BOARD OF DIRECTORS

Carl-Peter Forster

Non-Executive Chairman
Committee Membership: Nomination (Chairman), Remuneration

Length of service on Board (as at 19 January 2017):
0 years, 8 months

Experience:
- Board experience at Chairman and Chief Executive level
- Extensive international experience within the industrial goods and engineering sectors
- Expertise in operational excellence and lean manufacturing

Carl-Peter Forster joined the Group as an independent non-executive director and Chairman-designate on 1 May 2016, and succeeded Peter Hickson as Chairman of the Board following Peter's retirement on 30 June 2016.

Carl-Peter formerly held senior leadership positions in some of the world's largest automotive manufacturers, including BMW, General Motors and Tata Motors (including Jaguar Land Rover). Carl-Peter is currently a non-executive director of IMI plc and Cosworth Ltd, and was previously a non-executive director of Rexam PLC and Rolls-Royce plc. He is also Chairman of the London Taxi Company, a member of the Board of Volvo Cars Corporation, and a member of the Board of Geely Automobile Holdings.

Michael Flowers

Group Chief Executive

Length of service on Board (as at 19 January 2017):
2 years, 7 months

Experience:
- Extensive senior management experience in the defence sector
- International experience in both service and manufacturing industries

Michael Flowers was appointed to the Board as Group Chief Executive on 24 June 2014, having previously been Group Director – Munitions, with responsibility for running and subsequently disposing of the Group's European munitions businesses.

Michael joined Chemring in 2006, and ran the Group's Australian operations for seven years. Prior to joining Chemring, Michael worked for BAE Systems in programme management roles, principally in the weapons systems and electronic warfare domains. Prior to his time with BAE Systems, Michael served as an officer in the Australian Army for twenty - two years, and was a graduate of the Australian Command and Staff College and the British Royal Military College of Science.

Andrew Lewis

Group Finance Director with effect from 19 January 2017

Experience:
- International experience in the defence sector
- Chartered Accountant

Andrew Lewis joined the Group on 9 January 2017 and will be appointed to the Board as Group Finance Director on 19 January 2017.

Andrew was formerly Group Finance Director of Avon Rubber p.l.c., where he also performed the Interim CEO role during 2015, following the retirement of the previous CEO.

Prior to joining Avon, Andrew was Group Financial Controller of Rotork plc and prior to that appointment, he was a Director at PricewaterhouseCoopers in Bristol and New Zealand.

Sarah Ellard

Group Legal Director & Company Secretary

Length of service on Board (as at 19 January 2017):
5 years, 4 months

Experience:
- Legal, compliance and governance expertise
- Chartered Secretary

Sarah Ellard was appointed as Group Legal Director on 7 October 2011, having been Group Company Secretary since 1998.

Prior to joining the Group, Sarah trained and worked at Ernst & Young LLP. She is a Fellow of the Institute of Chartered Secretaries and Administrators.

Andrew Davies

Non-Executive Director
Committee Membership: Audit, Remuneration

Length of service on Board (as at 19 January 2017):
0 years, 8 months

Experience:
- Board experience at Chief Executive level
- Extensive knowledge of the international defence industry

Andrew Davies was appointed as an independent non-executive director on 17 May 2016.

Andrew has a wealth of relevant sector experience, having served in senior operational and strategic roles at executive committee level at BAE Systems plc for more than fourteen years. He is currently Chief Executive of Wates Group Ltd.

Daniel Dayan

Non-Executive Director
Committee Membership: Audit, Nomination, Remuneration (Chairman)

Length of service on Board (as at 19 January 2017):
0 years, 10 months

Experience:
- Board experience at Chief Executive level and as a non-executive director
- Experience in manufacturing and engineering sectors

Daniel Dayan was appointed as an independent non-executive director and Chairman of the Remuneration Committee on 7 March 2016.

Daniel is also currently Chairman and CEO of LINPAC Group, and is non-executive Chairman of the Nonwovens Innovation and Research Institute Ltd.

Daniel has held a number of senior level executive and non-executive roles within the engineering and manufacturing sector, including a six-year appointment as Chief Executive of Fiberweb plc. He also previously served as a non-executive director of Stobart plc and as a trustee in the charity sector.

Nigel Young

Senior Independent Non-Executive Director
Committee Membership: Audit (Chairman), Nomination, Remuneration

Length of service on Board (as at 19 January 2017):
3 years, 9 months

Experience:
- Previously Interim Chief Financial Officer of the Group from August 2012 to January 2013
- Finance experience from previous CFO positions
- Chartered Accountant

Nigel Young became a non-executive director and Chairman of the Audit Committee on 1 May 2013, following his appointment as Interim Chief Financial Officer in August 2012. He was appointed as Senior Independent Director in March 2016.

Nigel's previous appointments include Finance Director of ALVIS PLC, First Technology PLC, Babcock International Group PLC and Morgan Advanced Materials Plc. Nigel has also undertaken a number of interim finance roles, including one at McBride Plc. He is currently a non-executive director and Chairman of P2i Limited, a provider of liquid repellent nanotechnology, and is a trustee and Board member of certain development charities.

DIRECTORS' REPORT

The directors present their annual report, together with the audited financial statements of the Group and the Company, for the year ended 31 October 2016.

The following information is incorporated into the directors' report by reference:

- strategic report on pages 1 to 45;
- corporate governance report on pages 52 to 59;
- Audit Committee report on pages 60 to 63;
- directors' remuneration report on pages 64 to 84;
- directors' responsibilities statement on page 51; and
- notes to the financial statements as detailed in this section.

Business review

The strategic report on pages 1 to 45 provides a review of the Group's business development, performance and position during and at the end of the financial year, its strategy and likely future development, key performance indicators, and a description of the principal risks and uncertainties facing the business. Further information regarding financial risk management policies and financial instruments is given in note 20 to the Group financial statements.

There have been no significant events since the balance sheet date, other than as referred to in note 35 to the Group financial statements.

Results and dividends

The profit attributable to the Group's shareholders for the year was £11.1 million (2015: £0.4 million loss).

The directors are recommending the payment of a final and total dividend for the year of 1.3p per ordinary share (2015: 2.4p).

Directors and their interests

The present directors are shown on pages 46 and 47. Andrew Lewis will be appointed to the Board as Group Finance Director on 19 January 2017.

Ian Much resigned as a director on 21 March 2016. Andy Hamment resigned as a director on 30 April 2016. Peter Hickson resigned as a director and Chairman of the Board on 30 June 2016. Steve Bowers resigned as a director on 30 September 2016.

Daniel Dayan was appointed as a director on 7 March 2016. Carl-Peter Forster was appointed as a director and Chairman-designate on 1 May 2016, and was appointed Chairman of the Board on 1 July 2016. Andrew Davies was appointed as a director on 17 May 2016.

In accordance with the Company's Articles of Association, all directors are required to submit themselves for re-election every three years. However, in order to ensure compliance with the UK Corporate Governance Code, all directors voluntarily submit themselves for re-election at every Annual General Meeting.

Details of the service contracts entered into between the Company and the executive directors are set out in the directors' remuneration report on page 71. The non-executive directors do not have service contracts with the Company.

The Company has made qualifying third party indemnity provisions for the benefit of its directors, which were in effect throughout the year and remain in force at the date of this report. The directors have the benefit of a directors' and officers' liability insurance policy.

Other than in relation to their service contracts, none of the directors is or was beneficially interested in any significant contract to which the Group was a party during the year ended 31 October 2016.

Information required in relation to directors' shareholdings is set out in the directors' remuneration report on page 80.

Substantial shareholdings

At 18 January 2017, the following substantial holdings in the ordinary share capital of the Company had been notified to the Company in accordance with Chapter 5 of the Disclosure and Transparency Rules of the Financial Conduct Authority:

Name	% Interest
Schroders Plc	12.2
Investco Limited	8.1
FIL Limited	7.4
UBS Global Asset Management	5.5
Jupiter Asset Management Limited	5.4
Old Mutual Asset Managers	5.1
Majedie Asset Management Limited	5.0
Thameside MBC re Greater Manchester Pension Fund	5.0
Neptune Investment Management Limited	5.0
J P Morgan Chase & Co	4.9
Investec Asset Management Limited	4.8
Ameriprise Financial, Inc.	4.8
AXA S.A. and its group of companies	4.8
Standard Life Investments Limited	4.6
BT Pension Scheme Trustees Limited as Trustee of the BT Pension Scheme	3.8
Hermes Equity Ownership Services Limited	2.9
Norges Bank	2.9

Employees and employee consultation

Details of the Group's employment policies and employee consultation practices are set out in the corporate responsibility review on pages 41 and 42.

Political donations

No political donations were made during the year (2015: £nil).

Contractual arrangements

The Group contracts with a wide range of customers, comprising governments, armed forces, prime contractors and OEMs across the globe. The US Department of Defense is the largest single customer, and procures the Group's products under a significant number of separate contracts placed with individual Group businesses.

The Group's businesses utilise many suppliers across the world, and arrangements are in place to ensure that businesses are not totally reliant on single suppliers for key raw materials or components.

Change of control

Individual Group businesses have contractual arrangements with third parties, entered into in the normal course, which may be amended or may terminate on a change of control of the relevant business, or in certain circumstances, following a takeover of the Group.

The most significant agreements entered in to by the Group which contain provisions granting the counter parties certain rights in the event of a change of control of the Company are the revolving credit facility agreements entered into with the Group's banks, and the loan note agreements, pursuant to which the Company issued notes under a series of private placements. These agreements provide that, in the event of a change of a control, the Company must repay all outstanding borrowings, together with accrued interest and other sums owing under each agreement.

Share capital and shareholder rights

General

The Company's share capital consists of ordinary shares of 1p each and preference shares of £1 each, which are fully paid-up and quoted on the main market of the London Stock Exchange. Full details of the movements in the issued share capital of the Company during the financial year are provided in note 23 to the Group financial statements.

Details of the rights attaching to shares are set out in the Articles of Association (the "Articles"). All holders of ordinary shares are entitled to attend, speak and vote at any general meeting of the Company, and to appoint a proxy or proxies to exercise these rights. At a general meeting, every shareholder present in person, by proxy or (in the case of a corporate member) by corporate representative has one vote on a show of hands, and on a poll has one vote for every share held. The Notice of Annual General Meeting specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in respect of the resolutions to be passed at the Annual General Meeting.

There are no restrictions on the transfer of ordinary shares in the capital of the Company, other than certain restrictions which may from time to time be imposed by law. In accordance with the Market Abuse Regulation, certain employees are required to seek the approval of the Company to deal in its shares.

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.

The Company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights.

The Company's Articles may only be amended by special resolution at a general meeting of shareholders.

Issue of shares

Under the provisions of section 551 of the Companies Act 2006 (the "Act"), the Board is prevented from exercising its powers under the Articles to allot shares without an authority contained either in the Articles or in a resolution of the shareholders passed in general meeting. The authority, when given, can last for a maximum period of five years, but the Board proposes that renewal should be sought at each Annual General Meeting. An ordinary resolution, seeking such authority, will be proposed at the forthcoming Annual General Meeting.

Section 561 of the Act requires that an allotment of shares for cash may not be made unless the shares are first offered to existing shareholders on a pre-emptive basis in accordance with the terms of the Act. In accordance with general practice, to ensure that small issues of shares can be made without the necessity of convening a general meeting, the Board proposes that advantage be taken of the provisions of section 571 of the Act not to apply the Act's pre-emptive requirements. Accordingly, a special resolution will be proposed at the forthcoming Annual General Meeting which, if passed, will have the effect of granting the directors the power to allot not more than 5% of the issued ordinary share capital at the date of the Annual General Meeting free of the requirements of section 561 of the Act. No issue of these shares will be made which would effectively alter the control of the Company without the prior approval of the shareholders in general meeting.

Purchase of own shares

The Company did not purchase any of its ordinary shares (2015: nil) during the year. At 31 October 2016, the Company held a total of 2,198,814 ordinary shares in treasury (representing 0.8% of the ordinary shares in issue on 1 November 2016).

A special resolution will be proposed at the forthcoming Annual General Meeting to renew the Company's authority to purchase its own shares in the market up to a limit of 10% of its issued ordinary share capital. The maximum and minimum prices will be stated in the resolution at the date of the Annual General Meeting. The directors believe that it is advantageous for the Company to have this flexibility to make market purchases of its own shares. The directors of the Company may consider holding repurchased shares pursuant to the authority conferred by this resolution as treasury shares. This will give the Company the ability to reissue treasury shares quickly and cost effectively, and will provide the Company with additional flexibility in the management of its capital base. Any issues of treasury shares for the purposes of the Company's employee share schemes will be made within the 10% anti-dilution limit set by The Investment Association. The directors will only exercise this authority if they are satisfied that a purchase would result in an increase in expected earnings per share and would be in the interests of shareholders generally.

Employee share schemes and plans

Approach to share ownership

The Group actively encourages its employees to share in the future success of the Group, and therefore operates share-based arrangements to provide incentives and rewards to employees.

The Group operated four share-based plans during the year, as set out below. Further details of awards and vesting are provided in note 27 to the Group financial statements.

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

The UK Sharesave Plan is open to all eligible UK employees. Employees may choose between three and five year savings periods, at the end of which the employee can choose to exercise the option or seek the return of their savings. A grant of options was made on 27 July 2016.

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

The US Stock Purchase Plan is open to all eligible US employees. Participants enter into a two year savings contract, at the end of which they can choose to exercise the option or seek the return of their savings. No offer of options was made under the US Stock Purchase Plan during the year, following a low level of participation by employees when the plan was last offered in 2014.

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

The PSP expired on 22 March 2016 but was previously the primary long-term incentive plan for executive directors and senior employees. Discretionary awards were granted under the PSP over a fixed number of shares by reference to salary, with awards ordinarily vesting, subject to meeting performance criteria, on the third anniversary of the grant date. Awards remain outstanding under the PSP but no further awards can be made under the plan.

