/carried forward	–	(5.1)
Prior period adjustments	5.4	(1.2)
Adjustment to provision for interest restriction (see note 22)	(10.6)	(0.4)
Overseas profits taxed at rates different to the UK standard rate	5.5	11.9
Tax (charge)/credit for continuing operations	(1.5)	3.8

In addition to the tax credit in the income statement, a tax credit of £6.3 million (2015: £nil) has been recognised in equity in the year.

In 2016 the prior year adjustment arises primarily as a result of the recognition of additional losses in the UK and US groups.

The effective rate of tax on the profit before tax of the Group is 12.6% (2015: 90.5%), and the effective rate of tax on the underlying profit before tax of the Group is 20.9% (2015: 20.7%). The increase in the 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 changes in UK corporation tax rates.

Factors affecting the tax charge in future years

The Group's future tax charge and effective tax rate could be affected by several factors including; tax reform in countries around the world, including any arising from the implementation of the OECD's BEPS actions and European Commission initiatives such as the proposed anti-tax avoidance directive, tax and financial reporting directive or as a consequence of state aid investigations, future corporate acquisitions and disposals and any restructuring of our business.

8. Dividends

	2016 £m	2015 £m
Dividends paid on ordinary shares of 1p each		
Final dividend for the year ended 31 October 2015: £nil (2014: 1.7p)	–	3.2
Interim dividend for the year ended 31 October 2016: £nil (2015: 2.4p)	–	4.7
Total dividends	–	7.9

The final dividend of 1.3p per ordinary share will be paid on 18 May 2017 to all shareholders registered at the close of business on 28 April 2017. The ex-dividend date will be 27 April 2017. The total dividend for the year will therefore be 1.3p (2015: 2.4p). The final dividend is subject to approval by the shareholders at the Annual General Meeting and, accordingly, has not been included as a liability in the financial statements for the year ended 31 October 2016.

	2016 £m	2015 £m
Dividends declared on ordinary shares of 1p each		
Interim dividend for the year ended 31 October 2016: £nil (2015: 2.4p)	–	4.7
Final dividend for the year ended 31 October 2016: 1.3p (2015: £nil)	3.6	–
Total dividends declared	3.6	4.7

9. Earnings per share

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

Earnings per share are based on the average number of shares in issue, excluding own shares held, of 261,386,484 (2015 as restated: 220,675,049) and the profit on continuing operations after tax of £6.5 million (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 266,191,422 (2015 as restated: 220,675,049) and the profit on continuing operations after tax of £6.5 million (2015: £5.3 million loss).

No dilution has been recognised for the purposes of basic earnings per share in 2015 due to there being a loss per share for the year ended 31 October 2015. Dilution has, however, been recognised in the calculation of underlying earnings per share for the year ended 31 October 2016 using a diluted average number of shares in issue, excluding own shares held, of 266,191,422 (2015 as restated: 225,030,669).

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

	2016 Ordinary shares Number 000s	2015 Ordinary shares Number 000s
Weighted average number of shares used to calculate basic earnings/(loss) per share	261,386	193,298
Effect of rights issue	–	27,377
Restated weighted average number of shares used to calculate basic earnings/(loss) per share	261,386	220,675
Additional shares issuable other than at fair value in respect of options outstanding	4,805	–
Weighted average number of shares used to calculate diluted earnings/(loss) per share	266,191	220,675
Additional shares issuable other than at fair value in respect of options outstanding	–	4,356
Weighted average number of shares used to calculate diluted underlying earnings per share	266,191	225,031

Continuing operations

	2016		2015	
	Basic £m	Diluted £m	Basic £m	Diluted £m
Underlying profit after tax	26.9	26.9	15.7	15.7
Non-underlying items	(20.4)	(20.4)	(21.0)	(21.0)
Total profit/(loss) after tax	6.5	6.5	(5.3)	(5.3)

	2016		2015*	
	Basic Pence	Diluted Pence	Basic Pence	Diluted Pence
Earnings/(loss) per share	2.5	2.4	(2.4)	(2.4)
Underlying earnings per share	10.3	10.1	7.1	7.0

NOTES TO THE GROUP FINANCIAL STATEMENTS

continued

9. Earnings per share continued

Continuing and discontinued operations

	2016		2015	
	Basic £m	Diluted £m	Basic £m	Diluted £m
Underlying profit after tax	26.9	26.9	15.7	15.7
Non-underlying items	(15.8)	(15.8)	(16.1)	(16.1)
Total profit/(loss) after tax	11.1	11.1	(0.4)	(0.4)

	2016		2015*	
	Basic Pence	Diluted Pence	Basic Pence	Diluted Pence
Profit/(loss) per share	4.2	4.2	(0.2)	(0.2)
Underlying earnings per share	10.3	10.1	7.1	7.0

*Restated, after effects of the rights issue. The number of shares in issue differs from the number held by third parties due to the fact that the Company holds its own shares in treasury. Further information on the Company's own shares held is set out in note 25.

Reconciliation of basic profit after tax to underlying profit after tax

Underlying basic earnings are defined as earnings before acquisition and disposal related costs, 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, intangible amortisation arising from business combinations and gains/losses on the movement in the fair value of derivative financial instruments, net of related tax effects. The directors consider this measure of earnings allows a more meaningful comparison of earnings trends. A reconciliation of the total and adjusted measures of profit/(loss) after tax is set out below:

	2016 £m	2015 £m
Profit/(loss) after tax	11.1	(0.4)
Exclude:		
Acquisition cost and disposal related credits	(4.4)	(4.4)
Business restructuring and incident costs	5.4	6.4
Claim related (credit)/costs	(0.6)	8.5
Intangible amortisation arising from business combinations	14.8	14.0
Non-underlying accelerated interest costs	3.7	–
Loan note repayment costs	1.4	–
Loss/(gain) on the movement in the fair value of derivative financial instruments	1.0	(0.5)
Tax on non-underlying items	(5.5)	(7.9)
Non-underlying items	15.8	16.1
Underlying profit after tax	26.9	15.7

10. Goodwill

	£m
Cost	
At 1 November 2014 as restated	175.3
Foreign exchange adjustments as restated	3.7
At 1 November 2015 as restated	179.0
Foreign exchange adjustments	27.5
At 31 October 2016	206.5
Accumulated impairment losses	
At 1 November 2014 as restated	(55.6)
Foreign exchange adjustments as restated	(2.2)
At 1 November 2015 as restated	(57.8)
Foreign exchange adjustments	(15.8)
At 31 October 2016	(73.6)
Carrying amount	
At 31 October 2016	132.9
At 31 October 2015	121.2

The restatement relates to previously fully impaired goodwill of £61.7 million that had been disposed of in an earlier period.

10. Goodwill continued

Goodwill acquired in a business combination is allocated at acquisition to the cash-generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of the goodwill has been allocated to the Group's principal CGUs.

The Group tests goodwill at least annually for impairment. Tests are conducted more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumptions for the value-in-use calculations have been individually estimated for each CGU and include the discount rates and expected changes to cash flows during the period for which management has detailed plans, which are underpinned by the winning and execution of key contracts.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to each of the CGUs. Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital of 8.1% (2015: 8.8%) which have been adjusted for a premium specific to each of the CGUs to account for differences in currency risk, country risk and other factors affecting specific CGUs, have been used to discount projected cash flows. These premiums range from 2% to 4% (2015: 2% to 5%).

Expected changes to cash flows during the period for which management has detailed plans relate to revenue forecasts, expected contract outcomes and forecast operating margins in each of the operating companies. The relative value ascribed to each varies between CGUs as the budgets are built up from the underlying operating companies within each CGU, but the key assumption for each CGU is that demand from the US and UK governments and customers in our other principal markets for the product offering in each company will recover from its current low base to a level seen historically in the case of Chemring Sensors & Electronic Systems, Inc. CGU and will continue at a similar or slightly enhanced level in the case of Chemring Energetics UK Limited, Roke Manor Research Limited and Chemring Energetic Devices, Inc. CGUs. The final year growth rate assumption in the value-in-use calculation is 0.5% and is based on management's view of industry growth forecasts.

The calculations have used the Group's forecast figures for the next five years. This is based on data derived from the five year plan that has been approved by the Board. At the end of five years, the calculations assume the performance of the CGUs will grow at a nominal annual rate of 0.5% in perpetuity. Growth rates are based on management's view of industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes.

The pre-tax discount rates used for value-in-use calculations and the carrying value of goodwill by the principal CGUs are:

	2016 %	2015 %	2016 £m	2015 £m
Roke Manor Research Limited	13.1	14.3	28.4	28.4
Chemring Energetics UK Limited	11.8	12.9	18.1	18.1
Chemring Sensors & Electronic Systems, Inc.	15.3	17.4	38.5	30.4
Chemring Energetic Devices, Inc.	15.4	17.8	17.0	13.5
Other			30.9	30.8
			132.9	121.2

The pre-tax discount rates used for other CGUs ranged from 13.0% to 17.5% (2015: 14.4% to 18.3%).

The weighted average cost of capital is derived using beta values of a comparator group of defence companies adjusted for funding structures as appropriate. The beta values of this group have reduced during the year leading to generally lower pre-tax discount rates being used compared to the year ended 31 October 2015.

Following a detailed review, no impairment losses were recognised in the years ended 31 October 2016 and 31 October 2015.

Stress testing was performed on the forecasts to consider the impact of severe but plausible reasonable worst case scenarios in the first two years, including significant delays to major contracts and new product launches followed by a 10% fall in the forecast cash flows. Under these circumstances, Chemring Sensors & Electronic Systems, Chemring Technology Solutions and Chemring Defence UK would require impairment charges of up to £3.8 million, £1.1 million and £2.9 million respectively against goodwill, but no impairment would be required for any of the other CGUs in these scenarios.

A 1% addition to the discount rate for each CGU was also separately modelled, and would not result in any CGUs requiring any impairment.

The Chemring Sensors & Electronic Systems CGU is expected to grow its annual cash flows strongly over the next two years, benefiting from operational improvements and new product growth.

Setting long-term growth rates beyond the five year forecast period to zero would not result in any CGUs requiring any impairment.

NOTES TO THE GROUP FINANCIAL STATEMENTS

continued

11. Other intangible assets

	Development costs £m	Acquired order book £m	Acquired technology £m	Acquired customer relationships £m	Patents and licences £m	Total £m
Cost						
At 1 November 2014	47.8	17.0	83.5	90.3	1.4	192.2
Additions	8.9	–	–	–	–	–
Disposals	(2.7)	(17.5)	–	–	–	(17.5)
Transfer between categories	0.1	–	–	–	–	–
Foreign exchange adjustments	0.4	0.5	2.3	2.8	0.1	5.7
At 1 November 2015	54.5	–	85.8	93.1	1.5	180.4
Additions	6.7	–	0.5	1.6	–	2.1
Disposals	(4.0)	–	(4.7)	(28.1)	(0.9)	(33.7)
Foreign exchange adjustments	7.2	–	19.5	20.9	0.4	40.8
At 31 October 2016	64.4	–	101.1	87.5	1.0	189.6
Amortisation						
At 1 November 2014	(14.6)	(16.7)	(37.4)	(51.5)	(0.7)	(106.3)
Charge	(6.2)	(0.3)	(7.7)	(6.0)	(0.2)	(14.2)
Disposals	2.5	17.5	–	–	–	17.5
Foreign exchange adjustments	(0.1)	(0.5)	(1.0)	(1.6)	(0.1)	(3.2)
At 1 November 2015	(18.4)	–	(46.1)	(59.1)	(1.0)	(106.2)
Charge	(6.8)	–	(8.6)	(6.2)	(0.1)	(14.9)
Disposals	3.5	–	4.7	28.1	0.9	33.7
Foreign exchange adjustments	(1.8)	–	(10.8)	(14.0)	(0.3)	(25.1)
At 31 October 2016	(23.5)	–	(60.8)	(51.2)	(0.5)	(112.5)
Carrying amount						
At 31 October 2016	40.9	–	40.3	36.3	0.5	77.1
At 31 October 2015	36.1	–	39.7	34.0	0.5	74.2

Acquired intangibles are recognised at fair value on acquisition and are amortised over their estimated useful lives. Fair values for acquired intangibles are assessed by reference to future estimated cash flows, discounted at an appropriate rate to present value, or by reference to the amount that would have been paid in an arm's length transaction between two knowledgeable and willing parties. Other intangible assets are recognised at cost and are amortised over their estimated useful economic lives, which are set out in the accounting policies section.

The acquired order book was disposed of during the year ended 31 October 2015 as a result of it being fully written down.

Included within the development costs of £40.9 million, individually material balances relate to CENTURION £3.6 million (2015: £3.8 million), electronic attack £3.7 million (2015: £2.2 million), Perception £2.9 million (2015: £3.6 million), Joint Biological Tactical Detection System £6.7 million (2015: £3.7 million) and Next Generation Chemical Detector £8.2 million (2015: £5.3 million). Development costs are amortised over their useful economic lives, estimated to be between three and fifteen years, with the remaining amortisation periods for these assets ranging up to thirteen years.

Acquired technology of £40.3 million includes individually material balances relating to Chemring Sensors & Electronic Systems £4.8 million (2015: £4.4 million), Chemring Energetic Devices £13.0 million (2015: £12.9 million) and Roke £3.1 million (2015: £3.6 million). The remaining amortisation periods for these assets are seven years, three years and six years respectively.

Acquired customer relationships of £36.3 million include individually material balances relating to Chemring Energetic Devices £7.9 million (2015: £6.8 million), Chemring Ordnance £10.4 million (2015: £3.9 million), Chemring Sensors & Electronics £4.9 million (2015: £4.5 million) and Roke £4.4 million (2015: £5.5 million). The remaining amortisation periods for these assets are ten years, five years and four years respectively.

12. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost or valuation			
At 1 November 2014	88.9	119.2	208.1
Additions	2.0	7.3	9.3
Disposals	(0.2)	(4.7)	(4.9)
Transfer between categories	15.1	(14.8)	0.3
Foreign exchange adjustments	(0.8)	(1.1)	(1.9)
At 1 November 2015	105.0	105.9	210.9
Additions	1.6	8.7	10.3
Disposals	(0.2)	(4.4)	(4.6)
Foreign exchange adjustments	15.5	22.1	37.6
At 31 October 2016	121.9	132.3	254.2
Depreciation			
At 1 November 2014	(6.0)	(25.0)	(31.0)
Charge	(3.1)	(13.2)	(16.3)
Disposals	0.2	4.6	4.8
Transfer between categories	(0.1)	(0.2)	(0.3)
Foreign exchange adjustments	–	(0.1)	(0.1)
At 1 November 2015	(9.0)	(33.9)	(42.9)
Charge	(3.5)	(14.9)	(18.4)
Disposals	0.1	4.2	4.3
Transfer between categories	0.1	(0.1)	–
Foreign exchange adjustments	(3.9)	(13.4)	(17.3)
At 31 October 2016	(16.2)	(58.1)	(74.3)
Carrying amount			
At 31 October 2016	105.7	74.2	179.9
At 31 October 2015	96.0	72.0	168.0

The carrying amount of the Group's plant and equipment includes £0.2 million (2015: £3.7 million) in respect of assets held under finance leases. During the year, £nil (2015: £0.6 million) of interest was capitalised, as set out in note 6. In the year, £1.2 million (2015: £0.7 million) of capitalised interest was charged as depreciation on completion of the relevant projects. This results in a net book value for capitalised interest of £13.5 million (2015: £14.7 million).

Land and buildings were revalued at 30 September 1997 by Chestertons Chartered Surveyors, independent valuers not connected with the Group, on the basis of depreciated replacement cost for two pyrotechnic sites and on open market for the remainder, which represent level 2 measurements in the fair value hierarchy.

	2016 £m	2015 £m
30 September 1997 depreciated replacement cost	5.8	5.8
Freehold at cost	116.1	99.2
Cost of land and buildings as at 31 October 2016	121.9	105.0

If stated under historical cost principles, the comparable amounts for the total of land and buildings would be:

	2016 £m	2015 £m
Cost	119.9	103.0
Accumulated depreciation	(15.5)	(8.3)
Historical cost value	104.4	94.7

All other tangible fixed assets are stated at historical cost.

At 31 October 2016, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £2.5 million (2015: £1.5 million).

NOTES TO THE GROUP FINANCIAL STATEMENTS

continued

13. Subsidiary undertakings

All subsidiary undertakings have been reflected in these financial statements. The subsidiary undertakings held at 31 October 2016, all 100% owned by the Group, are shown below. All of these subsidiary undertakings are wholly controlled by Chemring Group PLC.

	Country of incorporation (or registration) and operation	Operating segment
Subsidiary undertaking		
Chemring Australia Pty Limited	Australia	Countermeasures
B.D.L Systems Limited	England	Dormant
Celco Industries (USA) Limited	England	Dormant
Chemring Countermeasures Limited	England	Countermeasures
Chemring Defence UK Limited	England	Energetic Systems
Chemring Energetics Limited	England	Non-trading
Chemring Europe Limited	England	Non-trading
Chemring Finance Europe Investments Limited	England	Non-trading
Chemring Finance Europe Limited	England	Non-trading
Chemring International Limited	England	Non-trading
Chemring Investments Limited	England	Non-trading
Chemring Limited	England	Dormant
Chemring North America Unlimited	England	Holding Company
Chemring Prime Contracts Limited	England	Energetic Systems
Chemring Technology Solutions Limited	England	Sensors & Electronics
CHG Design Limited	England	Dormant
CHG Overseas Investments Limited	England	Non-trading
CHG Overseas Limited	England	Holding Company
Chemring UAE Limited	England	Non-trading
Coated Electrodes UK Limited	England	Dormant
Greys Exports Limited	England	Dormant
Haley and Weller Limited	England	Dormant
Karma Industries No 1 Limited	England	Dormant
Karma Industries No 2 Limited	England	Dormant
Kembrey Corporate Trustee Limited	England	Dormant
Kembrey Electronics Limited	England	Dormant
Kembrey Engineering Limited	England	Dormant
Kembrey Group Limited	England	Dormant
Kembrey Industries Limited	England	Dormant
Kembrey Limited	England	Dormant
Kembrey Technologies Limited	England	Dormant
Leaffield Engineering Limited	England	Non-trading
Nobel Energetics Limited	England	Dormant
Parkway No 3 Limited	England	Dormant
Parkway No 7 Limited	England	Dormant
Parkway No 8 Limited	England	Dormant
Parkway No 9 Limited	England	Dormant
Parkway No 10 Limited	England	Non-trading
Protox Environmental Systems Limited	England	Dormant
PW Defence Limited	England	Dormant
Richmond EEI Limited	England	Dormant
Richmond Electronics & Engineering Limited	England	Dormant
Ripault Drivex Limited	England	Dormant
Roke Manor Research Limited	England	Sensors & Electronics
Sarclad Rolltex Limited	England	Dormant
Schermuly Limited	England	Dormant
Chemring Luxembourg Finance SARL	Luxembourg	Holding Company
Chemring Luxembourg Holding SARL	Luxembourg	Holding Company
3d-Radar AS	Norway	Sensors & Electronics
Chemring Nobel AS	Norway	Energetic Systems
Chemring Energetics UK Limited	Scotland	Energetic Systems
Allied Technology LLC	USA	Holding Company
Alloy Surfaces Company, Inc.	USA	Countermeasures
ASC Realty LLC	USA	Property Holding Company
Chemring Energetic Devices, Inc.	USA	Energetic Systems
Chemring Military Products, Inc.	USA	Energetic Systems
Chemring North America Administration, Inc.	USA	Dormant
Chemring North America Group, Inc.	USA	Holding Company
Chemring Ordnance, Inc.	USA	Energetic Systems
CHG Flares, Inc.	USA	Holding Company
CHG Group, Inc.	USA	Head Office
Kilgore Flares Company LLC	USA	Countermeasures
Chemring Sensors and Electronic Systems, Inc.	USA	Sensors & Electronics
Technical Ordnance, Inc.	USA	Non-trading
Titan Dynamics Systems, Inc.	USA	Dormant
Associated undertaking		
Chemring Asia Services Pvt Limited (*)	India	Non-trading

* The Group owns 49% of the issued share capital. The associate did not trade during the year.

14. Inventories

	2016 £m	2015 £m
Raw materials	37.7	28.7
Work in progress	38.6	51.7
Finished goods	28.5	15.8
	104.8	96.2

There are no significant differences between the replacement cost of inventory and the fair values shown above. The Group recognised £3.2 million (2015: £2.3 million) as a write down of inventories to net realisable value.

15. Trade and other receivables

	2016 £m	2015 £m
Trade receivables	83.6	67.1
Allowance for doubtful debts	(0.9)	(1.0)
	82.7	66.1
Contract receivables	7.0	15.2
Other receivables	2.5	5.0
Prepayments and accrued income	22.0	6.8
	114.2	93.1

All amounts shown above are due within one year.

The average credit period taken by customers on sales of goods, calculated using a countback basis, is 24 days (2015: 34 days). No interest is charged on receivables from the date of invoice to payment.

The Group's policy is to provide in full for trade receivables outstanding for more than 120 days beyond agreed terms, unless there are facts and circumstances that support recoverability.

Within the trade receivables balance at 31 October 2016, £8.6 million was due from Pacem Solutions, LLC in respect of sales in the year ended 31 October 2014. The directors believe this amount to be recoverable. As all remaining significant overdue receivables are covered by the allowance for doubtful debts, an ageing analysis has not been shown. The majority of the trade receivables balance was not yet due at the year end based on the credit terms provided to customers.

The directors consider that the carrying amount of trade and other receivables approximates to their fair values.

Of the trade receivables balance at the end of the year, £19.6 million was due from Pacem Solutions, LLC, £7.7 million was due from Royal Saudi Air Force, £6.1 million was due from Global Ordnance, LLC, £4.8 million was due from the Australian DMO, £4.5 million was due from Lockheed Martin and £4.2 million was due from UDC USA. There are no other customers who represent more than 5% of the total trade receivables.

Prepayments increased significantly in the year, principally in Energetic Systems. This was mainly due to advance supplier payments made by Chemring Ordnance in order to secure continuing production with supplies needed for the 40mm and other Middle East contracts.

16. Cash and cash equivalents

Bank balances and cash comprise cash held by the Group and short-term deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

Included within cash is £nil (2015: £0.1 million) of restricted cash.

NOTES TO THE GROUP FINANCIAL STATEMENTS

continued

17. Borrowings

		2016 £m	2015 £m
Within current liabilities			
Loan notes	- US dollar denominated	29.5	–
Finance leases	- Sterling denominated	0.1	0.5
Borrowings due within one year		29.6	0.5
Within non-current liabilities			
Loan notes	- Sterling denominated	5.3	8.1
	- US dollar denominated	115.7	153.2
Preference shares		0.1	0.1
Borrowings due after more than one year		121.1	161.4
		150.7	161.9

Analysis of borrowings by currency:

	2016 £m	2015 £m
Sterling	5.5	8.7
US dollar	145.2	153.2
	150.7	161.9

The weighted average interest rates paid were as follows:

	2016 %	2015 %
Bank overdrafts	2.9	3.1
UK bank loans	2.9	3.1
Loan notes	7.6	7.6
	6.0–7.0	4.7–7.0

An analysis of borrowings by maturity is as follows:

	2016				2015			
	Bank loans and overdrafts £m	Loan notes £m	Other borrowings £m	Total £m	Bank loans and overdrafts £m	Loan notes £m	Other borrowings £m	Total £m
Borrowings falling due:								
- within one year	–	29.5	0.1	29.6	–	–	0.5	0.5
Borrowings falling due:								
- within one to two years	–	53.8	–	53.8	–	28.4	–	28.4
- within two to five years	–	67.2	–	67.2	–	132.9	–	132.9
- after five years	–	–	0.1	0.1	–	–	0.1	0.1
	–	121.0	0.1	121.1	–	161.3	0.1	161.4
Total borrowings	–	150.5	0.2	150.7	–	161.3	0.6	161.9

Other borrowings comprise finance leases and preference shares.

The Group has a £100.0 million, four year revolving credit facility with a syndicate of three banks expiring in July 2018; the facility was increased from £70.0 million during the year. In addition, the Group has ancillary UK facilities of £60.4 million in respect of bonding and trade finance requirements, and a \$15.0 million facility to fulfil US trade finance and working capital requirements. None of the borrowings in the current or the prior year were secured.

17. Borrowings continued

There have been no breaches of the terms of the loan agreements during the current or prior year.

The Group has the following undrawn borrowing facilities available, in respect of which all conditions precedent have been met. Interest costs under these facilities are charged at floating rates.

	2016 £m	2015 £m
Undrawn borrowing facilities	108.0	78.5

The Group is subject to two key financial covenants, which are tested quarterly. These covenants relate to the leverage ratio, being the ratio between underlying earnings before interest, tax, depreciation and amortisation ("underlying EBITDA") and debt, and the interest cover ratio between underlying EBITDA and finance costs. The calculation of these ratios involve 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.

In respect of the revolving credit facility, leverage is measured by reference to net debt. The maximum permitted ratio of net debt to underlying EBITDA under the revolving credit facilities is 3.00x. The permitted ratio at October 2015 and January 2016 was amended to 3.90x with the agreement of the revolving credit facility syndicate in January 2016.

The provisions of the private placement loan notes contain two leverage tests, each of which are tested quarterly. The first test measures leverage by reference to total gross debt. The maximum permitted ratio of gross debt to underlying EBITDA is 3.75x. This was amended to 4.00x for the October 2015 and January 2016 tests. The second test measures leverage by reference to adjusted debt, which is calculated as total gross debt less certain disposal proceeds that had previously been offered to the noteholders but had not been accepted. The value of such proceeds at 31 October 2016 was £nil (2015: £4.6 million). The maximum permitted ratio of adjusted debt to underlying EBITDA is 3.00x. For the tests at October 2015 and January 2016 this was also amended to 4.00x.

The Group complied with these covenants throughout the year, and the result of covenant tests at the year end are detailed below:

	2016	2015
Covenant ratios - revolving credit facility		
Maximum allowed ratio of net debt to underlying EBITDA	3.00x	3.90x
Actual ratio of net debt to underlying EBITDA	1.15x	2.83x
Minimum allowed ratio of underlying EBITDA to finance costs	4.00x	3.50x
Actual ratio of underlying EBITDA to finance costs	6.82x	4.75x
Covenant ratios - loan note agreements		
Maximum allowed ratio of adjusted debt to underlying EBITDA	3.00x	4.00x
Actual ratio of adjusted debt to underlying EBITDA	1.89x	2.84x
Maximum allowed ratio of total debt to underlying EBITDA	3.75x	4.00x
Actual ratio of total debt to underlying EBITDA	1.89x	2.92x
Minimum allowed ratio of underlying EBITDA to finance costs	3.50x	3.50x
Actual ratio of underlying EBITDA to finance costs	6.54x	4.67x

NOTES TO THE GROUP FINANCIAL STATEMENTS

continued

18. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2016 £m	2015 £m	2016 £m	2015 £m
Amounts payable under finance leases:				
- within one year	0.1	0.5	0.1	0.5
- within two to five years	–	–	–	–
Present value of lease obligations	0.1	0.5	0.1	0.5
Less amounts due within one year shown within current liabilities			(0.1)	(0.5)
Amounts due for settlement after one year			–	–

Finance lease obligations attract interest rates of between 2% and 3% above base rate. Lease obligations are denominated in sterling and US dollars.

