

The Group delivers high-reliability solutions to protect people, platforms, missions and information against constantly-changing threats. With international production facilities, Chemring meets specific customer requirements in defence and security markets in more than fifty countries worldwide.

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OUR BUSINESSES

We have three business segments.

Countermeasures

➔ for more information see page 16



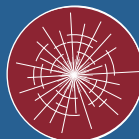
Sensors & Electronics

➔ for more information see page 18

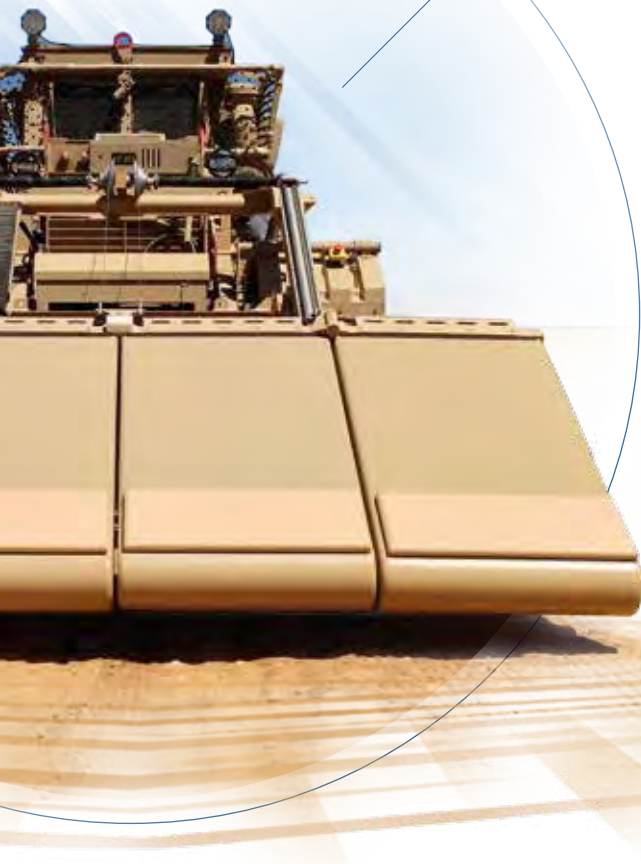


Energetic Systems

➔ for more information see page 20



2016 PERFORMANCE



FINANCIAL DEVELOPMENTS

Order book

£592.9m

(2015: £569.6m)

Underlying operating profit*	Revenue	Underlying operating margin
£48.5m	£477.1m	10.2%
(2015: £34.4m)	(2015: £377.3m)	(2015: 9.1%)

KEY DEVELOPMENTS

- Operational and financial performance improved in H2 with strong 40mm volumes and favourable currency impact
- Cash generation improved with cash flows from operating activities of £76.4 million (2015: £35.4 million), giving cash conversion** of underlying operating profit of 123% (2015: 53%)
- Net debt reduced to £87.6 million; net debt to EBITDA at 1.15x
- Continued improvement in safety performance, with LTI rate the lowest on record
- Continued progress on R&D phases of key US Programs of Record and on F-35
- Operational Excellence Programme launched to drive further improvements in safety, knowledge sharing, gross margins and cash generation
- New Group Finance Director appointed post period end
- Order book at year end of £592.9 million (2015: £569.6 million), of which £368.0 million is currently expected to be recognised as revenue in 2017
- Board recommending a final dividend of 1.3p per share (2015: nil)

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* Underlying measures referred to in this report are stated before costs relating to acquisitions and disposals, business restructuring and incident costs, profit/loss on disposal of businesses, items deemed to be of an exceptional nature, impairment of goodwill and acquired intangibles, impairment of assets held for sale, amortisation of acquired intangibles and gains/losses on the movement in the fair value of derivative financial instruments. A reconciliation of underlying and total operating profit is set out in note 2 of the Group financial statements.

** See accounting policies section for further detail.

2016 has been a year of progress with the Group continuing its recent focus on operational and safety improvements, in addition to restructuring its balance sheet.

Carl-Peter Forster

Chairman



After a disappointing first half that was impacted by delayed contract starts and operational issues, full year performance was heavily weighted to the second half. Production and delivery performance across all sites in the second half was at or above target levels and the Group therefore met the Board's expectations for the year.

This improved performance reflects the progress that has been made, and continues to be made, across the Group. Improved operational focus and greater collaboration amongst the businesses is delivering tangible benefit in a market that is starting to recover from multi-year softness, while the Programs of Record in the Sensors & Electronics segment offer opportunities for future growth.

In February 2016, the Company raised £80.8 million via a rights issue, the primary purpose of which was to alleviate the constraints that the Group's indebtedness was putting on growth opportunities. £48.8 million of the proceeds was used to repay a proportion of the Group's outstanding US loan notes, significantly reducing the Group's future finance costs.

Having strengthened the balance sheet, the Group is now fully focusing on the operational priorities that will underpin its future growth. These priorities include capacity investment projects, implementing significant cost saving initiatives, ensuring excellence in contract delivery and delivering improved working capital management.

The effects of this renewed focus are visible in these results and, in particular, the improving operational performance across the Group in the second half of the year.

Site consolidation initiatives are now underway, such as the enhancement of our Chemring Energetic Devices' facility in Illinois, that will allow the transition of operations to Illinois and subsequent closure of the California facility, delivering \$5 million of annual cost savings. We are also looking to close one of our two Countermeasure facilities in Philadelphia, delivering further ongoing savings.

Since joining the board on 1 May 2016, and my subsequent appointment as Chairman on 1 July 2016, I have taken the opportunity to visit most of our manufacturing operations both in Europe and North America. I have been encouraged by the Group's diverse portfolio of products and the strength of its market positions, and by the quality of many of our facilities.

But I have been most encouraged by the calibre of our many employees who, through difficult times, have remained committed to Chemring and focused on the goals of collaboration and continued operational improvement. I would like to take this opportunity to thank them for their loyal service and hard work.

A significant amount has been achieved over the past couple of years in terms of re-shaping the Group's organisational structure, reducing the cost base and improving operational performance. However, if Chemring is to remain at the forefront of its markets, then we need to build on this progress, and commit further investment in both people and practices.

At the start of 2017 we therefore launched the Operational Excellence Programme. This initiative is designed to enable the Group to realise its full potential. It will focus on safety, reliability, on-time delivery, improved productivity and profitability,

and reduced working capital. It will develop strategic and operational process sets that are, where appropriate, common across the Group.

Aligned to this programme, a best practice sharing forum will be established for each production and functional area. This will be aimed at determining where within the Group we currently achieve best practice and how we can share this better, what we can do to enhance recognised best practice against our industry background, and how we can roll this out to other business units.

The ability to focus on these operational priorities and growth initiatives comes as a direct result of the rights issue, which has enabled management to focus on managing the business, rather than managing the debt. This could not have happened without the support of our shareholders and I would therefore like to acknowledge and thank them for their continued support.

There is a growing sense of momentum across the Group. We entered the new financial year with a strong order book, excellent strategic positions on long-term programmes, and with a focus on continued operational improvement. Overall, I look to the future with optimism.

Trading summary

Revenue from continuing operations was £477.1 million (2015: £377.3 million). This revenue generated an underlying operating profit of £48.5 million (2015: £34.4 million). Including non-underlying items, total operating profit was £26.2 million (2015: £5.5 million).

Underlying profit before tax increased by 71.7% from £19.8 million to £34.0 million, resulting in underlying earnings per share of 10.3p (2015 as restated: 7.1p).

The closing order book for continuing operations increased by £23.3 million during the year and at 31 October 2016 was £592.9 million (2015: £569.6 million).

The Group's net debt at 31 October 2016 was £87.6 million (2015: £154.3 million).

Underlying earnings per share

10.3p

(2015 as restated: 7.1p)

Dividend per share

1.3p

(2015 as restated: 2.1p)

Net debt

£87.6m

(2015: £154.3m)



Dividends

In view of the rights issue that was announced in January 2016, the Board did not recommend a final dividend in respect of 2015, nor did it recommend an interim dividend in respect of the six month period ended 30 April 2016.

Recognising that dividends are an important component of total shareholder returns, and in view of the Group's improved trading performance for 2016, the Board intends to resume paying dividends and is recommending a final dividend for the year ended 30 October 2016 of 1.3p per ordinary share. If approved, the final dividend will be paid on 18 May 2017 to shareholders on the register on 28 April 2017.

Board of directors

This year has seen the Group reshape the membership of the Board.

Peter Hickson retired as a director at the end of June 2016, having been appointed as Chairman of the Board in October 2010. During Peter's tenure the Group transitioned through a period of unprecedented change within the defence industry, following the end to the wars in Iraq and Afghanistan. This was not an easy period and Peter deserves the Group's gratitude for his leadership and commitment. He left the business well-placed for future growth.

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

Daniel Dayan joined the Board as an independent non-executive director on 7 March 2016, becoming Chairman of the Remuneration Committee from that date.

Ian Much and Andy Hamment stood down from the Board on 21 March 2016 and 30 April 2016 respectively. Nigel Young succeeded Ian Much as Senior Independent Director with effect from 21 March 2016.

Andrew Davies joined the Board as an independent non-executive director on 17 May 2016.

On 29 June 2016, the Group announced that Steve Bowers, Group Finance Director, had informed the Board of his intention to leave the Group. Steve left the Group on 30 September 2016 and his role has since been covered on an interim basis by Andrew P. Davies, Deputy Group Finance Director.

On 13 December 2016, the Group announced the appointment of Andrew Lewis as Group Finance Director. He was previously Group Finance Director of Avon Rubber p.l.c. Andrew joined Chemring on 9 January 2017 and will join the Board of Chemring on 19 January 2017 after the approval and announcement of the 2016 results.

Current trading and outlook

Trading since the start of 2017 has been in line with expectations across all businesses.

The Board's expectations for the Group's performance for 2017 remain unchanged, based on current foreign exchange rates.

The expected profile of orders, revenue and margins, combined with routine seasonality within the business, means that the Group continues to expect 2017 to reflect a significant second-half weighting in profitability.

The order book as at 31 October 2016 increased 4.1% to £592.9 million, of which £368.0 million is currently expected to be recognised as revenue in 2017. On a constant currency basis using 2015 rates, the order book was £489.8 million.

The order book at 31 December 2016 was £572.1 million.

Carl-Peter Forster

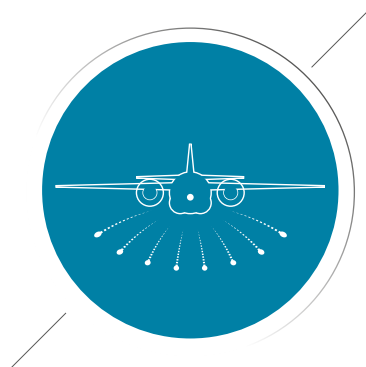
Chairman
19 January 2017





WHAT WE DO

COUNTERMEASURES



Chemring is well-established as the world leader in the design, development and manufacture of advanced expendable countermeasures and countermeasure suites for protecting air, sea and land platforms against the growing threat of guided missiles. The Group has a broad product range including conventional flares, advanced flares, special material decoys, chaff and naval countermeasures.

➔ for more information see page 16

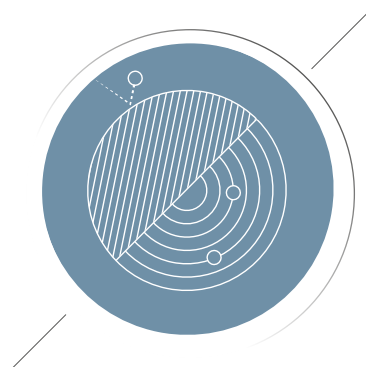
Revenue

£138.3m

Underlying operating profit

£12.8m

SENSORS & ELECTRONICS



Chemring's Sensors & Electronics products include world-leading systems for detecting improvised explosive devices ("IEDs"), and chemical and biological agents, and core technologies for detecting, intercepting and jamming electronic communications. The Group is also a leading contract research and development supplier, trusted by government and industrial partners worldwide to solve technically challenging problems.

➔ for more information see page 18

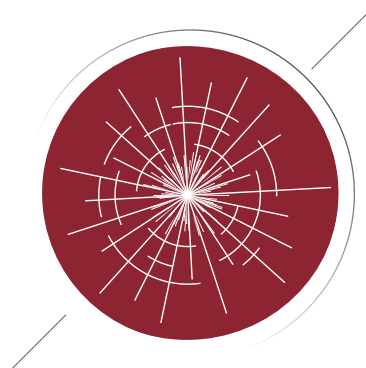
Revenue

£96.9m

Underlying operating profit

£11.4m

ENERGETIC SYSTEMS



Chemring's energetic sub-systems are safety-critical components of missiles, aircraft and space launch systems. Operators and prime contractors depend on Chemring's very high reliability, single-use devices to perform key functions, including satellite deployment, aircrew egress and missile self-destruct. Chemring manufactures a range of pyrotechnic products which are used by military and security forces around the world for screening, signalling and illumination. In addition, the Group produces a specialist range of high explosive products, including minefield clearance systems, demolition stores and 40mm ammunition.

