Chemring Group

Delivering global protection

Chemring is a global defence technology company focused on the development and manufacture of Countermeasures, Sensors & Electronics, and Energetic Systems for the aerospace, defence and security markets.

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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Order book

£569.6m

(2014: £486.8m)

Underlying operating profit*	Revenue	Underlying operating margin
£34.4m	£377.3m	9.1%
(2014: £46.7m)	(2014: £403.1m)	(2014: 11.6%)

KEY DEVELOPMENTS

- FY15 result in line with revised, lower expectations set out in 26 October 2015 statement
- Strong operational recovery across all businesses in the Countermeasures segment
- Key wins on US Sensors & Electronics programmes in IED, Chemical and Biological threat detection
- Successful re-structuring of UK Sensors & Electronic businesses improving focus, agility and profitability
- Maintained business in Energetic Systems segment, with integration of Hi-Shear into Chemring Energetic Devices yielding improvements in customer delivery times, and profitability
- Doubled non-NATO revenues with growth in both the Middle East and Asia Pacific regions, and built a strong international order book

* Underlying measures referred to in these financial statements 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 4.

CHAIRMAN'S STATEMENT

Recent years have seen Chemring undergo significant restructuring and transformation, largely in response to a downturn in the global defence sector. The Group has been streamlined operationally, business units have been integrated, and greater focus has been placed on safety and operational improvement.

All of these actions are delivering positive results. Further progress was made in 2015 as we have continued our efforts on positioning the Group for future growth.

Much of this progress has been overshadowed by two disappointments during the year.

Firstly, in a trading update on 14 September 2015, the Group announced that a significant order to supply non-standard ammunition to a customer in the Middle East was to be terminated for convenience by the US Government.

Secondly, in the same trading update, we announced that the loss of this contract would be offset in part by profits from a recently received order, valued in excess of £100 million, relating to the supply of 40mm ammunition to a customer in the Middle East. This contract was expected to contribute to both FY15 results and future financial years. While the Group made good progress in the procurement and qualification of product relating to this contract, there were delays in the receipt of necessary US Government permits and exports approvals which were outside of our control. On 26 October 2015 we announced that there was a realistic prospect that the Group would not receive these permits and approvals in time to recognise revenue from this contract in FY15, thus reducing expectations for the full year to 31 October 2015.

The export licence approval was received on 3 November 2015, and the other permits were received in early December 2015. The finalisation of the Letter of Credit and receipt of advance payment associated with this contract continues to progress and revenue is expected to be recognized from Q2 FY16.

The movement of this revenue out of FY15 and the associated reduction in FY15 earnings caused a reduction in our near-term covenant headroom. This vulnerability re-inforced the need to fundamentally reduce the Group's indebtedness.

Today, by separate announcement and by a prospectus sent to shareholders, we explain why we have launched a proposed rights issue to raise gross procceds of £80.8 million, (the "Rights Issue"), for which shareholder approval is being sought.

In summary, the Board believes that this capital raising is in the best interests of the Group, significantly reducing its structural indebtedness and providing a more appropriate capital structure. The Board believes that this will allow the Group to pursue certain growth initiatives and further cost reduction over the medium-term, and will provide a stronger platform for the future.

Trading summary

Revenue from continuing operations was £377.3 million (2014: £403.1 million) and, including discontinued operations, was £377.3 million (2014: £474.9 million). This revenue generated an underlying operating profit of £34.4 million (2014: £49.0 million),

Peter Hickson

Chairman

of which £34.4 million (2014: £46.7 million) related to continuing operations. Including non-underlying items, there was a total operating profit of £5.5 million (2014: £28.2 million loss).

Including discontinued operations, underlying profit before tax reduced by 34.7% to £19.8 million, resulting in underlying earnings per share of 8.1p (2014: 12.4p).

The closing order book for continuing operations increased by £82.8 million during the year and at 31 October 2015 was £569.6 million (2014: £486.8 million).

The Group's net debt at 31 October 2015 was £154.3 million (2014: £135.6 million).

Dividends

In view of the proposed Rights Issue, the Board is not recommending a final dividend in respect of FY15. The total dividend in respect of FY15 will therefore be the interim dividend of 2.4p per share (2014: 4.1p).

In addition, the Board does not currently intend to propose an interim dividend in respect of the six month period ending 30 April 2016.

The Board recognises that dividends are an important component of total shareholder returns. The Board intends to propose a final dividend for FY16, assuming it is prudent to do so, and to continue paying dividends thereafter.

Board of directors

2015 was not an easy year for Chemring but, nevertheless, the Board remains committed to continuing to drive improvements in Chemring's performance. However, following announcement of the Rights Issue, we believe it is now time to reshape the membership of the Board. As a consequence, I have decided to stand down as Chairman, and from the Board, as soon as a suitable replacement has been identified and appointed. A process, run by the Nomination Committee using the services of an outside executive search consultancy, is under way and we expect a number of candidates to be considered for the position.

On the non-executive side, we are also seeking new directors. We have retained the services of a different executive search firm in order to identify suitable candidates. The process has been under way for some months but, due to the impending Rights Issue, we have not yet reached a position of being able to make any appointments. However, the process is continuing with a view to identifying well-qualified candidates.

From the current Board, Ian Much, the Senior Independent Director, will retire at the Annual General Meeting, as reported in last year's annual report. He will be succeeded as Senior Independent Director by Nigel Young, the Chairman of the Audit Committee. I would like to thank Ian for his very significant contribution to the Chemring Board over his many years of service and wish him well for the future. In addition, Andy Hamment has indicated that, for personal reasons, he also intends to stand down from the Board as soon as a replacement can be appointed.

Finally, in what has been a difficult year for the Company, I would like to express my thanks, on behalf of the Board, to all our employees who continue to contribute so much to the activities of our operations across the world.

Current trading and outlook

The Board's expectations for FY16 remain unchanged.

Trading since the start of FY16 has been below management's expectations, although order intake remains robust. Revenue has been impacted in part due to re-phasing of deliveries. Some customer acceptance delays at the end of FY15 have continued but are expected to be resolved shortly, and specific production and contract finalisation issues will result in the phasing of some revenue to later in FY16. The first quarter of the Group's financial year typically has a low level of revenues and that is again expected in FY16.