The Chemring Group Performance Share Plan 2016 (the "2016 PSP")

A new long-term incentive plan, the 2016 PSP, was approved by the shareholders on 21 March 2016. No awards have yet been granted under this plan.

Approval will be sought at the forthcoming Annual General Meeting for the establishment of a new share-based incentive plan, the Chemring Incentive Plan (the "CIP"). If approved, the CIP is likely to replace the 2016 PSP.

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

The RSP provides for the discretionary grant of deferred share awards to selected key employees. Executive directors are not eligible to participate. Awards typically vest on the second or third anniversary of the grant date, subject to meeting continuous service criteria. Awards under the RSP may only be satisfied with market-purchased shares.

Going concern

Details of the conclusions arrived at by the directors in preparing the financial statements on a going concern basis are set out in the financial review on page 27.

Close company provisions

As far as the directors are aware, the close company provisions of the Taxes Acts do not apply to the Group nor has there been any change in that respect since 31 October 2016.

Additional information, as required by Listing Rules Requirement 9.8.4

The Annual Report is required to contain certain information under Listing Rules Requirement 9.8.4. Where this information has not been cross-referenced within the Group financial statements, it can be found in the following sections:

- capitalised interest (see notes 6 and 12);
- long-term incentive schemes (see directors' remuneration report);
- allocation of equity securities for cash (see note 23);
- contracts of significance (see note 34);
- election of independent directors (see corporate governance report);
- contractual arrangements (see directors' report);
- details of independent directors (see corporate governance report); and
- substantial shareholders (see directors' report).

No profit forecasts are issued by the Group and no directors have waived any current or future emoluments. Other than in relation to ordinary shares held in treasury, no shareholders have waived or agreed to waive dividends.

None of the shareholders is considered to be a Controlling Shareholder (as defined in Listing Rules 6.1.2.A) and the Group complies with the independence provisions of the Listing Rules.

Provision of information to the auditor

Each director at the date of this report confirms that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Auditor

A resolution to reappoint Deloitte LLP as auditor and to authorise the directors to determine the auditor's remuneration will be proposed at the Annual General Meeting.

Annual General Meeting

The resolutions to be proposed at the Annual General Meeting to be held on 17 March 2017, together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and Article 4 of the IAS Regulation, and they have also chosen to prepare the parent company financial statements under IFRSs as adopted by the EU. Under company law the directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, IAS 1 *Presentation of Financial Statements* requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions, disclose with reasonable accuracy at any time the financial position of the Group and the Company, and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

Each of the directors, whose names and functions are listed on pages 46 and 47, confirms that to the best of their knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of directors on 19 January 2017 and is signed on its behalf by:

Michael Flowers
Group Chief Executive

Sarah Ellard
Group Legal Director

INTRODUCTION BY THE CHAIRMAN

Carl-Peter Forster

Chairman

The Board is committed to upholding high standards of corporate governance, protecting and growing shareholder value, and engaging in a fair and transparent manner with all of the Group's stakeholders. The Board takes responsibility for approving the Group's long-term goals and strategies, and provides overall financial and organisational control. The Board also ensures that the Group's businesses have appropriate and effective internal control and risk management systems.

2016 was a year of considerable change for the Board. Ian Much and Andy Hamment stood down as non-executive directors, and were succeeded by Daniel Dayan and Andrew Davies. I joined the Board in May 2016 and was appointed Chairman on 1 July 2016, following the retirement of Peter Hickson. Daniel and Andrew are both serving chief executives of other substantial companies, and bring valuable contemporary operational and management expertise to the Board. Andrew Davies also has a wealth of experience in the defence industry, which was previously identified by the Board as a pre-requisite for one of the new appointments made during the year. In recruiting Andrew Lewis as our new Group Finance Director, we were able to attract an executive Board member with extensive experience in driving operational improvements, which the Board believes will be one of the key focus areas in the coming years.

Given the significant changes to the Board in the year, a formal performance evaluation was not undertaken. It is my intention to progress this in the latter half of 2017, when the new Board will have been through a full annual corporate cycle.

Inevitably, the rights issue, which was completed in the early part of the year, necessitated significant engagement with shareholders and our finance providers. I have also met with a number of shareholders over the last eight months, and listened to their views on the Group and its activities. These have been shared with the Board and will continue to be reflected, as appropriate, in the development of our future strategy for the Group.

The Board members spent considerable time during the last year visiting the Group's various facilities around the world, in order to gain a deep understanding of the underlying issues and opportunities. As a Board, we also embarked on a process of strategically reviewing each of the individual businesses and the opportunities which we expect to maximise shareholder value over the coming years. As the findings substantiate, we shall share these with shareholders.

I am encouraged by the constructive interaction amongst the Board members and the valuable contribution the new directors have already made to the Board, and hope that we will build on this as we continue to improve the effectiveness of the refreshed Board over the next few years.

Compliance statement

In the year under review, the Company was required to apply the main and supporting principles of good governance set out in the UK Corporate Governance Code issued in September 2014 by the Financial Reporting Council (the "Code"). The detailed report below sets out how the Company applied these principles in practice.

The Company was in compliance with the provisions of the Code throughout the year ended 31 October 2016, with the exception, as referred to above, that a formal performance evaluation of the Board was not undertaken during the year.

Carl-Peter Forster
Chairman

The Board

Composition of the Board and independence

The Board currently comprises two executive directors and four non-executive directors (including the Chairman). A new Group Finance Director, Andrew Lewis, will be appointed to the Board on 19 January 2017. The biographical details of individual directors, including details of their other business commitments, are set out on pages 46 and 47.

The roles of Chairman and Chief Executive are separate and clearly defined, in accordance with the requirements of the Code, with the division of responsibilities set out in writing and agreed by the Board.

The Board considers all of the current non-executive directors to be independent in judgment and character, and considered Carl-Peter Forster to be independent on his appointment as Chairman. Nigel Young was employed as the Group's Interim Chief Financial Officer for a period of six months from August 2012, prior to his appointment as a non-executive director but the Board does not consider that this short period of employment impacted his independence, and his contribution to the Board continues to be impartial and objective. Mr Young was appointed as Senior Independent Director following the retirement of Ian Much in March 2016.

The Board considers that the current balance of executive and non-executive influence on the Board is appropriate for the Company, taking into account its size and status.

Matters reserved for approval of the Board

The Board has a formal schedule of matters reserved to it for consideration and approval, including:

Strategy and management	• Approval of the Group's five year plan and annual budget • Approval of acquisitions, disposals and major capital expenditure • Approval of changes to the Group's capital structure
Financial matters and internal controls	• Oversight of the Group's systems of financial control and risk management • Approval of financial statements and results announcements • Recommendation and declaration of dividends
Corporate governance	• Undertaking performance reviews of the Board and its committees • Approval of policies on financing and treasury, ethical matters, and health and safety • Receiving reports on the views of shareholders

Board responsibilities

The key responsibilities of the Board members are as follows:

Chairman	• Responsible for the leadership and governance of the Board as a whole • Ensures that the Board is kept properly informed and is consulted on all decisions reserved to it • Promotes constructive relations between the executive and non-executive directors	• Ensures that the training and development needs of directors are identified • Ensures that the performance of the Board is evaluated on a regular basis • Ensures that communication with shareholders is effective, and acts as a conduit to ensure that the views of shareholders are communicated to the Board
Group Chief Executive	• Responsible for the leadership and day-to-day management of the business • Develops strategy for Board approval and ensures that the agreed strategy is implemented successfully • Presents the annual budget and five year plan to the Board for approval and delivers agreed objectives	• Identifies new business opportunities, and potential acquisitions and disposals • Manages the Group's risk profile, including the management of health and safety • Ensures that the Board is fully informed of all key matters
Non-executive directors	• Participate in the development of strategic objectives and monitor the performance of executive management in achieving the agreed objectives • Monitor the Group's financial performance • Consider the integrity of the Group's financial information, and whether the financial controls and risk management systems are robust and defensible	• Determine the appropriate remuneration policy for the executive directors • Meet periodically with the Group's senior management and visit operations • Meet regularly without the executive directors being present
Senior Independent Director	• Provides support to the Chairman and acts as a trusted sounding board • Reviews the Chairman's performance with the other non-executive directors	• Available to meet shareholders if they have concerns which cannot be resolved through the normal channels
Company Secretary	• Secretary to the Board and its committees • Under the direction of the Chairman, responsible for maintaining good information flows within the Board and its committees • Develops Board and committee agendas, and collates and distributes papers • Assists with the induction of new directors	• Keeps directors informed about changes to their duties and responsibilities • Provides advice on legal, regulatory and corporate governance matters • Available to all directors

Operation of the Board

Board meetings and attendance

The Board meets at least eight times a year. The Board receives reports from the Group Chief Executive, the Group Finance Director, the Group Legal Director and the Group Director of Safety as standing agenda items at every scheduled Board meeting. Members of the senior leadership team and external advisers attend Board meetings by invitation, as appropriate.

The following table shows the attendance of directors, who served during the year, at meetings of the Board, the Audit Committee, the Nomination Committee and the Remuneration Committee:

Board member	Board (10 scheduled meetings and 12 ad hoc meetings)	Audit Committee (4 scheduled meetings and 2 ad hoc meetings)	Nomination Committee (3 scheduled meetings)	Remuneration Committee (3 scheduled meetings and 4 ad hoc meetings)
Carl-Peter Forster (appointed 1 May 2016)	6(6)	–	2(2)	2(2)
Steve Bowers (resigned 30 September 2016)	20(22)	–	–	–
Andrew Davies (appointed 17 May 2016)	4(5)	1(2)	2(2)	1(2)
Daniel Dayan (appointed 7 March 2016)	9(9)	3(3)	3(3)	3(3)
Sarah Ellard	22(22)	–	–	–
Michael Flowers	20(22)	–	–	–
Andy Hamment (resigned 30 April 2016)	10(16)	4(4)	–	5(5)
Peter Hickson (resigned 30 June 2016)	19(19)	–	–	4(5)
Ian Much (resigned 21 March 2016)	12(14)	3(3)	1(1)	4(4)
Nigel Young	21(22)	6(6)	3(3)	7(7)

The maximum number of meetings which each director could have attended is shown in brackets.

In addition to the scheduled meetings, twelve ad hoc Board meetings, two ad hoc Audit Committee meetings and four ad hoc Remuneration Committee meetings were convened to deal with matters arising between scheduled meetings.

During the year, the Chairman met regularly with the non-executive directors without the executives being present.

Board activity throughout the year

In addition to its routine scheduled business, the Board also undertook the following activities during the year:

Nov 2015

- Approval of the acquisition of certain assets of the Wallop Defence Systems countermeasures business
- Approval of finalised 2016 budget
- Consideration of issues associated with the standby rights issue

Dec 2015

- Review of prospectus and documentation associated with the standby rights issue

Jan 2016

- Report from the Audit Committee
- Approval of preliminary announcement and annual results
- Approval of prospectus and documentation associated with the standby rights issue

Feb 2016

- Finalisation of rights issue and issue of shares
- Approval of Alloy Surfaces' site consolidation plan
- Review of progress on the appointment of new non-executive directors and a new Chairman

Mar 2016

- Appointment of Daniel Dayan as a new non-executive director
- Report from the Nomination Committee on the search for a new Chairman
- Review of updated tax strategy

Apr 2016

- Appointment of Carl-Peter Forster as a non-executive director and Chairman-designate
- Review of investment strategy for legacy UK defined benefit pension scheme
- Consideration of future financing requirements

May 2016

- Appointment of Andrew Davies as a new non-executive director
- Consideration of future strategy for Chemring Defence UK business
- Approval of amendments to US bank facilities
- Training on Market Abuse Regulation

Jun 2016

- Approval of interim results
- Update on future financing strategy
- Approval of new share dealing codes

Jul 2016

- Review of advisers
- Development of revised Board plan for 2017
- Presentations on future strategy for the three business segments

Sep 2016

- Consideration of the Group's five year plan and development of Group strategy
- Review of the Group's Policy on the Sale of Goods and Services
- Approval of additional bank facilities
- Approval of 2017 budget

Board effectiveness

Appointments to the Board

External search consultancies are generally appointed to assist with the recruitment of new directors.

Catalyst Advisors LP were appointed during 2015 to assist with the search for new non-executive directors. A brief was prepared for Catalyst Advisors based on a review by the whole Board of the specific knowledge and expertise required of potential candidates. The Nomination Committee interviewed selected candidates, several of whom were invited to follow-up meetings with the Group Chief Executive and other members of the Board. Daniel Dayan and Andrew Davies were appointed to the Board as non-executive directors during the year as a result of this process.

The Miles Partnership was retained during the year to lead the search for a new Chairman for the Group. A brief was prepared for The Miles Partnership, with input from the whole Board, on the requisite skills and expertise required of the new Chairman. The process was managed during the early stages by Ian Much and Nigel Young, with assistance from Daniel Dayan following Mr Much's retirement. Short-listed candidates were invited to meet all members of the Board, following which the Board resolved to appoint Carl-Peter Forster as a non-executive director and Chairman-designate. Mr Forster was appointed Chairman on 1 July 2016.

Drax Executive were appointed in July 2016 to undertake the recruitment of a new Group Finance Director. The search process was led by Michael Flowers, with support from the Chairman and Nigel Young. The appointment of Andrew Lewis as the new Group Finance Director was announced in December 2016.

Catalyst Advisors LP, The Miles Partnership and Drax Executive have no other relationships with the Group.

Diversity

The Board supports the principles set out in Lord Davies' Review into Women on Boards published in February 2011, and the Board also recognises the importance of promoting diversity across the Group. The Board currently includes one female member, and remains committed to a minimum target of at least 25% female representation on the Board, amongst senior management and across the Group in general.

Re-election of directors

In accordance with the Company's Articles of Association, all directors are required to submit themselves for re-election every three years. However, in order to ensure compliance with the Code, all directors voluntarily submit themselves for re-election at each Annual General Meeting.