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Revenue

£241.9m

Underlying operating profit

£31.7m

WHERE WE OPERATE

NORTH AMERICA



Chemring has four business units in North America, supplying mainly to the US Department of Defense and its prime contractors:

- **Chemring Countermeasures USA**
(Alloy Surfaces in Pennsylvania and Kilgore Flares in Tennessee) - manufactures conventional, advanced and special material decoys
- **Chemring Sensors & Electronic Systems**
(Virginia and North Carolina) - manufactures IED, chemical and biological detection systems
- **Chemring Energetic Devices**
(Illinois and California) - makes pyrotechnic components for aircraft, missile and space applications
- **Chemring Ordnance**
(Florida) - manufactures the Anti-Personnel Obstacle Breaching System and 40mm ammunition

EUROPE



Chemring has seven businesses in Europe, supplying NATO and non-NATO customers:

- **Chemring Countermeasures**
(UK) - manufactures conventional and advanced air countermeasures, naval decoys and launchers
- **Chemring Defence**
(UK) - manufactures smoke and illumination pyrotechnics and payloads for military, original equipment manufacturers ("OEM") and security customers
- **Roke**
(UK) - a leading contract research and development organisation
- **Chemring Technology Solutions**
(UK) - manufactures electronic warfare, EOD, counter-IED, cyber protection and security systems
- **Chemring Energetics**
(UK) - makes pyrotechnic components for aircraft, missile and space applications, and high-quality military demolition stores
- **Chemring Nobel**
(Norway) - manufactures explosive raw materials
- **3d-Radar**
(Norway) - developer of ground penetrating radar

ASIA PACIFIC



- **Chemring Australia**
(Victoria) - operates a modern countermeasures and pyrotechnics manufacturing facility, and supplies other Group products into the Australian market

IMPROVING OPERATIONAL PERFORMANCE

2016 was a busy year for Chemring, both from a corporate and operational perspective, and it is pleasing to see that the efforts of so many have delivered a positive result.

Michael Flowers

Group Chief Executive



Order intake and revenue has been solid across the Group, and strong in the Energetics segment. Subsequent to the completion of the rights issue and with good cash conversion, the balance sheet is now strengthened, positioning us well for the future.

Safety

As always, safety remains the Group's first priority and the Group continues to drive improvement in this area.

Lost time injury performance continues to improve, and the lost time injury rate of 0.35 is the best result to date. Of the nine lost time injuries, only one resulted from an energetic incident. This improvement in performance has been driven by a four pronged approach to safety process improvement, capital improvement, enhanced leadership engagement and cultural improvement. Capital investment in safety has continued, with key projects undertaken during the year including the automated countermeasure slurry process at Kilgore, detonator loading at Chemring Energetics and improvements to energetic waste disposal facilities.

Despite best efforts, some energetic incidents did occur during the year, most notably at the Australian and US countermeasures facilities. Whilst these caused some disruption to operations and impacted first half financial performance, these incidents resulted in no injuries, with all safety systems operating as planned, protective equipment exceeding design performance, and personnel response appropriate.

In the forthcoming year we shall prioritise our effort to reduce further the exposure of our people to potentially lethal hazards. The focus will be on removing the hazard where possible, followed by the reduction in exposure through plant and engineering controls and automation.

Strategy and organisation

The Countermeasures strategy remains unchanged as the Group seeks to strengthen its position in the global market. A new special material decoy has been launched with initial and follow-on orders received. In Australia, qualification as the second source supplier for F-35 Joint Strike Fighter ("F-35") flares continues, with three of the four qualification phases now completed. In the US, Low Rate Initial Production ("LRIP") 5 F-35 deliveries were completed, the Group is under contract for LRIP 6, and has won the competition for initial supply of F-35 training flares. The acquisition of key assets and technology from Wallop Defence Systems in the UK, which was completed in May 2016, has further strengthened the air countermeasures portfolio and positioning, particularly in the European market.

Within Sensors & Electronics, the focus continues to be on expansion of capability and product portfolio in the major operating niches of tactical electronic warfare ("EW"), counter-IED and explosives detection, chemical warfare detection and biological warfare detection. Progression against the US Programs of Record continues, with the progression into stage 3 (prototype development) of the Next Generation Chemical Detector ("NGCD") most noteworthy. Success on the major US Programs of Record remains the Group's absolute focus, both due to the financial return from these programmes, and the leading global technological position that will result.

Multiple orders have been received for the Resolve tactical EW system, including repeat orders in Europe and the Middle East, with the winning of the Land 500 programme in Australia being the largest order achieved to date. Post year end, a further order was received from a new NATO customer. Post year end negotiations have commenced with the US Government for the first hardware test stage for Husky Mounted Detection System ("HMDS") enhanced systems, with supply of an initial eight systems for trial in-theatre. In addition, the Group received an upgrade contract for the same enhanced capability from another NATO HMDS user.

Roke's focus will remain on delivering consultancy and contract R&D services to critical government and commercial customers. Investment focus shall be on people, to ensure their training and development matches emergent market needs. Having opened a new satellite office in Gloucester to better service the needs of the customer base, further geographic expansion may be undertaken as market needs dictate.

The Energetic Systems businesses continue to be managed in order to maximise market position in their operating niches, maintain product qualification, and ensure safe and effective operations. Recognising that this segment is far more commodity based than the other segments, with price being the key discriminator, cost base management, footprint and delivery performance remain critical to ensure maximum returns.

Given its strong position in the space, missile and aerospace market, the Group shall continue to invest in the niche market positions held by Chemring Energetic Devices. Future investment will focus on new devices for forthcoming satellite applications, development of an in-house precision manufacturing capability, and relocation of the primary explosives capability from California to Illinois. This will result in a single, vertically integrated facility that will better meet emergent customer needs.

During 2016 the US management structure has been revised to improve efficiency.

Operational overview

Following a disappointing first half, driven by delayed contract starts and operational execution that was below expectations, the Group delivered a strong second half with production and delivery performance across all sites at or above targeted levels, leading to £297 million of revenue and £45 million of operating profit in the half.

This improved performance has been driven by improvements in consistency of production at the Countermeasures businesses, with prior investment in design and process control starting to bear fruit. Production gains have been made at Chemring Ordnance, where 40mm ammunition manufacture quickly ramped-up. Similarly, second half performance at other Energetic Systems sites has met expectations.

The major restructuring completed at Roke during 2015 has delivered positive results, with operating profit and cash flow returns improving year-on-year. Other structural, cost base optimisation and site consolidation efforts are delivering to plan, with further initiatives in development.

In late 2016 a Group-wide Operational Excellence Programme was initiated with the clear aims of further improving safety, increasing operating margins, and delivering greater levels of cash conversion. This programme includes initiatives driven at the Group's centre, such as process alignment and further investment prioritisation; however, the key elements of the programme are business and segment focused. These centre around knowledge and best practice sharing to enable all businesses to meet internal best practice, combined with external benchmarking to further enhance operations. The programme has also identified a number of business unit and segment specific activities that will be progressed, such as further vertical integration in the Group's space and missile energetic components businesses, lean and engineering

process control implementation within all businesses, and alternate energetic material mixing technologies for countermeasures.

Rights issue

The rights issue was successfully completed on 23 February 2016 raising £80.8 million. The net proceeds of the rights issue after equity issue costs were £75.2 million, and £48.8 million was immediately used to pay down loan notes. The balance of the raise was used for make-whole premiums pursuant to the terms of the loan notes (£3.7 million), repayment costs (£1.4 million) and general corporate purposes. In respect of the latter, the scheduled repayment of loan notes due in November 2016 of \$36.0 million was repaid from cash at hand, enabled in part by rights issue funds.

The high level of indebtedness has ceased to be a day-to-day management issue for the business subsequent to the rights issue, allowing focus to be placed on operational and strategic initiatives that will support growth and deliver shareholder value. As advised when launching the rights issue, the Group's target capital structure is 1.0x – 1.5x net debt to EBITDA, a range the Group was well within at the end of 2016.

Conclusion

Against the backdrop of a stronger balance sheet and improving delivery performance, I see continued opportunities for the Group. The ongoing execution against the US Programs of Record within the Sensors businesses, combined with a slow but steady ramp up of F-35 countermeasure requirements, are key to future growth, as is the continued level of performance at Roke. Our base business in Energetic Systems and Countermeasures continues to be solid, and the order book provides good visibility.

Progress on site and business consolidations in 2017, combined with efforts to ensure our cost base matches market need, is expected to underpin profitability, and the Board's expectations for 2017 are unchanged, based on current FX rates. The initiation of an Operational Excellence Programme, designed to further enhance safety, improve gross margins and cash conversion, is expected to deliver improved returns in the coming years.

Michael Flowers

Group Chief Executive
19 January 2017



BUSINESS MODEL

Chemring delivers sustainable returns to its investors by delivering specialist products and services to its customers. In our Countermeasures and Energetics businesses these products incorporate materials which are relatively inexpensive, but can be hazardous if mis-handled, so our dedicated sites, processes and know-how ensure that we can safely and cost effectively produce these products at attractive margins. In our Sensors & Electronics businesses, the proprietary intellectual property embedded in our product hardware and software underpins the creation of high value solutions which detect threats, ranging from buried IEDs to sophisticated cyber-attacks on an organisation's data.

Our business model is based on a continuous cycle of applying technology to meet customer needs. This builds on four key elements:





Customer understanding

The Group delivers protection solutions in a world facing rapidly-evolving threats from both organised militaries and the growing base of insurgents. The Group's home markets in the United States, United Kingdom and Australia are amongst the largest in the world, and comprise a base of sophisticated and influential users who have demanding requirements for new solutions to meet these threats.

Our understanding of these customers, their threats, concepts of operations and specific technical requirements underpins everything we do.



New technology

The Group continually invests in research into new solutions to meet our customers' evolving threats. We use internally-funded research to secure critical intellectual property, and develop proprietary solutions. A key part of our business model is to secure customer funding for our development efforts - this not only supplements our own funding, but this commitment provides valuable confirmation that we are addressing problems they need to solve as well as validation of the proposed technical solution. This partnership with customers also extends to the final qualification and acceptance of our products - in some areas, such as countermeasures and chemical/biological agent detection, customers provide test and qualification services, such as aircraft flight trials or live agent testing, which would be impossible to complete internally.

The Group's commitment to research and development has established its leading position in expendable countermeasures, chemical, biological and explosives detection, and cyber electro-magnetic activity ("CEMA").



Excellent delivery

The Group delivers a diverse range of offerings, from consultancy and development services, to very high volumes of highly energetic aircraft flares. It has manufacturing and delivery operations across twenty sites, matched to the nature of customer demand and the characteristics of the specific offerings:

- In consultancy and R&D services, we form and re-form bespoke teams for each project
- Sensors & Electronics are assembled and tested in batch operations
- Energetic components use bought-in mechanical hardware with special batch operations to install the small energetic elements
- High volume products such as flares and some energetic products are manufactured on semi-continuous, automated production lines

We maintain excellent delivery across the Group by integrating operations, continuous improvement and automation.

We evaluate our factory footprint, both in terms of the cost base, and also in terms of the effectiveness and efficiency of the operations - where appropriate, we integrate operations on to a single location and in several cases have not only reduced costs, but also improved delivery performance.

Our continuous improvement initiatives are based on "Lean" and "Six-Sigma" techniques, tailored to the special characteristics of our operations, particularly when processing energetic materials.

Finally, we aim to automate high volume operations, particularly where we are processing energetic materials. This improves operator safety by separating them from hazardous materials, but has also improved quality and consistency of product performance and delivery.



Extended reach

Chemring sells to over fifty countries around the world through a combination of direct sales and a network of sales partners who have strong in-country relationships with national procurement offices. A key element of our business model is our "Land and Expand" approach. We build on a single successful sale into a new customer and seek to expand on this by cross-selling all of the Group's capabilities into that particular customer.

Secondly, we try to get close to our important customers by establishing a presence nearby:

- Our Australian operations are a focal point for all Chemring's offerings into the Commonwealth, including, most recently our land EW capability from the UK
- We have established a regional sales office in the UAE as a central access point to most of the GCC countries
- We have set up an office in Gloucester in the UK, close to a key consultancy and contract R&D customer

In addition, we recognise that defence is a sensitive capability for all countries, and many aim to develop a local industrial base to support their national security. This is particularly true for consumables such as countermeasures, where the ability of a supply chain to support military operations is key - the Group's US and UK-based flare manufacturing capabilities were critical to support operations in Iraq and Afghanistan, and other nations are also seeking to be self-sufficient in their own supply chain. The Group works with nations who wish to develop indigenous capability, and supports product development and local manufacturing facilities to establish an expanded circle of "home" customers.