The order book as at 31 October 2015 increased 17.0% to £569.6 million, of which £330.9 million is currently expected to be recognised as revenue in FY16, representing almost 75.0% of the expected FY16 revenue of £450.0 million. This level of order cover for FY16 is encouraging. Included within the order book at 31 October 2015 is £103.0 million in respect of the major 40mm order secured by Chemring Ordnance in FY15. The order book as at 31 December 2015 was £600.5 million.

The multi-year revenues associated with the 40mm contract are expected to commence in the first half of FY16, once the cash advance payment is received from our customer, and this contract is expected to provide a significant contribution to FY16. As previously announced, the 40mm contract is expected to result in the Group's financial performance for FY16 being weighted towards the Energetic Systems segment, with a lower contribution from Sensors & Electronics while its US operations focus on R&D activity under long-term Programs of Record.

The expected profile of orders, revenue and margins means that the Group continues to expect FY16 to reflect a significant second-half weighting.

The Board expects the wider market backdrop for global defence spending to be one of slow recovery in 2016. The situation for US defence spending is more stable than it has been for some time, and ongoing geopolitical tensions in the Middle East and elsewhere emphasise the need for robust defence and security measures. The timing of Middle East order placement and contract activity remains difficult to predict, in part due to the impact that recent falls in the oil price are having on Government spending in the region.

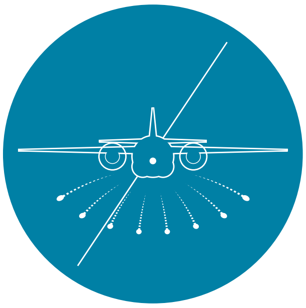
Nevertheless, our continued customer focus means the Group is well positioned to benefit from any sustained increase in demand in its markets.

Peter Hickson
Chairman

21 January 2016

WHAT WE DO

COUNTERMEASURES



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for more information

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.

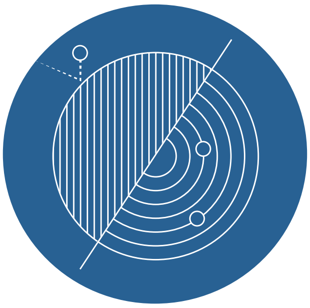
Revenue

£125.8m

Operating profit

£17.5m

SENSORS & ELECTRONICS



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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.

Revenue

£99.1m

Operating profit

£9.3m

ENERGETIC SYSTEMS

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for more information

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 mine-field clearance systems, demolition stores and 40mm ammunition.

Revenue

£152.4m

Operating profit

£15.1m

WHERE WE OPERATE

NORTH AMERICA

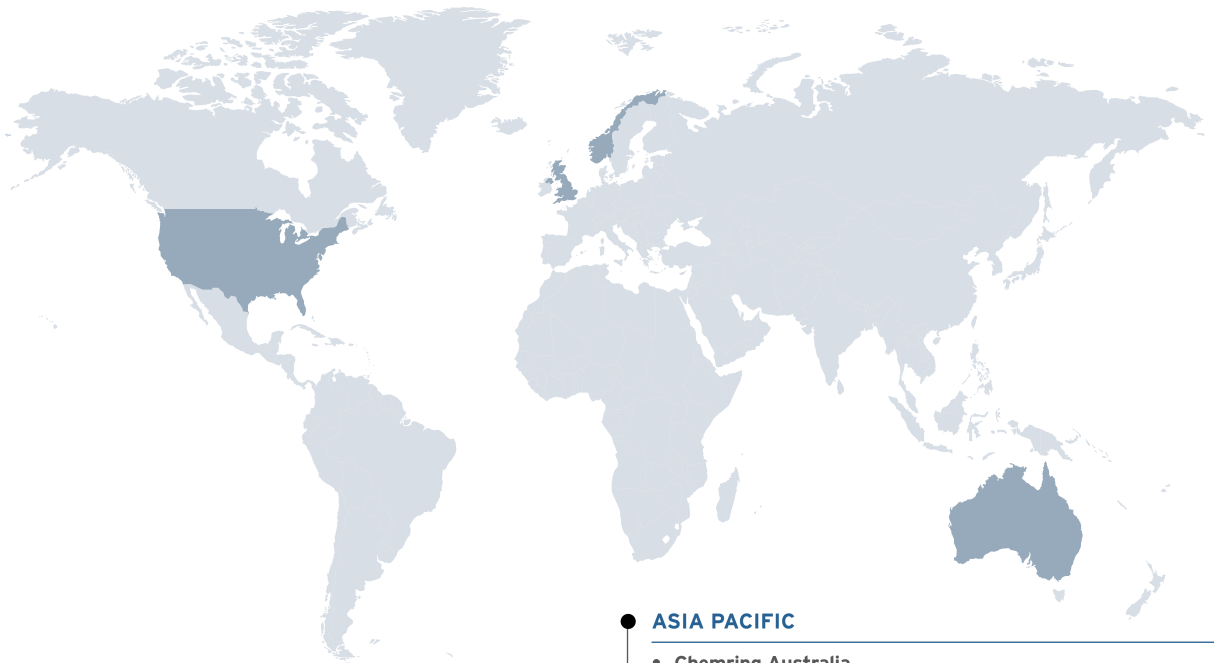
Chemring has four business units in North America, supplying mainly to the US Department of Defense and its prime contractors:

- **Chemring Countermeasures USA**
  (Alloy Surfaces in Pennsylvania and Kilgore Flares in Tennessee) – manufactures conventional, advanced and special material decoys
- **Chemring Sensors & Electronic Systems**
  (NIITEK in Virginia and Chemring Detection Systems in South 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

2015 was a disappointing year for Chemring, with several key export orders in the Sensors & Electronics segment taking longer to materialise than anticipated. In addition, the Energetic Systems segment was heavily impacted in the final quarter of the year by a contract termination and delays to the start of fulfilment of a major order for 40mm ammunition.

These events have overshadowed the progress we have made in improving the Group's operations.

Safety

Safety is our first priority and we continue to strive to improve in this area. The majority of our business units completed FY15 without a single lost time incident, and the lost time incident rate for the year is near our historical best performance. There was one lost time incident in the year involving energetic materials, in which an employee suffered burns at Chemring Australia's facility. As a result of wearing the correct protective personal equipment, the employee made a full recovery and was soon able to return to work. We cannot, and will not, be complacent in this area, and we have reviewed all similar operations at our facilities with the aim of ensuring that this type of incident cannot recur.