The fair value of the Group's leases approximates to their carrying amounts.

The Group's obligations under finance leases are secured by the lessors' title to the underlying leased assets.

19. Trade and other payables

	2016 £m	2015 £m
Within current liabilities		
Trade payables	53.5	46.7
Other payables	17.7	16.1
Interest payable	4.1	4.4
Other tax and social security	3.0	3.7
Advance payments	12.4	11.5
Accruals and deferred income	16.6	13.8
	107.3	96.2
Within non-current liabilities		
Other payables	4.0	1.7

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. Advance payments are amounts received from customers on larger contracts to fund working capital. The directors consider that the carrying amount of payables approximates to their fair value.

The average credit period taken on purchases of goods is 106 days (2015: 92 days). No interest is charged on trade payables from the date of invoice to payment.

20. Financial instruments and risk management

The Group uses financial instruments to manage financial risk wherever it is appropriate to do so. The main risks addressed by financial instruments are foreign exchange rate risk and liquidity risk. The Group's policies in respect of the management of these risks, which remained unchanged throughout the year, are set out below.

The Group's global activities expose it to the financial risks of changes in foreign currency exchange rates. The Group enters into forward foreign exchange contracts to manage its exposure to transactional foreign currency risks.

Foreign exchange risk management

The Group undertakes certain transactions denominated in foreign currencies, giving rise to exposures to exchange rate fluctuations. Foreign exchange risk can be subdivided into two components, transactional risk and translation risk:

Transactional risk	The Group's policy is to hedge transactional currency exposures through the use of forward foreign exchange contracts. The measurement and control of this risk is monitored on a Group-wide basis.
Translation risk	The Group translates the results and net assets of overseas operations in accordance with the accounting policy within the Accounting Policies section. The translation risk on net assets is mitigated by the transfer of currencies between Group companies and the appropriate use of foreign currency borrowings.

20. Financial instruments and risk management continued

The sterling equivalents of the carrying amounts of the Group's foreign currency denominated monetary assets and liabilities at the year end were as follows:

	2016				2015			
	US dollar	Euro	Norwegian krone	Australian dollar	US dollar	Euro	Norwegian krone	Australian dollar
Monetary assets (£m)	85.1	–	7.8	6.4	41.9	–	5.2	2.1
Monetary liabilities (£m)	(184.8)	(0.3)	(3.6)	(2.4)	(179.9)	(0.3)	(2.3)	(2.7)

Foreign currency denominated net assets are partially hedged by foreign currency borrowings. The borrowings detailed below were designated as hedging instruments in net investment hedges. The decrease resulted from a £48.8 million pay down of loan notes following the rights issues, offset by fluctuations in foreign exchange rates.

	2016				2015			
	US dollar	Euro	Norwegian krone	Australian dollar	US dollar	Euro	Norwegian krone	Australian dollar
Borrowings (£m)	148.1	–	–	–	153.7	–	–	–

The Group uses forward foreign exchange contracts to hedge its currency risk, most with a maturity of less than one year from inception. The exchange rates which have the most significant effect on the Group are those relating to the US dollar and the Euro.

The following table details the forward foreign exchange contracts outstanding:

	Average exchange rate		Expiring within one year		Expiring within one to two years	
	2016	2015	2016 £m	2015 £m	2016 £m	2015 £m
US dollar	1.26	1.56	41.7	53.6	0.2	6.6
Euro	–	1.37	–	0.5	–	–

The principal amounts of the Group's US dollar loan notes have been accounted for as a net investment hedge of the US businesses. This hedge was effective throughout the year and the losses arising on translation of the loan notes were taken to reserves alongside the gains on retranslation of the US businesses. The Norwegian and Australian businesses have no net investment hedge. The retranslation of these businesses is taken directly to reserves.

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 10 cent movement in the relevant foreign currencies against sterling with regards to its income statement. This sensitivity represents management's assessment of a reasonably possible change in foreign exchange rates. This sensitivity analysis only includes translation of the results of foreign currency denominated companies and so does not reflect the impact on the results of sterling or other currency companies that have transactions in US dollars.

	+10 cents		–10 cents	
	US dollar impact		US dollar impact	
	2016 £m	2015 £m	2016 £m	2015 £m
Revenue	(19.0)	(11.6)	22.0	13.2
Underlying operating profit	(2.0)	(0.6)	2.3	0.6
Interest	0.6	0.6	(0.7)	(0.7)
Underlying profit before tax	(1.4)	–	1.6	(0.1)

Interest rate risk

The Group finances its operations through a combination of retained profits, bank and loan note borrowings, and finance leases.

The UK borrowings are denominated in sterling and US dollars, and at the shorter end are subject to floating rates of interest.

At 31 October 2016, the Group had outstanding fixed interest loan notes in the US totalling £153.4 million (2015: £166.5 million). On 21 November 2016, the Group repaid \$36.0 million of outstanding loan notes out of existing cash resources. The remaining loan notes are repayable in November 2017 (£5.3 million and \$61.2 million) and November 2019 (\$83.6 million). The loan notes provide a natural hedge against the Group's investment in its US businesses.

NOTES TO THE GROUP FINANCIAL STATEMENTS

continued

20. Financial instruments and risk management continued

As the Group has predominantly fixed interest rate debt, a change in interest rates would not have an immediate significant impact on the income statement. An increase/(decrease) in interest rates of 1% would cause the Group's finance expense to increase/(decrease) by £0.3 million.

Liquidity risk

The table below details the maturity profile of the Group's derivative financial instruments and loans (excluding finance leases, preference shares and capitalised facility fees):

	2016			2015		
	Derivative payables £m	Loans and overdrafts £m	Total £m	Derivative payables £m	Loans and overdrafts £m	Total £m
Falling due:						
- within one year	43.1	29.5	72.6	54.1	–	54.1
- within one to two years	0.2	55.4	55.6	6.6	31.6	38.2
- within two to five years	–	68.5	68.5	–	134.9	134.9
	43.3	153.4	196.7	60.7	166.5	227.2

The profile of the Group's financial assets by underlying currency and balance sheet classification is as follows:

	2016 £m	2015 £m
Sterling	68.7	51.2
US dollar	129.6	68.8
Australian dollar	5.8	1.4
Euro	0.9	0.1
Other currencies	8.5	6.0
	213.5	127.5
Overdraft offset	(57.7)	(33.1)
	155.8	94.4
	2016 £m	2015 £m
Cash at bank and in hand	63.1	7.6
Trade receivables	82.7	66.1
Contract receivables	7.0	15.2
Other receivables	2.5	5.0
Derivative financial instruments	0.5	0.5
	155.8	94.4

The majority of cash balances held in the UK and the US have a right of offset against overdraft balances.

The foreign currency balances are predominantly attributable to overseas business units and therefore do not result in significant exposure to transactional risks for the Group. Included within cash is £nil (2015: £0.1 million) of restricted cash.

The profile of the Group's financial liabilities by underlying currency and balance sheet classification is as follows:

	2016			2015		
	Floating rate £m	Fixed rate £m	Total £m	Floating rate £m	Fixed rate £m	Total £m
Sterling	–	65.8	65.8	–	76.5	76.5
US dollar	–	236.3	236.3	–	211.6	211.6
Other currencies	–	7.9	7.9	–	1.1	1.1
	–	310.0	310.0	–	289.2	289.2
Overdraft offset		(57.7)	(57.7)			(33.1)
			252.3			256.1

20. Financial instruments and risk management continued

	2016 £m	2015 £m
Loan notes	150.5	161.3
Preference shares (note 23)	0.1	0.1
Obligations under finance leases (note 18)	0.1	0.5
	150.7	161.9
Trade payables	53.5	46.7
Accruals	13.7	9.1
Interest payable	4.1	4.4
Other payables	21.7	20.5
Other tax and social security	3.0	3.7
Corporation tax	3.1	7.9
Derivative financial instruments due within one year	2.5	1.6
Derivative financial instruments due after more than one year	–	0.3
	252.3	256.1

The weighted average interest rate of fixed rate financial liabilities at 31 October 2016 was 6.6% (2015: 6.0%) and the weighted average period of funding was two years (2015: three years).

Derivative financial instruments

The Group has forward foreign exchange contracts with fair values of £2.5 million liability (2015: £1.9 million liability) and £0.5 million asset (2015: £0.5 million asset). The net value of these derivative financial instruments is a liability of £2.0 million (2015: £1.4 million).

The following table details the fair value of derivative financial instrument liabilities recognised in the balance sheet:

	2016 £m	2015 £m
Included in current assets	0.5	0.5
Included in current liabilities	(2.5)	(1.6)
Included in non-current liabilities	–	(0.3)
Forward foreign exchange contracts	(2.0)	(1.4)

The following table details the loss/(gain) on the movement in the fair value of derivative financial instruments recognised in the income statement:

	2016 £m	2015 £m
Loss/(gain) on the movement in the fair value of derivative financial instruments	1.0	(0.5)

Fair value hierarchy

IFRS 7 *Financial Instruments: Disclosures* requires companies that carry financial instruments at fair value in the balance sheet to disclose their level of visibility, determining into which category those financial instruments fall under the fair value hierarchy.

The fair value measurement hierarchy is as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (i.e. as unobservable inputs).

NOTES TO THE GROUP FINANCIAL STATEMENTS

continued

20. Financial instruments and risk management continued

The following tables present the Group's assets and liabilities that are measured at fair value:

	2016			2015		
	Level 1 £m	Level 2 £m	Total £m	Level 1 £m	Level 2 £m	Total £m
Assets						
Forward foreign exchange contracts	–	0.5	0.5	–	0.5	0.5
Total assets	–	0.5	0.5	–	0.5	0.5

	2016			2015		
	Level 1 £m	Level 2 £m	Total £m	Level 1 £m	Level 2 £m	Total £m
Liabilities						
Borrowings	–	(150.5)	(150.5)	–	(161.3)	(161.3)
Forward foreign exchange contracts	–	(2.5)	(2.5)	–	(1.9)	(1.9)
Total liabilities	–	(153.0)	(153.0)	–	(163.2)	(163.2)

There were no assets or liabilities that were classed under Level 3 on the fair value hierarchy. The fair value of derivative financial instruments is estimated by discounting the future contracted cash flow, using readily available market data.

Credit risk

The Group's principal financial assets are bank balances and cash, and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets. Whilst the Group does not have any significant credit risk exposure to any single counterparty in respect of bank balances and cash, the credit risk on liquid funds and derivative financial instruments is monitored on an ongoing basis using credit ratings assigned by international credit rating agencies, the credit default swap market and market capitalisation.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful debts, based on prior experience and an assessment of the current economic environment. Trade receivables are attributable to a small number of customers spread across a diverse geographical area. Customers are mainly multinational organisations or government agencies with whom the Group has long-term business relationships. The Group's principal customers are government defence departments, such as the US Department of Defense, the UK Ministry of Defence and the Kingdom of Saudi Arabia Ministry of Defence and Aviation, US and UK defence prime contractors, such as Lockheed Martin, BAE Systems and General Dynamics, and distributors of products for their onward sale to end users.

Counterparties are monitored on an ongoing basis for credit risk and, at the balance sheet date, the risk was deemed to be low. Ongoing credit evaluation is performed on the financial condition of accounts receivable and action is taken to minimise credit risk.

The Group's accounting policies and control procedures require letters of credit to be put in place for the majority of contracts with overseas customers.

The Group's pricing risk is primarily in relation to the cost of raw materials and is not considered significant. Pricing risk is managed through negotiations with suppliers and, where appropriate, the agreement of fixed-price supply contracts.

Capital management

The Board seeks to maintain a strong capital base so as to maintain investor, creditor and market confidence, and to sustain future development of the business. From time to time, the Group purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily, such shares are intended to be used for satisfying awards under the Group's share-based incentive schemes. Buy and sell decisions are made on a specific transaction basis by the Board.

Neither the Company nor any of its subsidiaries are subject to externally-imposed capital requirements.

21. Provisions

	Legal provision £m	Environmental provision £m	Warranty provision £m	Restructuring provision £m	Disposal provision £m	Other provision £m	Total £m
At 1 November 2015	7.9	1.5	0.1	–	11.8	0.1	21.4
Provided	–	1.6	–	1.1	–	–	2.7
Foreign exchange adjustments	0.5	0.4	–	0.2	2.2	–	3.3
Paid	(0.3)	(0.1)	–	–	(0.2)	(0.1)	(0.7)
Released	(0.6)	–	–	–	(6.2)	–	(6.8)
Reclassification	(4.4)	0.7	–	–	–	–	(3.7)
At 31 October 2016	3.1	4.1	0.1	1.3	7.6	–	16.2

These provisions are classified on the balance sheet as follows:

	2016 £m	2015 £m
Included in current liabilities	4.5	5.1
Included in non-current liabilities	11.7	16.3
	16.2	21.4

It is not possible to estimate more accurately the expected timing of any resulting outflows of economic benefits.

The legal provision represents the estimated legal liabilities faced by the Group at the balance sheet date. Further details of the Group's contingent liabilities are set out in note 33.

The environmental provision is held in respect of potential liabilities associated with the Group's facility in Downers Grove, Illinois, USA.