The papers accompanying the Notice of Annual General Meeting include a statement from the Chairman confirming that the performance of each non-executive director seeking re-election at the meeting continues to be effective and that each director continues to demonstrate commitment to their role.

Induction

An internal induction programme on the Group's operations, and its strategic and business plans, is provided for newly-appointed directors. Directors are invited to meet key members of the senior management team at the earliest opportunity, and a series of site visits are arranged to facilitate their understanding of the Group's operations.

The Company Secretary also provides detailed information on the operation of the Board and its committees, directors' legal duties, and responsibilities on appointment.

Training and development

The Company meets the cost of appropriate external training for directors, the requirement for which is kept under review by the Chairman.

Directors are continually updated on the Group's businesses and the matters affecting the markets in which they operate. The Company Secretary updates the Board on a regular basis with regards to regulatory changes affecting the directors and the Group's operations generally, and briefings are provided by the Group's advisers on key developments in areas such as financial reporting and executive remuneration practice.

Independent advice

All directors are entitled to take independent professional advice in furtherance of their duties at the Company's expense, should the need arise. No director had reason to seek such advice during the year.

Conflicts of interest

All directors have a duty under the Companies Act 2006 (the "2006 Act") to avoid a situation in which he or she has or can have a direct or indirect interest that conflicts or may possibly conflict with the interests of the Company. The Company's Articles of Association include provisions for dealing with directors' conflicts of interest in accordance with the 2006 Act. The Company has procedures in place to deal with situations where directors may have any such conflicts, which require the Board to:

- consider each conflict situation separately on its particular facts;
- consider the conflict situation in conjunction with the rest of their duties under the 2006 Act;
- keep records and Board minutes as to authorisations granted by directors and the scope of any approvals given; and
- regularly review conflict authorisation.

Performance evaluation

The Board engaged in an externally-facilitated review of its performance during 2015, utilising the services of Lintstock Limited. The evaluation considered topics under the following headings:

- Board composition and expertise;
- Board dynamics;
- time management;
- Board support;
- strategic and operational oversight;
- risk management and internal control;
- succession planning and people management; and
- priorities for change.

Performance evaluation continued

The principal recommendations arising from the 2015 evaluation were kept under review during the year and further progress was made as detailed below:

Recommendations of 2015 evaluation	Actions taken during the year
The Board should spend more time on strategic planning and reviewing the execution of strategic plans	Offsite strategy reviews were held in July and September 2016, the first of which was also attended by the Group Director of Strategy & Technology and the Executive Committee representatives for each of the three business segments
At least one new non-executive director is required.	Two new non-executive directors were appointed during the year
The Board requires increased exposure to management and more site visits	All of the new directors visited a number of the Group's sites in the months after their appointment. The Board plan for 2017 provides for meetings to be held at several businesses, with dedicated time allocated to management briefings
Additional focus on risk management is required	The Group's risk management framework has been updated, and additional time has been allocated to risk management on the Board agendas
The Board should meet informally prior to Board meetings on a more frequent basis	Additional sessions have been scheduled in the 2017 Board calendar

Given the significant changes to the composition of the Board during the year, no new formal evaluation of the Board was undertaken. However, the Board kept under review the balance of skills, experience, independence and knowledge required of the Board, as the recruitment of the new Chairman and the new non-executive directors progressed during the year. The Chairman and non-executive directors reviewed the individual performance of the executive directors as part of the annual remuneration review.

Board committees

The terms of reference of the Audit Committee, the Nomination Committee and the Remuneration Committee are published on the Company's website (www.chemring.co.uk/investors/corporate-governance) and copies are available on request from the Company Secretary.

Audit Committee

The Audit Committee comprises three independent non-executive directors. At the date of this report, the Audit Committee members were Nigel Young (Chairman), Andrew Davies and Daniel Dayan.

Nigel Young acted as Interim Chief Financial Officer for the Group between August 2012 and January 2013, and was formerly the finance director of several public companies. The remaining members of the Committee are serving executive directors of substantial companies, and have extensive business and financial management experience. The Board therefore considers that each member of the Audit Committee has the requisite recent and relevant financial experience to satisfy the requirements of the Code.

The Audit Committee convened for four scheduled meetings and two ad hoc meetings during the year.

The Audit Committee report is set out on pages 60 to 63.

Remuneration Committee

The Remuneration Committee comprises four independent non-executive directors. At the date of this report, the Remuneration Committee members were Daniel Dayan (Chairman), Andrew Davies, Carl-Peter Forster and Nigel Young.

Three scheduled Remuneration Committee meetings were held during the year, together with four ad hoc meetings. Further details on the Remuneration Committee and its activities, and the Company's policies on directors' remuneration are set out in the directors' remuneration report on pages 64 to 84.

Nomination Committee

The Nomination Committee comprises three independent non-executive directors. At the date of this report, the Nomination Committee members were Carl-Peter Forster (Chairman), Daniel Dayan and Nigel Young. Mr Forster is Chairman of the Nomination Committee but, in accordance with the Committee's terms of reference, is not permitted to chair meetings when the Committee is dealing with the appointment of his successor.

Executive Committee

The Executive Committee is responsible for the executive day-to-day running of the Group, submission to the Board of strategic plans and budgets for the Group's operations, and monitoring the trading performance of the Group as a whole.

The current members of the Executive Committee are:

- Michael Flowers (Group Chief Executive)
- Rik Armitage (Group Director – Strategy & Technology)
- Terry Bridgewater (Group Director of Safety)
- Stuart Cameron (Managing Director – Chemring Energetics)
- David Cole (Managing Director – Roke)
- Steve Cummings (Interim President – Chemring Sensors & Electronic Systems)
- Simon Darling (Managing Director – Chemring Countermeasures UK)
- Sarah Ellard (Group Legal Director & Company Secretary)
- Andrew Lewis (Group Finance Director)
- Rupert Pittman (Group Director of Corporate Affairs)

Michael Flowers chairs the Executive Committee, which meets monthly.

Key responsibilities delegated to the Executive Committee by the Board

- Implementation of the Group's strategies and policies as determined by the Board
- Monitoring of operational and financial results against budget
- Allocation of resources across the Group within the overall plan approved by the Board
- Approval of R&D and capital expenditure within limits imposed by the Board
- Developing and implementing risk management systems

Relations with shareholders and other providers of capital

Shareholder engagement

The Company maintains an active dialogue with institutional shareholders through regular briefing meetings and formal presentations following the release of interim and annual results. Meetings are usually attended by the Group Chief Executive and the Group Finance Director, although the Chairman and the Senior Independent Director also meet with shareholders to discuss specific matters. The other non-executive directors are also offered the opportunity to meet with major shareholders and attend meetings if so requested by shareholders.

Communication with private investors is achieved largely through the medium of the interim results statement and the annual report.

The Company's website (www.chemring.co.uk) provides financial, business and governance information on the Group.

The directors are provided with reports and other written briefings from the Company's brokers, and are regularly informed by the Company Secretary about changes to significant shareholdings.

It is the Company's policy that all directors should attend and make themselves available to take questions from shareholders or address any concerns at the Annual General Meeting. At other times of the year, the directors can be contacted via the Company's head office.

Annual General Meeting

All substantial issues, including the adoption of the annual report and financial statements, are proposed on separate resolutions at the Annual General Meeting. In line with best practice guidelines, voting at the Annual General Meeting is conducted by way of a poll. This allows all votes to be counted, not just those of shareholders who attend the meeting. Poll results are published on the Company's website as soon as practicable following the conclusion of the meeting. The Notice of the Annual General Meeting is sent to shareholders at least twenty working days before the meeting.

Engagement with other providers of capital

In addition to issuing shares, the Company also finances its activities through external bank loans and by the issue of loan notes. The Board recognises the importance of maintaining good relationships with the providers of this capital, and the Group Chief Executive and the Group Finance Director brief the banks and note holders on a regular basis on the Company and its performance. The Board receives regular reports on any issues impacting these relationships.

Accountability

Financial and business reporting

The statement of directors' responsibilities in respect of the financial statements and accounting records maintained by the Company is set out on page 51.

Having taken all the matters considered by the Board and brought to the attention of the Board during the year into account, the Board is satisfied that the annual report and accounts for the year ended 31 October 2016, taken as a whole, is fair, balanced and understandable. Furthermore, the Board believes that the disclosures set out on pages 2 to 15 provide the information necessary to assess the Company's performance, business model and strategy.

Risk management and internal control

The Board is responsible for determining the nature and extent of the risks that it is willing to take to achieve its strategic objectives. The Board is also responsible for ensuring that the Group's risk management and internal control systems are effective across the businesses.

The Board undertakes an annual review of the effectiveness of the Group's systems of internal control, including financial, operational and compliance controls, and risk management systems. Further details of the review undertaken during the financial year ended 31 October 2016 are set out on pages 32 and 33.

Going concern and long-term viability statement

Details of the conclusions arrived at by the directors in preparing the financial statements on a going concern basis and the assessment of the Group's long-term viability are set out in the financial review on page 27.

Insurance

The Company maintains directors' and officers' liability insurance in respect of legal action against its directors.

ANNUAL STATEMENT BY THE CHAIRMAN OF THE AUDIT COMMITTEE

Nigel Young

Chairman

The Audit Committee continues to play a very important role in the governance of the Group's financial affairs, both through monitoring the integrity of the Group's financial reporting and reviewing material financial reporting judgements.

2016 was another busy year for the Audit Committee.

Preparation for the rights issue, which was finally completed in February 2016, coincided with the finalisation of the 2015 financial statements. The Committee's review of the Group's going concern status and consideration of the new requirements for the long-term viability statement to be included in the 2015 financial statements was therefore undertaken alongside completion of the working capital review for the rights issue prospectus. The Committee worked closely with Deloitte to ensure a consistent approach to our financial reporting across both activities.

With our significant audit risks remaining broadly consistent year-on-year, both the 2015 full year audit and the 2016 interim review proceeded smoothly, and the Committee remains satisfied with the performance of Deloitte as our external auditor.

Following the appointment of KPMG to provide internal audit services for the Group in 2015, further progress has been made on broadening the scope of our internal audit function to include a more comprehensive review of non-financial controls. In particular, KPMG's subject-matter experts undertook focused reviews of our working capital management processes across the Group during the year and provided a number of useful recommendations. KPMG have now undertaken at least one internal audit at each of our businesses, and it is pleasing to note that the number of new audit findings arising in KPMG's second visits has reduced at most businesses.

The Committee considered the updated Guidance on Audit Committees published by the Financial Reporting Council in April 2016, and we have updated our terms of reference to reflect its recommendations. We have also adopted a revised policy on the provision of non-audit services by the external auditor to reflect the latest regulatory requirements and the Ethical Standard.

Further details of the Committee's activities during the year are set out below.

Nigel Young
Chairman

Operation of the Audit Committee

The Audit Committee monitors the integrity of the Group's financial statements and the effectiveness of the external audit process.

Key responsibilities

- Making recommendations on the appointment, reappointment and remuneration of the external auditor
- Ensuring that an appropriate relationship between the Group and the external auditor is maintained, and overseeing the provision of non-audit services
- Reviewing and monitoring the external auditor's independence and objectivity
- Reviewing the effectiveness of the Group's internal controls and risk management systems
- Considering the effectiveness of the Group's internal audit function and monitoring internal audit activities
- Reviewing arrangements by which the Group's employees may confidentially raise concerns about possible improprieties
- Providing guidance to the Board in its consideration of whether the annual report and accounts are fair, balanced and understandable

The Committee is authorised to seek any information it requires from any employee of the Group in order to perform its duties, and to obtain any outside legal or other professional advice it requires at the Company's expense.

The Committee reviews its terms of reference and its effectiveness annually, and recommends to the Board any changes required as the result of the review.

Meetings

Meetings of the Committee are attended, at the invitation of the Chairman, by the external auditor, the Chairman of the Board, the Group Chief Executive, the Group Finance Director, the internal auditors and representatives from the Group finance function. The Committee meets with the external and internal auditors on a regular basis without the executive directors being present. The Company Secretary acts as secretary to the Committee and minutes of meetings are circulated to all Board members.

A verbal report on key issues discussed by the Committee is provided to the Board after every meeting.

The Committee plans to meet four times in the current financial year.

The Chairman of the Committee meets regularly with the Group Finance Director, the external audit lead partner and the internal audit lead partner outside of scheduled meetings.

Principal activities of the Audit Committee during the year

November 2015	• Approval of the appointment of Deloitte LLP as reporting accountants on the working capital report required for the rights issue prospectus
January 2016	• Review of the Group's preliminary announcement and annual results for the year ended 31 October 2015, including the Group's going concern status and the viability statement • Consideration of the auditor's report on the results of the full year audit • Review of the auditor's report on their insights and recommendations arising from the full year audit • Consideration of KPMG's internal audit report
April 2016	• Consideration of the auditor's plan for the half year results review • Consideration of KPMG's internal audit report • Annual review of the Committee's terms of reference • Consideration of the Group Legal Director's ethics and compliance report • Review of the Group's whistleblowing policy and procedures
June 2016	• Review of the Group's half year results, including the going concern status • Consideration of the auditor's report on the results of the interim review • Consideration of KPMG's internal audit report
September 2016	• Review of audit services for the year ended 31 October 2016 • Consideration of the auditor's plan for the full year audit • Annual review and approval of updated policy on the provision of non-audit services by the external auditor • Approval of updated terms of reference for the Committee • Consideration of KPMG's internal audit report

Significant issues considered by the Audit Committee during the year in relation to the financial statements

Revenue recognition, and contract accounting policies and procedures	The Committee reviews the Group's revenue recognition and contracting accounting policies and procedures on an ongoing basis, to ensure that they remain appropriate and that the Group's internal controls are operating effectively in this area. The Committee considered the key assumptions underlying the accounting treatment of all contracts which were subject to contract accounting during the year, and approved the treatment where appropriate. The level of revenue and profit recognised in respect of those contracts which were material to the Group's half and full year results was also reviewed in detail by the Committee.
Impairment of goodwill and other intangible assets	The Committee considered the management's review of the carrying value of goodwill and intangible assets held on the Group's balance sheet as at 31 October 2015 and 30 April 2016, against the latest forecasts for each of the applicable businesses.
Capitalised research and development costs	The Committee continued to monitor the level of research and development costs capitalised during the year, and the periods over which such costs are to be capitalised, as well as the subsequent impairment review based on predicted product launch and performance.
Going concern and long-term viability	In order to satisfy itself that the Group has sufficient financial resources to enable it to continue trading for the foreseeable future, the Committee regularly reviews the adequacy of the Group's financing facilities against future funding requirements and working capital projections. The Committee received regular reports from the Group Finance Director on the Group's financial covenant compliance position throughout the year. Based on its review of the Group's forecasts, the successful completion of the rights issue in February 2016 and detailed discussions with the external auditor, the Committee recommended to the Board the adoption of the going concern basis for the preparation of both the 2015 financial statements and the 2016 interim results. The Group was also required to make a statement on its long-term viability in the 2015 financial statements. The Committee considered the period over which the Group's viability would be assessed and having concluded that a three-year period was appropriate, the Committee undertook a review of the analysis and projections which supported the viability assessment prior to submission to the Board.