Our Safety Leadership Programme continues to address the cultural aspects of safety, and a 40% increase in near miss reporting in the year is an encouraging leading indicator, providing evidence that our employees are embracing the principles of the Programme. We continue to invest to improve operational safety to remove people from exposure to hazardous materials, and have commissioned an automated flare pellet manufacturing capability at Chemring Countermeasures UK's facility in Salisbury, and automated block explosive manufacturing at Chemring Energetics' facility in Ardeer.

Strategy and organisation

It is important not to understate the progress we have made in implementing our strategy, as our home customers in the US, UK and Australia have shifted away from an operational footing. In the Countermeasures segment, the successful launch of new special material decoys by Alloy Surfaces, the award of a qualification contract to Chemring Australia as the second source supplier for F-35 flares, and the qualification of a new naval decoy by Chemring Countermeasures UK all confirm our position as the world leader in the countermeasures market. The proposed acquisition of key assets and technology from Wallop Defence Systems in the UK, announced on 25 November 2015, is expected to further enhance our Countermeasures technology base. In Sensors & Electronics, the migration of the Husky Mounted Detection System ("HMDS") to a long-term Program of Record, and research and development ("R&D") contract wins on US chemical and biological detection programmes, are critical steps to securing the strategic future of this business. Finally, operational improvements delivered by Chemring Energetic Devices, and international successes at Chemring Ordnance and Chemring Defence in pyrotechnic products, demonstrate the benefits of our strategy for the Energetic Systems segment.

Michael Flowers

Chief Executive

In addition, we are encouraged by improved collaboration within and across all three segments. Notable successes include transatlantic collaboration in relation to advanced flare technologies and products for the space market, and the joint development of products to counter improvised explosive devices ("IEDs") and products for the electronic warfare ("EW") market. As we re-shape the Group to match customer needs and expected demand levels, we continue to encourage collaboration, taking the steps necessary to enable and embed this across the Group.

During 2016 we expect to revise our US management structure to improve efficiency and effectiveness. The changes in structure are in the process of being agreed with the US Defense Security Service, who manage the Special Security Agreement under which certain of our US businesses operate.

Operational performance

The year has been one of challenges in achieving progress on major supply contracts at our US businesses. Further progress on the HMDS contract with a Middle East customer that commenced in FY14 has been delayed, and the significant order for 40mm ammunition for an end user in the Middle East failed to deliver revenue in FY15 due to delays in achieving regulatory and funding hurdles. The year was also affected by the termination for convenience by the US Government of a significant contract to deliver non-standard ammunition. Encouragingly, the US Government has subsequently awarded the first of a series of smaller contracts for the same requirement to Chemring, although this was too late to mitigate any of the impact of the termination in FY15.

However, the fact that every business unit was profitable in FY15 is testament to the hard work by all of our people as we restructure our operations to match expected demand levels. These efforts have improved delivery performance and reduced our cost base. For example, the integration of Chemring Energetic Devices' operations in Torrance, California into the Downers Grove, Illinois facility is already improving adherence to our customers' delivery schedules, and the separation of Roke's contract R&D activity from Chemring Technology Solutions' product business is contributing to increased order intake and staff utilisation.

Rights Issue

On 26 October 2015, we announced our intention to undertake a rights issue. The background to this is well documented, and is covered in a separate announcement released today, but it has become clear to the Board that whilst we have made progress in transforming the operations of the Group, further improvement is being hampered by our high level of structural indebtedness and limited headroom on associated financial covenants. We have identified further opportunities to consolidate sites, automate manufacturing and improve our products, and our decision to fundamentally address the high level of debt and provide a competitive capital structure are critical steps in taking advantage of these opportunities.

The Rights Issue is expected to raise £80.8 million in gross proceeds. Of the expected approximate £75.2 million of net proceeds from the Rights Issue, the Group expects to use a minimum of £48.5 million in prepayment of loan notes, with the balance to be used for make-whole premiums pursuant to the terms of the loan notes, waiver fees and general corporate purposes. In respect of the latter, the Board will have regard to the scheduled repayment of loan notes due in November 2016.

Conclusion

We expect the wider market backdrop for global defence expenditure to be one of slow recovery in 2016. The situation for US defence spending is more stable than it has been for some time, and ongoing geopolitical tensions in the Middle East and elsewhere emphasise the need for robust defence and security measures. The timing of Middle East order placement and contract activity remains difficult to predict, in part due to the impact that recent falls in the oil price are having on Government spending in the region. Nevertheless, our continued customer focus means the Group is well positioned to benefit from any sustained increase in demand in its markets.

Michael Flowers
Chief Executive

21 January 2016

Q&A with Michael Flowers

Q: What progress have you made in addressing the operational issues the Group was facing?

A: We have made important strategic and operational progress across a number of fronts during 2015, resulting in greater focus, collaboration and accountability throughout the business. The safety of our employees continues to be a key focus for us, while the restructuring and integration of some of our businesses has enabled our teams to work even closer together in order to better address our customers' demands. We've had to take some difficult decisions along the way but I'm confident that our operational performance will continue to improve as the benefits of these changes come through.

Q: What is the key strategic area where Chemring has made the most progress this year?

A: The biggest progress from my perspective has been the work done on key platforms that will underpin the Group's long-term growth. These include the work we continue to do on the F-35 Joint Strike Fighter, our ongoing progress on both the Next Generation Chemical Detection ("NGCD") system and the Joint Biological Tactical Detection System ("JBTDS") for the US military and the work that continues around the next generation of the Husky Mounted Detection System ("HMDS").

Q: Has the increase in global tensions started to translate into increased order flow?

A: While it's true that general levels of global security are perhaps now more challenged that they have been for a number of years, it would be an over simplification to equate this heightened level of tension with increased order flow. The timing of international order placements remains difficult to predict. However, whether it's the ongoing instability in the Middle East, the continuing conflict in Ukraine or increased tensions in the South China Sea, governments around the world are once again recognising the importance of sustained investment in defence and security.

Q: What is the outlook for defence spending in 2016?

A: Global defence spending is stabilising…but that's not quite the same as growing and it's a mixed picture across the various markets where we operate. In the US, there are tentative signs that the political roadblocks of recent years are beginning to be lifted. In the Middle East increased geopolitical threat levels are tempered by the low oil price which underpins government spending in many countries. European spending remains constrained due to ongoing austerity measures. In the UK, the commitment for a minimum of 2% of GDP on defence expenditure is an undoubted positive. Overall, we believe that growth in niche market segments such as force protection, electronic warfare and cyber will outperform wider trends in defence expenditure regardless of geography, which obviously plays to our strengths.