The Group is structured to facilitate each of these four elements across all our businesses, and to maximise the common themes and synergies amongst similar businesses, particularly within specific segments. Conversely, where there is limited commonality, we have separated operations to enable businesses to focus on the specific customers, technologies and operations which suit their business model - for example, splitting Roke's contract development business from its product business has enabled both to focus and thrive. In Countermeasures, we have established a common international sales and marketing structure; in Sensors & Electronics, we share and transfer technology from the UK to the US to enable new detection capabilities; and in Energetics, we are building internal supply from our materials and components businesses into our products businesses.

Our strategy builds on our business model and reflects the current dynamics of our defence and security markets.

Markets

Our markets have been driven by the long decline in defence spending over the last five years. In particular, the US, which accounts for about half of Chemring's revenues, has reduced its total spend by nearly 20% since 2010, with much of the reduction in Overseas Contingency Operations funding. This US trend has been mirrored across NATO allies as operations have ceased in Iraq and Afghanistan. Now, across the US and Europe the decline appears to have levelled at a macro level, and the impact of this is slowly filtering down to the relatively low value systems, products and components which Chemring manufactures: IED detection systems are now recognised as Programs of Record in the US defence budget; excessive stockpiles of consumables bought to support operations have now been run down; and procurement of new combat aircraft is driving emerging demand for

bespoke, next-generation countermeasures. We anticipate that the overall defence markets in the US and Europe will remain subdued but stable.

In the UK, Roke, which provides technology solutions to security agencies, is seeing a growth in demand for its services – following the Chancellor's commitment to increase spending on cyber-security for the UK, this growth is likely to continue.

Australia is Chemring's other "home" market. The Commonwealth has declared a ten-year plan to grow defence spending by over 80%, and in particular has recognised that this needs to be de-coupled from GDP growth to maintain an appropriate response to China's increasingly capable forces in the region.

OUR STRATEGY

**DELIVER PROFIT
AND CASH**

**EMBED
OPERATIONAL
EXCELLENCE**

**INVEST FOR
GROWTH**

SEGMENTS

Countermeasures	Complete restructuring and site rationalisations	Operational Excellence Programme Targeted facilities investment	Secure F-35 flare
Sensors – products	Rationalise sites and manufacturing operations	Targeted R&D investment to secure growth programmes	
Roke	Recruit to meet current demand	Establish satellite offices	
Energetic Systems	Deliver current order book Complete restructuring and site rationalisation	Operational Excellence Programme Exploit synergies in internal supply and routes to market	Deliver cash to fund growth

KEY PERFORMANCE INDICATORS

- Profit
- Cash

- Safety
- Cost of re-work
- On-time delivery
- Gross margin improvement
- Working capital

- R&D investment
- Order intake
- Revenue growth

The Middle East remains an important export market for Chemring, but it has become much more volatile, with the opposing forces of escalating conflicts in the region, countered by the collapse in oil prices since 2014. The region had consistently increased year-on-year defence spending from 2006 to 2014, but in 2015 defence spending reduced by 10% as oil-producing countries were forced to tighten their belts in response to declining income. The Group has already seen a number of order delays and cancellations, and the outlook is likely to remain volatile, with only urgent operational requirements likely to receive support and funding.

Against this backdrop, our strategy builds on three themes.

Deliver profit and cash

As the defence sector emerges from a period of sustained decline, our short-term priority is to deliver profit and cash. We have re-scaled the Group to reflect current market conditions and have completed several restructuring programmes, with several more under way as specific production programmes complete.

Many of our facilities handle and process energetic materials, which require special facilities and often large sites with high fixed costs. We continue to monitor the cost base at a Group, segment and site level, and benchmark fixed costs both internally and externally to ensure that all our businesses are scaled and scoped to operate safely, effectively and efficiently.

Tight control of the overhead base means that the Group is positioned to deliver profit and cash from its strong order book, which currently benefits from a handful of major international orders in the Energetic Systems segments.

Embed operational excellence

The second theme of our strategy is to systematically upgrade our businesses through a Group-wide Operational Excellence Programme.

As a Group, we have recognised that there are common operational themes and challenges across the Countermeasures, Sensors & Electronics, and Energetic Systems segments, despite the apparent diversity of products across the businesses. For example, few of our manufacturing operations are continuously producing any single product, and several businesses deliver completely different products from one year to the next. Other common challenges include development to production transition, right-first-time production and a systematic approach to trouble-shooting when there are problems.

In order to address these common challenges, we have established a programme to develop and roll-out a common operating model and tool-set, which builds on and shares the collective experiences and best practices across the Group. We expect this to deliver tangible benefits in:

- Safety
- Eliminating rework
- On-time delivery
- Profitability
- Working capital

A key part of the programme will be to establish common key performance indicators, and to measure progress and improvements against these KPIs.

Invest for growth

Finally, the Group will prioritise investment in equipment, facilities and development to deliver growth. As a result of its position in the US countermeasures market, and strategic investments in sensors technology, the Group is well positioned on several major programmes, mainly in the US. These multi-year, multi-million dollar “Growth Programmes” underpin the growth of the Group and extend to the mid-2020s, and include:

- F-35 countermeasures
- Joint Biological Tactical Detection System
- Next Generation Chemical Detector
- Husky Mounted Detection System

In addition to these specific Programs of Record in the US, our UK Sensors & Electronics businesses face exciting opportunities in next-generation electronic warfare, cyber electro-magnetic activity (“CEMA”) and consulting and R&D for UK agencies.

These programmes are the main priorities for investment to ensure that Chemring secures and maintains its position as sole-source supplier of these key military capabilities. We will fund this investment by managing the portfolio, particularly in the Energetic Systems segments, to deliver profit and cash.

COUNTERMEASURES

Countermeasures revenue reflected the continued recovery in the segment, increasing by 9.9% on the prior year to £138.3 million (2015: £125.8 million). The impact of the production issues and energetic incidents that were experienced in the first half were partly offset by £2.8 million of insurance proceeds related to an earlier energetic incident. This resulted in a decline in margins from 13.9% to 9.3% and an underlying profit of £12.8 million, compared with £17.5 million in 2015. On a constant currency basis using 2015 rates, revenue was £127.8 million and underlying operating profit was £11.7 million.

The closing order book for Countermeasures was £177.0 million, down 3.9% on 2015. The decline, principally in the US, reflects the improved production consistency and the progressive working through of orders placed in earlier years, but also reflects the budget constraints that continue to be experienced with many customers. The transition from legacy aircraft to next generation platforms together with the continued depletion of customer inventory, built up during the Iraq and Afghanistan conflicts, is currently resulting in low order placement. Initial production contracts on the next-generation platforms including the F-35 are beginning to be placed more frequently.

Order book

£177.0m

(2015: £184.1m)

Revenue

£138.3m

(2015: £125.8m)

Underlying operating profit

£12.8m

(2015: £17.5m)

Underlying operating margin

9.3%

(2015: 13.9%)

STRATEGY

The Group intends to maintain its leading position in the market for conventional and advanced countermeasures through continuous operational improvement and targeted investment in technology.

New automated manufacturing facilities in the UK and Australia are operational, and Chemring has a strong focus on improving the operational performance of all facilities. The Group also intends to maintain its technological lead in air countermeasures through targeted R&D investment to meet evolving needs and to sustain its sole source positions on the key US and NATO next-generation platforms - the Typhoon, F-22 and F-35. In May 2016, as part of its targeted investment in technology, the Group completed the purchase of Wallop Defence Systems Limited's countermeasures products, patents and intellectual property.

In the naval countermeasures segment, the Group intends to complete the development of the CENTURION fully-trainable naval decoy launcher in close collaboration with a launch customer, and will continue to evolve naval decoy technology by working closely with lead users, particularly the UK MoD. Additionally, the Group plans to grow its market share through in-country relationships and technology transfer in emerging markets.

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

ACTIVITIES DURING THE YEAR

The facility consolidation at Philadelphia continues to plan. All necessary approvals are in place and, depending on customer delivery requirements, will complete in the second quarter of 2017. The remaining site will temporarily close in the second quarter of 2017 to enable the relocation of assets and the modification of the plant's layout and services. The cash costs of the project are expected to be approximately \$3.0 million, with the project expected to deliver approximately \$1.4 million in annualised savings from 2018.

The implementation of a long-term manufacturing plan in the US, incorporating productivity improvements, waste and waste removal cost reduction, personnel reduction and overhead reduction is underway. This initiative is expected to position the business well for the future.

The UK Countermeasures business had an improved second half, overcoming technical issues on one product line that occurred in the first half, although the resolution of these issues meant operating margins were lower than expected. The stronger second half performance was further aided through a shift in product mix utilising existing spare capacity. In particular, demand for chaff products was higher than in previous years and this increased demand was met through manufacturing efficiency improvements implemented during the previous twelve months.

Outlook

2017 trading performance for Countermeasures, while underpinned by a good order book, is expected to be slightly down year-on-year, as production will be impacted by US site consolidation activities in the first half.

OUR BUSINESS UNITS

Chemring Countermeasures USA

Consists of Alloy Surfaces, based in Pennsylvania, and Kilgore Flares, based in Tennessee.

Alloy Surfaces is a leading developer of special material decoys for the US Navy, Marine Corps, Army and Air Force, with exports to the UK and Australia.

Kilgore Flares operates a high volume manufacturing facility making conventional and advanced flares, including flares for the F-22 and F-35.

Chemring Countermeasures UK

Manufactures advanced expendable countermeasures for air and sea platforms. Its aircraft products include conventional and advanced flares, chaff, and decoys specifically for civilian platforms. Its naval products include infra-red and radio frequency decoys and the CENTURION trainable naval decoy launcher.

Chemring Australia

Develops and manufactures aircraft countermeasures, pyrotechnics, and counter-IED and electronic warfare solutions.

SENSORS & ELECTRONICS

Revenue in the Sensors & Electronics segment decreased by 2.2% from the prior year to £96.9 million (2015: £99.1 million), reflecting the completion of production contracts with the US Department of Defense in the comparative period, although revenue grew at the UK businesses. Margins improved from 9.4% to 11.8% and Sensors & Electronics increased its operating profit by 22.6% to £11.4 million (2015: £9.3 million). On a constant currency basis using 2015 rates, revenue was £92.4 million and underlying operating profit was £11.3 million.

Many of the Group's Sensors and Electronics products relate to long-term counter-IED, chemical and biological detection Programs of Record for the US DoD. These programmes are currently transitioning through research and development phases, where contract sizes and margins are significantly smaller than full rate production contracts. The closing order book for Sensors & Electronics was £49.3 million, a decrease of 34.9% on 2015. This decrease principally reflects the reversing of an order from Turkey that was booked in 2014. The progression of this contract in its originally envisaged form is now considered unlikely given the overall political uncertainty within Turkey. The Board therefore considered it prudent to de-book this contract until greater clarity exists. Activity in the US has primarily focused on the progression of long-term Programs of Record for the US DoD, and good progress has been made this year.

Order book

£49.3m

(2015: £75.8m)

Revenue

£96.9m

(2015: £99.1m)

Underlying operating profit

£11.4m

(2015: £9.3m)

Underlying operating margin

11.8%

(2015: 9.4%)



STRATEGY

The Group intends to grow its Sensors & Electronics business by developing and exploiting technologies for its niche markets in IED defeat, chemical and biological threat detection, and land-based electronic warfare. To do so, the Group aims to exploit its international footprint to continue to develop advanced technologies and win key, identified programmes such as the Husky Mounted Detection System ("HMDS") Program of

Record, the Next Generation Chemical Detector ("NGCD"), the Joint Biological Tactical Detection System ("JBTDs"), and several next-generation electronic warfare programmes.

The Group also intends to maintain and grow its specialist contract research and development business to sustain its technology base and benefit from the customer insights this provides.

ACTIVITIES DURING THE YEAR

In response to identified capability needs, the US Government realigned the HMDS upgrade programme to incorporate spiral development. The next major milestone for the Program of Record will be contract award for deliveries of enhanced capability detectors for in-theatre trial, to be followed, if successful, by contracting for fleet upgrade. Concurrently, further customer funded R&D will be undertaken to develop ongoing system enhancements. Overall funding allocation is unchanged. Customer engagement in the Middle East remains encouraging, with vehicle mounted ground penetrating radar ("GPR") variants being evaluated by a number of potential customers.

In chemical and biological detection, the Group has also continued to focus activity on the long-term DoD Programs of Record. In addition to the progress being made on the NGCD programme, funded development of Chemring's sole source position on the Joint Biological Tactical Detection System programme is ongoing. In 2017 it is expected that the JBTD programme, for which Chemring is the sole source supplier, will move from the engineering and manufacturing development ("EMD") phase into low rate initial production. The NGCD programme, for which the Group is contracted for the R&D phase of all three streams, is expected to move into the EMD phase in 2017. Winning of these phases will be subject to competitive tender.