External audit

The Audit Committee is responsible for making recommendations to the Board on the appointment, reappointment and removal of the Company's external auditor. The Committee also undertakes an annual assessment of the auditor's independence and objectivity, taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services.

Audit effectiveness and tendering

Deloitte LLP has been the Company's auditor for many years, and Anna Marks has been the lead audit partner for the last four years. Deloitte LLP was reappointed at the last Annual General Meeting in March 2016. In the opinion of the Committee, the relationship with the auditor currently works well, and having reviewed their independence and effectiveness, the Committee has not considered it necessary to date to require Deloitte LLP to re-tender for the audit work. Accordingly, the Committee has recommended to the Board that Deloitte LLP be proposed for reappointment as auditor at the forthcoming Annual General Meeting.

In assessing the effectiveness of the external auditors during the year, the Committee reviewed and considered:

- the arrangements for ensuring the external auditor's independence and objectivity;
- the external auditor's fulfilment of the agreed audit plan and any variations from the plan;
- the robustness and perceptiveness of the auditor in their handling of the key accounting and audit judgements;
- the content of the external auditor's reports and internal control recommendations; and
- the feedback received on the conduct of the external audits from key people involved in the audit process.'

The Committee will keep under review the timing of its next external audit tender process but does not currently intend that the audit will be put out to tender during 2017. Under current regulations, the Group will be required to re-tender the external audit by 2020.

There are no contractual or similar obligations to restrict the choice of external auditor.

Auditor independence

The Committee keeps under review the level of any non-audit services which are provided by the external auditor, to ensure that this does not impair their independence and objectivity.

The Committee has adopted a policy which states that the external auditor should not be appointed to provide any non-audit services to the Group, unless the Committee agrees that their appointment would be in the best interests of the Company's shareholders in particular circumstances and would not create any direct conflict with their role as external auditor. In approving any such appointment, the Committee is also required to consider:

- whether the provision of the proposed services might compromise the auditor's independence or objectivity;
- whether the non-audit services will have a direct or material effect on the Group's audited financial statements;
- whether the skills and experience of the external auditor make it the most suitable supplier of the non-audit services; and
- the level of fees proposed for the non-audit services relative to the audit fees.

The external auditor is required to provide the Committee with a written confirmation of independence for all duly-approved engagements for non-audit services.

The policy adopted by the Committee expressly prohibits the provision of certain non-audit services by the external auditors, in line with regulatory requirements and UK ethical guidance.

During the year, Deloitte LLP provided the following additional services to the Group:

- acting as reporting accountant on the prospectus for the rights issue completed in February 2016;
- compliance services relating to corporation tax returns and other overseas regulatory tax returns; and
- tax advisory services relating to advice given on the Group's tax structures.

The rights issue was a very significant transaction for the Group, and the Committee considered that Deloitte LLP's pre-existing knowledge of the Group would be very beneficial in undertaking the work required of the reporting accountant.

Details of the amounts paid to the external auditor during the year for audit and other services are set out in note 3 to the Group financial statements.

With effect from 1 November 2016, Deloitte LLP ceased to provide any tax-related services to the Group.

The Committee, in conjunction with the Group Finance Director, ensures that the Group maintains relationships with a sufficient choice of appropriately qualified alternative audit firms for the provision of non-audit services.

Internal audit

The Audit Committee is responsible for reviewing the work undertaken by the Group's internal auditors, assessing the adequacy of the internal audit resource, and recommending changes for increasing the scope of the internal audit activities.

The Group's internal audit programme incorporates an annual rolling review of all businesses, and focuses on both financial and non-financial controls and procedures. The Committee approves the annual internal audit plan and receives regular reports from the internal auditors.

KPMG LLP has been appointed by the Committee to provide internal audit services for the Group. The KPMG internal audit programme covers financial and commercial processes, governance issues, and key corporate risks. The internal audit plan for 2016 included specific focus on:

- enterprise risk management across the Group;
- the systems and controls adopted by each business in relation to working capital;
- IT and cyber security policies and risk management;
- the effectiveness of implementation of new ERP systems at certain businesses; and
- the key financial and operating controls at each business.

The scope of the internal audits undertaken by KPMG LLP at the Group's US businesses was broadened during the year, in order to provide a more consistent audit approach across all of the Group's businesses.

KPMG LLP presents its internal audit reports to the Committee on a quarterly basis. The management of each business is responsible for implementing the recommendations made by the internal auditors, and the Committee reviews progress on a regular basis.

Having undertaken a review of the effectiveness of KPMG LLP in fulfilling the internal audit function, the Committee is satisfied that the quality, experience and expertise of KPMG LLP meets the Company's requirements, and KPMG LLP has therefore been reappointed to provide internal audit services for the Group in 2017.

ANNUAL STATEMENT BY THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Daniel Dayan

Chairman of the Remuneration Committee

Introduction and policy review

I am very pleased to have taken on the role of Chairman of the Remuneration Committee, having succeeded Ian Much who stepped down in March 2016. Indeed, during the year the Committee's membership has changed quite substantially as part of the overall Board refreshment process, with Chemring's new Chairman, Carl-Peter Forster, Andrew Davies and myself as new Committee members joining Nigel Young.

The Committee is mindful of the fact that shareholder approval was obtained at the 2016 Annual General Meeting for a revised directors' remuneration policy. However, due to its largely new membership, the Committee felt it appropriate to review this policy. This review was undertaken in the context of Chemring's performance, the equity issue in early 2016, and the need to ensure that the remuneration policy was supporting the performance and management actions that the Committee believes necessary and appropriate.

The Committee believes that Chemring's remuneration policy should:

- be clearly and directly linked to Chemring's evolving underlying strategy and current/future challenges;
- encourage and reward the delivery of sustainable long-term returns to
- shareholders;
- genuinely align our shareholders' long-term interests with those of management via the use of equity;
- be simple to understand and operate consistently across the senior executive population; and
- provide appropriate, but not excessive, reward opportunity.

Having conducted its review, the Committee believes that, while the current policy reflects standard practice, it does not deliver fully against these objectives. This is primarily due to the structure of our Performance Share Plan ("PSP"). For example, the nature of the defence business, which materially influences our financial performance, is in turn heavily influenced by factors outside management's control, making it difficult to set robust long-term financial targets such as EPS over a three-year period, which has been used as a performance metric for 50% of awards granted under our PSP. Also, while the remaining 50% of PSP awards have been subject to relative TSR targets, Chemring's TSR has been measured against a group of generally much larger global defence sector companies, some quoted in the very different US market, few of which are on reflection close comparators to Chemring. Furthermore, there are other financial KPIs that are very important measures of our success over and above EPS that are not currently captured in the PSP.

All these issues have resulted in PSP awards being attributed little value by recipients which, in turn, means that the plan provides poor alignment of shareholders' and management's interests. As a result, Chemring is effectively operating a second incentive plan (i.e. in addition to the annual bonus), which serves little constructive purpose in its current form, adds complexity and incurs additional costs for little benefit.

Following the review, the Committee developed a proposal for a new remuneration policy and consulted extensively with major shareholders and with the Investment Association. Following some changes as a result of the consultation, the Committee has finalised a proposed new policy, which shareholders will be asked to approve at the 2017 Annual General Meeting.

Key features of the proposed new policy

The Committee believes that the structure and quantum of the executive directors' fixed pay (i.e. salary, pension, other benefits) is broadly appropriate and no policy changes are envisaged. The directors' base salaries have been increased by 2.7% with effect from 1 January 2017, in line with the average salary increase for UK employees.

In terms of bonus and PSP, for 2017 and onwards the Committee proposes to cease making awards under the PSP for the reasons set out above. Instead, shareholder approval is being sought at the 2017 Annual General Meeting for the establishment of a new "Chemring Incentive Plan" ("CIP"), which will be the sole cash and share-based incentive arrangement operated for the executive directors and certain other members of the senior management team.

The main features of the CIP are set out in the policy section of this report and in the explanation to resolution 14 that is to be tabled at the 2017 Annual General Meeting. However, in summary:

- the CIP will replace both the current annual bonus plan and PSP for executive directors, thereby significantly simplifying our pay structure;
- the maximum award level under the CIP will be 250% of salary for the Group Chief Executive and 200% for the other executive directors (i.e. a reduction on the current combined incentive opportunity for the Group Chief Executive and other executive directors of 275% and 250% respectively);
- at the beginning of each financial year, a range of stretching annual targets will be set, the achievement of which will be measured at the end of the relevant year. For the 2017 performance year, the following targets and weightings will be used for the executive directors:
  - underlying EPS - 35%
  - net cash flow from operating activities - 30%
  - return on capital employed - 25%
  - personal/strategic objectives - 10%
- for CIP awards made to other members of the senior executive team with head office roles, the targets will be substantially the same as for the executive directors. For business unit heads, whose current annual bonus opportunity is primarily focused on their respective business's performance, a substantial portion of their CIP award will be based on the same Group-based targets as the executive directors, thereby aligning their rewards with the performance of both their business and the Group;
- once the CIP outturn has been decided at the end of the year, 30% of any award to the executive directors will be paid in cash. The remaining 70% will be deferred into shares. Therefore, there will be no increase in cash annual incentive opportunity under the CIP;
- the deferred share element will vest in full three years later, albeit subject to a further two-year holding period, thereby ensuring that the shares are effectively "locked-in" to the CIP for a full five-year period;
- in addition, the deferred share element of the CIP award will be subject to a performance underpin measured over the three-year deferral period which, if not met, will result in the Remuneration Committee reducing the number of shares subject to the award (potentially down to zero). For the first operation of the CIP in 2017, the underpin will require that Chemring's underlying EPS grows in real terms over the three-year deferral period; and
- this underpin will also operate in conjunction with Chemring's existing malus and clawback provisions which can be applied in certain circumstances (e.g. misconduct, misstatement of accounts, error in calculating performance against the targets).

In addition to establishing the CIP, the Committee will increase the shareholding requirement for the executive directors from the current 100% of salary so that, going forward, executive directors will be expected to build up and maintain a shareholding equivalent to 200% of salary by retaining at least 50% of the net number of any shares vesting under the old PSP or the CIP until the guideline holding has been met.

We believe that the new CIP will deliver a number of significant benefits for shareholders, predominantly through ensuring remuneration helps focus management appropriately on the key tasks ahead, by:

- a far closer linkage between pay, Chemring's underlying strategy, and meeting the Group's current and future challenges;
- encouraging and rewarding the delivery of sustainable long-term returns to shareholders through the very significant five-year share deferral/holding period (together with the enhanced ownership guidelines);
- a greater alignment of our shareholders' long-term interests with those of management via the more targeted use of equity coupled to a lower overall reward opportunity; and
- a simpler and more transparent approach to remuneration, which is consistent across the senior executive group.

No other substantive changes are proposed to the existing policy, which is set out in full in the next section of this report.

Other Committee activities during the year

In addition to conducting the policy review, the Committee undertook a number of other activities in connection with remuneration during the year, details of which are set out on page 73. In addition, the Committee:

- agreed the remuneration-related elements of the termination of Steve Bowers' employment (described more fully on page 80) ; and
- set the annual fees of Carl-Peter Forster upon his appointment as Chairman.

Also, following the year end, the Committee agreed the remuneration-related elements of the recruitment of Andrew Lewis as the new Group Finance Director (further details of which are provided in the report).

Conclusion

I hope you find this report helpful and informative, and agree that the changes we are proposing to our policy, which have been the subject of an extensive prior consultation with some of our major shareholders, are appropriate and very much in the long-term interests of our shareholders. I look forward to receiving your support for the three remuneration-related resolutions (i.e. the vote on the new policy, new CIP and implementation report), which will be tabled at our forthcoming Annual General Meeting.

Daniel Dayan
Chairman of the Remuneration Committee

PART A – REMUNERATION POLICY

This report sets out the information required by Part 4 of Schedule 8 to the Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) (the "Regulations"). The report also satisfies the relevant requirements of the Listing Rules of the Financial Conduct Authority, and describes how the Board has applied the principles and complied with the provisions relating to directors' remuneration in the UK Corporate Governance Code.

Part A of this report represents the directors' remuneration policy. Part B constitutes the implementation sections of the report (the "Annual Report on Remuneration"). The auditors have reported on certain sections of Part B and stated whether, in their opinion, those parts have been properly prepared in accordance with the Companies Act 2006. Those sections of Part B which have been subject to audit are clearly indicated.

The Remuneration Committee has been established by the Board and is responsible for the remuneration of the executive directors and the Chairman. The Committee's terms of reference are available in full on the Company's website or from the Company Secretary on request.