Q: What is the ideal geographic mix? Similarly, what is your target for the defence/non-defence split?

A: We are not heavily wedded to any set figure. For the full year, the balance between NATO and non-NATO was 71% : 29% which compares to 85% : 15% last year, so you can see that we are continuing to grow non-NATO sales. As far as defence/non-defence is concerned, we're always going to be a defence business first and foremost but non-defence activity is a useful area of growth for us. Again, we're not heavily wedded to a target but see scope to further grow our non-defence business.

Q: Can we expect any further M&A activity during 2016?

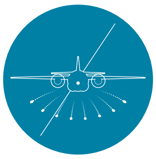
A: The divestment of the European munitions business in 2014 was a key milestone for Chemring, while the strategically important acquisition of 3d-Radar that year helped to consolidate Chemring's position as a world leader in ground penetrating radar. In November 2015, we announced the purchase of certain countermeasure assets from Esterline Corporation relating to its UK-based subsidiary, Wallop Defence Systems. These activities were all undertaken for very specific and distinct reasons and, while we will continue to assess potential acquisitions on a case by case basis. Our main focus will be on organic growth and profit improvement.

Q: Why did you decide to undertake a rights issue?

A: Whilst the Board's priority to date has been to focus on achieving operational improvements across the business, the recent progress of the Group has been impeded by its high level of debt and associated interest costs. Significant time has been spent managing this debt so we felt that it was in the best interests of the Group to significantly reduce our structural indebtedness. The Rights Issue is an important step in achieving this.

The Group's vision is to be the leading developer and manufacturer of advanced detection, countermeasure and energetic technologies to defeat threats from radio frequency and network-based electronic warfare, IEDs, chemical and biological agents, and guided missiles.

The Group's strategy is to position itself for growth through innovation, manufacturing excellence and international expansion.



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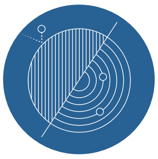
COUNTERMEASURES

Maintain leading position in expendable countermeasures

Chemring's Countermeasures strategy is to maintain its leading position for conventional and advanced countermeasures through continuous operational improvement and targeted investment in technology. Chemring's new automated manufacturing facilities in the UK and Australia are operational, and it now has a strong focus on improving the operational performance in all facilities. Chemring will maintain its technological lead and will sustain its sole source positions on the Typhoon, F-22 and F-35. In naval countermeasures, the Group will complete the development of the CENTURION fully-trainable naval decoy launcher, and will continue to evolve naval decoy technology by working closely with lead users.



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SENSORS & ELECTRONICS

Build a world-leading technology base

Chemring's Sensors & Electronics strategy is to grow 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 will exploit its trans-Atlantic footprint to continue to develop advanced technologies and win key, identified programmes such as the HMDS Program of Record, the NGCD, the JBTDS, and several next generation electronic warfare programmes. It will also maintain and grow its specialist contract research and development business to sustain its technology base and benefit from the customer insights this provides.

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ENERGETIC SYSTEMS

Optimise leading niche positions

Chemring will secure the position of its components on next-generation platforms for missile and space programmes in the US and Europe through improved delivery performance on current programmes and strong customer and partner interaction. In 40mm ammunition, it will capitalise on its recent, large contract to supply 40mm ammunition. In military pyrotechnics, it will upgrade key products ensure that it can offer the full range of rockets, smoke grenades and flares required by its military and security customers.

Improve Group operations

The Group has made substantial progress in eliminating corporate and segmental overheads through restructuring. It will keep tight control over corporate costs, and continues to focus on the operational performance within its three operating segments. It has three main areas to achieve this. First, the Group will rationalise its manufacturing foot-print to match market demand, and specific requirements driven by the nature of its offerings. For example, the combination of Hi-Shear and Chemring Energetic Devices has been a first step to a more comprehensive rationalisation which is now likely to culminate in the closure of the California site which is expected to further reduce costs. Similarly, the separation of the Roke contract research and development business from Chemring Technology Solutions' product business allows the two different businesses to focus on establishing operational models which best suit the different requirements of each business.

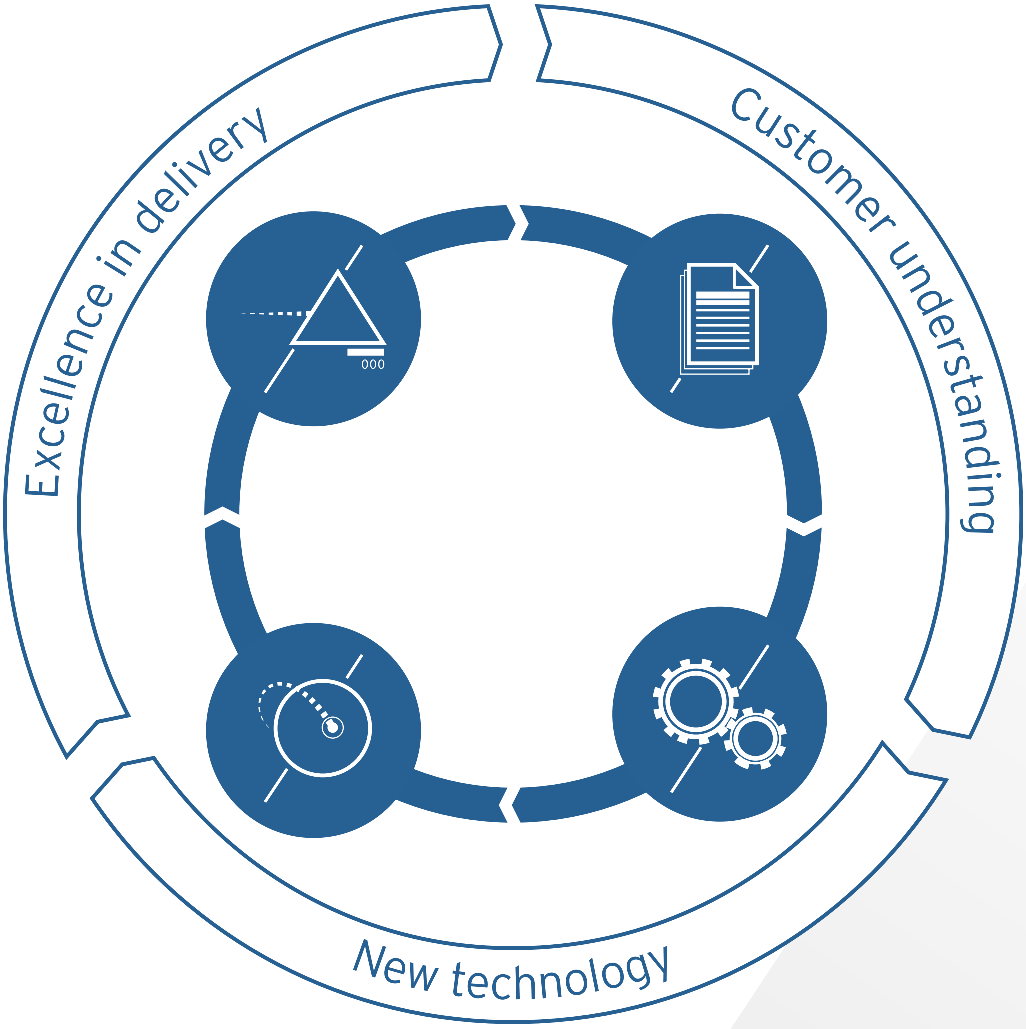
Second, the Group will improve product delivery by eliminating manufacturing bottle-necks and capacity constraints, and continuously improving manufacturing process capability to reduce scrap and waste. This ranges from small interventions such re-laying production processes, conducting systematic root-cause analysis and targeted investment in specific processes, including automated manufacturing, where appropriate.