While good progress has been made, the transition through research and development phases and the resulting pause in manufacturing for some of the Group's key sensors and electronics products has resulted in a decline in earnings derived from these products. Chemring Sensors & Electronic Systems ("CSES") has therefore taken the necessary action to address its structure and cost base. NIITEK and Chemring Detection Systems have been merged into a single legal entity under one senior management team. The merger of these two businesses will facilitate the closure of one facility. Overhead reduction measures continue to be balanced with the need for continued investment in research and development capability.

In the UK, the separation of the contract R&D activities of Roke from the products-based business undertaken by Chemring Technology Solutions has delivered positive results. Roke exceeded its order and revenue targets and utilisation rates have continued to rise. A growing number of opportunities in the communications intelligence and cyber areas, combined with the impact of the new operating model, have driven an increase in profitability.

Outlook

2017 trading performance for Sensors & Electronics is expected to benefit from the continued improvement in profitability in the UK businesses, primarily in electronic warfare and cyber security. Research and development activities in the US are expected, subject to contract award, to transition to engineering and manufacturing development ("EMD") and low rate initial production ("LRIP") phases as the year progresses.

OUR BUSINESS UNITS

Chemring Sensors & Electronic Systems

Comprises the former NIITEK business in Dulles, Virginia, and the former Chemring Detection Systems business in Charlotte, North Carolina. NIITEK develops and manufactures ground penetrating radar IED detection systems and chemical and biological threat detection systems.

Chemring Technology Solutions

The Group's centre of excellence in land EW, and also develops and manufactures IED detection and neutralisation systems, including vehicle-mounted and hand-held sensors, disruptors and initiation systems.

Roke

A technology company that provides electronics research, development and engineering services, and cyber-security solutions for UK government agencies and prime contractors.

ENERGETIC SYSTEMS

Revenue for the Energetic Systems segment increased by £89.5 million to £241.9 million (2015: £152.4 million). This improved performance was primarily as a result of the 40mm ammunition contract with a customer in the Middle East which, despite its delayed start, has performed well and contributed £44.5 million of revenue. Margins improved from 9.9% to 13.1% and Energetic Systems increased its operating profit by 109.9% to £31.7 million (2015: £15.1 million). On a constant currency basis using 2015 rates, revenue was £220.1 million and underlying operating profit was £27.4 million.

With the exception of Chemring Defence, which continues to experience very challenging markets, every business within the segment saw order book growth. The closing order book for Energetic Systems was £366.6 million, an increase of 18.4% on 2015.

Order book

£366.6m

(2015: £309.7m)

Revenue

£241.9m

(2015: £152.4m)

Underlying operating profit

£31.7m

(2015: £15.1m)

Underlying operating margin

13.1%

(2015: 9.9%)

STRATEGY

The Group intends to secure the position of its Energetic Systems components on next-generation platforms for missile and space programmes in the United States and Europe, through improved delivery performance on current programmes and strong customer and partner interaction. In military pyrotechnics, it intends to upgrade key products to ensure that it can offer the full range of rockets, smoke grenades and flares required by its military and security customers. In addition to maintaining and upgrading its current business base and product offering, the Group intends to seek new markets with a focus on growing its business in the Middle East and Asia Pacific markets.

ACTIVITIES DURING THE YEAR

Delays in necessary permits and export approvals associated with the 40mm ammunition contract meant that production under this contract did not fully commence until late in the first half of the year. This resulted in a heavier second half weighting and slightly lower than expected contribution to the full year. Production and deliveries ramped-up during the second half, in line with expectations. The contract continues to perform well and, assuming the extension of the existing letter of credit, is expected to be a strong contributor to 2017 performance.

At Chemring Energetic Devices, the consolidation of the Downers Grove, Illinois and Torrance, California facilities is progressing in line with expectations, with all planning approvals in place. Over 40% of the Torrance product line has now been successfully transferred, and the NASA Standard Initiator qualification at Downers Grove, the most critical element of the transition, is progressing to plan. Manufacture of Torrance product at Downers Grove is achieving improved on-time in-full performance, with initial evidence showing gross margin improvement in addition to the overhead savings to be achieved once the Torrance site is closed. Customers continue to support the efforts to transition production to the Illinois facility, and this improved adherence to customers' delivery schedules has resulted in increased order intake. This project is still anticipated to have a cash cost of approximately \$7.0 million, with the site rationalisation expected to deliver approximately \$5.0 million in annual savings from 2019.

Chemring Defence has for some time been operating in very challenging markets and has recently experienced a substantial downturn in customer requirements. Depressed oil prices and significantly reduced budgets have led to changing customer needs, and many of the expected orders from the business's largest customers have been delayed or have failed to materialise. In light of these reduced customer requirements, a major restructuring programme has been implemented in order to reduce the current overcapacity within the business and place it on a more sustainable footing for the future.

Outlook

2017 trading performance for Energetic Systems is again expected to be strong, with the segment benefiting from a strong order book, and continued improvement in delivery performance across the segment.

OUR BUSINESS UNITS

Chemring Energetic Devices

Formed by the integration of Chemring Energetic Devices and Hi-Shear Technology Corporation, and located in California and Illinois. A leading US supplier of pyrotechnic and electro-mechanical systems for missiles, space and safety applications. Products include satellite and space launch vehicle separation systems, initiators and low-shock satellite separation systems, and a range of pyromechanisms for aircrew egress. Chemring Energetic Devices also supplies sub-systems for missiles.

Chemring Energetics

Incorporating Chemring Energetics UK in Scotland and Chemring Nobel in Norway. A leading supplier of detonators, actuators, rocket motors, high explosive charges, canopy cutting cords and pyromechanisms for aircrew egress, and demolition stores. It is also a leading supplier of high explosive charges, high explosives and energetic binders to the defence, security, oil and gas industries.

Chemring Defence UK

Designs, develops and produces smoke and illumination pyrotechnics and payloads for military, OEM and security customers.

Chemring Ordnance

A leading US manufacturer of Anti-Personnel Obstacle Breaching Systems ("APOBS"), 40mm ammunition and military pyrotechnics, located in Perry, Florida. It also operates a procurement service, supplying non-NATO standard ammunition to the US Army and other customers.

Chemring's focus on restructuring, operational improvement and cost control continues to deliver greater resilience, providing mitigation to the impact of current defence market cycles.

Group results

An analysis of underlying and total results is set out below:

	2016		2015	
	Underlying £m	Total £m	Underlying £m	Total £m
Revenue	477.1	477.1	377.3	377.3
Operating profit				
- continuing operations	48.5	26.2	34.4	5.5
- discontinued operations	–	4.7	–	4.9
	48.5	30.9	34.4	10.4
Net finance expense	(14.5)	(18.2)	(14.6)	(14.6)
Profit/(loss) before tax	34.0	12.7	19.8	(4.2)
Tax	(7.1)	(1.6)	(4.1)	3.8
Profit/(loss) after tax	26.9	11.1	15.7	(0.4)

The use of underlying measures, in addition to total measures, is considered by the Board to improve comparability of business performance between periods.

Underlying measures referred to are stated before costs relating to acquisitions and disposals, business restructuring and incident costs, profit/loss on disposal of businesses, items deemed to be of an exceptional nature, impairment of goodwill and acquired intangibles, impairment of assets held for sale, amortisation of acquired intangibles and gains/losses on the movement in the fair value of derivative financial instruments. A reconciliation of underlying and total operating profit is set out in note 2 of the Group financial statements.

During the year, changes in foreign exchange rates, principally the depreciation of sterling against the US dollar, increased reported revenue from continuing operations by £36.8 million. At constant exchange rates, revenue from continuing operations was £440.3 million, an increase of 16.7%.

Chemring's operating segments are Countermeasures, Sensors & Electronics and Energetic Systems. An analysis of segmental revenue and underlying operating profit is set out below:

	2016			2015		
	Revenue £m	Underlying operating profit £m	Underlying operating margin %	Revenue £m	Underlying operating profit £m	Underlying operating margin %
Countermeasures	138.3	12.8	9.3	125.8	17.5	13.9
Sensors & Electronics	96.9	11.4	11.8	99.1	9.3	9.4
Energetic Systems	241.9	31.7	13.1	152.4	15.1	9.9
	477.1	55.9	11.7	377.3	41.9	11.1
Unallocated corporate costs	–	(7.4)	–	–	(7.5)	–
Group	477.1	48.5	10.2	377.3	34.4	9.1

Countermeasures revenue reflected the continued recovery in the segment, increasing by 9.9% on the prior year to £138.3 million (2015: £125.8 million). The impact of the production issues and energetic incidents that were experienced in the first half were partly offset by £2.8 million of insurance proceeds related to an earlier energetic incident. This resulted in a decline in margins from 13.9% to 9.3% and an underlying profit of £12.8 million, compared with £17.5 million in 2015. On a constant currency basis using 2015 rates, revenue was £127.8 million and underlying operating profit was £11.7 million.

Revenue in the Sensors & Electronics segment decreased by 2.2% from the prior year to £96.9 million (2015: £99.1 million), reflecting the completion of production contracts with the US Department of Defense in the comparative period, although revenue grew at the UK businesses. Margins improved from 9.4% to 11.8% and Sensors & Electronics increased its operating profit by 22.6% to £11.4 million (2015: £9.3 million). On a constant currency basis using 2015 rates, revenue was £92.4 million and underlying operating profit was £11.3 million.

Revenue for the Energetic Systems segment increased by £89.5 million to £241.9 million (2015: £152.4 million). This improved performance was primarily as a result of the 40mm ammunition contract with a customer in the Middle East which, despite its delayed start, has performed well and contributed £44.5 million of revenue. Margins improved from 9.9% to 13.1% and Energetic Systems increased its operating profit by 109.9% to £31.7 million (2015: £15.1 million). On a constant currency basis using 2015 rates, revenue was £220.1 million and underlying operating profit was £27.4 million.

Underlying operating profit from continuing operations was £48.5 million (2015: £34.4 million), an increase of 41.0%. The underlying operating margin was 10.2% (2015: 9.1%).

Discontinued operations mainly comprises the release of disposal provisions relating to the European munitions businesses - Mecar, based in Belgium, and Simmel, located in Italy - which were sold in May 2014.

The total operating profit was £30.9 million (2015: £10.4 million). This includes non-underlying costs of £17.6 million (2015: £24.0 million), split between continuing costs of £22.3 million and discontinued credits of £4.7 million.

Net underlying finance expense was £14.5 million (2015: £14.6 million). The reduction reflects the repayment of loan note debt during the year and lower usage of the revolving credit facility, offset by adverse foreign exchange movements and an increase in the amortisation of prepaid facility fees.

Underlying profit before tax from continuing operations was £34.0 million (2015: £19.8 million), an increase of 71.7%. Tax on underlying profit before tax from continuing operations was £7.1 million (2015: £4.1 million), representing an effective tax rate of 20.9% (2015: 20.7%). The tax rate on underlying profit before tax remains comparable to the UK corporation tax rate, and continues to benefit from the utilisation of R&D and other tax credits. Including non-underlying items, the total profit before tax from continuing operations was £8.0 million (2015: £9.1 million loss).

The effective tax rate on the total profit before tax from continuing operations was 18.8% (2015: 41.8%) due to the geographic mix of profits, changes to the amounts of deferred tax assets considered recoverable in respect of both tax losses and US interest limitations, prior year adjustments and the recent changes in UK corporation tax rates.

Analysis of non-underlying items

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

	2016 £m	2015 £m
Acquisition and disposal related costs	0.3	0.5
Business restructuring and incident costs	5.4	6.4
Claim related (credit)/costs	(0.6)	8.5
Loan note repayment costs	1.4	-
Intangible amortisation arising from business combinations	14.8	14.0
Loss/(gain) on fair value movement of derivative financial instruments	1.0	(0.5)
Non-underlying items excluded from underlying operating profit	22.3	28.9
Accelerated interest costs	3.7	-
Non-underlying items excluded from underlying profit before tax	26.0	28.9
Discontinued operations:		
Disposal related credit	(4.7)	(4.9)
Non-underlying items excluded from underlying profit before tax	21.3	24.0

An impairment analysis, based on value-in-use calculations reflecting current conditions in the defence industry, has been conducted and no impairments are considered to exist at 31 October 2016.

FINANCIAL REVIEW

continued

The amortisation of intangible assets arising from business combinations was £14.8 million (2015: £14.0 million). This cost is treated as non-underlying to improve comparability and understanding of the results given its large size and non-cash nature.

Disposal related credits of £4.7 million relate to the expiry of certain tax and environmental liabilities arising from the disposal of several businesses in prior years. Business restructuring and incident costs of £5.4 million principally comprise of restructuring costs in relation to Chemring Defence UK and across the US businesses.