The restructuring provision relates to the closure of a Countermeasures facility in Philadelphia, USA.

The disposal provision relates to estimated liabilities faced by the Group in respect of Mecar and Simmel under the terms of their respective sale agreements. The risk of economic outflow relating to these reduces with the passage of time.

The reclassification relates to items where the timing of the payments has been more clearly established and consequently the amounts have been transferred to trade and other payables.

22. Deferred tax

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

	Accelerated tax depreciation £m	Pensions £m	Interest deductions £m	Tax losses £m	Acquired intangibles £m	Other £m	Total £m
At 1 November 2014	14.9	(4.4)	(6.6)	(0.9)	14.4	(13.8)	3.6
(Credit)/charge to income	(1.1)	0.9	(9.4)	(2.8)	(2.2)	8.0	(6.6)
Charge/(credit) to equity	0.2	–	(0.2)	0.4	(0.3)	0.5	0.6
At 1 November 2015	14.0	(3.5)	(16.2)	(3.3)	11.9	(5.3)	(2.4)
Charge/(credit) to income	1.8	1.0	7.3	(4.1)	(2.6)	3.4	6.8
Charge/(credit) to equity	0.8	(0.8)	(5.7)	–	0.5	(0.3)	(5.5)
At 31 October 2016	16.6	(3.3)	(14.6)	(7.4)	9.8	(2.2)	(1.1)

The Finance (No.2) Act 2015 and the Finance Act 2016, which provided for reductions in the main rate of UK corporation tax from 20% to 19% effective from 1 April 2017 and to 17% effective from 1 April 2020, were substantively enacted on 26 October 2015 and 19 September 2016 respectively.

The closing UK deferred tax asset as at 31 October 2016 has been calculated at the rates which will be in force when the assets and liabilities are expected to reverse.

The Group's deferred tax provision at the balance sheet date includes an asset of £14.6 million in relation to amounts carried forward under the US interest limitation regulations. These carried forward amounts are available for offset in future periods in accordance with the regulations, subject to available US taxable profits. Management prepare long term forecasts for the upcoming five year period for all entities in the Group and have used these to determine the amount of the deferred tax asset which should be recognised at the balance sheet date. Due to the inherent uncertainties associated with preparing long term forecasts, particularly in the current global environment, the final outcome may vary significantly, whilst a range of outcomes is reasonably possible, the extent of this range is potential additional assets of up to £17.8 million or a reduction in the asset of up to £14.6 million.

NOTES TO THE GROUP FINANCIAL STATEMENTS

continued

22. Deferred tax continued

Certain deferred tax assets and liabilities have been offset in accordance with the Group's accounting policy. Deferred tax balances after offset are analysed on the balance sheet as follows:

	2016 £m	2015 £m
Non-current liabilities	58.5	45.1
Non-current assets	(59.6)	(47.5)
	(1.1)	(2.4)

At the balance sheet date, the Group had unrecognised tax losses of £8.0 million (2015: £26.3 million) potentially available for offset against future profits in certain circumstances, the increase arising primarily as a result of the current year tax losses arising in the UK. No deferred tax asset has been recognised in respect of this amount because of the unpredictability of future taxable qualifying profit streams.

23. Share capital

	2016 £m	2015 £m
Issued and fully paid		
281,425,256 (2015: 195,504,091) ordinary shares of 1p each	2.8	2.0

During the year, 5,337 ordinary shares (2015: 8,166) were issued for cash to employees under the Group's approved savings-related share schemes.

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 every nine existing ordinary shares held.

The Company's share capital also includes 62,500 7% cumulative preference shares of £1 each, which are all issued and fully paid-up, and are classified for accounting purposes within non-current liabilities. The cumulative preference shares carry an entitlement to a dividend at the rate of 7p per share per annum, payable in equal instalments on 30 April and 31 October each year. Holders of the preference shares have the right on a winding-up to receive, in priority to any other classes of shares, the sum of £1 per share together with any arrears of dividends.

24. Reserves

The share premium account, the special capital reserve and the revaluation reserve are not distributable.

Included within retained earnings are £3.0 million (2015: £1.9 million) relating to the share-based payment reserve and £nil (2015: £1.9 million) of the Company's own shares held by the Group's Employee Share Ownership Plan Trust.

25. Own shares

	2016 £m	2015 £m
At beginning and end of the year	9.6	9.6

The own shares reserve represents the cost of shares in the Company purchased in the market and held by the Group to satisfy awards under the Group's share-based incentive schemes, details of which are set out in note 27. No ordinary shares (2015: nil) were acquired during the year and no ordinary shares (2015: nil) were distributed following the vesting of awards under the PSP. The total number of ordinary shares held in treasury at 31 October 2016 was 2,198,814 (2015: 2,198,814), with an average cost of 439.0p (2015: 439.0p) per share.

This represents 0.8% (2015: 1.1%) of the total issued and fully-paid ordinary share capital.

26. Obligations under non-cancellable operating leases

	2016 £m	2015 £m
Minimum lease payments under operating leases recognised in the income statement	1.9	1.6

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, falling due as follows:

	2016 £m	2015 £m
Within one year	2.7	3.0
In the second to fifth years	5.2	6.0
Over five years	0.4	0.2
	8.3	9.2

Operating lease payments represent rentals payable by the Group. Leases are negotiated for an average term of three years and rentals are fixed for the lease period, with an option to extend for a further period at the then prevailing market rate.

27. Share-based payments

The Group operates share-based compensation arrangements to provide incentives to the Group's senior management and eligible employees. The Group recognised a net charge of £1.0 million (2015: £1.2 million) in respect of share-based payments during the year.

Details of the four schemes which operated during the year are set out below.

The Chemring Group Performance Share Plan (the "PSP")

Under the PSP, conditional awards of ordinary shares are made at nil cost to employees. Awards ordinarily vest on the third anniversary of the award date. The scheme commenced in March 2006.

	Number of conditional shares	
	2016	2015
Outstanding at beginning of the year	3,966,720	3,186,452
Adjustment relating to rights issue	704,701	–
Awarded	2,313,385	1,560,801
Lapsed	(2,481,214)	(780,533)
Outstanding at end of the year	4,503,592	3,966,720
Subject to vesting at end of the year	–	–

The following PSP awards were outstanding at 31 October 2016:

Date of award	Number of ordinary shares under award	Vesting price per share Pence	Date when awards due to vest
28 April 2014	1,062,603	nil	28 April 2017
8 July 2014	212,394	nil	8 July 2017
26 January 2015	1,296,490	nil	26 January 2018
25 January 2016	1,673,526	nil	25 January 2019
7 March 2016	258,579	nil	7 March 2019

NOTES TO THE GROUP FINANCIAL STATEMENTS

continued

27. Share-based payments continued

The Group has applied a discount to the share-based payment, to reflect the anticipated achievement of the stipulated targets for each PSP award based on the predicted figures within the Group's financial projections and the expected number of leavers over the life of the PSP awards.

The PSP awards made in the year ended 31 October 2016 had targets based on earnings per share growth and total shareholder return. The PSP awards made in the year ended 31 October 2016 have been valued using the following modelling inputs:

	Date awarded	
	25 January 2016	7 March 2016
Share price at valuation as restated	138p	134p
Exercise price	nil	nil
Risk-free rate	0.66%	0.44%
Expected volatility	36.37%	38.55%
Fair value	107p	85.5p

The weighted average fair value of awards made during the year was 102.4p (2015: 181.5p).

No awards vested in the year ended 31 October 2016 or the year ended 31 October 2015. The charge recognised in respect of PSP awards is based on their fair value at the grant date.

The Chemring Group Restricted Share Plan (the "RSP")

Under the RSP, deferred awards of ordinary shares are made at nil cost to employees. Awards ordinarily vest on the second or third anniversary of the award date. The first awards under the RSP were made in February 2013.

	Number of deferred shares	
	2016	2015
Outstanding at beginning of the year	130,000	579,378
Awarded	50,000	–
Lapsed	–	(7,437)
Exercised	(130,000)	(441,941)
Outstanding at end of the year	50,000	130,000
Subject to vesting at end of the year	–	–

The following RSP awards were outstanding at 31 October 2016:

Date of award	Number of ordinary shares under award	Vesting price per share Pence	Date when awards due to vest
7 March 2016	50,000	nil	7 March 2019

The Group has applied a discount to the share-based payment relating to the RSP, to reflect the expected number of leavers over the life of the RSP awards.

The weighted average fair value of awards made during the year ended 31 October 2016 was 134.5p.

The Chemring Group 2008 UK Sharesave Plan (the "UK Sharesave Plan")

Options were granted during the year on 27 July 2016.

	2016		2015	
	Number of share options	Weighted average exercise price Pence	Number of share options	Weighted average exercise price Pence
Outstanding at beginning of the year	1,302,225	186.4	1,122,986	191.5
Adjustment relating to the rights issue	172,519	186.4	–	–
Granted	1,031,147	105.0	329,532	174.0
Exercised	(5,337)	163.0	(8,166)	214.0
Lapsed	(772,517)	163.5	(142,127)	191.7
Outstanding at end of the year	1,728,037	128.1	1,302,225	186.4
Subject to exercise at end of the year	53,441	255.9	157,551	238.2

27. Share-based payments continued

The following options were outstanding at 31 October 2016:

Date of award	Number of ordinary shares under award	Exercise price per share Pence	Dates between which options may be exercised
29 July 2011	10,656	444.0	1 October 2016 – 31 March 2017
30 July 2012	49,279	195.0	1 October 2017 – 31 March 2018
30 July 2013	42,785	209.0	1 October 2016 – 31 March 2017
30 July 2013	44,117	209.0	1 October 2018 – 31 March 2019
30 July 2014	232,441	142.0	1 October 2017 – 31 March 2018
30 July 2014	96,631	142.0	1 October 2019 – 31 March 2020
30 July 2015	180,467	152.0	1 October 2018 – 31 March 2019
30 July 2015	45,656	152.0	1 October 2020 – 31 March 2021
27 July 2016	910,010	105.0	1 October 2019 – 31 March 2020
27 July 2016	115,995	105.0	1 October 2021 – 31 March 2022

The weighted average fair value of options granted in the year was 26.0p (2015: 43.0p).

The weighted average fair value of options exercised in the year was 41.3p (2015: 63.1p).

The weighted average share price on exercise of the options during the year was 146.6p (2015: 224.0p).

The fair values of the share options in the UK Sharesave Plan are based on the difference between the exercise price and the share price on the grant date of the option.

The Chemring Group 2008 US Stock Purchase Plan (the "US Stock Purchase Plan")

The US Stock Purchase Plan mirrors the UK Sharesave Plan, subject to certain legal and tax differences due to the differing jurisdictions. No options were granted during the year.

	2016		2015	
	Number of share options	Weighted average exercise price Pence	Number of share options	Weighted average exercise price Pence
Outstanding at beginning of the year	36,199	174.0	77,689	215.9
Granted	–	–	–	–
Lapsed	(36,199)	174.0	(41,490)	262.0
Outstanding at end of the year	–	–	36,199	174.0
Subject to exercise at end of the year	–	–	–	–

NOTES TO THE GROUP FINANCIAL STATEMENTS

continued

28. Acquisitions and disposals

On 4 May 2016, 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. The assets to be purchased relate to air countermeasures and pyrotechnic products, which will be manufactured at Chemring Countermeasures Limited.

Recognised amounts of identifiable assets acquired and liabilities assumed (provisional)	£m
Inventory	0.2
Property, plant and equipment	0.2
Identifiable intangible assets	2.1
Total consideration	2.5
Satisfied by:	
Cash	2.5
Total consideration transferred	2.5
Net cash outflow arising on acquisition	
Cash consideration	2.5
Less: cash and cash equivalents acquired	-
Cash outflow from investing activities	2.5

Acquisition related costs (included in administrative expenses in the consolidated income statement for the year ended 31 October 2016) amounted to £0.2 million.

There were no disposals during the year. The following acquisition costs and (credits) relating to previous disposals were comprised as follows:

	2016 £m	2015 £m
Continuing operations		
Chemring Energetic Devices' Clear Lake disposal	0.1	-
Acquisition of Wallop Defence Systems' assets	0.2	0.5
	0.3	0.5
Discontinued operations		
Chemring Defence Germany disposal	-	(0.5)
European munitions businesses disposal	(4.1)	(3.8)
Disposed property dilapidations	(0.6)	-
Marine business disposal	-	(0.6)
	(4.7)	(4.9)
	(4.4)	(4.4)

The tax impact of discontinued operations was a £0.1 million credit (2015: £nil).

Included in the amounts above are costs of £0.3 million (2015: £0.5 million) relating to continuing operations.

29. Pensions

In the UK, the Group operates a defined benefit scheme (the "Chemring Group Staff Pension Scheme"). In Norway, Chemring Nobel operates a defined benefit scheme (the "Chemring Nobel Scheme"). The Group's other UK and overseas pension arrangements are all defined contribution schemes, with a combined cost of £6.2 million (2015: £5.8 million).

The Chemring Group Staff Pension Scheme is a funded scheme and the assets of the scheme are held in a separate trustee administered fund. The scheme was closed to future accrual on 6 April 2012. A full actuarial valuation of the Chemring Group Staff Pension Scheme as at 6 April 2015 has been completed and updated to 31 October 2016 by a qualified actuary, using the projected unit credit method. The main assumptions for the scheme are detailed below. The deficit of the Chemring Group Staff Pension Scheme was £17.3 million at 31 October 2016 (2015: £17.8 million).