Third, the Group will share best practice across business units, particularly within a segment, where different operations may be facing identical product and process challenges, but also across segments where there are lessons to be learnt from common operational themes.

Target growth markets

The Group's technology strategy focuses on developing advanced products to meet customer needs in its "home" markets in the US, United Kingdom, other NATO countries and Australia. These advanced products are able to defeat new and changing threats, and are well-positioned to gain a growing share of defence budgets. However, with defence budget constraints in most NATO countries, the Group is also targeting countries with growing defence budgets in non-NATO countries, with a focus on growing sales to customers based in the Middle East and Asia Pacific regions. The proportion of the Group's revenue deriving from non-NATO countries has increased from 15.1% in the year ended 31 October 2014 to 29.3% in the year ended 31 October 2015.

Chemring creates value by developing and manufacturing protection solutions for defence and security markets based on threat detection, countermeasures and energetic material products.



TRACK AND IDENTIFY THREATS

Chemring delivers protection solutions in a world facing rapidly-evolving threats from both organised militaries and the growing base of insurgents. Identifying and tracking threats and understanding their implications are critical precursors to detecting and countering these threats. The Group has strong, long-standing customer relationships around the world, which provide insight into a unique mix of military doctrines and security challenges faced by NATO and other security forces.

The "home" markets of the US, UK, other NATO countries and Australia provide a base of sophisticated and influential users, whilst a network of relationships in the Middle East and Asia Pacific provide insight into specific security challenges, ranging from identifying cyber attacks on a network to finding new types of IED. Chemring monitors this evolving pattern of threats, and this provides the base for exploring technology options to address these threats.

SECURE KEY TECHNOLOGIES

Chemring has a strong portfolio of technology which it draws upon to develop solutions for customers. The Group strategically invests to investigate technical alternatives and to secure critical intellectual property underpinning potential solutions. Where promising technologies are found outside the Group, a flexible approach is adopted to securing these – for example, by negotiating licences, funding joint development, or in some cases, outright acquisition to secure both the technology and the underlying ability to develop it.

Having secured the critical intellectual property, the Group takes a pragmatic approach to product design and development. In the case of specialist military products, such as IED detectors, countermeasures or missile components, where the user's specialist operational, qualification and test requirements place a disproportionate cost on development, customer funding, support and qualification is sought to develop specific solutions. For example, our countermeasures require significant investment in in-flight qualification, and we work closely with a lead customer in the US or Europe to prove the product. Where product applications are wider than a single customer's requirements, the Group invests development funding to secure a more versatile solution which can be sold more widely – for example, funding the development of its range of hand-held IED detection products which it has now sold to several countries outside the "home" markets of the UK and US.

EXTEND REACH

Chemring sells to over fifty countries around the world, through an established network of sales partners. These partners have strong in-country relationships with national procurement offices, and these channels are used in promoting Chemring's full range of capabilities. These partners are critical to the launch of the Group's new products, and also provide local intelligence and product support.

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 in 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 many other nations are also seeking to be self-sufficient in their own supply chain. The Group will work with nations who wish to develop indigenous capability, and will support product development and local manufacturing facilities. For example, Chemring Australia established an indigenous flare manufacturing capability and, in collaboration with Chemring Technology Solutions, is developing a next-generation enhancement to the Group's man-portable Electronic Warfare ("EW") equipment.

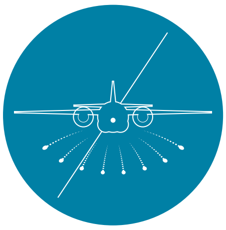
COMMERCIALISE KNOW-HOW

Chemring is predominantly a manufacturing business, and it seeks to maintain a high margin portfolio by producing and selling proprietary products. This means that the Group optimises manufacturing capability to protect product and process-related intellectual property. Energetic material products, including countermeasures and energetic systems involve the blending, forming and packing of energetic materials. Rigour in these processes is critical to ensure product quality and performance, and the Group has world-leading capabilities across its well-equipped licensed energetic sites. For less critical production processes, such as metal part manufacture, component production may be outsourced.

For Sensors & Electronics products, the critical production processes are associated with assembly, test and software, and the Group conducts these in-house to ensure demanding and critical performance specifications are met on every system delivered.

The Group also exploits its knowledge by undertaking contract research and development for clients, where this provides an opportunity to extend the knowledge base, understand new opportunities and operational scenarios, or build new customer relationships. Roke, in particular, is a pure consultancy and contract development organisation, but it strongly cross-fertilises the rest of the Group's Sensors & Electronics businesses.

COUNTERMEASURES



Revenue in the Countermeasures segment increased by 30.9%, as a result of recovery in the US businesses and strong performance in the UK and Australia.

The closing order book for Countermeasures was £184.1 million, down 4.8% on FY14. This was largely due to improved delivery performance at Kilgore in the year compared with FY14, where production had been halted as a result of the incident in February of that year, resulting in a growth in order backlog. The production issues highlighted in the interim report were successfully resolved and Countermeasures delivered an underlying operating profit of £17.5 million, compared to £9.7 million in FY14.