The cash outflow from non-underlying items was £8.1 million (2015: £8.4 million).

Shareholder returns

Underlying earnings per share from continuing operations were 10.3p (2015 as restated: 7.1p), an increase of 45.1%. The total earnings per share from continuing operations were 2.5p (2015 as restated: 2.4p loss).

Shareholders' funds were £413.4 million (2015: £290.6 million), with the increase principally comprising the effects of the rights issue, favourable exchange rate movements and the profit after tax for the year.

Exchange rates

The following exchange rates applied during the year:

	Average rate 2016	Closing rate 2016	Average rate 2015	Closing rate 2015
US Dollar	1.28	1.22	1.53	1.54

The translation of foreign currency items in the financial statements are dependent on the prevailing foreign exchange rates. For the year ended 31 October 2016, a 1 cent decrease in the US dollar exchange rate would have increased reported underlying operating profit by approximately £0.2 million and increased reported net debt by approximately £0.9 million.

Pensions

The deficit on the Group's defined benefit pension schemes was £17.3 million (2015: £17.7 million), measured in accordance with IAS 19 (Revised) *Employee Benefits*.

The deficit relates to the Chemring Group Staff Pension Scheme (the "Scheme"), a UK defined benefit scheme whose assets are held in a separately administered fund. The Scheme was closed to future accrual in April 2012. A full actuarial valuation for the Scheme as at 6 April 2015 has been prepared and updated to 31 October 2016, using the projected unit credit method. This valuation showed a deficit of £17.3 million (2015: £17.8 million). The reduction reflects the funding structure agreed with the trustees, under which contributions of £5.0 million were paid in 2016, offset by the effect of changes in actuarial assumptions. The Group has given a bank guarantee and letters of credit totalling £8.5 million (2015: £13.5 million) to the Scheme in respect of future contributions, which are progressively reducing as contributions are paid under the agreed funding structure.

Research and development

R&D expenditure was £57.8 million (2015: £56.3 million). Continued investment in R&D is a key aspect of the Group's strategy, and levels of internally-funded R&D are expected to be maintained as investment in product development continues, particularly within Sensors & Electronics. An analysis of R&D expenditure is set out below:

	2016 £m	2015 £m
Customer-funded R&D	43.4	38.2
Internally-funded R&D		
- expensed to the income statement	7.7	9.2
- capitalised	6.7	8.9
Total R&D expenditure	57.8	56.3

Amortisation of development and patent costs was £6.9 million (2015: £6.4 million), with the increase reflecting a number of previously capitalised projects coming on-stream. A further increase in amortisation of development and patent costs is anticipated for 2017 as additional Sensors & Electronics projects complete their development phase.

Cash flow

The cash inflow generated from underlying operations was £76.4 million (2015: £35.4 million). A summary of underlying free cash flow is set out below:

	2016 £m	2015 £m
Underlying operating profit	48.5	34.4
Depreciation and loss on disposal of non-current assets	18.6	16.6
Amortisation of development costs, patents and licences	6.9	6.4
	74.0	57.4
Decrease/(increase) in working capital	6.4	(18.2)
Other movements	(4.0)	(3.8)
Cash generated from underlying operations	76.4	35.4
Expenditure on capitalised development costs	(6.7)	(8.9)
Expenditure on property, plant and equipment	(10.3)	(8.2)
Tax	(3.1)	(1.3)
Interest	(11.9)	(11.8)
Underlying free cash flow	44.4	5.2

Expenditure on property, plant and equipment was £10.3 million (2015: £8.2 million). This comprised various projects related to health and safety improvements, production automation and systems upgrades.

Expenditure on capitalised development projects was £6.7 million (2015: £8.9 million), of which £5.1 million (2015: £7.2 million) related to the Sensors & Electronics segment, where significant investment has been made in technology developed in association with DoD Programs of Record. The carrying value of capitalised development costs at 31 October 2016 was £40.9 million (2015: £36.1 million).

Tax payments were £3.1 million (2015: £1.3 million), with the increase reflecting the higher profitability of the Group.

Working capital

A summary of working capital in respect of continuing operations is set out below:

	2016 £m	2016 constant currency £m	2015 £m
Inventories	104.8	87.1	96.2
Trade receivables	82.7	70.5	66.1
Contract receivables	7.0	7.0	15.2
Prepayments	22.0	15.5	6.8
Trade payables	(53.5)	(44.9)	(46.7)
Advance payments	(12.4)	(10.1)	(11.5)
Other items	(51.5)	(47.0)	(44.3)
Working capital	99.1	78.1	81.8

Working capital was £99.1 million (2015: £81.8 million), an increase of £17.3 million, with £21.0 million of this increase attributable to foreign exchange translation. At constant currency (2015 exchange rates) working capital was £78.1 million, a reduction of £3.7 million.

Inventory increased in Countermeasures and Sensors & Electronics but fell in Energetic Systems.

Trade receivables increased by £16.6 million and trade payables increased by £6.8 million as a result of the high levels of activity in the final quarter of the year.

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

Net debt and covenants

Net debt at 31 October 2016 was £87.6 million (2015: £154.3 million). The Group's principal debt facilities comprise £153.4 million of private placement loan notes and a £100.0 million revolving credit facility. The revolving credit facility was established in July 2014, is with a syndicate of three banks and has a four-year term, and was increased from £70.0 million during the year. The Group had £108.0 million (2015: £78.5 million) of undrawn borrowing facilities at the year end.

In addition to borrowing facilities, the Group has £60.4 million (2015: £62.4 million) of facilities in respect of bonding and trade finance requirements. At 31 October 2016, £23.9 million (2015: £28.0 million) of these facilities were utilised.

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

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

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

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

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

The composition of gross and net debt is set out below:

	2016 £m	2015 £m
Loan notes, net of facility fees	(150.5)	(161.3)
Other loans and finance leases	(0.2)	(0.6)
Gross debt	(150.7)	(161.9)
Cash	63.1	7.6
Net debt	(87.6)	(154.3)

Going concern and long-term viability statement

The Group's business activities, key performance indicators, and principal risks and uncertainties are described within the 2016 Annual Report and Accounts. In light of the continued trading volatility, and as part of a regular assessment of the Group's working capital and financing position, the directors have prepared a detailed bottom-up two year trading budget and cash flow forecast for the period through to October 2018, being at least twelve months after the date of approval of the financial statements. This is in addition to the Group's longer-term strategic planning process. In assessing the forecast, the directors have considered:

- trading risks presented by economic conditions in the defence market, particularly in relation to government budgets and spends;
- the timing of delivering key contracts, in particular the HMDS and 40mm orders for end users in the Middle East;
- the impact of macroeconomic factors, particularly interest rates and foreign exchange rates;
- the status of the Group's existing financial arrangements and associated covenant requirements; and
- the availability of mitigating actions should business activities fall behind current expectations, including the deferral of discretionary overheads and restricting cash flows.

Additional detailed sensitivity analysis has been performed on the forecasts to consider the impact of severe, but plausible, reasonable worse case scenarios on the covenant requirements. These scenarios, which sensitised the forecasts for specific identified risks, modelled the reduction in anticipated levels of underlying EBITDA and the associated increase in net debt. These scenarios included significant delays to major contracts and new product launches, and the temporary closure of a major facility. This sensitised scenario shows headroom on all covenant test dates for the foreseeable future.

The directors have acknowledged the latest guidance on going concern. They have made appropriate enquiries and taken into account factors which are detailed in the strategic report within the 2016 Annual Report and Accounts. As a consequence, the directors believe that the Company is well placed to manage its risks.

The directors having considered the forecasts, the risks, and associated mitigating actions, have a reasonable expectation that adequate financial resources will continue to be available for the foreseeable future. Thus, they continue to support the going concern basis in preparing the financial statements.

The directors have assessed the Group's viability over a three-year period to October 2019 based on the above assessment, combined with the Group's strategic planning process, which gives greater certainty over the forecasting assumptions used. Based on this assessment the directors have a reasonable expectation that the Group will be able to continue in operation and meet all its liabilities as they fall due up to October 2019.

KEY PERFORMANCE INDICATORS

The Group's strategy is underpinned by focusing on a number of key performance indicators ("KPIs"). The KPIs that the Board and senior management utilise to assess Group performance are set out below.

These KPIs enable progress to be monitored on the implementation of the Group's strategy, levels of investment, operational performance and business development. They also give an early insight into how well the principal risks and uncertainties are

being managed. Similar indicators are used to review performance by each of the Group's businesses, albeit that the exact nature of these varies between business units to reflect the differing nature of their operations.

ORDERS

The Group uses a number of KPIs relating to orders. These comprise order intake, order book and the level of forecast revenue for the current financial year covered by orders on-hand.

The closing order book at 31 October 2016 of £592.9 million represents an increase of 4.1% on the prior year, principally reflecting the weakening of sterling. As at 31 October 2016, of the orders on hand of £592.9 million, £368.0 million were expected to be fulfilled in the year ending 31 October 2017.

	Order intake		Order book	
	2016 £m	2015 £m	2016 £m	2015 £m
Countermeasures	95.4	119.1	177.0	184.1
Sensors & Electronics	55.2	95.3	49.3	75.8
Energetic Systems	220.5	242.4	366.6	309.7
Group	371.1	456.8	592.9	569.6

REVENUE

Revenue provides a measure of business activity and growth, enabling customer behaviour trends to be identified and acted upon. In the case of business units that have experienced operational and production issues, revenue levels indicate their ability to deliver throughput and fulfil customer orders.

	2016 £m	2015 £m
Countermeasures	138.3	125.8
Sensors & Electronics	96.9	99.1
Energetic Systems	241.9	152.4
Group	477.1	377.3

SEGMENTAL UNDERLYING OPERATING PROFIT

Segmental underlying operating profit is stated before charges for unallocated corporate costs and non-underlying items, as shown in note 2 of the Group financial statements. Segmental underlying operating profit provides a consistent year-on-year measure of the trading performance of the Group's operations. It does not include significant non-recurring or exceptional costs that would distort a comparative assessment, nor does it include unallocated corporate costs associated with operating a public company. The continuing segmental underlying operating profit increased by 33.4% during the year, reflecting the change in revenue and the operating leverage effects associated with the high fixed-cost nature of certain of the Group's activities.

	2016 £m	2015 £m
Countermeasures	12.8	17.5
Sensors & Electronics	11.4	9.3
Energetic Systems	31.7	15.1
Group	55.9	41.9

UNDERLYING OPERATING MARGIN

Underlying operating margin is based on underlying segmental operating profit and provides an assessment of the profitability of the business. A focus on operating margin allows the impact of changes in revenue and cost base to be monitored, enabling comparisons to be made of management performance and trading effectiveness. The changes in margin of each segment reflect the weak market conditions, volume changes and performance improvement actions, as set out in this strategic report. The changes in margin also reflect the impact of movements in revenue, offset by the benefit of cost saving measures.

	2016 %	2015 %
Countermeasures	9.3	13.9
Sensors & Electronics	11.8	9.4
Energetic Systems	13.1	9.9
Group	11.7	9.1

WORKING CAPITAL AND INVENTORY

Working capital is defined as inventories, trade and other receivables, contract receivables, trade and other payables, and provisions. The primary focus for improvement within working capital is inventory.

Optimum inventory levels drive both effective staff utilisation and cost efficiency. Excess inventory results in second order costs such as increased storage and inventory management costs, the write-off of ageing or obsolete inventory, and disposal costs, which can be significant for energetic materials.

	Working capital		Inventory	
	2016 £m	2015 £m	2016 £m	2015 £m
Countermeasures	30.4	31.5	36.4	35.4
Sensors & Electronics	23.6	19.8	27.7	18.2
Energetic Systems	54.5	40.9	40.7	42.6
Central	(9.4)	(10.4)	–	–
Group	99.1	81.8	104.8	96.2

KEY PERFORMANCE INDICATORS

continued

CONTINUING UNDERLYING EARNINGS PER SHARE

Underlying earnings per share is a key measure for the Group, reflecting the combined trading performance together with the impact of its funding structure and taxation. The increase in the year reflects the Group's improved trading performance.

*As restated to reflect the rights issue

	2016	2015*
Continuing underlying earnings per share	10.3p	7.1p
Change from previous year	45.1%	(30.4%)

DEBT TO UNDERLYING EBITDA

The ratio of underlying EBITDA to the Group's debt levels is a clear indicator of the leverage borne by the Group. The ratio is a specified financial covenant within the Group's principal debt finance facilities, comprising the revolving credit facility and the loan note agreements, and the ratios under each of the measurement bases required in these facilities form KPIs for the Group. The basis of calculation under the two debt finance facilities differs in some regards, notably in the use of gross debt and adjusted debt measures in the loan note agreements, compared to net debt in the revolving credit facility. The Group's aim over the medium-term is to reduce the ratio of net debt to underlying EBITDA to an average level of 1.50x.