Under the funding plan agreed with the trustees following the 2015 actuarial valuation, the Company has agreed to eliminate the deficit indicated by that valuation over a period of four years. This funding plan provides for contributions of £5.0 million per annum to be paid in monthly instalments until 2019. The Company and the trustees monitor funding levels annually, and a new funding plan is agreed with the trustees every three years, based on actuarial valuations. The Group considers that the current contribution rates agreed with the trustees are sufficient to eliminate the calculated deficit over the agreed period.

29. Pensions continued

The Group has provided a bank guarantee and letters of credit totalling £8.5 million (2015: £13.5 million) to the Chemring Group Staff Pension Scheme, comprising a £1.3 million letter of credit and a £7.2 million bank guarantee, which may only be drawn upon certain events of default by the Company. The value of the bank guarantee and letters of credit has reduced during the year as deficit reduction payments have been made by the Company.

The Chemring Nobel Scheme is an unfunded scheme. The actuarial liability has been calculated at 31 October 2016 by a qualified actuary using the projected unit credit method. The main assumptions used were a discount rate of 2.0% and rate of increase in deferred pensions of 3.0%. The net surplus of the Chemring Nobel Scheme was £nil at 31 October 2016 (2015: £0.1 million).

Chemring Group PLC is the principal employer of all schemes and due to the similarity of the schemes, the schemes have been netted-off in the table below.

The amount recognised in the balance sheet in respect of the Group's defined benefit schemes is as follows:

	2016 £m	2015 £m
Present value of funded and unfunded obligations	(94.7)	(81.1)
Fair value of schemes' assets	77.4	63.4
Net retirement benefit obligation recognised in the balance sheet	(17.3)	(17.7)

An analysis of the retirement benefit obligation recognised in the balance sheet by scheme is as follows:

	2016 £m	2015 £m
Chemring Group Staff Pension Scheme	(17.3)	(17.8)
Chemring Nobel Scheme	–	0.1
Net retirement benefit obligation recognised in the balance sheet	(17.3)	(17.7)

Amounts recognised in the income statement in respect of the Group's defined benefit schemes were as follows:

	2016 £m	2015 £m
Amounts included within finance expense		
Expected return on schemes' assets	2.2	2.1
Discount on schemes' liabilities	(3.0)	(3.0)
Net charge recognised in the income statement	(0.8)	(0.9)

Amounts recognised in the statement of comprehensive income were as follows:

	2016 £m	2015 £m
Actuarial gains on schemes' assets	10.0	0.5
Actuarial losses on schemes' liabilities	(13.8)	(0.5)
Actuarial loss recognised in the statement of comprehensive income	(3.8)	–

Changes in the present value of the defined benefit obligations were as follows:

	2016 £m	2015 £m
Opening defined benefit obligations	(81.1)	(80.9)
Discount on schemes' liabilities	(3.0)	(3.0)
Actuarial losses on schemes' liabilities	(13.8)	(0.5)
Benefits paid	3.2	3.3
Closing defined benefit obligations	(94.7)	(81.1)

NOTES TO THE GROUP FINANCIAL STATEMENTS

continued

29. Pensions continued

The Chemring Group Staff Pension Scheme had 1,071 members at the end of the year (2015: 1,092). Of these members 51.1% (2015: 49.0%) were pensioners drawing benefits from the scheme and the balance were deferred members. The duration of the liability is long with pension payments expected to be made for at least the next 40 years.

Changes in the fair value of the schemes' assets were as follows:

	2016 £m	2015 £m
Opening fair value of schemes' assets	63.4	59.1
Expected return on schemes' assets	2.2	2.1
Actuarial gains on schemes' assets	10.0	0.5
Contributions from sponsoring companies	5.0	5.0
Benefits paid	(3.2)	(3.3)
Closing fair value of schemes' assets	77.4	63.4

The pension schemes' assets are analysed as follows:

	2016 £m	2015 £m	2016 %	2015 %
Equities	52.3	41.5	67.6	65.5
Bonds	25.1	21.9	32.4	34.5
	77.4	63.4	100.0	100.0

The expected rate of return on the schemes' assets was 2.7% (2015: 3.7%). This was determined by reference to relevant published indices.

The schemes' assets are invested in accordance with their statements of investment principles after taking professional advice from the schemes' investment advisers. The investment strategy seeks to maintain broadly 70% of the schemes' assets invested in equities and 30% in fixed interest funds.

	2016 £m	2015 £m	2014 £m	2013 As restated £m	2012 £m
Present value of funded and unfunded obligations	(94.7)	(81.1)	(80.9)	(76.7)	(71.6)
Fair value of schemes' assets	77.4	63.4	59.1	51.6	44.6
Deficit in the schemes	(17.3)	(17.7)	(21.8)	(25.1)	(27.0)

The history of actuarial gains and losses is as follows:

Actuarial losses on schemes' liabilities	(13.8)	(0.5)	(5.1)	(4.4)	(5.7)
Percentage of schemes' liabilities	14.6%	0.6%	6.3%	5.7%	8.0%
Actuarial gains on schemes' assets	10.0	0.5	0.3	5.9	3.0
Percentage of schemes' assets	12.9%	0.8%	0.5%	11.4%	6.7%

Analysis of movement in the deficit in the schemes during the year:

	2016 £m	2015 £m
Opening deficit in the schemes	(17.7)	(21.8)
Contributions from sponsoring companies	5.0	5.0
Other finance costs	(0.8)	(0.9)
Actuarial gains on schemes' assets	10.0	0.5
Actuarial loss on schemes' liabilities	(13.8)	(0.5)
Closing deficit in the schemes	(17.3)	(17.7)

29. Pensions continued

The principal assumptions used in the actuarial valuation of the Chemring Group Staff Pension Scheme were as follows:

	2016 %	2015 %
Discount rate	2.7	3.7
Rate of increase in salaries	n/a	n/a
Rate of increase in deferred pensions	3.4	3.3
Rate of increase in pensions in payment (where applicable)	3.4	3.3
Inflation	3.6	3.4
- RPI		
- CPI	2.7	2.5
Expected return on scheme assets	2.7	3.7

In determining defined benefit obligations, the Group uses mortality assumptions which are based on published mortality tables. For the Chemring Group Staff Pension Scheme, the actuarial table currently used is SAPS Normal Health pensioner tables with future improvements in line with CMI 2013 and 1.25% long term trend rate.

This results in the following life expectancies at age 65:

		2016	2015
Future pensioners	- male	88.1	88.7
	- female	90.6	91.4
Current pensioners	- male	86.5	86.5
	- female	88.8	89.4

The most significant assumptions in the pension valuation are the discount rate applied to the liabilities, the inflation rate to be applied to pension payments and the mortality rates. If the discount rate used in determining retirement benefit obligations were to change by 0.1% then it is predicted that the deficit in the scheme would change by approximately £1.6 million. A change in the rate of inflation by 0.1% is predicted to change the deficit by approximately £1.1 million and a one year change to the longevity assumption would change the deficit by approximately £3.1 million. The principal risks to the schemes are that the investments do not perform as well as expected, the discount rate continues to fall driven by lower market interest rates and that the rate of improvement in mortality assumed is insufficient and life expectancies continue to rise.

The Group anticipates contributions to the defined benefit schemes for the year ending 31 October 2017 will be £5.0 million (2016: £5.0 million).

30. Cash generated from underlying operations

	2016 £m	2015 £m
Operating profit from continuing operations	26.2	5.5
Operating profit from discontinued operations	4.7	4.9
	30.9	10.4
Amortisation of development costs	6.8	6.2
Intangible amortisation arising from business combinations	14.8	14.0
Amortisation of patents and licences	0.1	0.2
Loss on disposal of non-current assets	0.2	0.3
Depreciation of property, plant and equipment	18.4	16.3
Loss/(gain) on the movement in the fair value of derivative financial instruments	1.0	(0.5)
Share-based payment expense	1.0	1.2
Employer contributions to retirement benefit obligations	(5.0)	(5.0)
Operating cash flows before movements in working capital	68.2	43.1
Decrease/(increase) in inventories	13.6	(19.1)
Increase in trade and other receivables	(5.8)	(3.1)
(Decrease)/increase in trade and other payables	(1.1)	9.3
Decrease in provisions	(0.3)	(5.3)
	74.6	24.9
Add back non-underlying items:		
Acquisition and disposal related credits	(4.4)	(4.4)
Business restructuring and incident costs	5.4	6.4
Claim related(credit)/costs	(0.6)	8.5
Loan note repayment costs	1.4	-
Cash generated from underlying operations	76.4	35.4
Analysed as:		
Continuing operations	76.4	35.4

NOTES TO THE GROUP FINANCIAL STATEMENTS

continued

31. Reconciliation of net cash flow to movement in net debt

	2016 £m	2015 £m
Increase/(decrease) in cash and cash equivalents	54.6	(14.1)
Decrease in debt and lease financing due to cash flows	49.6	3.0
Decrease/(increase) in net debt resulting from cash flows	104.2	(11.1)
Effect of foreign exchange rate changes	(34.7)	(5.5)
Amortisation of debt finance costs	(2.8)	(2.1)
Movement in net debt	66.7	(18.7)
Net debt at beginning of the year	(154.3)	(135.6)
Net debt at end of the year	(87.6)	(154.3)

32. Analysis of net debt

	At 1 November 2015 £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	At 31 October 2016 £m
Cash at bank and in hand	7.6	54.6	–	0.9	63.1
Debt due within one year	–	–	(29.5)	–	(29.5)
Debt due after one year	(161.3)	49.2	26.7	(35.6)	(121.0)
Finance leases	(0.5)	0.4	–	–	(0.1)
Preference shares	(0.1)	–	–	–	(0.1)
	(154.3)	104.2	(2.8)	(34.7)	(87.6)

33. Contingent liabilities

The Group enters into contracts which have offset commitments. These requirements are valued at the time of the contract being awarded. The cost of the offsets are reviewed throughout the contract life and provided for within the contract costings to the extent of the potential liability.

At 31 October 2016, the Group had contingent liabilities in respect of bank and contractual performance guarantees and other matters arising in the ordinary course of business. Where it is expected that a material liability will arise in respect of these matters, appropriate provision is made within the financial statements. As the conditions of these guarantees are currently being met, no obligating event is foreseeable and therefore no provision has been made.

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 £3.1 million (2015: £7.9 million) exists to cover estimated settlement and legal costs for the Group with regards to pending and probable legal actions.

The Group has a £2.5 million deductible per claim under its material damage and business interruption insurance policy, subject to a maximum aggregate deductible of £3.5 million in any one year.

34. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions with the Group's pension schemes are disclosed in note 29.

Trading transactions

There were no trading activities between the Group and its associate in the comparative period.

Remuneration of key management personnel

For the purposes of remuneration disclosure, key management personnel includes only the executive directors and excludes the other senior business managers and members of the Executive Committee. Their remuneration is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*. Further information on the remuneration of individual directors is provided in the audited part of the directors' remuneration report on pages 73 to 84.

The directors of the Company had no material transactions with the Company during the year, other than in connection with their service agreements. The remuneration of the executive directors is determined by the Remuneration Committee, having regard to the performance of the individuals and market trends. The remuneration of the non-executive directors is determined by the Board, having regard to the practice of other companies and the particular demands of the Group.

	2016 £m	2015 £m
Remuneration of key management personnel	2.0	1.9

Further detail can be found in the directors' remuneration report on pages 64 to 84.

35. Events since the end of the year

On 21 November 2016, the Group repaid \$36.0 million of outstanding loan notes out of existing cash resources.

On 13 December 2016 the Group announced the appointment of Andrew Lewis as Group Finance Director. He was previously Group Finance Director of Avon Rubber p.l.c. Andrew joined Chemring on 9 January 2017 and will join the Board of Chemring on 19 January 2017, following the publication of the Group's final results for the year ended 31 October 2016.

PARENT COMPANY BALANCE SHEET

As at 31 October 2016

		2016		2015	
	Note	£m	£m	£m	£m
Non-current assets					
Property, plant and equipment	1	0.4		0.2	
Investments in subsidiaries	2	511.3		511.3	
Deferred tax asset	4, 10	6.7		8.2	
Amounts owed by subsidiary undertakings	4	376.2		400.6	
			894.6		920.3
Current assets					
Trade and other receivables	4	22.5		7.3	
Cash and cash equivalents		27.7		2.7	
			50.2		10.0
Total assets			944.8		930.3
Current liabilities					
Trade and other payables	5		(164.1)		(124.2)
Non-current liabilities					
Trade and other payables	5	(165.4)		(263.4)	
Provisions	6	(1.6)		(2.1)	
Preference shares	7	(0.1)		(0.1)	
Retirement benefit obligations	11	(6.3)		(6.6)	
			(173.4)		(272.2)
Total liabilities			(337.5)		(396.4)
Net assets			607.3		533.9
Equity					
Share capital	8		2.8		2.0
Share premium account			305.1		230.7
Special capital reserve			12.9		12.9
Retained earnings			296.1		297.9
			616.9		543.5
Own shares	9		(9.6)		(9.6)
Equity attributable to the equity holders of the parent			607.3		533.9
Total equity			607.3		533.9

These financial statements of Chemring Group PLC (registered number 86662) were approved and authorised for issue by the Board of directors on 19 January 2017.