Order book

£184.1m

(2014: £193.3m)

Underlying operating profit	Revenue	Underlying operating margin
£17.5m	**£125.8m**	**13.9%**
(2014: £9.7m)	(2014: £96.1m)	(2014: 10.1%)

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 decoys 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.

Activities during the year

US

Alloy Surfaces achieved first deliveries of its new MJU-66 decoy to the US Navy and won a second year's production order for this product. It also launched a new proprietary decoy and has been awarded a contract for this product by the US Army, successfully implementing its strategy of continuous product improvement to sustain its position as a leader in pyrophoric decoy technology. While the order book increased during FY15, demand levels are expected to remain subdued and near-term order intake remains key. As a result of expected production volumes, planning is underway for the closure of one of Alloy Surfaces' two facilities. An investment of approximately $3.0 million at Alloy Surfaces' remaining production facility is expected to be required to support this and is expected to deliver approximately $1.4 million in annual cost savings from FY18.

Kilgore continued to improve its operational performance, after the production re-start that followed the incident in 2014. It successfully resolved production challenges during the second half of FY15, although work remains to be done to ensure greater consistency of countermeasure output. Kilgore's order book is progressively being worked through and FY16 order wins are important in ensuring an efficient level of production activity for future years, given the high fixed cost base at the Kilgore facility.

UK

Chemring Countermeasures UK had a strong second half, successfully resolving the production challenges it faced earlier in the year. It also successfully commissioned its automated flare pellet mixing and pressing complex with the first products being manufactured and delivered to customers during the second half of FY15. This facility provides a step change to flare manufacture in terms of operator safety and flare quality while adding capacity to the Salisbury site. Increasing benefits will be generated from this investment over the coming years, as the range of products manufactured in the complex is broadened.

Following the successful resolution of technical problems associated with the development of a new and advanced countermeasure, highlighted in the 2014 Annual Report and Accounts, delivery of the contract was completed in FY15. With the successful qualification, interest in the product has resulted in a follow-on order being received, with the potential for further orders.

Interest in the CENTURION trainable launcher is growing with detailed discussions having taken place with two separate customers for the inclusion of the launcher on new classes of warship due to enter service in the early 2020s.

Australia

Chemring Australia had a very strong year with sustained successful delivery of locally manufactured flares to the Australian Department of Defence. It also manufactured its first flares for the F-35 which were delivered to the US customer for performance testing.

Chemring Australia continues to make technical progress on its electronic attack solution which complements the Group's Resolve portable EW system, and has also received growing interest in the system from a number of key customers.

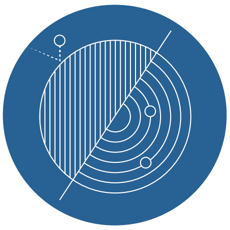
Outlook

On 25 November 2015, the Group announced it had reached agreement with Esterline to buy patents, equipment, stock and selected contracts relating to Esterline's UK-based subsidiary, Wallop Defence Systems, for an initial cash consideration of £2.5 million. Additional payments of up to £9.0 million, which are conditional on the receipt of specific orders in the future, may be made over the next three years. The assets to be purchased relate to air countermeasures and pyrotechnic products, which, pending regulatory approval, will be manufactured at Chemring's existing UK operations and further expand the Group's product offerings in Countermeasures. Completion of the transaction, which is subject to approval by the UK Ministry of Defence ("MoD") and the UK Competition and Markets Authority, is expected to occur in the second quarter of FY16.

The market for countermeasures remains subdued, with NATO customers constrained by tight budgets. Steady order intake within the segment confirms the ongoing requirement for Countermeasures' products despite these constraints. In the international market, particularly the Middle East, where political and military tensions are high, there is increased interest in the Group's products and technology, including advanced countermeasures. However, the timing of this international interest translating into orders remains unpredictable.

In the medium term, the Group's qualifications on the F-35 and Typhoon platforms underpin its position for the future, with requirements for a substantial level of war reserves of the unique advanced flares for the growing fleets of these next-generation aircraft. In addition, the approval for the F-15 and Typhoon platforms to use Alloy Surfaces' unique pre-emptive decoy dispensed from Saab's BOL dispenser creates a new opportunity for this solution, with the US Air Force and Navy likely to fit these dispensers in 2017.

SENSORS & ELECTRONICS



Revenue in the Sensors & Electronics segment decreased by 35.8% to £99.1 million, as a result of extended delays in progressing production contracts with Middle Eastern customers, which had been anticipated to offset the decline in production revenue from the US DoD.

Reduced revenue and an increase in R&D contracts, which have a lower margin than production activity, led to a reduction in underlying operating profit from £31.9 million in FY14 to £9.3 million. The order book was marginally lower at £75.8 million (2014: £77.5 million), reflecting a steady level of business from the US and NATO.

Order book

£75.8m

(2014: £77.5m)

Underlying operating profit	Revenue	Underlying operating margin
£9.3m	£99.1m	9.4%
(2014: £31.9m)	(2014: £154.4m)	(2014: 20.7%)

OUR BUSINESS UNITS

Chemring Sensors & Electronic Systems

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

Chemring Technology Solutions

Is 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

Is a technology company that provides electronics research, development and engineering services, and cybersecurity solutions for UK government agencies and prime contractors.

Activities during the year

US

Following the completion of the original HMDS contract in 2014, Chemring Sensors & Electronics' emphasis has been on securing the long-term development contracts for the US Army's Program of Record and developing the international market. It is currently engaged in a sole-source contract for the engineering and manufacturing development ("EMD") phase of the Program of Record for the next-generation HMDS "A2" variant. The customer is conducting a review to confirm the phasing and structure of their requirements, and we continue to expect initial production contracts to be awarded following completion of the EMD phase. There is continued international interest in vehicle mounted mine and IED detection with operators now including the US, Canada, Australia, Italy, and Spain. Following the award of a significant order for HMDS from a customer in the Middle East in FY14, further order intake and contract activity in the Middle East is expected in FY16, as we continue to promote the HMDS solution and our 3d-Radar technology.

Chemring Sensors & Electronics' hand-held dual sensor detector, Groundshark, has enjoyed early success, with products shipped to Poland and the Middle East. Chemring Sensors & Electronics continues to position itself for key US programmes in this area and has won a follow-on contract in relation to the Next Generation Hand-held Multi-Sensor Explosive program for the detection of buried anti-personnel and anti-vehicular explosive devices.