In determining remuneration for the executive directors, the Remuneration Committee seeks to maintain a competitive package of rewards, required to promote the long-term success of the Company, without (i) being excessive by reference to market rates across comparator companies and (ii) neither encouraging nor rewarding inappropriate risk-taking. Performance-related elements should be transparent, stretching and rigorously applied, form a significant proportion of the total remuneration package of each executive director, and align the interests of executives with those of shareholders, by ensuring that a significant proportion of remuneration is performance-related and delivered in shares.

The table below summarises the Committee's future policy on the remuneration of executive directors which, if approved by shareholders at the forthcoming Annual General Meeting on 17 March 2017, will replace the existing policy for which shareholder approval was obtained at the 2016 Annual General Meeting, and will become binding immediately thereafter. The material differences between the existing and proposed new policy (which has also been designed with due account taken of the UK Corporate Governance Code) are explained in the statement by the Committee Chairman and in the table below. It is currently intended that the policy will remain valid until the 2020 Annual General Meeting.

Further details of the full policy are set out on pages 69 to 72.

Element	Purpose and link to strategy	Operation	Maximum	Performance assessment
Salary	• Reflects the performance of the individual, their skills and experience over time, and the responsibilities of the role that assists with recruitment and retention • Provides an appropriate level of basic fixed income, avoiding excessive risk arising from over-reliance on variable income	• Normally reviewed annually with effect from 1 January • Benchmarked periodically against companies with similar characteristics and companies within the same sector • Salaries take account of complexity of the role, market competitiveness, Group performance and the increases awarded to the wider workforce	• Salary increases will normally be in line with those received by the wider workforce • More significant increases may be awarded at the discretion of the Committee, for example where there is a change in responsibilities, to reflect individual development and performance in the role. No significant increases are currently foreseen and, in any case, a cap of 10% per annum would apply to any increase	• None, although overall individual and company performance is a factor considered when setting and reviewing salaries
Pension	• Provides retirement benefits that reward sustained contribution	• Ongoing pension provision is in the form of a cash supplement, subject to auto-enrolment in the Group's stakeholder scheme • Longer-serving employees have accrued benefits under the Group's defined benefit scheme, which was closed to future accrual for the exective directors on 6 April 2010	• 20% of base salary cash supplement contribution paid in lieu of occupational pension scheme membership • However, from 1 January 2014, all UK employees, including the executive directors, were subject to auto-enrolment into the Group's defined contribution stakeholder scheme, with an employer contribution of 4% of base salary. If executives do not opt out of this scheme, their cash supplement will be reduced by 4%	• N/A
Other benefits	• Provides a competitive package of benefits that assists with recruitment and retention	• Main benefits currently provided to UK executives are a car allowance, life assurance, permanent health insurance and private medical insurance • Executive directors are eligible for other benefits which may also be introduced for the wider workforce on broadly similar terms	• Cash allowance in lieu of company car of up to £25,000 per annum • Other benefits will be in line with market. The value of each benefit is based on the cost to the Company and is not pre-determined. A cap of £30,000 per annum for each executive director applies to these other benefits • Any reasonable business-related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit	• N/A

Element	Purpose and link to strategy	Operation	Maximum	Performance assessment
Incentive/ performance-related pay (both annual and long-term incentive) provided under the Chemring Incentive Plan (as explained in the Chairman's letter on page 65)	• Incentivises annual delivery of predominantly financial (but also strategic and personal) goals that are set to support key strategic goals • Significant share deferral element with the ability to receive dividend equivalents helps align executives' rewards with shareholders' long-term interests • Maximum awards only payable for achieving demanding targets	• 30% paid in cash following the relevant year end • 70% deferred into shares which vest three years later subject to continued employment (save in "good leaver" scenarios) and satisfaction of a further performance underpin • Shares then subject to a further two-year post-vesting holding period • Non-pensionable • Executives are entitled to receive the value of dividend payments that would otherwise have been paid on the deferred shares during the vesting and holding period • Malus/clawback mechanisms can apply in the event of misconduct, error in calculation of performance, or a material misstatement of the Group's financial results • All awards are subject to the discretions given to the Committee in the plan rules • The CIP is a discretionary arrangement and the Committee retains a standard power to apply its judgement to adjust outcomes should it consider that to be appropriate, and/or to ensure that the outcome appropriately reflects underlying performance and/or shareholder experience	• Overall plan maximum of 250% of salary • Current intended maximum levels are: Group Chief Executive - 250% of salary, other executive directors - 200% of salary	• Size of cash/share award is based on performance against annual targets which are supportive of the achievement of the Group's longer-term goals • Mix of financial and personal/strategic targets can be used, although personal/strategic objectives will account for no more than 10% of each award and will also only be payable subject to the Committee's assessment of underlying business performance (e.g. levels of profitability and cash flow, health and safety performance etc.) • Vesting of the deferred share element is also subject to satisfaction of an additional underpin measured over the three-year vesting period • For each financial element, a lower performance threshold will be defined. Performance below the threshold will result in zero payment in respect of that element. A target level will be defined at which 50% of the relevant portion of the award is payable, and a stretching maximum level will be defined at which 100% will be paid in respect of that element
All-employee share schemes	• All employees, including executive directors, are encouraged to acquire shares by participating in the Group's all-employee share plans - the UK Sharesave Plan and the US Stock Purchase Plan	• The UK Sharesave Plan and US Stock Purchase Plans have standard terms	• Participation limits are those set by the relevant tax authorities from time-to-time	• N/A

Notes:

1. A description of how the Company intends to implement the policy set out in this table for the forthcoming year is set out in the annual report on remuneration on pages 73 to 84.
2. The remuneration policy for the executive directors and other senior executives is designed with regard to the policy for employees across the Group as a whole. However, there are some differences in the structure of the remuneration policy for senior executives. In general, these differences arise from the development of remuneration arrangements that are market-competitive for the various categories of individuals. They also reflect the fact that, in the case of the executive directors and other senior executives, a greater emphasis tends to be placed on performance-related pay in the market.
3. All-employee share plans do not have performance conditions. Executive directors are eligible to participate in the UK Sharesave Plan on the same terms as other employees.
4. As described on page 80, the Company operates share ownership guidelines requiring executive directors to acquire and hold a specified level of shareholding.
5. The Committee may make minor amendments to the policy set out above for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation, without obtaining shareholder approval for that amendment.
6. The Regulations and related investor guidance encourages companies to disclose a cap within which each element of the directors' remuneration policy will operate. Where maximum amounts for elements of remuneration have been set within the policy, these will operate simply as caps and are not indicative of any aspiration.
7. While the Committee does not consider it to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality, whether paid for by the Company or another, and business travel for directors and in exceptional circumstances their families, may technically come within the applicable rules, and so the Committee expressly reserves the right for the Committee to authorise such activities within its agreed policies (and to discharge any related tax liability).

Committee discretions

The Committee operates the Group's variable incentive plans according to their respective rules and in accordance with HMRC rules where relevant. To ensure the efficient administration of these plans, the Committee will apply certain operational discretions. These include the following:

- selecting the participants in the plans on an annual basis;
- determining the timing of grants of awards and/or payment;
- determining the quantum of awards and/or payments (within the limits set out in the policy table above);
- determining the extent of vesting based on the assessment of performance;
- making the appropriate adjustments required in certain circumstances (e.g. change of control, rights issues, corporate restructuring events and special dividends);
- determining "good leaver" status for incentive plan purposes and applying the appropriate treatment; and
- undertaking the annual review of weighting of performance measures, and setting targets from year to year.

In circumstances where the Committee believes that incentive targets are no longer appropriate (e.g. following a material acquisition or divestment), the Committee will have the ability to adjust appropriately the measures and/or targets and alter weightings, provided that the revised conditions or targets are not materially less difficult to satisfy (taking account of the relevant circumstances).

Selection of performance metrics and targets

The performance-related elements of remuneration take into account the Group's risk policies and systems, and are designed to align the senior executives' interests with those of shareholders. The Committee reviews the metrics used and targets set for all of the Group's senior executives (not just the executive directors) every year, in order to ensure that they are aligned with the Group's strategy and to ensure an appropriate level of consistency of arrangements amongst the senior executive team. All financial targets will (where appropriate) be set on a sliding scale. Non-financial targets are set based on individual and management team responsibilities.

A summary of the targets to be used in 2017 under the CIP can be found on page 83. The Committee retains discretion to set different targets and introduce additional metrics in line with the Group's strategy for future awards providing that, in the opinion of the Committee, the new targets are no less challenging in light of the prevailing circumstances than those set previously. If substantially different targets to those used previously are proposed, major shareholders will be consulted.

How employees' pay is taken into account

In addition to determining the remuneration arrangements for the executive directors, the Committee considers and approves the base salaries for thirteen other senior executives, and reviews salaries for the next tier of management at each of the Group's businesses. The Committee also receives information on general pay levels and policies across the Group. The Committee, therefore, has due regard to salary levels across the Group in applying its remuneration policy. However, reflecting standard industry practice, the Committee does not consult with employees in relation to the design and operation of the executive remuneration policy (although the Committee will continue to monitor developments in this area).

In addition, the Committee is cognisant of the requests from, amongst others, the Investment Association, for companies to publish ratios comparing Chief Executive to employee pay. The Company has prepared this analysis internally, and it has been reviewed and considered by the Committee. The Committee has not, however, published this data in this report as it is concerned that no common methodology has yet been established amongst UK companies and their investors for these comparisons; the Committee's expectation is that it will publish ratios showing comparisons in future years when, as can be expected, UK regulations or guidance develop a common methodology.

How the executive directors' remuneration policy relates to the wider Group

The remuneration policy described above provides an overview of the structure that operates for the most senior executives in the Group. Lower aggregate incentive quanta are applied at below executive level, with levels driven by market comparatives and the impact of the role.

Employees are provided with a competitive package of benefits, which typically includes participation in the Group's defined contribution pension arrangements.

Participation in the CIP will be offered to the most senior executives and those identified as having the greatest potential to influence performance within the Group. However, in order to encourage wider employee share ownership, the Company also operates a Sharesave Plan in the UK and a Stock Purchase Plan in the US, in which all UK and US employees are eligible to participate on completion of six months' service.

How shareholders' views are taken into account

The Remuneration Committee considers shareholder feedback received on the directors' remuneration report each year and guidance from shareholder representative bodies more generally. Shareholders' views are key inputs when shaping remuneration policy, with the Company's major shareholders being consulted in advance in connection with proposed changes to policy. Extensive consultation has been undertaken over the last few months with major shareholders and shareholder representative bodies on the proposed updated policy and the CIP.

Legacy arrangements

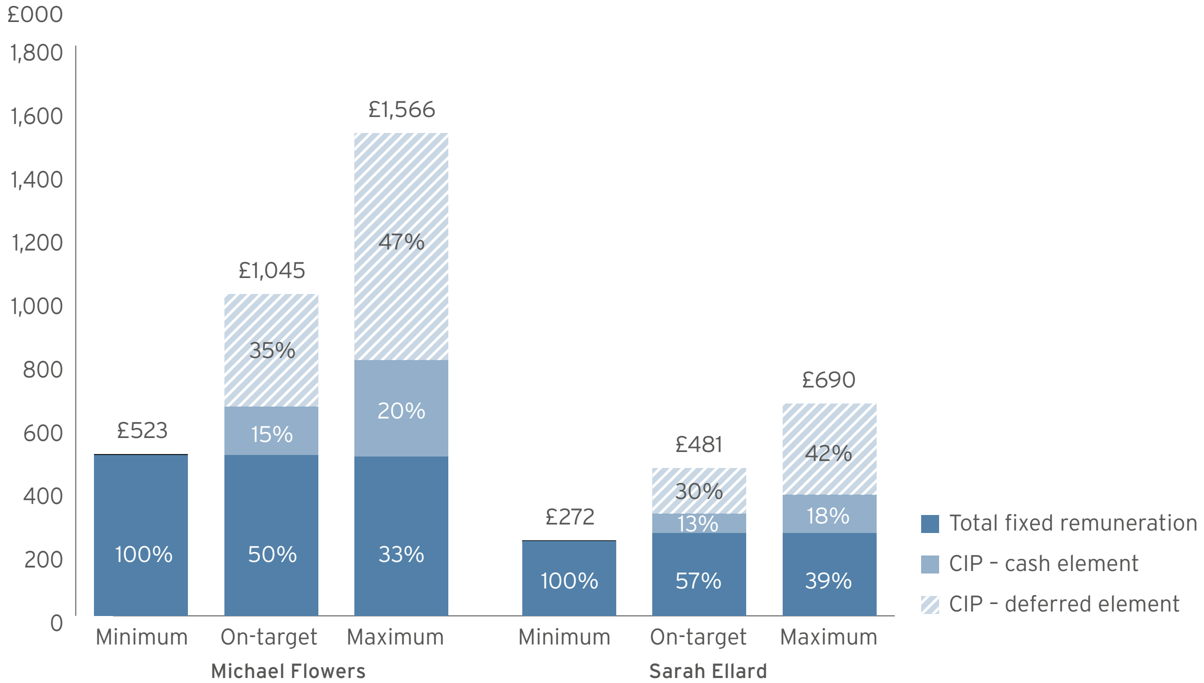
For the avoidance of doubt, by approval of the updated policy, authority will be given to the Company to honour any commitments entered into with current or former directors (such as the payment of a pension or the unwinding of legacy share schemes) permitted under the current policy or which have been disclosed to shareholders in previous directors' remuneration reports. Details of any payments to former directors will be set out in the annual report on remuneration as they arise.

External appointments

The Company's policy is to permit an executive director to serve as a non-executive director elsewhere when this does not conflict with the individual's duties to the Company, and where an executive director takes such a role they may be entitled to retain any fees which they earn from that appointment.