Signed on behalf of the Board

Michael Flowers
Director

Sarah Ellard
Director

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 October 2016

	2016 £m	2015 £m
(Loss)/profit after tax attributable to equity holders of the parent as reported	(1.5)	22.5
Items that will not be reclassified to profit or loss		
Actuarial losses on pension scheme, net of deferred tax	(1.3)	–
Total comprehensive (loss)/income attributable to the equity holders of the parent	(2.8)	22.5

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 October 2016

	Share capital £m	Share premium account £m	Special capital reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2015	2.0	230.7	12.9	297.9	(9.6)	533.9
Loss after tax	–	–	–	(1.5)	–	(1.5)
Other comprehensive losses	–	–	–	(1.3)	–	(1.3)
Total comprehensive losses	–	–	–	(2.8)	–	(2.8)
Ordinary shares issued	0.8	74.4	–	–	–	75.2
Share-based payments (net of settlement)	–	–	–	1.0	–	1.0
At 31 October 2016	2.8	305.1	12.9	296.1	(9.6)	607.3

	Share capital £m	Share premium account £m	Special capital reserve £m	Retained earnings £m	Own shares £m	Total As restated* £m
At 1 November 2014	2.0	230.7	12.9	282.1	(9.6)	518.1
Profit after tax	–	–	–	22.5	–	22.5
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income	–	–	–	22.5	–	22.5
Dividends paid	–	–	–	(7.9)	–	(7.9)
Share-based payments (net of settlement)	–	–	–	1.2	–	1.2
At 31 October 2015	2.0	230.7	12.9	297.9	(9.6)	533.9

Profit attributable to shareholders

In accordance with the concession granted under section 408 of the Companies Act 2006, the profit and loss account of Chemring Group PLC has not been presented separately in these financial statements. There is no material difference between the results disclosed and the results on an unmodified historical cost basis. The Company reported a loss for the year ended 31 October 2016 of £1.5 million (2015: £22.5 million profit).

The auditor's remuneration for audit and other services is disclosed in note 3 to the Group financial statements.

A final dividend of 1.3p per ordinary share has been proposed. See note 8 to the Group financial statements.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

1. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 November 2014	0.1	1.2	1.3
Additions	–	0.1	0.1
At 1 November 2015	0.1	1.3	1.4
Additions	0.1	0.3	0.4
Disposals	(0.1)	(1.2)	(1.3)
At 31 October 2016	0.1	0.4	0.5
Depreciation			
At 1 November 2014	–	1.1	1.1
Charge	–	0.1	0.1
At 1 November 2015	–	1.2	1.2
Charge	–	0.1	0.1
Disposals	–	(1.2)	(1.2)
At 31 October 2016	–	0.1	0.1
Net book value			
At 31 October 2016	0.1	0.3	0.4
At 31 October 2015	0.1	0.1	0.2

The Company had no capital commitments as at 31 October 2016 or 31 October 2015. Land and buildings represent leasehold improvements.

2. Investments

	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
Cost			
At 1 November 2014	548.6	6.3	554.9
Additions	–	0.3	0.3
At 31 October 2015 and 31 October 2016	548.6	6.6	555.2
Impairment			
At 1 November 2014, 31 October 2015 and 31 October 2016	43.9	–	43.9
Carrying amount			
At 31 October 2016	504.7	6.6	511.3
At 31 October 2015	504.7	6.6	511.3

3. Investments in Group undertakings

Details of the Group undertakings at 31 October 2016 are set out in note 13 to the Group financial statements.

The directors consider that the carrying value of the investments does not exceed their fair value.

4. Trade and other receivables

	2016 £m	2015 £m
Within current assets		
Other receivables	21.2	5.1
Corporation tax recoverable	0.5	1.7
Prepayments and accrued income	0.8	0.5
	22.5	7.3
Within non-current assets		
Deferred tax asset (see note 10)	6.7	8.2
Amounts owed by subsidiary undertakings	376.2	400.6
	382.9	408.8

An asset of £0.5 million (2015: £0.5 million) is recognised within other receivables in respect of the fair value of derivative financial instruments, as set out in note 20 to the Group financial statements. The directors consider that the carrying value of the trade and other receivables approximates to their fair value.

5. Trade and other payables

	2016 £m	2015 £m
Within current liabilities		
Derivative financial instruments (note 20 to the Group financial statements)	2.5	1.5
Trade payables	0.9	0.9
Amounts owed to subsidiary undertakings	125.9	113.7
Other payables	1.0	–
Other tax and social security	0.2	0.2
Accruals and deferred income	4.1	7.9
Loan notes	29.5	–
	164.1	124.2
Within non-current liabilities		
Derivative financial instruments (note 20 to the Group financial statements)	–	0.3
Loan notes	121.0	161.3
Amounts owed to subsidiary undertakings	44.4	101.8
	165.4	263.4

An analysis of borrowings by maturity is as follows:

	2016 £m	2015 £m
Borrowings falling due:		
– less than one year	29.5	–
– within one to two years	53.8	28.4
– within two to five years	67.2	132.9
	150.5	161.3

The interest incurred on the above borrowings is detailed within notes 6 and 17 to the Group financial statements.

NOTES TO THE PARENT COMPANY FINANCIAL STATEMENTS

continued

6. Provisions

	Environmental provision £m	Disposal provision £m	Legal provision £m	Total £m
At 1 November 2015	–	0.7	1.4	2.1
Released	–	(0.5)	(0.6)	(1.1)
Paid	–	(0.1)	–	(0.1)
Reclassification	0.7	–	–	0.7
At 31 October 2016	0.7	0.1	0.8	1.6

It is not possible to estimate more accurately the expected timing of any resulting outflows of economic benefits. The environmental provision relates to estimated liabilities in respect of the sale of the Marine business in 2012. The legal provision relates to a legacy property lease.

7. Preference shares

	2016 £m	2015 £m
Cumulative preference shares (62,500 shares of £1 each)	0.1	0.1

The cumulative preference shares carry an entitlement to a dividend at the rate of 7p per share per annum, payable in equal instalments on 30 April and 31 October each year. Holders of the preference shares have the right on a winding-up to receive, in priority to any other classes of shares, the sum of £1 per share together with any arrears of dividends.

8. Share capital

	2016 £m	2015 £m
Issued, allotted and fully paid		
281,425,256 (2015: 195,504,091) ordinary shares of 1p each	2.8	2.0

During the year, 5,337 ordinary shares (2015: 8,166) were issued for cash to employees under the Group's approved savings-related share schemes.

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.

The preference shares are presented as a liability and accordingly are excluded from called-up share capital in the balance sheet.

Share-based incentive schemes

Full details of the schemes are set out in note 27 to the Group financial statements.

9. Own shares

	2016 £m	2015 £m
At beginning and end of the year	9.6	9.6

The own shares reserve represents the cost of shares in Chemring Group PLC purchased in the market and held by the Group to satisfy awards under the Group's share-based incentive schemes (see note 27 to the Group financial statements). During the year, no ordinary shares (2015: nil) were acquired and no ordinary shares (2015: nil) were distributed following the vesting of awards under the Chemring Group Performance Share Plan. The total number of ordinary shares held in treasury at 31 October 2016 was 2,198,814 (2015: 2,198,814), with an average cost of 439.0p (2015: 439.0p) per share. This represents 0.8% (2015: 1.1%) of the total issued and fully-paid ordinary share capital.

10. Deferred tax asset

	2016 £m	2015 £m
At beginning of the year	8.2	8.5
Charge to income statement	(1.5)	(0.3)
At the end of the year as restated	6.7	8.2
The amount provided represents:		
Other timing differences	6.7	8.2

The Company has considered the recoverability of the deferred tax asset and concluded that the expected future activities of the Company are sufficient to support this value.

11. Pensions

The Company has assumed its share of the assets and liabilities of the Group's defined benefit pension scheme.

An analysis of the provision balance is shown below:

	Total £m
At 1 November 2014	8.1
Contributions	(2.0)
Other finance costs	0.5
At 1 November 2015	6.6
Contributions	(2.1)
Other finance costs	0.3
Actuarial movements	1.5
At 31 October 2016	6.3

Further details are set out in note 29 to the Group financial statements.

12. Staff costs

	2016 Number	2015 Number
Average monthly number of total employees (including executive directors)	25	27

The costs incurred in respect of these employees (including share-based payments) were:

	2016 £m	2015 £m
Wages and salaries	4.1	3.4
Social security costs	0.7	0.5
Other pension costs	0.4	0.4
	5.2	4.3

Disclosures in respect of directors' emoluments can be found in the directors' remuneration report on pages 64 to 84.

GROUP ACCOUNTING POLICIES

1. General information

Chemring Group PLC is a company incorporated in England and Wales under registration number 86662. The address of the registered office is Roke Manor, Old Salisbury Lane, Romsey, Hampshire, SO51 0ZN. The nature of the Group's operations and its principal activities are set out in note 2 and in the directors' report on pages 48 to 51. These financial statements are the consolidated financial statements of Chemring Group PLC and its subsidiaries (the "Group").

The financial statements are presented in pounds sterling, being the currency of the primary economic environment in which the Group operates, and rounded to the nearest £0.1 million. Foreign operations are included in accordance with the policy set out in the accounting policies section.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Group and the Company have adequate resources to continue to adopt the going concern basis of accounting in preparing these financial statements. Further detail is contained in the statement on going concern on page 27.

2. New and revised standards

New and revised standards and interpretations in issue but not yet effective

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

- *Classification and Measurement of Share-based Payment Transactions*, amendments to IFRS 2 (effective year ending 31 October 2019);
- IFRS 9 *Financial Instruments Novation of Derivatives and Continuation of Hedge Accounting* (effective year ending 31 October 2019);
- *Investment Entities: Applying the Consolidation Exception*, amendments to IFRS 10, IFRS 12 and IAS 28 (effective year ending 31 October 2017);
- IFRS 11 (amended) *Accounting for Acquisitions of an Interest in a Joint Operation* (effective year ending 31 October 2017);
- IFRS 15 *Revenue from Contracts with Customers* (effective year ending 31 October 2019);
- IAS 7 *Statement of Cash Flows* (effective year ending 31 October 2018);
- IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses* (effective year ending 31 October 2018);
- *Clarification of Acceptable Methods of Depreciation and Amortisation*, amendments to IAS 16 and IAS 38 (effective year ending 31 October 2017);
- IFRS 16 *Leases* (effective year ending 31 October 2020);
- IAS 27 (amended) *Equity Method in Separate Financial Statements* (effective year ending 31 October 2017); and
- Annual Improvements to IFRSs 2014-2016 Cycle (effective year ending 31 October 2018).

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

- IFRS 9 *Financial Instruments* will impact both the measurement and disclosure of financial instruments;
- IFRS 15 *Revenue from Contracts with Customers* will impact the validity and timing of revenue recognised under contract accounting. This may particularly affect contracts with variable consideration or specific contract terms allowing the customer to modify or curtail its requirements; and
- IFRS 16 *Leases* will impact the measurement, recognition, presentation and disclosure of leases, particularly operating leases where the term is longer than twelve months.

Beyond this information, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been conducted during 2017.

GROUP ACCOUNTING POLICIES

continued

3. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with IFRS adopted for use in the EU and therefore comply with Article 4 of the EU IAS Regulation. These financial statements have also been prepared in accordance with IAS, IFRS and related IFRIC interpretations, subsequent amendments to those standards and related interpretations, future standards and related interpretations issued or adopted by the International Accounting Standards Board ("IASB") that have been endorsed by the European Union (collectively referred to as IFRS). These are subject to ongoing review and endorsement by the European Union or possible amendment by interpretive guidance from the IASB and the IFRIC, and are therefore still subject to change.

The financial statements are prepared under the historical cost convention, except as described below under the heading of 'Derivative financial instruments and hedge accounting'.

The particular accounting policies adopted have been applied consistently throughout the current and previous years and are described below.

Basis of consolidation

The Group financial statements consolidate those of the Company and all of its subsidiaries. A subsidiary undertaking is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. The results of subsidiaries acquired are consolidated from the date on which control passes to the Group and the results of disposed subsidiaries are consolidated up to the date on which control passes from the Group.

The Company considers that it has the power to govern the financial and operating policies of the US entities falling within the Special Security Agreement and these entities have therefore been consolidated in these financial statements.

The Company and all of its subsidiaries make up their financial statements to the same date. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Operating profit

Operating profit is stated before the share of results of associates and before finance income and expense. The use of underlying measures, in addition to total measures, is considered by the Board to improve comparability of business performance between periods. Underlying measures referred to 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.

Operating cash conversion

Cash conversion of underlying operating profit is defined as cash generated from underlying operations, less purchases of intangible assets and property, plant and equipment and proceeds on disposal of property, plant and equipment, as a proportion of underlying operating profit.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other revenue-related taxes.

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership, typically on formal acceptance;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services, including customer funded research and development, is recognised by reference to the stage of completion of the contract. Stage of completion is typically estimated by either completion of relevant milestones or proportion of contract costs incurred for work performed to date, as appropriate.

GROUP ACCOUNTING POLICIES

continued

3. Accounting policies *continued*

Contract accounting

Contract accounting may be applied to appropriate contracts that are significantly large, built specifically for a particular customer order and have an expected duration of over twelve months.

When the outcome can be estimated reliably, revenue and costs are recognised by reference to the stage of completion at the balance sheet date. This is normally measured by the proportion of contract costs incurred for work performed to date against the estimated total contract costs, except where this would not be representative of the actual stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amounts can be measured reliably and their receipt is considered probable.

When the outcome of such contracts cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred where it is probable they will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Investment income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established, provided that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Acquisitions and disposals

On acquisition of a subsidiary, associate or jointly controlled entity, the cost is measured as the fair value of the consideration. The assets, liabilities and contingent liabilities of subsidiary undertakings that meet the IFRS 3 (Revised) *Business Combinations* recognition criteria are measured at the fair value at the date of acquisition, except that:

- deferred tax assets or liabilities, and liabilities or assets relating to employee benefit arrangements, are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 (Revised) *Employee Benefits* respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with IFRS 2 *Share-based Payments*; and
- assets (or disposal groups) that are classified as held for sale, in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, are measured in accordance with that standard.