In chemical and biological detection, Chemring Sensors & Electronics maintained a position on all the strategically important US R&D contracts it is targeting. The Next Generation Chemical Detector programme involves three different sensor developments and Chemring is the only bidder to have won EMD contracts for all of these. In addition, in April 2015, Chemring received a $14.9 million award as the sole contractor for the US DoD's Joint Biological Tactical Detection Systems ("JBTDS") development programme, which is expected to lead to production contracts from 2018.

UK

In the UK, the restructuring of Chemring Technology Solutions is now complete, with Roke operating as a pure contract development and consultancy business, and Chemring Technology Solutions comprising the explosive ordnance disposal, IED detection and EW products business.

Chemring Technology Solutions continues to promote its Resolve and Locate EW products to the international market and has won further orders globally.

Chemring Technology Solutions has launched its Groundhunter hand-held IED detector, which incorporates interchangeable sensor heads for command wire and metal detection. This product has achieved initial orders and is complementary to the Groundshark hand-held IED detector, which uses ground penetrating radar and metal detection technologies.

In the non-defence market, Chemring Technology Solutions has won a contract for the supply of its Perception cyber-protection solution to a major UK services company, and it is seeing considerable interest in its novel approach to information and data protection.

Outlook

Overall, the near-term outlook for Sensors & Electronics is expected to be constrained. Major US production contracts driven by urgent operational requirements have ended and while international demand is strong, the timing of orders, particularly in non-NATO countries, remains difficult to predict. Receipt of these international orders remains key to near-term performance. Encouragingly, the US DoD has recognised the need for a broad range of detection systems by the inclusion of these capabilities as Programs of Record in the base budget, and continued participation in these Programs of Record underpins our longer-term prospects.

Chemring is therefore well-placed to grow its position in the Sensors & Electronics market through the development and launch of its next-generation products, having already won key R&D contracts for the initial phases of the Programs of Record. In addition, our products and technologies are targeted at detecting and mitigating new, growing threats such as IEDs and cyber-attacks. We believe these capabilities will form a growing proportion of future defence budgets.

ENERGETIC SYSTEMS

Revenue for Energetic Systems was broadly unchanged at £152.4 million (2014: £152.6 million). Underlying operating profit and operating margins were also consistent with the prior year at £15.1 million (2014: £15.0 million) and 9.9% (2014: 9.8%), with operational improvement offsetting order delays for 40mm ammunition and the termination for convenience of a US government contract for non-standard ammunition.

The closing order book for Energetic Systems was £309.7 million (2014: £216.0 million), driven by the significant order for 40mm ammunition awarded to Chemring Ordnance during the year.

Order book

£309.7m

(2014: £216.0m)

Underlying operating profit	Revenue	Underlying operating margin
£15.1m	**£152.4m**	**9.9%**
(2014: £15.0m)	(2014: £152.6m)	(2014: 9.8%)

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 - is 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 - is 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

Is 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.

Activities during the year

US

Chemring Energetic Devices had a strong year, addressing capacity constraints at the California facility and delivering another year of profit improvement. The business has successfully started to diversify its business, with international sales of test equipment for aircrew life-support systems, and sales of explosive separation bolts for a new high-reliability application. The business continues to resolve manufacturing reliabilty on products for space and missile applications, such as the long-standing Lockheed Martin Patriot PAC-3 missile programme.

Customers are supporting Chemring Energetic Devices in efforts to qualify its Illinois operation to manufacture products, which, once complete, is expected to enable the closure of the California facility in 2018. Investment at the Illinois facility of approximately $7.0 million is required to complete this site rationalisation, which is expected to yield significantly improved operational performance and a cost reduction of approximately $5.0m per annum from FY19.

Chemring Ordnance had a stable year, delivering good operational performance for its production of the Anti-Personnel Obstacle Breaching System ("APOBS"), despite customer acceptance issues towards the end of FY15. However, Chemring Ordnance suffered a disappointing outcome with the termination for convenience by the US Army of a $62.7 million contract for delivery of non-standard ammunition. Termination for convenience clauses form part of standard DoD contract terms, and in this case were used by the DoD to enable a change in procurement strategy. Encouragingly, the US Government has subsequently awarded the first of a series of smaller contracts for the same requirement to Chemring, although this was too late to mitigate the impact in FY15.

Chemring Ordnance also secured a significant multi-year order for 40mm ammunition to be delivered to the Middle East, and its order book now stands at a record level, underpinning its future prospects. Delays in necessary permits and export approvals in respect of the 40mm contract have now been resolved, and contract revenues are expected to commence in the first half of FY16, once the cash advance payment is received from our customer. The 40mm contract is expected to provide a significant contribution to FY16.

UK

In the UK, the reorganisation of Chemring Energetics is delivering positive results, with greater focus on operational effectiveness, collaboration and customer engagement. This was demonstrated by the first deliveries of plastic explosive block for the UK MoD from a newly-commissioned manufacturing facility, strengthening Chemring Energetics UK's position as a leader in the supply of demolition products. This explosive was developed jointly by the teams at Chemring Energetics UK and Chemring Nobel in Norway, where the composition is manufactured.

Chemring Defence had a satisfactory year as it fulfilled orders from Middle East customers won in 2014. Prospects with customers in the Middle East remain encouraging, although substantial order intake from these customers is required in 2016 to ensure profitable manufacturing volumes. The UK MoD's requirements remain negligible as it consumes its existing stockpiles, with no order intake expected before 2017. This pause in UK demand has, to date, been offset by orders from the Middle East and by the development of relationships in the Asia Pacific region.

Norway

Chemring Nobel delivered strong levels of profitability, having successfully invested to improve manufacturing yields, remove manufacturing bottle-necks and increase production capacity.

Outlook

In the short term, Energetic Systems will be dominated by fulfilling the major order for 40mm ammunition. Otherwise, demand for our Energetic Systems products is expected to remain relatively flat until NATO customers deplete current stockpiles and start to re-order pyrotechnics for training and operational use. Growth is being targeted through diversification into non-defence markets, with the development of bespoke products for fire suppression, security and space applications. Against this market backdrop, continued emphasis is being placed on maintaining improvements in operational efficiency and optimising cash conversion.