Potential remuneration scenarios for executive directors

The chart below details the hypothetical composition of each executive director's remuneration package and how it could vary at different levels of performance under the policy set out above. As a new joiner, Andrew Lewis has not been included in the chart below.



Assumptions:

1. *Minimum = fixed pay only (2017 salary plus benefits plus pension cash supplement).*
   On target = fixed pay plus target CIP outturn (assumed as 50% of maximum for the purposes of these charts i.e. 125% of salary for the Group Chief Executive and 100% of salary for the other executive directors).
   Maximum = fixed pay plus maximum CIP outturn of 250% of salary for the Group Chief Executive and 200% for the other executive directors.
2. *Any CIP outturn is shown as 30% payable in cash immediately following the year end and 70% payable in deferred shares that vest three years later (subject to the performance underpin and a further two-year holding period).*
3. *As required by the Regulations, no account is taken of the impact that future share price growth might have on the value of remuneration delivered in shares.*
4. *Salary levels (on which other elements of the packages are calculated) are based on those applying from 1 January 2017. Note that Sarah Ellard's remuneration reflects her current contractual office-based hours, and may be increased or decreased pro-rata should these change in future.*
5. *The value of taxable benefits is based on an estimated cost of £23,000 for Michael Flowers and £21,000 for Sarah Ellard.*
6. *Pension provision is 20% of salary for each director.*
7. *The executive directors may participate in all-employee share schemes on the same basis as other employees. The value that may be received under these schemes is subject to tax-approved limits. For simplicity, the value that may be received from participating in these schemes has been excluded from the above chart.*

Policy on payments for loss of office

All new executive directors appointed will have service contracts which are terminable on a maximum of twelve months' notice. Provisions permitting the Company to make any termination payments by instalments, and requiring directors to mitigate their loss in such circumstances, will be included in each contract. The Remuneration Committee will exercise discretion in determining whether termination payments should be paid by instalments, taking account of the reason for the departure of the director and their prior performance. Other than in gross misconduct situations, the Company would expect to honour the contractual entitlements of terminated directors.

Under the CIP, the following treatment applies on cessation:

- **Year of cessation** – other than in certain "good leaver" circumstances (including, but not limited to, redundancy or ill-health), the right to receive any outturn under the CIP lapses unless the individual remains employed and is not under notice at the award date (i.e. the date following the relevant year end when performance against the targets is assessed). Any CIP outturn paid to a "good leaver" would be based on an assessment of their individual and the Company's performance over the year, and would normally be pro-rated for the proportion of the year worked. The extent to which any CIP outturn is paid in cash and deferred shares (and the terms of any such deferral) will be determined by the Committee.
- **Past CIP awards** – other than in "good leaver" circumstances during the three-year vesting period, any unvested deferred shares previously granted under the CIP lapse on cessation. For good leavers during this period, awards will vest either on cessation or on the normal vesting date, subject to the Committee's assessment of performance against the underpin and may be subject to a pro-rata reduction at the discretion of the Committee. Any CIP shares/awards subject to a post-vesting holding period on any cessation will continue to be subject to the holding period (unless the Committee determines otherwise).

If there is a change of control of the Company, unvested deferred share awards granted under the CIP will vest subject to a pro-rata reduction and the Committee's assessment of performance against the underpin, in both cases unless the Committee determines otherwise. The Committee will determine the treatment of rights to receive any outturn under the CIP relating to the year in which the change of control occurs, having regard to individual and/or Company performance over the relevant portion of the year and the portion of the year that had elapsed up to the change of control. Any shares vesting as the result of a change of control of the Company will not be subject to a post-vesting holding period.

With regards to the PSP (under which it is not currently intended that further grants will be made), the rules provide that other than in certain "good leaver" circumstances, awards lapse on cessation of employment. Where an individual is a "good leaver", the Committee's policy for the PSP awards made from 2014 onwards is normally to permit awards to remain outstanding until the end of the original performance period, when a pro-rata reduction will be made to take account of the proportion of the vesting period that lapsed prior to termination of employment, although the Committee has discretion to partly or completely disapply pro-rating in exceptional circumstances. The Committee has discretion to deem an individual to be a "good leaver". In doing so, it will take account of the reason for their departure and the performance of the individual.

The treatment of leavers under the Sharesave Plan and the Stock Purchase Plan will follow the normal approach as set out in the relevant rules.

The Committee will have authority to enter into settlement agreements, pay any statutory entitlements and settle potential claims against the Company (e.g. for unfair dismissal, discrimination or whistleblowing) that arise on termination. The Committee may also authorise the provision of outplacement services and settle legal fees where considered appropriate.

Executive directors' service agreements and loss of office payments

The executive directors who served during the year have, or had, rolling service contracts, details of which are summarised in the table below:

Provision	Detailed terms
Contract dates	Michael Flowers – 23 June 2014 (effective 24 June 2014) Steve Bowers (resigned 30 September 2016) – 2 January 2013 (effective 7 January 2013) Sarah Ellard – 2 November 2011 (effective 7 October 2011)
Notice period	Twelve months from both the Company and from the executive
Termination payments	Contracts may be terminated without notice by the payment of a sum equal to the sum of salary due for the unexpired notice period plus the fair value of any contractual benefits (including pension) Payments may be made in instalments and in these circumstances there is a requirement to mitigate loss

Andrew Lewis' service contract, which was executed on 12 December 2016 and became effective on 9 January 2017, has the same terms as those which apply to the other executive directors.

The Company's policy on service agreements reflects the approach described above (e.g. notice periods will normally be twelve months or less).

The executive directors' service contracts are available for inspection at the Company's registered office.

Recruitment of executive directors

Salaries for new hires (including internal promotions) will be set to reflect their skills and experience, the Company's intended pay positioning, and the market rate for the applicable role. Consistent with the Regulations, any caps contained within the policy for fixed pay do not apply to new recruits, although the Committee would not envisage exceeding these caps in practice.

Where it is appropriate to offer a below-market salary initially, the Committee will have the discretion to allow phased salary increases over a period of time for newly-appointed directors, even though this may involve increases in excess of the rate for the wider workforce and inflation.

Benefits will (where appropriate) be provided in line with those offered to other executive directors, taking account of local market practice, with relocation expenses or arrangements provided if necessary. Tax equalisation may also be considered if an executive is adversely affected by taxation due to their employment with the Company. Legal fees and other costs incurred by the individual may also be paid by the Company.

The aggregate incentive opportunity offered to new recruits will normally be no higher than that offered under the existing incentive plans to the incumbent executive directors. Different performance measures and targets may be set initially, taking into account the responsibilities of the individual and their date of joining. Any incentive quantum offered above the limits set out in the existing incentive plans and policy will (save as set out below) be contingent on the Company receiving shareholder approval for an amendment to its approved policy at its next general meeting.

Current entitlements of a new joiner from their previous employer (e.g. benefits, bonus and share schemes) may be bought out on terms that take due account of the nature of the entitlements in terms of (for example) time horizon, fair value and performance conditions. The Group's existing incentive arrangements will be used to the extent possible, although awards may also be granted outside of these arrangements if necessary, and as permitted under the Listing Rules, reflecting the above parameters. Such awards will not, in accordance with the Regulations, be subject to the limits of the remuneration policy for incentive pay.

In the case of an internal hire, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant (adjusted as relevant to take into account the Board appointment).

Policy for non-executive directors

Element	Purpose and link to strategy	Operation	Maximum	Performance assessment
Non-executive directors' and Chairman's fees	Takes account of recognised practice and set at a level that is sufficient to attract and retain high-calibre non-executives	• The Chairman is paid a single fee for all his responsibilities. The non-executives are paid a basic fee. The Chairs of the Remuneration Committee and the Audit Committee each receive additional fees to reflect their extra responsibilities. This approach may also be extended to the Senior Independent Director • When reviewing fee levels, account is taken of market movements in non-executive director fees, Board committee responsibilities, ongoing time commitments, the general economic environment and the level of increases awarded to the wider workforce • Fee increases, if applicable, are normally effective from April of each year • Non-executive directors do not participate in any pension, bonus or share incentive plans • Non-executive directors may be compensated for travel, accommodation or hospitality-related expenses in connection with their roles and the tax thereon • In exceptional circumstances, additional fees may be paid where there is a substantial increase in the time commitment required of non-executive directors	N/A	N/A

Non-executive directors' letters of appointment

Non-executive directors do not receive compensation for loss of office but are appointed for a fixed term of three years, renewable for further three-year terms if both parties agree and subject to annual re-election by shareholders. The Chairman's appointment may be terminated on six months' notice by either party and the other non-executive directors' appointments may be terminated on three months' notice by either party. The non-executive directors' letters of appointment are available for inspection at the Company's registered office.

The following table provides further details of the terms of appointment for the non-executive directors who served during the year:

Name	Date original term commenced	Date current term commenced	Expected expiry date of current term
Carl-Peter Forster	1 May 2016	1 May 2016	30 April 2019
Andrew Davies	17 May 2016	17 May 2016	16 May 2019
Daniel Dayan	7 March 2016	7 March 2016	6 March 2019
Nigel Young	1 May 2013	1 May 2016	30 April 2019
Peter Hickson*	1 July 2010	1 July 2013	N/A
Andy Hamment*	1 July 2013	1 July 2013	N/A
Ian Much*	1 December 2004	1 December 2013	N/A

* Messrs Hickson, Hamment and Much all stepped down from the Board during the year.

PART B - ANNUAL REPORT ON REMUNERATION

This part of the report has been prepared in accordance with Part 3 of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), and 9.8.6R of the Listing Rules. The annual report on remuneration will be put to an advisory shareholder vote at the 2017 Annual General Meeting. The information on pages 74 to 84 has been audited.

The Remuneration Committee and its advisers

Members of the Remuneration Committee

The following individuals were members of the Remuneration Committee during the year:

Name	From	To
Daniel Dayan (Chairman)	7 March 2016	Present
Carl-Peter Forster	1 May 2016	Present
Andrew Davies	17 May 2016	Present
Nigel Young	1 May 2013	Present
Ian Much (former Chairman)	1 December 2004	21 March 2016
Andy Hamment	1 July 2013	30 April 2016
Peter Hickson	1 July 2010	30 June 2016

The Group Legal Director & Company Secretary acts as secretary to the Committee, and the Group Chief Executive and the Group Finance Director attend meetings by invitation, but no executive director or other employee is present during discussions relating directly to their own remuneration.

Meetings

The Remuneration Committee met for three scheduled meetings during the year. In addition, four additional ad hoc meetings were convened to deal with matters arising between scheduled meetings. Details of the attendance of the Committee members at scheduled meetings are set out on page 55 of the corporate governance report.

Principal activities of the Remuneration Committee during the year

November 2015	• Review of current market practice on executive remuneration arrangements • Consideration of structure of new Performance Share Plan
December 2015	• Approval of financial targets and personal objectives for the 2016 bonus plan • Consideration of salary levels for the executive directors and the senior management team
January 2016	• Consideration of bonus outturn for the 2015 financial year • Grant of 2016 awards under the Performance Share Plan • Approval of the directors' remuneration report for 2015
March 2016	• Approval of changes to the pension arrangements for UK "high earner" employees to reflect revised taxation of UK pensions
April 2016	• Approval of remuneration package for new Chairman • Approval of adjustments to outstanding share awards to reflect the recently-completed rights issue
September 2016	• Review of remuneration policy • Initial consideration of structure of new incentive plan
October 2016	• Initial consideration of remuneration package for potential new Group Finance Director

Advisers

At the start of the year, New Bridge Street (an Aon Hewitt company, part of Aon plc) were the Committee's retained advisers for remuneration and incentive plan related matters, and the setting of remuneration for new appointments. New Bridge Street had been appointed by the Committee and was a signatory to the Remuneration Consultants' Group Code of Conduct, which sets out guidelines to ensure that its advice is independent and free from undue influence. The Company received no other services from New Bridge Street during the year. However, the Group's UK flexible benefits scheme is administered by Aon Consulting (Benefits) Limited, part of Aon plc. The fees paid to New Bridge Street in 2016 were £47,300.

During the year, FIT Remuneration Consultants LLP ("FIT") was appointed by the Committee as its retained adviser in place of New Bridge Street. FIT is also a signatory to the Remuneration Consultants' Group Code of Conduct. The Committee has reviewed the nature of the services provided by FIT and is satisfied that no conflict of interest exists in the provision of these services. The Company received no other services from FIT during the year. The total fees paid to FIT in respect of services to the Committee during the year were £25,792. Fees were determined based on the scope and nature of the projects undertaken for the Committee.

The Committee reviews the performance and independence of its advisers on an annual basis.

The Committee consults internally with the Group Chief Executive (Michael Flowers) and the Group Legal Director & Company Secretary (Sarah Ellard).