	2016	2015
Revolving credit facility		
Actual ratio of net debt to underlying EBITDA (maximum allowed ratio of 3.00x)	1.15x	2.83x
Loan note agreements		
Actual ratio of adjusted debt to underlying EBITDA (maximum allowed ratio of 3.00x)	1.89x	2.84x
Actual ratio of total debt to underlying EBITDA (maximum allowed ratio of 3.75x)	1.89x	2.92x

INTEREST COVER

Interest cover provides a simple measure of the ratio between underlying EBITDA and the finance costs incurred in servicing the Group's debt. It is an important indicator for the Group, and is a specified financial covenant under the revolving credit facility and loan note agreements. As with the ratio of debt to underlying EBITDA, there are certain differences in the bases of calculation of interest cover under the two facilities.

	2016	2015
Revolving credit facility		
Actual ratio of underlying EBITDA to finance costs (minimum allowed ratio of 4.00x)	6.82x	4.75x
Loan note agreements		
Actual ratio of underlying EBITDA to finance costs (minimum allowed ratio of 3.50x)	6.54x	4.67x

UNDERLYING CONTINUING OPERATING CASH FLOW

Operating cash flow provides a measure of the cash generated by the Group's trading. It represents the cash that is generated to fund capital expenditure, interest payments, tax and dividends. Given the Group's relatively short-cycle manufacturing operations and with working capital being improved through greater efficiency, operating cash conversion closely follows operating profit. The Group's underlying continuing operating cash flow increased by 115.8% to £76.4 million during the year, reflecting the change in underlying operating profit and increase in working capital.

	2016 £m	2015 £m
Underlying continuing operating cash flow	76.4	35.4

SAFETY

Many of Chemring's manufacturing activities involve the use of hazardous substances and energetic materials, and safety metrics are a fundamental part of the key performance indicators used to manage the business. All incidents and near misses are reported and investigated, in order to share findings and corrective actions throughout the Group. The Group's key lagging indicators are fatalities, the number of incidents that result in working time being lost through injury, and the number of energetic incidents that do not cause injury. In addition, the Group has a number of leading indicators, principally the level of near misses. The active reporting of near misses by employees is encouraged in order to highlight potential risk issues and enable these to be considered and addressed on a timely basis. Each of these is reviewed and resolved, gradually reducing risk.

	2016	2015
Lagging indicators		
Fatalities	–	–
Lost time incidents	9	15
Lost time incident rate	0.35	0.57
Significant energetic incidents not causing injury	2	–
Leading indicators		
Near misses reported and actioned	2,265	2,801

OPERATIONAL PERFORMANCE

Operational performance is measured using a series of indicators that include efficiency, labour utilisation and customer order performance. These performance indicators are considered at business unit level, as the varying nature of the Group's operations mean that it is not appropriate to consolidate this data. Improving operational performance is key to securing strong customer relationships and maximising returns from production activities. Closely monitored measures include gross margin percentages by business, on-time delivery of customer orders, overall manufacturing utilisation and product development spend.

HOW WE MANAGE RISK

Risk organisational structure



The Board

The Board is responsible for determining the nature and extent of risks it is willing to accept in delivering the Group's strategy and running the Group's operations, and ensuring that risks are effectively managed across the Group.

The Board reviews the Group risk register on a regular basis, and considers whether the Risk Management Committee has appropriately identified the principal risks to which the Group is exposed.

The Audit Committee

The Audit Committee is responsible for reviewing in detail the effectiveness of the Group's systems of internal control, including financial, operational and compliance controls, and its risk management systems.

The Risk Management Committee

The Risk Management Committee meets on a quarterly basis to review the business unit risk registers. The Risk Management Committee is responsible for identifying the principal risks to which the Group is exposed, monitoring key mitigation plans, and maintaining the Group risk register. All members of the Executive Committee are also members of the Risk Management Committee.

Risk management framework

The Group's risk management framework draws fundamentally from the "Three Lines of Defence Methodology", with the "First Line" being day-to-day management of risk and maintenance of effective control procedures at individual business units. The "Second Line" comprises various risk management and control functions established at the corporate management level designed to enhance and monitor the First Line. These functions include a Risk Management Committee, health, safety and environmental management function, financial controls, and a compliance function responsible for anti-corruption and ethical compliance. The "Third Line" comprises the Group's internal audit function utilising KPMG, who report directly to the Audit Committee and the Board.

The management of each of the business units is responsible for the identification, management and reporting of local risks, in accordance with the Group's risk management framework. The business unit's management are also responsible for the maintenance of business unit risk registers and the implementation of mitigation plans.

Each business unit is required to maintain a risk register identifying the key risks to achievement of their current year's budget and their five year plan, and their most significant health and safety risks. The risk registers also include an analysis of the likelihood and impact of each risk – before and after mitigation actions are taken to manage the risk, together with details of the mitigation plans and progress against them. Each risk is allocated an owner, who has responsibility for managing the risk.

The business unit risk registers are updated locally on a monthly basis, and are reviewed in detail by the Group Chief Executive, the Group Finance Director and other members of the Executive Committee at quarterly review meetings with each of the businesses.

The Risk Management Committee also reviews the business unit risk registers on a quarterly basis, and utilising the input from the businesses, the Risk Management Committee identifies those principal risks which are material to the Group as a whole. The Risk Management Committee also considers corporate-level risks. These risks are collated on the Group risk register, together with details of the applicable mitigation plans and risk owners.

The current Group risk register comprises various risks including health, safety and environmental risks, market-related risks, political risks, operational risks, legal and compliance risks, reputational risks and financial risks. Details of the principal risks are set out on pages 34 to 40.

Internal control and risk management systems

In addition to reviewing the Group risk register on a regular basis, the Board is also required to carry out an annual review of the effectiveness of the Group's systems of internal control and risk management systems in compliance with provision C2.3 of the UK Corporate Governance Code (the "Code"). In the year under review, the Board considered the following key features of the Group's risk management systems and control procedures which operated during the year:

- the Board assesses the key risks associated with achievement of the Group's business objectives as part of the annual strategic planning process and on a continuing basis thereafter;
- the performance of each business against budget and the prior year is reviewed on a monthly basis at both the operational management level and by the Board;
- the Group Chief Executive, the Group Finance Director and other members of the Executive Committee attend quarterly review meetings with each of the businesses. In the case of the US businesses, formal Board meetings are also held quarterly, and these are attended by main Board directors and external independent non-executive directors appointed in the US. The US non-executive directors are required to provide guidance and monitor governance in the US businesses throughout the year. An external independent non-executive director is also appointed to the Board of the Group's Norwegian subsidiary;
- each business is required to comply with the Group's accounting policy manual, which sets out formal procedures for incurring certain types of expenditure and making contractual commitments. Compliance with the accounting policy manual is audited by the internal auditors, who report regularly to the Audit Committee on their findings;

- the Board retains primary responsibility for acquisitions and disposals, and financing arrangements for the Group. Treasury management, IT strategy, insurance and significant legal matters are dealt with centrally from the Group head office, and the Board receives regular reports on each of these items. Reviews of the Group's pensions, insurance and physical risk management arrangements are carried out by external advisers on a regular basis;
- the Group Director of Safety, supported by business-specific health and safety management committees, co-ordinates and controls the activities of each business in relation to health, safety and environmental matters, which are a key focus for the Board in view of the nature of the Group's operations. The Group Chief Executive is the Board member nominated with specific responsibility for health and safety;
- the Group maintains a Bribery Act compliance manual incorporating its anti-corruption policies and procedures; and
- the Board has established a broad internal audit function utilising the services of KPMG. In addition to reviewing financial controls, the internal auditors review a wide range of non-financial processes and procedures, which provides additional assurance to the Board on the adequacy of the Group's internal controls. The internal auditors report to the Audit Committee on a quarterly basis, and progress on identified improvement actions is monitored and tracked.

The Board confirms that it has reviewed the effectiveness of the Group's systems of internal control and risk management which were in place during the financial year ended 31 October 2016, and it confirms that:

- there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Company and the Group;
- systems of internal control and risk management compliant with the Code and the Turnbull Guidance were in place throughout the year and have remained in place up to the date of approval of these financial statements; and
- the Group's internal control and risk management systems are regularly reviewed by the Board, and broadly comply with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the Financial Reporting Council.

The Board acknowledges, however, that the internal control systems can only provide reasonable, not absolute, assurance against material mismanagement or loss of the Group's assets. The Board will therefore continue to take steps to embed internal control and risk management further into the operations of the Group, and to deal with any areas of improvement which come to the attention of management and the Board.

PRINCIPAL RISKS

The principal risks and uncertainties which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results have not changed significantly from those set out in the Group's 2015 Annual Report and Accounts and the 2016 Interim Report.

The principal risks to which the Group is exposed are set out below, together with details of their potential impact; the likelihood of occurrence (on a scale of 1 to 3, with 1 being the most likely); an indication of whether the risk exposure is increasing, decreasing or broadly unchanged; and the mitigating actions taken to manage the risk.

Principal risks are identified by the Risk Management Committee based on the likelihood of occurrence and the potential impact on the Group as a whole.

HEALTH, SAFETY AND ENVIRONMENTAL RISKS

Health and safety

3

Likelihood of occurrence



Trend

Risk description	<ul style="list-style-type: none"> The Group's operations which utilise energetic materials are subject to inherent health and safety risks. Weak culture and individual behaviours may lead to bypassing of rules and procedures, and unsafe acts involving energetic operations. Upset conditions can occur during manufacturing operations which may expose employees to increased quantities of hazardous materials. The handling and disposal of energetics waste can result in unplanned ignitions.
Potential impacts	<ul style="list-style-type: none"> Incidents may occur which could result in harm to employees, the temporary shutdown of facilities or other disruption to manufacturing processes. The Group may be exposed to financial loss, regulatory action, and potential liabilities for workplace injuries and fatalities.
Mitigation actions	<ul style="list-style-type: none"> The Board believes that responsibility for the delivery of world-class safety standards is an integral part of operational management accountability. The Board is committed to ensuring that the Group's leadership operates with health and safety as the top priority, and that the strength of the Group's safety culture and the quality of its protective systems deliver operations where all employees and visitors feel and are absolutely safe. A Group Safety Policy Manual was introduced during the year, which sets out the best practice standards expected of all of the Group's businesses. The internal audit programme will assess compliance against these standards in 2017. The Group's Safety Leadership Programme continues to be rolled-out across the Group, helping to improve culture and behaviours. All employees receive a booklet setting out the Group's statements of intent in relation to delivery of its health and safety strategy, and the behaviours required of them as individuals. All employees are encouraged to report potential hazards, and to raise any health and safety concerns through the appropriate channels. The Group continues to invest in state-of-the-art process safety systems and equipment. The Group's safety and loss prevention programmes require detailed pre-construction reviews of process changes and new operations, and safety audits of operations are undertaken on a regular basis. All businesses are expected to pro-actively manage their own risks but, in addition, the most significant site risks at each business and their associated mitigation programmes are reviewed quarterly by the Risk Management Committee. Health and safety is included on the agenda at every Board meeting, and is discussed at the monthly Group Executive Committee meeting. Further details on the Group's approach to health and safety are set out in the corporate responsibility review.

HEALTH, SAFETY AND ENVIRONMENTAL RISKS continued

Environmental laws and regulations

3

Likelihood of occurrence



Trend

Risk description

- The Group's operations and ownership or use of real property are subject to a number of federal, state and local environmental laws and regulations, including those relating to discharge of hazardous materials, remediation of contaminated sites, and restoration of damage to the environment.
- At certain sites that the Group owns or operates, or formerly owned or operated, there is known or potential contamination for which there is a requirement to remediate or provide resource restoration.

Potential impacts

- The Group could incur substantial costs, including remediation costs, resource restoration costs, fines and penalties, or be exposed to third-party property damage or personal injury claims, as a result of liabilities associated with past practices or violations of environmental laws or non-compliance with environmental permits.

Mitigation actions

- All of the Group's businesses are certified to the environmental management system ISO 14001, which requires the setting of environmental goals and objectives focused on local aspects and impacts.
- The Group has monitoring programmes at certain sites, for which appropriate financial provision has been made. In certain circumstances, the Group procures environmental liability insurance, subject to applicable insurance conditions.

MARKET RISKS

Possible defence budget cuts

2

Likelihood of occurrence



Trend

Risk description

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

Potential impacts

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


Mitigation actions


- In recognition of the issues affecting the Group's traditional NATO markets, business development activities have been focused more on non-NATO markets in recent years, where defence expenditure is forecast to grow strongly over the next five to ten years. The Group continues to make progress on developing its routes to market in the Middle East, and during the year a local presence was established in the UAE.
- The Group continually assesses whether its planned organic growth strategies and product developments align with government priorities for future funding. Opportunities for development of commercial products are being explored in some areas.
- Actions have been taken to restructure and "right-size" the businesses, and reduce overheads, to ensure the businesses remain sustainable.
- Further site consolidation continues to be explored, within the constraints imposed by export control legislation and customer requirements.