Where cost exceeds fair value of the net assets acquired, the difference is recorded as goodwill.

Where the fair value of the net assets exceeds the cost, the difference is recorded directly in the income statement. The accounting policies of subsidiary undertakings are changed where necessary to be consistent with those of the Group.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities recognised, to reflect new information obtained about facts and circumstances that existed as at the acquisition date that, if known, would have affected the amounts recognised as at that date.

The measurement period runs from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as at the acquisition date, subject to a maximum period of one year.

In accordance with IFRS 3 (Revised) *Business Combinations*, acquisition and disposal related items are recognised through the income statement. Acquisition and disposal related items refer to credits and costs associated with the acquisition and disposal of businesses, together with the costs of aborted bids and the establishment of joint ventures.

3. Accounting policies *continued*

Intangible assets

Goodwill

The purchased goodwill of the Group is regarded as having an indefinite useful economic life and, in accordance with IAS 36 *Impairment of Assets*, is not amortised but is subject to annual tests for impairment. On disposal of a subsidiary, associate or jointly controlled entity, the amount attributable to goodwill is included in the determination of the profit or loss on disposal.

Acquired intangibles

The Group recognises separately from goodwill, intangible assets that are separable or arise from contractual or other legal rights and whose fair value can be measured reliably. These intangible assets are amortised at rates calculated to write down their cost or valuation to their estimated residual values by equal instalments over their estimated useful economic lives, which are:

- technology – average of ten years
- customer relationships – average of ten years
- order books – average of two years

Development costs

Development costs that qualify as intangible assets are capitalised as incurred and, once the relevant intangible asset is ready for use, are amortised on a straight-line basis over their estimated useful lives, averaging five years (2015: five years).

The carrying value of development assets is assessed for recoverability at least annually or when a trigger is identified.

Patents and licences

Patents and licences are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives, averaging seven years (2015: seven years).

Property, plant and equipment

Other than historically revalued land and buildings, property, plant and equipment is held at cost less accumulated depreciation and any recognised impairment loss. Borrowing costs on significant capital expenditure projects are capitalised and allocated to the cost of the project.

No depreciation is provided on freehold land. On other assets, depreciation is provided at rates calculated to write down their cost or valuation to their estimated residual values by equal instalments over their estimated useful economic lives, which are:

- freehold buildings – up to fifty years
- leasehold buildings – the period of the lease
- plant and equipment – up to ten years

Investments in associates

The results and the assets and liabilities of associates are accounted for using the equity method of accounting. Any excess of the cost of investment over the Group's share of the fair value of identifiable assets and liabilities within the associate at the date of acquisition is accounted for as goodwill that is included in the carrying value of the investment and is assessed for impairment as part of that investment.

Impairment of non-current assets

Assets that have indefinite lives are allocated to the Group's cash-generating units and tested for impairment at least annually. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever changes in circumstances indicate that the carrying value may not be recoverable. To the extent that the carrying value exceeds the recoverable amount, an impairment loss is recorded for the difference as an expense in the income statement. The recoverable amount used for impairment testing is the higher of the value-in-use and the asset's fair value less costs of disposal. For the purpose of impairment testing, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

GROUP ACCOUNTING POLICIES

continued

3. Accounting policies *continued*

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost represents materials, direct labour, other direct costs and related overheads, and is determined using the "first-in, first-out" ("FIFO") method. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal.

Provision is made for slow-moving, obsolete and defective items where appropriate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use, are added to the cost of those assets, until such time as the assets are ready for their intended use. Once the assets are ready for their intended use, these capitalised borrowing costs are depreciated in line with the underlying asset.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants for staff retraining costs are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Government grants relating to property, plant and equipment are treated as deferred income and released to the income statement over the expected useful economic lives of the assets concerned.

Tax

The tax expense represents the sum of current tax and deferred tax.

Current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it excludes items of income or expense that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred tax represents amounts expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable taxable profits will be available in the future against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities, when they relate to income taxed by the same tax authority, and when the Group intends to settle its current tax assets and liabilities on a net basis.

3. Accounting policies *continued*

Special capital reserve

The special capital reserve was created as part of a capital reduction scheme involving the cancellation of the share premium account which was approved by the Court in 1986, in accordance with the requirements of the Companies Act 1985.

Foreign currencies

The individual financial statements of each Group company are presented in its functional currency, being the currency of the primary economic environment in which it operates. For the purpose of these Group financial statements, the results and financial position of each Group company are expressed in pounds sterling, which is the functional currency of the Company, and the presentation currency for these financial statements.

In preparing the financial statements of each Group company, transactions in foreign currencies, being currencies other than the entity's functional currency, are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are included in the income statement for the period.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward foreign exchange contracts which are accounted for as derivative financial instruments (see below for details of the Group's accounting policies in respect of such derivative financial instruments).

For the purpose of presenting these financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Financial instruments

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Financial liabilities and derivative financial instruments

Financial liabilities

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

Bank borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, and direct issue costs are accounted for on an accruals basis in the income statement using the effective interest method, and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

GROUP ACCOUNTING POLICIES

continued

3. Accounting policies *continued*

Derivative financial instruments and hedge accounting

The Group's activities expose it to the financial risks of foreign currency transactions, and it uses forward foreign exchange contracts to hedge its exposure to these transactional risks. The Group does not use derivative financial instruments for speculative purposes.

Derivative financial instruments are recognised at fair value on the date the derivative contract is entered into and are revalued to fair value at each balance sheet date. The fair values of derivative financial instruments are calculated by external valuers.

The method by which any gain or loss is recognised depends on whether the instrument is designated a hedging instrument or not. To be designated as a hedging instrument, the instrument must be documented as such at inception, and must be assessed at inception and on an ongoing basis to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Hedge accounting principles are used for forward foreign exchange contracts where appropriate, with movements in fair value taken to equity for cash flow hedges and to the income statement for fair value hedges, until such time as the underlying amounts of the contract mature. At maturity or disposal of the net investment, the amounts held in equity will be recycled to the income statement. Changes in fair value of any ineffective portion of net investment hedges and interest rate swap contracts are recognised in the income statement immediately.

Where derivative financial instruments do not meet the criteria for hedge accounting, the changes in fair value are immediately recognised in the income statement.

Hedges of net investments in foreign operations

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the statement of comprehensive income and accumulated in the translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Embedded derivative financial instruments

Embedded derivative financial instruments that are not closely related to the host contract are treated as separate derivative financial instruments, with unrealised gains and losses reported in the income statement.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as an administrative expense in the period to which they relate. For defined benefit schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in the statement of comprehensive income in full in the period in which they occur.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

The discount on scheme liabilities less the expected return on scheme assets on defined benefit obligations is included within finance expense.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for unrecognised past service cost and as reduced by the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the scheme.

Leased assets

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as property, plant and equipment, and is depreciated over the shorter of its estimated useful economic life and the lease term. Future instalments under such leases, net of finance charges, are recognised as a liability. The finance element of the instalments is charged to the income statement at a constant rate of interest on the remaining balance of the obligation.

All other leases are operating leases, for which rental charges are recognised in the income statement on a straight-line basis over the life of the lease.

3. Accounting policies *continued*

Share-based compensation

The Group operates equity-settled and cash-settled share-based compensation schemes.

For grants made under the Group's share-based compensation schemes, the fair value of an award is measured at the date of grant and reflects any market-based vesting conditions. Non-market based vesting conditions are excluded from the fair value of the award. At the date of grant, the Company estimates the number of awards expected to vest as a result of non-market based vesting conditions, and the fair value of this estimated number of awards is recognised as an expense in the income statement on a straight-line basis over the vesting period. At each balance sheet date, the impact of any revision to vesting estimates is recognised in the income statement over the vesting period. Proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium.

For cash-settled share-based grants, the total amount recognised is based on the fair value of the liability incurred. The fair value of the liability is remeasured at each balance sheet date, with changes in the fair value recognised in the income statement.

Provisions

Provisions are recognised when the Group has a present obligation, either legal or constructive, as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the estimated cash flows to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Environmental provisions

Where the Group is liable for decontamination work or the restoration of sites to their original condition, an estimate is made of the costs needed to complete these works, discounted back to present values, relying upon independent third party valuers where appropriate.

Restructuring provisions

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring and not those associated with the ongoing activities of the entity.

Warranty provisions

Provisions for the expected cost of warranty obligations under local sale of goods legislation are recognised at the date of sale of the relevant products, based upon the best estimate of the expenditure required to settle the Group's obligations.

Disposal provisions

Disposal provisions relate to estimated liabilities faced by the Group in respect of discontinued operations and other disposed entities under the terms of their respective sale agreements.

Contingent liabilities

The Group exercises judgement in recognising exposures to contingent liabilities related to pending litigation or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement may be necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and/or to quantify the possible range of the financial settlement.

Non-GAAP information

In the analysis of the Group's financial performance and position, operating results and cash flows, information is presented to provide readers with additional information that is prepared on a non-GAAP basis and which is regularly reviewed by management. The principal non-GAAP information presented is the underlying measure of earnings. This is considered by the directors to allow a more meaningful comparison of earnings trends. A further description of underlying earnings can be found in note 9 of these financial statements.

Post balance sheet events

In accordance with IAS 10 *Events after the Balance Sheet Date*, the Group continues to disclose events that it considers material, non-disclosure of which can influence the economic decisions of users of the financial statements.

4. Chemring Group PLC accounting policies

FRS 101 *Reduced Disclosure Framework*

The financial statements have been prepared in accordance with FRS 101 *Reduced Disclosure Framework*.

The Company operates a multi-employer defined benefit scheme including employees of other Group companies. Following FRS 101, the scheme assets and liabilities have been allocated across the Group companies using a method that management considers to be the most appropriate, based on scheme membership.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- share-based payments;
- business combinations;
- financial instruments;
- fair value measurements;
- presentation of comparative information in respect of certain assets;
- IFRSs issued but not yet effective;
- related party transactions;
- assumptions and sensitivities for impairment review; and
- cash flow.

Investment in Group undertakings

Investments are stated at cost less any provision for impairment in value.

5. Critical accounting judgements and sources of estimation uncertainty

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

Revenue recognition

When accounting for the revenue recognised on the sale of goods, depending on the nature of the contract terms, there can be judgement applied to determining if substantially all the risks and rewards have transferred to the customer and therefore the point at which revenue should be recognised. This is the case for bill and hold arrangements which are common in the defence industry when selling product into government agencies, who will typically contract on ex-works terms.

The Group has contracts that fall into different accounting periods. In assessing the allocation of revenues and costs to individual accounting periods, and the consequential assets and liabilities, the Group estimates the total revenues and costs forecast to arise in respect of the contract and the stage of completion based on an appropriate measure of performance as described under the revenue recognition policy on pages 129 and 130. The Group utilises assumptions and projections, principally relating to future material, labour and overhead costs. As a consequence there is a risk that total contract costs will exceed those originally estimated and the margin will decrease. Changes to initial assumptions, which are reviewed on a regular basis, may result in revisions to estimated costs and anticipated margins. These are recognised in the period in which the estimated costs are revised. The determination of appropriate accounting policies for recognising revenue and costs in respect of these contracts requires judgement, in particular (i) whether contract accounting is the most appropriate method of recognising revenue on these contracts; and (ii) the appropriate measure of stage of completion of the contract.

Revenue from contract accounting for continuing operations amounted to £9.4 million (2015: £12.8 million).

5. Critical accounting judgements and sources of estimation uncertainty *continued*

Goodwill impairment

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit, and to determine a suitable discount rate in order to calculate present value (see note 10). In reviewing the carrying value of goodwill of the Group's businesses, the Board has considered the separate plans and cash flows of these businesses consistent with the requirements of IAS 36 *Impairment of Assets*. The plans and cash flows of these businesses reflect current and anticipated conditions in the defence industry.

Tax

The largest category of deferred tax asset which contains significant estimation uncertainty and which requires management judgement in assessing its recoverability relates to US interest limitations and tax losses carried forward (see note 22).

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

Legal

The Group is subject to legal proceedings and other claims arising in the ordinary course of business. The Group is required to assess the likelihood of any adverse judgements or outcomes, as well as potential ranges of probable losses. A determination of the amount of reserves required for these matters is based on a careful analysis of each individual issue with the assistance of outside legal counsel. However, actual claims incurred could differ from their estimated value and the risk of economic outflow relating to these reduces with the passage of time.

Pension

The Group's defined benefit pension schemes are assessed annually in accordance with IAS 19. The accounting valuation, which is based on assumptions determined with independent actuarial advice, resulted in a net deficit of £17.3 million before deferred taxation being recognised on the balance sheet at 31 October 2016 (2015: £17.7 million). The size of the deficit is sensitive to the market value of the assets held by the schemes and to actuarial assumptions, which include price inflation, pension and salary increases, the discount rate used in assessing actuarial liabilities, mortality and other demographic assumptions and the levels of contributions. Further details are included in note 29.