Directors' emoluments

The emoluments of all the directors who served during the year are shown below:

Name	Year	Salaries/ fee £'000	Taxable benefits[1] £'000	Bonus (cash and deferred shares)[2] £'000	PSP £'000	Pension benefits[3] £'000	Total £'000
Executives							
Michael Flowers	**2016**	**406**	**21**	**347**	**–**	**81**	**855**
	2015	405	21	–	–	81	507
Steve Bowers[4]	**2016**	**283**	**17**	**–**	**–**	**57**	**357**
	2015	308	18	–	–	61	387
Sarah Ellard	**2016**	**204**	**23**	**141**	**–**	**41**	**409**
	2015	219	19	–	–	44	282
Non-executives							
Carl-Peter Forster[5]	**2016**	**100**	**–**	**–**	**–**	**–**	**100**
	2015	–	–	–	–	–	–
Andrew Davies[6]	**2016**	**25**	**–**	**–**	**–**	**–**	**25**
	2015	–	–	–	–	–	–
Daniel Dayan[7]	**2016**	**43**	**–**	**–**	**–**	**–**	**43**
	2015	–	–	–	–	–	–
Nigel Young[8]	**2016**	**63**	**–**	**–**	**–**	**–**	**63**
	2015	63	–	–	–	–	63
Andy Hamment[9]	**2016**	**27**	**–**	**–**	**–**	**–**	**27**
	2015	55	–	–	–	–	55
Peter Hickson[10]	**2016**	**125**	**1**	**–**	**–**	**–**	**126**
	2015	187	2	–	–	–	189
Ian Much[11]	**2016**	**25**	**–**	**–**	**–**	**–**	**25**
	2015	63	–	–	–	–	63
Total remuneration	**2016**	**1,301**	**62**	**488**	–	**179**	**2,030**
	2015	1,300	60	–	–	186	1,546

Notes:

1. Comprises a fully-expensed company car for Sarah Ellard (annual lease cost £10,186) up to 19 August 2016 and cash allowance of £19,350 per annum thereafter; car-related cash allowance of £20,000 per annum up to 31 May 2016 and £21,500 per annum thereafter for Michael Flowers; and car-related cash allowance of £18,000 per annum up to 31 May 2016 and £19,350 per annum thereafter for Steve Bowers; plus private medical insurance for each of the executive directors.
2. 40% of any bonus is delivered as an award of deferred shares. Bonuses had accrued but had not yet been paid at the date of this report.
3. The executive directors receive a cash supplement of 20% of salary in lieu of occupational pension scheme membership.
4. Steve Bowers left the Board on 30 September 2016. Details of his termination arrangements can be found on page 80.
5. Carl-Peter Forster joined the Board on 1 May 2016.
6. Andrew Davies joined the Board on 17 May 2016.
7. Daniel Dayan joined the Board on 7 March 2016. Daniel received additional fees of £5,833 included in the above figures, in relation to his part year Chairmanship of the Remuneration Committee.
8. Nigel Young receives an additional fee of £10,000 per annum, in respect of his Chairmanship of the Audit Committee. This fee was increased from £8,000 to £10,000 with effect from 7 March 2016 (to coincide with the appointment of a new Remuneration Committee Chairman); however, the increase was not paid until after the year end. The above figures reflect the previous fee of £8,000 per annum.
9. Andy Hamment left the Board on 30 April 2016.
10. Peter Hickson left the Board on 30 June 2016.
11. Ian Much left the Board on 21 March 2016. Ian received additional fees of £3,127 included in the above figures, in relation to his part year Chairmanship of the Remuneration Committee.

Amounts shown above in the salaries and fees column relate to base salary in the case of executive directors and fees in the case of non-executive directors.

Base salary and benefits paid during the year

The executive directors' salaries were reviewed in December 2015 but no increases were approved, as a result of the performance of the Company during 2015. The salaries of the executive directors during the year were therefore as follows:

Executive	Salary during the year ended 31 October 2016
Michael Flowers	£406,000
Steve Bowers	£309,000
Sarah Ellard[1]	£203,539

Note:

1. Sarah Ellard's salary was reduced from £222,995 to £203,539 with effect from 7 September 2015, to reflect a reduction in her contractual office-based working hours.

The Company introduced cash allowances in lieu of company cars in 2013. The allowances are reviewed every three years and inflationary increases applied as appropriate. Allowances were reviewed with effect from 1 June 2016 and a 7.5% increase was approved by the Committee. Consequently, the cash allowance paid to the Group Chief Executive was increased from £20,000 to £21,500 per annum and from £18,000 to £19,350 per annum for the other executive directors. The cash allowances will next be reviewed in 2019.

Details of variable pay opportunity in the year

Annual bonus

As reported last year, 75% of the 2016 bonus opportunity was based on financial targets (namely operating profit and cash flow), with 25% based on personal objectives. No bonus is payable in respect of the personal objectives unless the Committee is satisfied that this is justified by the Group's underlying performance, including *inter alia* levels of profitability and cash flow.

The Committee has consistently set highly-challenging targets for the achievement of maximum bonuses. The financial targets for the 2016 bonus plan, compared with actual performance, were as follows:

Metric	Weighting (75% of overall bonus)	Performance	Target	Actual	Payout (as % of salary) Michael Flowers	Sarah Ellard
Operating profit	50%	Threshold	£45.9m	£48.5m	11.9%	9.6%
		Target 1	£51.0m			
		Target 2	£53.2m			
		Maximum	£54.7m			
Operating cash flow	50%	Threshold	£52.3m	£77.6m	46.9%	37.5%
		Target 1	£58.1m			
		Target 2	£60.6m			
		Maximum	£62.3m			

The personal objectives set in respect of the 2016 bonus plan (25% of overall bonus) are set out below:

Executive	Personal objectives	Key aspects of performance against individual objectives	Payout (as % salary)
Michael Flowers	• *Health and safety*	• Expansion of scope of internal audit programme • Development of mitigation plan for hazardous exposures • Achieved a lost time incident rate of less than 0.75	26.6%
	• *Financing*	• Completed rights issue	
	• *Strategy development*	• Development of updated strategy and organisation for business segments and Group	
	• *Operational performance improvement*	• Reduction in inventory values to less than 20% of annual revenue	
	• *Business development*	• Established Group-wide customer relationship management system • Secured three workstreams on US Next Generation Chemical Detection programme	
	• *Kilgore improvement programme*	• Improved health and safety performance • Introduced new incident investigation procedure	
	• *Governance and compliance*	• Enhanced anti-bribery compliance programme	

Executive	Personal objectives	Key aspects of performance against individual objectives	Payout (as % salary)
Steve Bowers	• *Financing*	• Completed rights issue • Development of Group financing strategy	0%
	• *Working capital*	• Reduction in inventory values to less than 20% of annual revenue	
	• *Internal audit*	• Enhanced scope of US internal audit programme	
	• *Finance organisation*	• Strengthened global finance functions	
Sarah Ellard	• *Financing*	• Completed rights issue	22.5%
	• *Governance and compliance*	• Enhanced anti-bribery compliance programme • Implemented new Board Governance Manual	
	• *Acquisitions and divestments*	• Completed acquisition and integration of Wallop Defence Systems' countermeasures assets	
	• *Group property portfolio*	• Relocated London office facility	
	• *Litigation and claims*	• Achieved settlement of Kilgore insurance claim • Resolved legacy litigation matters	

Based on the above performance, bonuses are payable to the executive directors under the 2016 bonus plan as follows:

Executive	Maximum bonus (% of salary)	Bonus paid in respect of financial targets (% of salary)	Bonus paid in respect of personal objectives (% of salary)	Total bonus payment[1]
Michael Flowers	125	58.8	26.6	£346,724
Sarah Ellard	100	47.1	22.5	£141,663

Note:
1. 40% of bonuses payable are satisfied by way of an award of deferred shares, vesting of which is subject only to continued service.

No bonus is payable to Steve Bowers for 2016.

Performance Share Plan

Vesting of 2014 PSP awards

The PSP awards granted on 28 April 2014 and 8 July 2014 were made subject to the following performance conditions:

Measure	Threshold vesting	Full vesting
Total compound earnings per share growth per annum over three financial years (50% of award)	5% p.a. (25% vests)	10% p.a. (100% vests)
Rank of the Company's total shareholder return against the total shareholder return of the members of the comparator group (50% of award)	Median ranking (25% vests)	Upper quartile ranking (100% vests)

Based on the above, all these PSP awards will lapse.

Details of the awards granted to the executive directors on these dates are provided below:

Executive	Vesting date	Number of shares at grant	Rights issue adjustment during year	Number of shares to vest	Number of shares to lapse	Value of dividends
Michael Flowers	28 April 2017 8 July 2017	94,827 186,046	13,429 26,348	Nil Nil	108,256 212,394	Nil Nil
Steve Bowers[1]	28 April 2017	193,965	27,469	Nil	221,434	Nil
Sarah Ellard	28 April 2017	139,978	19,824	Nil	159,802	Nil

Note:
1. Awards made to Steve Bowers lapsed on cessation of his employment on 30 September 2016.

PSP awards granted in the year

The following conditional awards of shares were granted to the executive directors under the PSP during the year:

Executive	Date of grant	Value of award	Closing share price on date of grant[1]	Number of conditional shares awarded	Rights issue adjustment during year	Total number of shares post rights issue adjustment	Face value	% that vests at threshold	Vesting determined by
Michael Flowers	25 January 2016	150% of salary	138.4p	388,516	55,022	443,538	£537,706	25%	EPS growth (50%) and relative TSR performance (50%), as detailed below
Steve Bowers[2]	25 January 2016	150% of salary	138.4p	295,693	41,876	337,569	£409,239	25%	
Sarah Ellard	25 January 2016	150% of salary	138.4p	194,774	27,584	222,358	£269,567	25%	

Notes:
1. Pre rights issue grant share price.
2. Awards made to Steve Bowers lapsed on cessation of his employment on 30 September 2016.

Award levels were calculated based on the closing share price on the trading day immediately preceding the date of grant. The face value of each award shown above is based on the closing share price on the date of grant.

The performance conditions applying to the awards made in 2016 are based as to one half of each award on the Company's compound EPS growth over three financial years, and as to the other half of each award on the Company's TSR performance over the same three-year performance period.

The EPS performance condition will be measured as follows:

Total compound earnings per share growth over the three-year performance period	% of earnings per share part that may vest
Less than 5% p.a.	0%
5% p.a.	25%
Between 5% p.a. and 10% p.a.	On a straight-line basis between 25% and 100%
10% p.a. or more	100%

Note:
1. Earnings per share is calculated on a fully-diluted and normalised basis, as specified by the Committee prior to grant.

The TSR performance condition will be measured as follows:

Rank of the Company's total shareholder return against the total shareholder return of the members of the comparator group	% of total shareholder return part that may vest
Below median	0%
Median	25%
Between median and upper quartile	On a straight-line basis between 25% and 100%
Upper quartile or above	100%

The comparator group for the 2016 awards comprises BAE Systems, Cobham, Cohort, Esterline Technologies, FLIR Systems, L3 Communications, Leonardo Finmeccanica, Orbital ATK, QinetiQ Group, Raytheon, Rheinmetall, Rockwell Collins, and Ultra Electronics.

Performance conditions for outstanding awards

	Measure	Director	Awards to executive directors	Threshold vesting	Full vesting
Awards made on 28 April 2014, 8 July 2014, 26 January 2015 and 25 January 2016	Total compound earnings per share growth per annum over three financial years (50% of award)[1]	Michael Flowers Steve Bowers[2] Sarah Ellard	150% of salary	5% p.a. (25% vests)	10% p.a. (100% vests)
	Rank of the Company's total shareholder return against the total shareholder return of the members of the comparator group (50% of award)			Median ranking (25% vests)	Upper quartile ranking (100% vests)

Notes:
1. Earnings per share is calculated on a fully-diluted and normalised basis, as specified by the Committee prior to grant.
2. Awards made to Steve Bowers lapsed on cessation of his employment on 30 September 2016.

Summary of outstanding PSP awards

	Number of shares under award							
Executive	At 1 November 2015	Rights issue adjustment during the year	Awarded during the year	Lapsed during the year	Vested during the year	At 31 October 2016	Date of vesting	Closing share price on date of grant (p)[3]
Michael Flowers	79,796[1]	11,300	–	(91,096)	–	–	–	282.0
	94,827[2]	13,429	–	–	–	108,256	28 April 2017	229.0
	186,046[2]	26,348	–	–	–	212,394	8 July 2017	199.0
	261,935	37,096	–	–	–	299,031	26 January 2018	230.5
	–	55,022	388,516	–	–	443,538	25 January 2019	138.4
	622,604	**143,195**	**388,516**	**(91,096)**	**–**	**1,063,219**		
Steve Bowers[4]	149,564	–	–	(149,564)	–	–	–	283.6
	193,965	27,469	–	(221,434)	–	–	–	229.0
	199,354	28,233	–	(227,587)	–	–	–	230.5
	–	41,876	295,693	(337,569)	–	–	–	138.4
	542,883	**97,578**	**295,693**	**(936,154)**	**–**	**–**		
Sarah Ellard	114,213[1]	–	–	(114,213)	–	–	–	283.6
	139,978[2]	19,824	–	–	–	159,802	28 April 2017	229.0
	143,867	20,374	–	–	–	164,241	26 January 2018	230.5
	–	27,584	194,774	–	–	222,358	25 January 2019	138.4
	398,058	**67,782**	**194,774**	**(114,213)**	**–**	**546,401**		

Notes:
1. Awards lapsed due to the performance conditions not being met.
2. As explained above, these awards will lapse due to the performance conditions not being met.
3. Pre rights issue grant share price.
4. All of Steve Bowers' awards lapsed upon cessation of his employment on 30 September 2016.

Sharesave awards

Summary of outstanding Sharesave awards

Executive	Number of shares under option: At 1 November 2015	Awarded during the year	Rights issue adjustment during the year	Lapsed during the year	Exercised during the year	At 31 October 2016	Original exercise price	Adjusted post rights issue exercise price	Exercise date
Michael Flowers	11,042	–	1,563	(12,605)	–	–	163p	142p	–
	–	17,142	–	–	–	17,142	105p	–	1 October 2019 – 31 March 2020
	11,042	**17,142**	**1,563**	**(12,605)**	**–**	**17,142**			
Steve Bowers[1]	6,276	–	888	(7,164)	–	–	239p	209p	–
	9,202	–	1,303	(10,505)	–	–	163p	142p	–
	15,478	**–**	**2,191**	**(17,669)**	**–**	**–**			

Note:
1. All of Steve Bowers' awards lapsed upon cessation of his employment on 30 September 2016.