PRINCIPAL RISKS

continued

MARKET RISKS continued

Timing and value of orders		2 Likelihood of occurrence	 Trend
Risk description	<ul style="list-style-type: none"> The Group's profits and cash flows are dependent, to a significant extent, on the timing of award of defence contracts. In general, the majority of the Group's contracts are of a relatively short duration and, with the exception of framework contracts with key customers, do not cover multi-year requirements. The Group anticipates that delays in the placement of orders by NATO customers, as a result of budgetary constraints, may continue in the short to medium term. 		
Potential impacts	<ul style="list-style-type: none"> An unmitigated delay in the receipt of orders could affect the Group's earnings and achievement of its budget, in any given financial year. If the Group's businesses are unable to continue trading profitably during periods of lower order intake, financial performance will deteriorate and assets may be impaired. 		
Mitigation actions	<ul style="list-style-type: none"> To mitigate the order placement dynamics within NATO markets, the Group continues to focus on the expansion of its business in non-NATO markets, where defence expenditure is forecast to increase. Maximising order intake remains a key objective for the businesses, and they continue to address this through the strengthening of their sales and marketing resources. A Group-wide customer relationship management system has also been established. The businesses continue to pursue long-term, multi-year contracts with their major customers wherever possible. The Group has undertaken several restructuring projects over the last year, aimed at restoring the profitability of those Group businesses which have suffered most from order delays. Site optimisation plans continue to be refined to ensure that the Group utilises its manufacturing facilities as efficiently as possible, within the constraints imposed by export control legislation and customer requirements. 		

Contract-related risks		3 Likelihood of occurrence	 Trend
Risk description	<ul style="list-style-type: none"> The Group's government contracts may be terminated at any time and may contain other unfavourable provisions. The Group may need to commit resources in advance of contracts becoming fully-effective, to ensure prompt fulfilment of orders or to enable conditions precedent to be met. 		
Potential impacts	<ul style="list-style-type: none"> The Group may suffer financial loss if its contracts are terminated by customers, or a termination arising out of the Group's default may have an adverse effect on its ability to re-compete for future contracts and orders. 		
Mitigation actions	<ul style="list-style-type: none"> The Group negotiates with customers to ensure the most favourable contractual terms are agreed. Areas of significant judgment or enhanced risk require the review and approval of the executive directors. The Group endeavours to negotiate stage payments with its customers wherever possible, in order to minimise exposure to significant cash outflows on contracts which may be terminated at short notice. 		

MARKET RISKS continued

Political risks

1

Likelihood of occurrence



Trend

Risk description	<ul style="list-style-type: none"> The Group is active in several countries that are suffering from political, social and economic instability. In addition, there is a significant risk of political unrest and changes in the political structure in certain non-NATO countries to which the Group currently sells.
Potential impacts	<ul style="list-style-type: none"> The Group's business in certain countries may be adversely affected in a way that is material to the Group's financial position and the results of its operations. Political changes could impact future defence expenditure strategy and the Group's ability to export products to certain countries. During periods of unrest, delays in obtaining export licences can result in delayed revenues.
Mitigation actions	<ul style="list-style-type: none"> The Group's businesses strive to maintain relationships at all levels within the political structure of certain key countries, in order to ensure that they are aware of and can react to proposed changes, if and when they occur. Wherever possible, the businesses implement financing arrangements, such as letters of credit and advance payments, for contracts with high-risk customers, which are intended to mitigate the impact of a deterioration in the customer's financial position, and in certain circumstances they may also procure political risks insurance. The Group continues to explore opportunities for collaboration on the establishment of local manufacturing operations in certain countries, which may remove some of the uncertainty regarding export of products.

OPERATIONAL RISKS

Management resource

1

Likelihood of occurrence



Trend

Risk description	<ul style="list-style-type: none"> The Group requires competent management to lead it through the next stage of its development. In challenging markets and difficult times, there is an increased risk of loss of key personnel. As the shape of the Group's business also changes, with an increased focus in areas such as cyber, there is a need to ensure that the businesses build and retain an appropriate skill base to enable them to compete successfully in new markets and product areas.
Potential impacts	<ul style="list-style-type: none"> If key personnel are not incentivised appropriately to remain within the Group, its operations may suffer from loss of management expertise and knowledge. Failure to recruit sufficient suitably-qualified personnel in key areas of the business may result in the Group failing to achieve its future growth aspirations.
Mitigation actions	<ul style="list-style-type: none"> Incentivisation arrangements have been streamlined and improved in certain areas of the business, to ensure that employees are suitably incentivised to deliver key strategic objectives. Succession plans are being developed further throughout the business.

PRINCIPAL RISKS

continued

OPERATIONAL RISKS continued

Manufacturing risks		2 Likelihood of occurrence	↓ Trend
Risk description	<ul style="list-style-type: none"> The Group's manufacturing activities may be exposed to business continuity risks, arising from plant failures, supplier interruptions or quality issues. Site consolidation plans may not be effectively implemented. 		
Potential impacts	<ul style="list-style-type: none"> Interruptions to production and sales could result in financial loss, reputational damage and loss of future business. Failure to complete planned site consolidation activities may result in long-term inefficiencies, and increasing misalignment of organisational skills and market requirements. 		
Mitigation actions	<ul style="list-style-type: none"> The Group has established an Operational Excellence Programme, with one of the objectives being to improve the Group's "right-first-time" and on-time delivery performance. All of the Group's businesses are required to prepare business continuity plans. The Group continues to refine its requirements for reporting of key performance indicators, in order to provide better visibility on operational performance, and to facilitate the identification of potential production and quality issues at an early stage. The Group insures certain business interruption risks where appropriate. Detailed plans are developed for all restructuring and consolidation projects, and progress is monitored by the Group Executive Committee. 		
Technology risks		2 Likelihood of occurrence	↓ Trend
Risk description	<ul style="list-style-type: none"> The Group may fail to maintain its position on key future programmes due to issues with capability development, technology transfer or cost-effective manufacture. The Group needs to continually add new products to its current range, through innovation and continuing emphasis on research and development. New product development may be subject to delays, or may fail to achieve the requisite standards to satisfy volume manufacturing requirements and the production of products against high reliability and safety criteria to meet customer specifications. The Group also needs to ensure that it continues to upgrade its existing product range to compete with emerging technologies. 		
Potential impacts	<ul style="list-style-type: none"> Failure to obtain production contracts on major development programmes may significantly impact the future performance and value of individual businesses. Failure to complete planned product development and upgrades successfully may have financial and reputational impacts, and may result in obsolescence or loss of future business. 		
Mitigation actions	<ul style="list-style-type: none"> Close relationships are maintained with customers on all key future programmes, to ensure product and capability development aligns with customer requirements. The Group has introduced a focused product development and technology investment approach, in order to ensure that resources are applied appropriately across the Group in support of the five year plan. A Technology Review Board has been established to review all proposed research and development projects to ensure that key initiatives are being prioritised and to eliminate possible duplication of effort in different parts of the Group. Working groups have been established to drive and co-ordinate the Group's technology growth in certain key areas, such as cyber security. 		

LEGAL AND COMPLIANCE RISKS

Product liability and other customer claims

3

Likelihood of occurrence



Trend

Risk description

- The Group may be subject to product liability and other claims from customers or third parties, in connection with (i) the non-compliance of products or services with the customer's requirements, due to faults in design or production; (ii) the delay or failed supply of the products or the services indicated in the contract; or (iii) possible malfunction or misuse of products.
- As many of the Group's products are single-use devices, it is often impossible to conduct functional testing without destroying the product; this increases the risk of possible product failure, either in use or during customers' own sample-based functional tests.

Potential impacts

- Substantial claims could harm the Group's business and its financial position.
- In addition, any accident, product failure, incident or liability, even if fully insured, could negatively impact the Group's reputation among customers and the public, thereby making it more difficult for the Group to compete effectively.
- Material breaches in the performance of contractual obligations may also lead to contract termination and the calling of performance bonds.

Mitigation actions

- The businesses maintain rigorous control of their production processes, monitoring critical parameters on a batch or unit basis. State-of-the-art techniques, including statistical process control or Six Sigma, are applied and, where appropriate, processes are automated to reduce the scope for human error. Detailed assessments of incoming components and materials are conducted to ensure compliance with specifications.
- Product liability claims from third parties for damage to property or persons are generally covered by the Group's insurance policies, subject to applicable insurance conditions.

Compliance and corruption risks

3

Likelihood of occurrence



Trend

Risk description

- The Group operates in over fifty countries worldwide, in a highly-regulated environment, and is subject to the applicable laws and regulations of each of these jurisdictions. The Group must ensure that all of its businesses, its employees and third parties providing services on its behalf comply with all relevant legal obligations.
- The nature of the Group's operations could also expose it to government investigations relating to import-export controls, money-laundering, false accounting, and corruption or bribery.
- The Group requires a significant number of permits, licences and approvals to operate its business, which may be subject to non-renewal or revocation.

Potential impacts

- Non-compliance could result in administrative, civil or criminal liabilities, and could expose the Group to fines, penalties, suspension or debarment, and reputational damage.
- Loss of key operating permits and approvals could result in temporary or permanent site closures, and loss of business.

Mitigation actions

- The Group has a central legal and compliance function which assists and monitors all Group businesses, supported by dedicated internal legal resource in the US.
- The Group operates under a Global Code of Business Principles, which stipulates the standard of acceptable business conduct required from all employees and third parties acting on the Group's behalf. The Group has also adopted a Bribery Act Compliance Manual, incorporating all of its anti-bribery policies and procedures.
- A significant proportion of the Group's management have received training in relation to ethics and anti-corruption.

PRINCIPAL RISKS

continued

REPUTATIONAL RISKS

Cyber-related risks

3

Likelihood of occurrence



Trend

Risk description	<ul style="list-style-type: none">Cyber security and related risks are key emergent areas of critical importance for all businesses, particularly for those involved in the defence and security sector. Threats can emanate from a wide variety of sources and could target various systems for a wide range of purposes, making response particularly difficult. The data and systems which need to be protected include customer-classified or sensitive information, commercially-sensitive information, employee-related data and safety-critical manufacturing systems.
Potential impacts	<ul style="list-style-type: none">The Group may suffer from critical systems failures, or its intellectual property, or that of its customers, may fall into the hands of third parties.In addition to business interruption and financial loss, the Group may suffer reputational damage, and its business of providing cyber-security services to customers may be irreparably damaged.
Mitigation actions	<ul style="list-style-type: none">A threat assessment has been completed, and an action plan to counter the Group's identified major threats has been initiated.The Group adopts a number of cyber security defence measures, encompassing, as appropriate to the nature of the threat and sensitivity of data or systems being protected, hardware, software, system, process or people-based solutions. Where appropriate, government or commercial accreditation of networks and systems is obtained in support of the overall cyber security programme.A review of the Group's IT and security systems is included within the internal audit programme.

FINANCIAL RISKS

- Details of the financial risks to which the Group is potentially exposed and details of mitigating factors are set out in the financial review and note 20 of the Group financial statements.

CORPORATE RESPONSIBILITY REVIEW

The Group acknowledges its obligation to ensure the responsible operation of its business at all times, and is fully committed to sound and ethical business conduct in its interaction with key stakeholders (shareholders, employees, customers, business partners and suppliers), governments and regulators, communities and society, and the environment.

The Group's approach

The Board has overall responsibility for establishing and maintaining the Group's policies in this area, and the Group Chief Executive is accountable to the Board for ensuring that the Group's businesses adhere to these policies.

The Board recognises that the long-term success of the Group will be enhanced by a positive interaction with all of its stakeholders, and has determined that the Group's corporate responsibility initiatives should be focused on the following key areas:

- health and safety;
- employee support and development;
- environmental protection; and
- ethical business conduct.

The Board intends that the Group's corporate responsibility approach will be fully embedded within its business units, and the senior management bonus plan incorporates specific objectives in the above areas.

Further details of the Group's approach are set out below.

In the workplace

Health and safety

Policy and practices

The Board recognises that the highest levels of safety are required in order to protect employees, product users and the general public. The Board believes that all incidents and injuries are preventable, and that all employees have the right to expect to return home safely at the end of every working day.

The Group Chief Executive has overall responsibility for health, safety and environmental matters across the Group. The Group Director of Safety reports directly to the Group Chief Executive, and is responsible for the effective administration and implementation of the Group's health, safety and environment strategy. The Group Director of Safety is a member of the Group Executive Committee and reports on the performance of all businesses against agreed targets and objectives. The Group Chief Executive reports monthly to the Board on all key health and safety issues.

The Board requires that all businesses systematically manage their health and safety hazards, set objectives and monitor progress by regular measurement, audit and review. Each managing director is responsible for the management of health and safety within their business, and for providing adequate resources to satisfy the Board's requirements. All managing directors have health and safety related objectives incorporated within their annual bonus plan.