Capitalised development costs

IAS 38 *Intangible Assets* requires that development costs, arising from the application of research findings or other technical knowledge to a plan or design of a new substantially improved product, are capitalised, subject to certain criteria being met. Determining the technical feasibility and estimating the future cash flows generated by the products in development requires judgements which may differ from the actual outcome. In particular this can depend on the judgement applied to future milestone events to secure long term positions on production contracts, for example Programs of Record for the US DoD. The total capitalised development intangible asset is set out in note 11, which shows a carrying asset of £40.9 million at 31 October 2016.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHEMRING GROUP PLC

Opinion on financial statements of Chemring Group PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 October 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements that we have audited comprise:

- the consolidated income statement;
- the consolidated and company statements of comprehensive income;
- the consolidated and company balance sheets;
- the consolidated cash flow statement;
- the consolidated and company statements of changes in equity; and
- the related notes 1 to 35 of the consolidated financial statements and 1 to 12 of the company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

Summary of our audit approach

<i>Key risks</i>	The key risks that we identified in the current year were: <ul style="list-style-type: none">• Revenue recognition• Valuation of goodwill and intangibles• Provisioning for taxation• Undue bias in provisions
<i>Materiality</i>	The materiality that we used in the current year was £2.1 million (2015: £2.1 million) which was determined on the basis of using 7.5% of a 3 year average for continuing underlying pre-tax profit measure reported by the Group. Underlying pre-tax profit is the measure that management believes is of most interest to users of the financial statements and is defined in note 3.
<i>Scoping</i>	We focused our Group audit scope primarily on the audit work at 14 locations which represent the principal business units and account for 97% of the Group's net assets, 96% of the Group's revenue and 95% of the Group's underlying profit before tax, which was broadly consistent with the prior year.
<i>Significant changes in our approach</i>	In the current year we have not included the risk in respect of the going concern assumption in light of the Group's successful rights issue in the year and improved trading performance.

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within the accounting policies section to the financial statements and the directors' statement on the longer-term viability of the Group contained within the strategic report on page 27.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors' confirmation on page 27 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 34 to 40 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in the accounting policies section to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation on page 27 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

In the current year we have not included the risk in respect of the going concern assumption in light of the Group's successful rights issue in the year and improved trading performance.

continued

Revenue recognition

Risk description

- A. Judgements are taken in recognising revenue relating to the delivery of goods, most notably due to the differing contractual and shipping terms with regards to the transfer of risk and reward and the appropriate point at which revenue should be recognised. The key risk arises regarding sales recognised where goods have not been received by the customer or where the risks have not fully transferred. The timing of sales for the Group often leads to significant sales being reported in the periods close to reporting dates.
- B. Subject to meeting specific criteria, Chemring adopts long-term contract accounting for certain of its contracts. Whilst the volume and significance of these contracts continue to decline across the Group, a number of judgements are undertaken which specifically impact the extent to which revenue is recognised. Specifically there is a risk that original estimates made regarding the total contract cost are incorrect resulting in changes to the margin.

We have considered the judgements involved in adopting long term contract accounting and, due to the bespoke nature of these contracts, we have assessed that the forecasting of costs to complete is a significant judgement. Consequently, we have identified a key risk in the area relating to the accuracy of this estimate.

Refer to page 136 (critical accounting judgements and key sources of estimation uncertainty - revenue recognition); pages 129 and 130 (accounting policies - revenue recognition); and page 62 (Audit Committee report - significant issues considered).

How the scope of our audit responded to the risk

- A. Our audit work assessed the adequacy of the design and implementation of controls around revenue recognition. In response to the risk arising from differing contractual terms, we reviewed contractual evidence to understand how the specific terms were recorded and the appropriate revenue recognition policies applied. We then performed a sample test of sales recognised either side of the year end to substantiate that the appropriate terms of the relevant contracts had been followed and that the risks and rewards associated with the contract had passed to the customer. We used external evidence such as shipping documentation, export licences, letters of credit or client acceptance documentation to confirm that revenue had been recognised in the appropriate period.
- B. Our audit work assessed the adequacy of the design and implementation of controls over long-term contract accounting. For a sample of contracts we have verified the cost to complete through meetings with the project manager to discuss the scope of work, the progress, and any potential risks up to completion, and by agreement to evidence of committed spend, budgeted rates or actual costs incurred to date. We have also performed recalculations in order to confirm that revenues recognised are appropriate. We understood and challenged management's assumptions by referring to evidence including signed contracts terms and latest project status reports, and assessed the reliability of management estimates through consideration of the historical accuracy of prior period management estimates and considering the extent to which any other evidence, including industry reports around major programmes and our knowledge of the Aerospace and Defence industry, contrasted with the assumptions made.

Valuation of goodwill and/or intangibles

Risk description

- A. The assessment of the valuation of goodwill arising on historical acquisitions, is a judgemental process due to management's assertions regarding their recoverable amount. The Group recognised goodwill of £132.9 million at 31 October 2016. There are a number of key judgements in determining the recoverable amount, including growth rates in future cash flow forecasts, timing of contract wins and conversion into revenue, launch of new products and associated revenues, and discount rates applied to these forecasts.
- B. The valuation of intangibles arising from internal capitalised development costs is judgemental due to the uncertainty of forecast future revenue and profits used to support their carrying value. There is a risk that changes in the market may mean that these costs, whilst appropriate to capitalise, are not supported by future opportunities. The carrying value at 31 October 2016 was £40.9 million.

Refer to page 137 (critical accounting judgements and key sources of estimation uncertainty – goodwill impairment); page 131 (accounting policies – intangible assets); and page 62 (Audit Committee report – significant issues considered).

How the scope of our audit responded to the risk

- A. Our audit work assessed the adequacy of the design and implementation of controls over monitoring the carrying value of goodwill. We challenged the assumptions used by management in their annual impairment assessment by benchmarking to independently available data, peer group analysis, our by using our understanding of the secured orders underpinning the Group's short-term cash flow forecasts and our assessment of the longer term growth rates employed. In addition, valuation specialists within the audit team provided a challenge over the discount rate applied to these cash flows through the use of external data and benchmarking. Having audited the assumptions within management's annual impairment assessment, we checked the arithmetic accuracy of the impairment model using these assumptions to confirm their conclusions with respect to the recoverability of the carrying value of goodwill and other intangibles.
- B. We reviewed the design and implementation of controls over the monitoring of capital development projects and the impairment review process. We gained an understanding of the project plan and progress made to date through enquiries with non-finance personnel, evidencing the status of secured orders and income, routes to market and the identification of potential customers to help us assess whether carrying values were supportable. This involved review of documentation with third parties, understanding contract progress, ongoing customer interest and future risks with the commercial and business development team and allowed us to critically assess the recoverability of the related assets.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHEMRING GROUP PLC

continued

Provisioning for taxation

Risk description	<p>Provisioning for taxation requires complex judgements to be taken in respect of the various tax jurisdictions in which the Group operates. The provisions are judgemental as a result of their nature and technical complexity. The key risk is in relation to whether tax provisions impacting the effective tax rate have been recognised at the correct value including specific tax provisions and those against deferred tax asset balances.</p> <p>Refer to page 137 (critical accounting judgements and key sources of estimation uncertainty – tax); and page 132 (accounting policies – tax); and page 96 (notes to the Group financial statements – tax).</p>
How the scope of our audit responded to the risk	<p>Our audit work assessed the adequacy of the design and implementation of controls over accounting for taxation. We evaluated the appropriateness of management's assumptions and estimates in their assessment and valuation of the tax risks within the Group including review of correspondence on the status of tax compliance and tax audits in the various jurisdictions in which the Group operates, and benchmarking against our assessment of the range of potential outcomes in respect of the uncertain tax treatments adopted. We involved tax specialists within the audit team to provide detailed knowledge and expertise in assessing tax treatments in certain jurisdictions.</p>

Appropriateness and completeness of provisions

Risk description	<p>Management recognises provisions in respect of product failures, environmental matters and legal claims. The outcomes of these claims are subject to management judgement including determining their significance and the potential liability. Provisions total £16.2 million at 31 October 2016.</p> <p>Refer to page 137 (critical accounting judgements and key sources of estimation uncertainty – legal); page 135 (accounting policies – provisions and contingent liabilities); and pages 111 and 120 (notes to the Group financial statements – provisions and contingent liabilities).</p>
How the scope of our audit responded to the risk	<p>Our audit work assessed the adequacy of the design and implementation of controls in relation to how provisions are identified and valued. We recalculated and challenged management's estimates for the provisions through our understanding of the potential liability as set out in contract terms or third party information where applicable.</p> <p>For product failures, we challenged the level of provisioning by verifying the actual failure costs incurred to date and the products in circulation subject to customer dispute using external evidence, such as correspondence with third parties.</p> <p>In response to litigation and environmental risks, we reviewed internally prepared health and safety reports, circularised the Group's external legal advisors, and held specific discussions with external advisors that are providing services to the Group in relation to certain claims and reviewed legal costs incurred in the year to confirm the completeness of legal cases to which the Group is party. Through external evidence including submitted legal advice and discussion with management, we sought to challenge the basis for management's expectations over likely outcomes and their subsequent quantification of the related provisions.</p> <p>We have assessed the latest available information and the accuracy and reliability of the sources of that information to determine if the amounts provided are appropriate.</p>

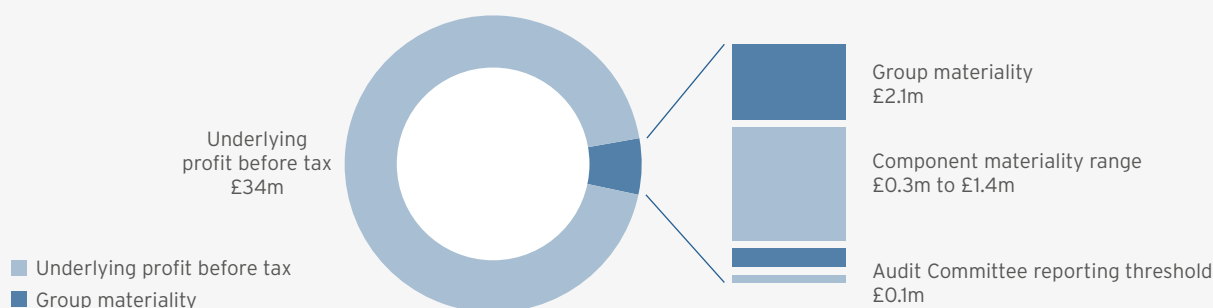
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<i>Group materiality</i>	£2.1 million (2015: £2.1 million).
<i>Basis for determining materiality</i>	<p>We derived materiality by using 7.5% of a three year average for continuing underlying pre-tax profit measure reported by the Group. Underlying pre-tax profit is the measure that we believe is of most interest to users of the financial statements and is defined in note 3.</p> <p>This equates to 6.2% of underlying pre-tax profit (2015: 10%), under 1% of revenue (2015: under 1%), and under 1% of net assets (2015: under 1%).</p>
<i>Rationale for the benchmark applied</i>	As a result of the volatile business performance in recent years we have included consideration of alternative benchmarks in reaching our conclusion. This serves to reduce the volatility that one-off significant contracts can have on the Group's trading result. The result is that materiality has been maintained at a similar level year on year using a consistent approach that is understood by shareholders and the Audit Committee given it has previously been reported in the 2015 Annual Report.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £100,000 (2015: £41,500), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. The threshold has been increased in the current period based on our assessment of what constitutes a clearly trivial audit difference. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHEMRING GROUP PLC

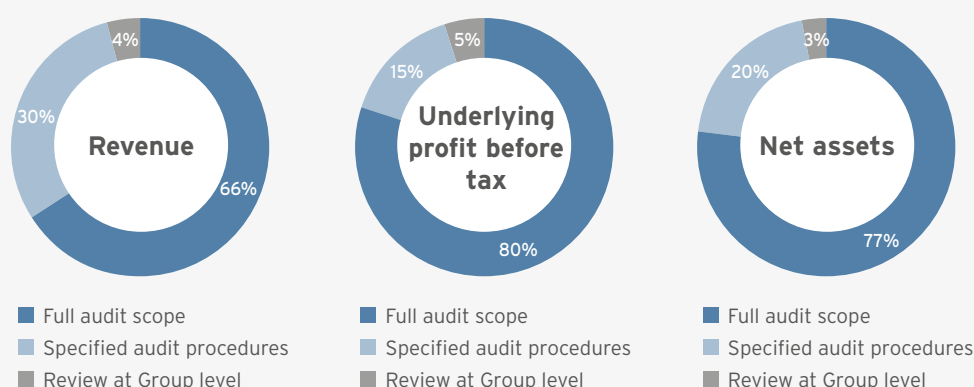
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An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the audit work at 14 locations (2015: 14 locations). 9 (2015: 9) of these were subject to a full audit, whilst the remaining 5 (2015: 5) were subject to either an audit of specified account balances or specified audit procedures where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those locations. These 14 locations represent the principal business units and account for 97% (2015: 97%) of the Group's net assets, 96% (2015: 93%) of the Group's revenue and 95% (2015: 97%) of the Group's underlying profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the 14 locations was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £0.3 million to £1.4 million (2015: £0.5 million to £1.5 million).

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The Group audit team continued to follow a programme of planned visits that has been designed so that the Senior Statutory Auditor or a senior member of the Group audit team visits each of the locations where the Group audit scope was focused at least once every three years and the most significant of them at least once a year. We visited all full audit scope locations with the exception of Chemring Australia Pty, Ltd. which was visited in the prior year. Of the 5 locations subject to specified audit procedures we visited Chemring Detection Systems, Inc. and Non-Intrusive Inspection Technology, Inc. Every year, regardless of whether we have visited or not, we include the component audit team in our team briefing, direct the scope of their work for the purposes of our Group audit, discuss their local risk assessment, and review documentation of the findings from their work.



Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report and the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report arising from these matters.

Corporate governance report

Under the Listing Rules we are also required to review part of the corporate governance report relating to the Company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

We confirm that we have not identified any such inconsistencies or misleading statements.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Respective responsibilities of directors and auditor

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- Whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed;
- The reasonableness of significant accounting estimates made by the directors; and
- The overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Anna Marks ACA (Senior statutory auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, UK
19 January 2017