Deferred share awards

Summary of outstanding deferred share awards

Executive	Number of shares under award: At 1 November 2015	Awarded during the year	Rights issue adjustment during year	Lapsed during the year	Vested during the year	At 31 October 2016	Date of vesting[2]	Closing share price on date of grant (p)[1]
Michael Flowers	14,606	–	2,068	–	–	16,674	27 January 2018	226.5
	14,606	**–**	**2,068**	**–**	**–**	**16,674**		
Steve Bowers[3]	19,097	–	2,704	(21,801)	–	–	–	229.0
	29,727	–	4,210	(33,937)	–	–	–	226.5
	48,824	**–**	**6,914**	**(55,738)**	**–**	**–**		
Sarah Ellard	12,600	–	1,784	–	–	14,384	23 January 2017	229.0
	18,973	–	2,687	–	–	21,660	27 January 2018	226.5
	31,573	**–**	**4,471**	**–**	**–**	**36,044**		

Notes:
1. Pre rights issue grant share price.
2. Vesting of deferred bonus share awards is subject only to continued service.
3. All of Steve Bowers' awards lapsed upon cessation of his employment on 30 September 2016.

Directors' shareholdings

Shareholding guidelines apply to executive directors and other participants in the PSP. If the new policy is approved by shareholders at the Annual General Meeting, executive directors will be expected to build-up and maintain a shareholding in the Company equivalent to 200% of basic salary, by retaining 50% of the after-tax gain on vested PSP awards and CIP awards until such time as the guidelines have been met.

The interests of the directors in the ordinary shares of the Company at 31 October 2016 are shown below. All are beneficial holdings.

				Unvested and subject to performance conditions under the PSP					
Executive	Legally owned (number of shares)	Value of legally owned shares as % of salary[1]	Guideline met	2014 award	2015 award	2016 award	Total at 31 October 2016	Deferred bonus share awards	Sharesave options
Michael Flowers	165,982	59%	No	320,650	299,031	443,538	1,063,219	16,674	17,142
Sarah Ellard	36,021	26%	No	159,802	164,241	222,358	546,401	36,044	–
Carl-Peter Forster	20,000	–	–	–	–	–	–	–	–
Andrew Davies	–	–	–	–	–	–	–	–	–
Daniel Dayan	60,500	–	–	–	–	–	–	–	–
Nigel Young	–	–	–	–	–	–	–	–	–

Note:
1. Based on the number of shares legally owned, prevailing base salary and share price of 145p at 31 October 2016.

The directors' share interests at 31 October 2016 include shares held by the directors' adult children, as required by the Companies Act 2006.

There have been no changes to the directors' interests in shares since 31 October 2016.

Pension

The following table sets out the pension benefits earned by the executive directors. Only Sarah Ellard previously accrued benefits during her former membership of the Chemring Group Staff Pension Scheme.

		Total benefit accrued at 31 October 2015			Total benefit accrued at 31 October 2016				
Executive	Cash in lieu of pension contributions £000	Pension £000p.a.	Cash £000	Transfer value of accrued benefit at 31 Oct 2015 £000	Pension £000p.a.	Cash £000	Transfer value of accrued benefit at 31 Oct 2016[5] £000	Increase in transfer value during year (less members' contributions) £000	Value of benefit for single figure £000
Michael Flowers	81	–	–	–	–	–	–	–	81
Steve Bowers	57	–	–	–	–	–	–	–	57
Sarah Ellard	41	24	72	461	24	72	461	–	41

Notes:
1. The executive directors receive a 20% cash supplement in lieu of pension.
2. Transfer values represent liabilities of the applicable scheme, and do not represent sums paid to individuals.
3. Transfer values have been calculated in accordance with the Occupational Pension Scheme (Transfer Value) Regulations 1996.
4. Sarah Ellard left pensionable service on 6 April 2010 and therefore has not accrued additional pension over the year. The accrued benefits shown are the benefits at the date of exit.
5. The scheme provided pension at a rate of 1/80th of final pensionable salary plus a cash lump sum of 3/80ths for each year of membership. Final pensionable salary was capped at the HMRC notional earnings cap, and the scheme assumed a normal retirement age of 65. Early retirement is permissible from age 55 but accrued benefits are reduced accordingly using the early retirement factors in force at the date of early retirement.

Loss of office payments

The principles governing compensation for loss of office are set out on page 70.

The main provisions relating to the departure of Steve Bowers (which comply with the Company's policy) are as follows:

- Mr Bowers continued to receive base salary, pension and benefits up to 30 September 2016 when his employment ceased;
- unvested PSP, Sharesave and deferred share awards lapsed in full; and
- no other payment of any kind was made to Mr Bowers on cessation of his employment.

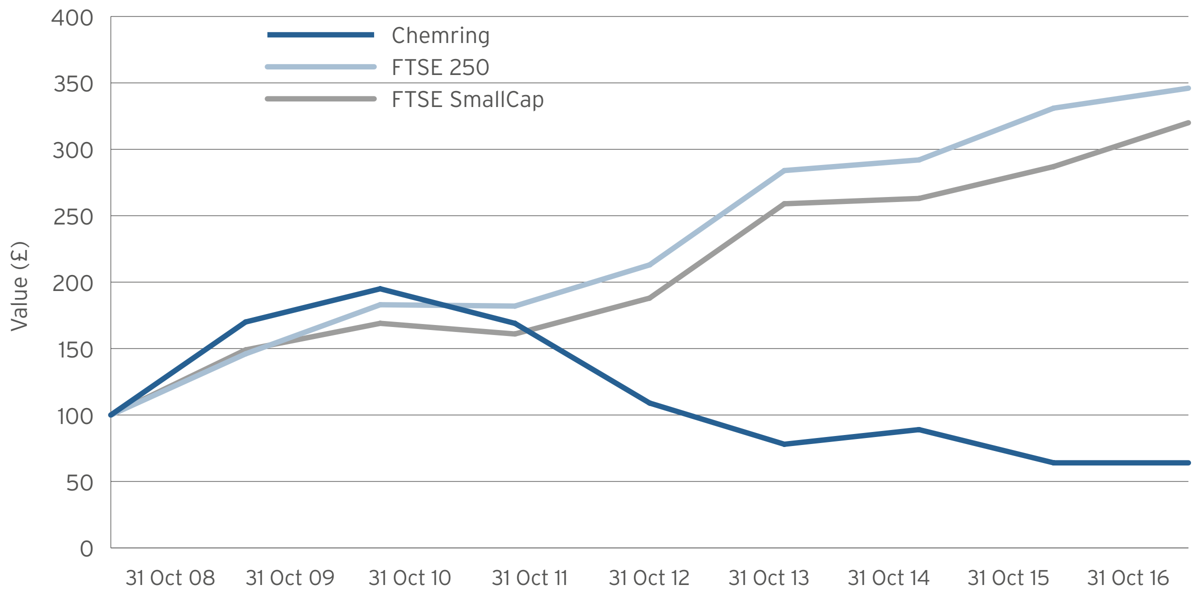
Payments to past directors

There were no payments made to past directors during the year.

Total shareholder return

The following graph shows the Company's cumulative total shareholder return over the last eight financial years relative to the FTSE 250 and FTSE Small Cap Indexes. The FTSE Small Cap has been selected by the Committee for this comparison because it provides the most appropriate measure of performance of listed companies of a similar size to the Company. The FTSE 250 has been shown in previous years and has been included this year for the purpose of continuity.

This graph shows the value, by 31 October 2016, of £100 invested in Chemring Group PLC on 31 October 2008 compared with the value of £100 invested in the FTSE 250 and FTSE SmallCap. The other points are the values at intervening financial year ends.



Source: Thomson Reuters

Chief Executive remuneration table

The total remuneration figures for the Group Chief Executive during each of the last eight financial years are shown in the table below. Mark Papworth replaced David Price as Group Chief Executive on 5 November 2012, and Michael Flowers replaced Mark Papworth on 24 June 2014.

The total remuneration figures for 2012 and 2014 include the payments for loss of office made to David Price and Mark Papworth respectively.

The total remuneration figure for each year includes the annual bonus based on that year's performance and, where applicable, vested PSP awards based on the three-year performance period ending in the relevant year. The annual bonus payout and PSP award vesting level as a percentage of the maximum opportunity are also shown for each of these years.

	David Price				Mark Papworth	Mark Papworth/ Michael Flowers	Michael Flowers	
	2009	2010	2011	2012	2013	2014	2015	2016
Total remuneration (£000)	1,309	1,391	1,239	1,325	785	841	507	855
Annual bonus (% of maximum)	94%	62%	0%	0%	40%	50%	0%	68.3%
PSP awards vesting (% of maximum)	100%	100%	100%	54.375%	0%	0%	0%	0%

Percentage change in the Group Chief Executive's remuneration

The table below shows the percentage change in the Group Chief Executive's total remuneration (excluding the value of any PSP awards and pension benefits receivable in the year) between the 2015 and 2016 financial years, compared to that of the average for all eligible employees of the Group.

	Salary	Benefits	Annual bonus
Group Chief Executive	0.0	0.0	N/A
Average of other employees	12.7	8.9	75.9

Relative importance of spend on pay

The following table shows the Company's actual spend on pay (for all employees) relative to dividends and retained profits.

	2016 £m	2015 £m	% change
Staff costs	139.1	123.4	12.7
Dividends	–	7.9	(100.0)
Retained profits	121.8	85.7	42.1

The dividends figures relate to amounts payable in respect of the relevant financial year.

Shareholder voting on the directors' remuneration report at the 2016 Annual General Meeting

At the Annual General Meeting held on 21 March 2016, resolutions relating to the directors' remuneration policy and report received the following votes from shareholders:

	Total number of votes	% of votes cast
Directors' remuneration policy		
For	215,625,426	91.12%
Against	21,014,549	8.88%
Total votes cast (for and against excluding withheld votes)	236,639,975	100.0%
Votes withheld[1]	2,094,082	0.88%
Total votes cast (including withheld votes)	238,734,057	100.0%

	Total number of votes	% of votes cast
Directors' remuneration report		
For	232,325,243	98.12%
Against	4,313,575	1.82%
Total votes cast (for and against excluding withheld votes)	**236,638,818**	100.0%
Votes withheld[1]	2,095,153	0.85%
Total votes cast (including withheld votes)	**238,733,971**	100.0%

Note:
1. A vote withheld is not a vote in law and is not counted in the calculation of the proportion of votes cast "for" and "against" a resolution.

Application of the remuneration policy for 2017

Base salary

The executive directors' salaries were reviewed in December 2016. The salary increases, which took effect from 1 January 2017, are set out below. The percentage increase applied to the executive directors' salaries was consistent with the average salary increase for UK employees.

	Salary as at 1 January 2017	Percentage increase
Michael Flowers	£416,962	2.7%
Sarah Ellard	£209,035	2.7%

The salary of the new Group Finance Director, Andrew Lewis, was set at £325,000 on appointment.

Pension/benefits

No changes are proposed to the structure of pension and benefits provision for 2017.

Fees for the Chairman and non-executive directors

As detailed in the remuneration policy, the Company's approach to setting the non-executive directors' remuneration takes account of recognised practice, and is set at a level that is sufficient to attract and retain high-calibre non-executives. Details of the fees that will apply for 2017 are set out below.

	Fee as at 1 January 2017	Percentage increase
Chairman's fee	£200,000	0%
Other non-executive directors' base fee	£55,000	0%
Audit Committee Chair fee	£10,000	0%
Remuneration Committee Chair fee	£10,000	0%

Operation of the Chemring Incentive Plan

If shareholder approval is obtained for the new policy and related establishment of the CIP, the CIP will be operated as follows in 2017:

Maximum opportunity

The maximum award that can be made following the year end, which will be based on performance against the targets set out below, will be 250% of salary for Michael Flowers and 200% of salary for other executive directors.

Targets

The following metrics and weightings will be used for the executive directors:

Metric	Weighting	Rationale/link to strategy
Underlying EPS	35%	Focuses on driving profitability, with the impact of any share issuance taken into account
Net cash flow	30%	Encourages a focus on cash generation, including changes in working capital as well as profitability and capital investment
Return on capital employed	25%	Measures how profitably and efficiently capital is employed in the business
Personal/strategic objectives	10%	Personal/strategic business-critical objectives that support delivery of long-term strategy, including health and safety performance given the nature of many of the Group's operations

Therefore, all the metrics have been chosen to reflect and support the achievement of the Company's underlying strategic goals.

The Committee does not believe that it would be in shareholders' interests to prospectively disclose the actual CIP targets in advance due to issues of commercial sensitivity. However, detailed retrospective disclosure will be provided of the both the financial and personal/strategic targets used in the prior year in each directors' remuneration report, with an explanation also provided as to how the Company performed against the targets and resulting payouts.

The targets have been set taking account of short, medium and long-term internal and external forecasts relating to the Company's performance and reflecting the Board's expectation of year-on-year improvement. Therefore, they are challenging and have been set in light of Chemring's long-term strategy, notwithstanding the fact that they measure performance over one year.

The personal/strategic targets have been set to reflect performance in the following key areas:

- Health and safety
- Operational improvement
- Capability and infrastructure
- Development of business segment strategies
- Financing strategy
- Governance and compliance
- Human resource management

No award will be payable in respect of the personal/strategic objectives unless the Committee is satisfied that this is justified by the Group's underlying performance (e.g. levels of profitability and cash flow).

Cash/share split

30% of any outturn will be payable in cash as soon as practicable following the year end. The remaining 70% will be deferred into shares that will vest three years later subject (i) to the satisfaction of the underpin described below and (ii) to a further two-year post-vesting holding period.

Underpin and malus/clawback

In addition, the deferred share element of the CIP award will be subject to a performance underpin measured over the three-year deferral period which, if not met, will result in the Remuneration Committee reducing the number of shares subject to the award (potentially down to zero). For the first operation of the CIP in 2017, the underpin will require that the Company's underlying EPS grows in real terms over the three-year deferral period.

This underpin will also operate in conjunction with the Company's existing malus and clawback provisions which can be operated in certain circumstances (e.g. misconduct, misstatement of accounts, error in calculating performance against the targets).

Approval of the directors' remuneration report

The directors' remuneration report was approved by the Board on 19 January 2017.

Signed on behalf of the Board

Daniel Dayan
Chairman of the Remuneration Committee