Managers and supervisors in the Group's businesses are required to enforce procedures, and to provide leadership and commitment to promote and embrace a positive health and safety culture. The Board emphasises the importance of individual responsibility for health and safety at all levels of the organisation, and expects employees to report potential hazards, to be involved in implementing solutions, and to adhere to rules and procedures.

A key element in the continual improvement of health and safety management is sharing best practice and lessons learnt from incidents across the Group's businesses and the wider industry. Accidents, incidents and near misses are investigated, with actions generated to prevent recurrence. Compliance audits are conducted and all findings are subject to corrective action reviews to ensure closure.

Energetic events

There were two notable energetic incidents in the year. A fire in a mixer at the Chemring Australia facility propagated to an external air handling unit. At the Kilgore facility in Tennessee a fire in a MTV dryer hopper ignited a batch of composition that was being processed.

In both cases production was interrupted but all safety systems worked as they should and no-one was hurt.

Strategy

The Group's safety improvement programmes fit into three strategic areas:

Physical

The Group continue to invest in engineering solutions to remove people from hazards. This includes the automation of operations, increasing the number of processes that are conducted remotely and further developing protection systems.

Systems

All of the Group's businesses are certified to the international health and safety management system OHSAS18001. The businesses receive regular customer and regulator audits in addition to internal audits. This year the first Group Safety Policy Manual was issued, which specifies good practice in many different areas of activity that goes well beyond pure legal compliance. The businesses now all have plans to meet these challenging new standards.

People

The Group continues to focus on leadership, culture and behaviours through the Safety Leadership Programme, which continues to be delivered at all levels across the Group.

CORPORATE RESPONSIBILITY REVIEW

continued

Lost time incidents

The number of lost time incidents is one of the key performance indicators monitored by the Group. The Group collects and reports lost time incident rates using the US Occupational Safety and Health Administration rules.

In 2016 the lost time incident rate reduced to the lowest on record.

The Group's historical lost time incident rate (number of lost time incidents per 100 employees per year) is as follows:

2016	2015	2014	2013	2012
0.35	0.57	0.43	0.83	0.52

One lost time incident during the year involved an energetic device. An employee at Chemring Ordnance in Florida received minor wounds to his hand when a device he was testing at the proofing ground malfunctioned. He fully recovered and this operation has been completely redesigned.

Employees

The Board recognises the valuable contribution that the Group's employees continue to make to its success, and aims to provide a working environment that reflects and rewards this.

At 31 October 2016 the Group had 2,577 (2015: 2,849) employees based in four countries.

Employment practices

The Group's policy is to provide equal opportunities for all employees, irrespective of race, nationality, gender, sexual orientation, marital status, religion or political belief, disability or age. The Group is committed to meeting, at a minimum, the labour rights and legislation requirements in each country in which it operates and, in practice, often exceeds these. The Group's employment practices policies are introduced at newly-acquired businesses at the earliest opportunity after they join the Group.

Human rights

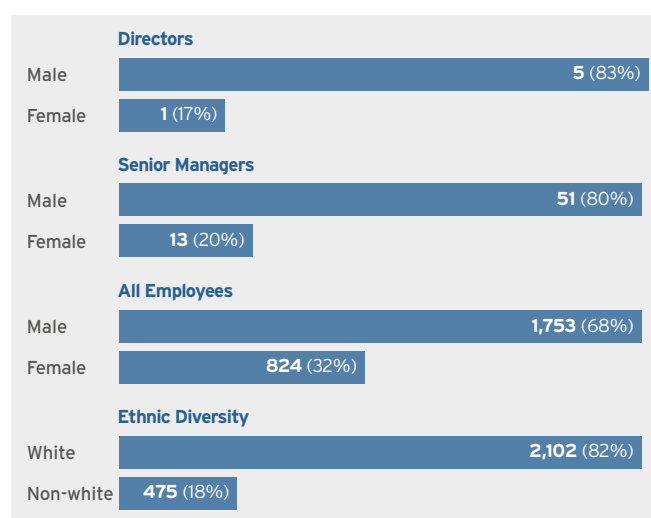
The Group does not have a stand-alone human rights policy but its practices and policies adhere to internationally-recognised human rights principles.

Gender diversity

A breakdown by gender of the number of persons who are directors of the Company, senior managers and other employees is set out below.

The Board currently has one female member, and remains committed to a minimum of at least 25% female representation on the Board. The Board recognises the importance of promoting diversity across the Group.

Senior managers are generally directors and functional heads within head office and subsidiary companies.



Development and training

The Group continues to address training and development requirements for employees at all levels within the organisation. All businesses consider training needs for their employees at a local level, in order to ensure that they have the right skill base to deliver their five year plan. The Board also reviews future management requirements and succession plans on an ongoing basis.

In the UK, Roke operates successful undergraduate placements, internships and graduate development programmes, which have received external recognition.

Benefits

The Group aims to provide all employees with an attractive and competitive benefits package. US employees receive health care and selected other benefits.

The Board is keen to encourage employees to join share schemes in order that they can share in the future success of the Group, and savings-related share plans are therefore offered to UK employees.

Communications

The Group pursues a policy of employee communication through meetings (including team briefings and works councils) and in-house magazines by which employees are made aware of the progress of the Group and the businesses in which they work. The businesses also engage their employees through representative bodies and trade unions.

A Group magazine, "Chemring-i", is published on a quarterly basis and is distributed to all employees.

In the environment

Policy and practices

All of the Group's businesses are certified to the environmental management system ISO 14001, which requires the setting of environmental goals and objectives focused on local aspects and impacts. In addition, expectations are set for energy, waste and water, and performance is monitored across the Group.

Land quality

The Chemring Energetic Devices facility in Downers Grove, Illinois, USA, is located on a site which has "superfund" status under the US contaminated land regime. The business continues to work with consultants and the regulatory authorities to ensure that its legal obligations in relation to this site are fully satisfied.

The Group carries a £4.1 million (2015: £1.5 million) provision in respect of environmental liabilities, which the Board considers to be adequate (see note 21 of the Group financial statements).

Incidents

There were no significant environmental incidents in the year.

Performance

Greenhouse gas emissions

The Group is required to report on all of the emission sources of entities that fall within its consolidated financial statements, as specified under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. The Group does not have responsibility for any emission sources of entities which are not included in its consolidated financial statements.

Absolute values have been converted to carbon dioxide equivalents using the UK Government Conversion Factors for Company Reporting 2016. The reporting period covered aligns with the Group's financial year ended 31 October 2016. The Group is not required to report on its Scope 3 emissions.

Scope 1 emissions

Combustion of fuel in any premises, machinery or equipment operated, owned or controlled by the Group	Quantity (Mwh)	Conversion factor	CO ₂ e (tonnes)
Gas	32,840	0.184	6,042
Heating oil	6,929	0.268	1,857
Liquid petroleum gas	1,988	0.215	426
Fuels consumed by company-owned and leased vehicles excluding business travel and employee commuting	Quantity (tonnes)	Conversion factor	CO ₂ e (tonnes)
Diesel	117	3.108	364
Liquid petroleum gas	104	2.942	306
Petroleum	124	2.994	371
The operation or control of any manufacturing process by the Group			CO ₂ e (tonnes)
On-site waste incineration			4,601
Total Scope 1 emissions			13,967

With reference to the six Kyoto substances, the Group does not emit hydrofluorocarbons, perfluorocarbons or sulphur hexafluoride. Values for carbon dioxide, methane and nitrous oxides are included in the above figures.

CORPORATE RESPONSIBILITY REVIEW

continued

Scope 2 emissions

	Quantity (Mwh)	Conversion factor	CO ₂ e (tonnes)
Purchased energy			
Electricity:			
- Australia	1,084	0.81360	882
- Norway	39,570	0.01372	543
- UK	15,906	0.41205	6,554
- USA	31,485	0.49845	15,694
Total Scope 2 emissions			23,673
Total greenhouse gas emissions	2016 Tonnes	2015 Tonnes	2014 Tonnes
Scope 1	13,967	15,907	22,717
Scope 2	23,673	26,627	31,336
Total	37,640	42,534	54,053

The Group uses revenue for intensity measurement, which it considers to be the most reliable comparator.

	2016	2015
Total emissions (tonnes CO ₂)	37,640	42,534
Group revenue (£m)	477	377
Total CO₂ per £m of revenue	79	113

The UK businesses participate in the CRC Energy Efficiency Scheme, with the exception of Chemring Energetics UK, which operates under a Climate Change Agreement.

Waste

	2016 Tonnes waste	2015 Tonnes waste	2014 Tonnes waste	2013 Tonnes waste	2012 Tonnes waste
Recycled, non-hazardous	956	968	731	2,240	1,804
Recycled, hazardous	64	287	262	226	387
Not recycled, non-hazardous	782	748	659	1,080	1,028
Not recycled, hazardous	942	696	401	490	469
Total	2,744	2,699	2,053	4,036	3,688

Water

	2016 m³	2015 m ³	2014 m ³	2013 m ³	2012 m ³
Total water consumption	682,185	721,401	924,889	1,606,541	1,646,906

In the community

Helping others

The Board recognises that each of the Group's businesses has an important role to play in its local community.

The Board operates a charitable policy, which confirms its commitment to support selected charitable causes with a focus on the military and armed services, and those linked to the local communities in which the Group's businesses operate. Each business has its own locally held charity budget and, at a Group level, charitable donations are considered on a monthly basis by the Executive Committee. The Group continues to sponsor the British Army's Parachute Regiment display team, the Red Devils.

In addition to making cash donations, the Group also encourages and supports employees who undertake voluntary work in the local community, where appropriate. During the year, employees donated their time and services on a wide range of projects, several of which had an educational bias.

The Group is involved with a number of educational initiatives, notably including the sponsorship of various local schools. The Group has relationships with several universities, whereby funding is provided for students' research activities.

Local impact

With regards to the impact of the Group's manufacturing activities on the local community, at locations where operations may inconvenience neighbours through product proofing, the businesses liaise with local residents to minimise any impact. The Group is also cognisant of the potential impact of its operations on the local environment, and is addressing this through its environmental strategy.

In the marketplace

Policy on the Sale of Goods and Services

The Board has adopted a Policy on the Sale of Goods and Services, which provides guidance to all stakeholders on the products and services that the Group will supply, to which customers and to which countries, and sets out a clear definition of what the businesses will not supply. All Group businesses are required to comply with this policy, which addresses both legal and reputational considerations with regards to certain products. The policy is reviewed and updated on a regular basis.

Ethics and business conduct

The Group has adopted a Global Code of Business Principles, which requires its employees, its businesses and all third parties who act on the Group's behalf to comply with the Group's standards of acceptable business conduct and applicable laws and regulations in all of the countries in which the Group operates.

Anti-bribery and corruption

The Group's Bribery Act Compliance Manual incorporates all of its anti-corruption policies and procedures, including the following:

- requirements for bribery risk assessments to be carried out as part of normal operating procedures;
- Group-wide policies and procedures on the appointment of all sales partners and other third party advisers, stipulating due diligence and contractual requirements, approval levels, and monitoring and review processes;
- regular training for management and employees working within commercial, sales and marketing, finance and human resource functions; and
- policies and procedures on the giving and receiving of gifts and hospitality.

The Group's US businesses have an ethical compliance programme to satisfy US Government requirements for ethical training for employees, compliance audits, confidential reporting line for employees, and related investigation procedures.

The Group has a whistleblowing policy and procedures in place which enable all employees to raise concerns, in confidence, about possible improprieties.

These arrangements reflect the requirements of the UK Bribery Act 2010.

Strategic report

Cautionary statement

This report contains forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could, is confident, or other words of similar meaning. Undue reliance should not be placed on any such statements because they speak only as at the date of this document and, by their very nature, they are subject to known and unknown risks and uncertainties, and can be affected by other factors that could cause actual results, and Chemring's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements.

There are a number of factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. Among the factors that could cause actual results to differ materially from those described in the forward-looking statements are; increased competition, the loss of or damage to one or more key customer relationships, changes to customer ordering patterns, delays in obtaining customer approvals for engineering or price level changes, the failure of one or more key suppliers, the outcome of business or industry restructuring, the outcome of any litigation, changes in economic conditions, currency fluctuations, changes in interest and tax rates, changes in raw material or energy market prices, changes in laws, regulations or regulatory policies, developments in legal or public policy doctrines, technological developments, the failure to retain key management, or the key timing and success of future acquisition opportunities or major investment projects.

Chemring is under no obligation to revise or update any forward-looking statement contained within these financial statements, regardless of whether those statements are affected as a result of new information, future events or otherwise, save as required by law and regulations.

The strategic report on pages 1 to 45 has been approved by the Board of directors and signed on its behalf by:

Michael Flowers

Group Chief Executive
19 January 2017