Chemring's focus on restructuring, operational improvement and cost control continue 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:

	2015 Underlying £m	2015 Total £m	2014 Underlying £m	2014 Total £m
Revenue				
– continuing operations	**377.3**	**377.3**	403.1	403.1
– discontinued operations	**–**	**–**	71.8	71.8
	377.3	**377.3**	474.9	474.9
Operating profit/(loss)				
– continuing operations	**34.4**	**5.5**	46.7	25.4
– discontinued operations	**–**	**4.9**	2.3	(53.6)
	34.4	**10.4**	49.0	(28.2)
Net finance expense	**(14.6)**	**(14.6)**	(18.7)	(30.7)
Profit/(loss) before tax	**19.8**	**(4.2)**	30.3	(58.9)
Tax	**(4.1)**	**3.8**	(6.4)	4.0
Profit/(loss) after tax	**15.7**	**(0.4)**	23.9	(54.9)

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 5 of the Group financial statements.

During the year, changes in foreign exchange rates, principally the appreciation of the US dollar against sterling, increased reported revenue from continuing operations by £7.9 million. At constant exchange rates, revenue from continuing operations was £369.4 million, a reduction of 8.4%.

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

	2015 Revenue £m	2015 Underlying operating profit £m	2015 Underlying operating margin %	2014 Revenue £m	2014 Underlying operating profit £m	2014 Underlying operating margin %
Countermeasures	**125.8**	**17.5**	**13.9**	96.1	9.7	10.1
Sensors & Electronics	**99.1**	**9.3**	**9.4**	154.4	31.9	20.7
Energetic Systems	**152.4**	**15.1**	**9.9**	152.6	15.0	9.8
	377.3	**41.9**	**11.1**	403.1	56.6	14.0
Unallocated corporate costs	**–**	**(7.5)**	**–**	–	(9.9)	–
Continuing operations	**377.3**	**34.4**	**9.1**	403.1	46.7	11.6
Discontinued operations	**–**	**–**	**–**	71.8	2.3	3.2
Including discontinued operations	**377.3**	**34.4**	**9.1**	474.9	49.0	10.3

Countermeasures revenue increased by 30.9%, due to improved demand at our UK and Australian operations. Production volumes in the US were more robust than in 2014, however customer demand remains subdued. Countermeasures operating margin of 13.9% (2014: 10.1%) reflects higher volumes in the UK and Australia, the benefit of further headcount reductions and cost saving measures, together with the release of provisions on the successful completion of customer acceptance tests relating to an advanced countermeasure, on which technical problems had previously been encountered.

Sensors & Electronics revenue reduced by 35.8%, reflecting the completion of major production contracts with the US Department of Defense ("DoD") during the comparative period. Significant R&D contracts with the US DoD are on-going in relation to the next generation of ground penetrating radar, and chemical and biological detection systems. Sensors & Electronics' operating margin of 9.4% (2014: 20.7%) reflects the reduced production volumes and the weighting of US revenues to lower margin, customer funded R&D activity. These factors have been partially offset by the benefits of cost saving measures, including the closure of one of our two production sites at Charlottesville, Virginia and a restructuring of Sensors & Electronics' UK operations.

Energetic Systems revenue reflects improved production throughput, offset by lower non-standard ammunition revenue. Underlying operating profit slightly increased to £15.1 million (2014: £15.0 million), with operating margins benefiting from operational improvement. This improvement was particularly marked at Chemring Energetic Devices, where production volumes are being transferred to the Illinois facility from the former Hi-Shear facility in California. This transition is enabling greater production throughput to be achieved and is generating higher margins. Chemring Ordnance delivered improved production, although its result was lower than had been anticipated due to the delays in achieving revenue being recognised under the major 40mm contract that was secured during the year.

Unallocated corporate costs were £7.5 million (2014: £9.9 million), with the reduction reflecting the full year benefit of savings from the simplification of the Group's management structure and lower costs of annual bonus schemes.

Underlying operating profit from continuing operations was £34.4 million (2014: £46.7 million), a decrease of 26.3%. The underlying operating margin was 9.1% (2014: 11.6%).

Discontinued operations comprised the European munitions businesses, Mecar, based in Belgium, and Simmel, located in Italy, and Chemring Defence Germany. All these businesses were sold in May 2014.

The total operating profit was £10.4 million (2014: £28.2 million loss). This includes non-underlying costs of £24.0 million (2014: £77.2 million), which are analysed later in this review.

The net underlying finance expense was £14.6 million (2014: £18.7 million). The reduction principally reflects the repayment of loan note debt during 2014, partly offset by higher levels of interest under our revolving credit facility and by an increase in the amortisation of prepaid facility fees.

Underlying profit before tax from continuing operations was £19.8 million (2014: £28.1 million), a decrease of 29.5%. Tax on underlying profit before tax from continuing operations was £4.1 million (2014: £5.7 million), representing an effective tax rate of 20.7% (2014: 20.3%). 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 loss before tax from continuing operations was £9.1 million (2014: £5.2 million).

The effective tax rate on the total loss before tax from continuing operations was 41.8% (2014: 73.1%) due to the geographic mix of profit and the effect of non-underlying costs that are not deductible for tax purposes.

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:

	2015 £m	2014 £m
Acquisition and disposal related (credit)/costs	**(4.4)**	8.6
Business restructuring and incident costs	**6.4**	7.2
Claim related costs	**8.5**	-
Loss on disposal of associate	**-**	0.9
Profit on disposal of businesses	**-**	(26.5)
Impairment of goodwill	**-**	45.9
Impairment of acquired intangibles	**-**	10.7
Impairment of assets held for sale	**-**	13.6
Intangible amortisation arising from business combinations	**14.0**	16.1
(Gain)/loss on fair value movement of derivative financial instruments	**(0.5)**	0.7
Non-underlying items excluded from underlying operating profit	**24.0**	77.2
Accelerated interest costs	**-**	12.0
Non-underlying items excluded from underlying profit before tax	**24.0**	89.2
Analysed as:		
Continuing operations	**28.9**	33.3
Discontinued operations	**(4.9)**	55.9
	24.0	89.2

The acquisition and disposal related credit of £4.4 million includes a £4.9 million credit related to disposals of businesses in prior years. This credit results from a review of expected liabilities under the sale agreements relating to the discontinued operations. Business restructuring and incident costs of £6.4 million include £2.5 million of redundancy costs, of which £2.1 million relates to the restructuring of the Roke site in Romsey. The remaining business restructuring and incident costs of £3.9 million principally comprise consultancy fees and provisions for onerous property leases.

Claim related costs of £8.5 million comprise £4.2 million in relation to claims brought by the US Department of Justice relating to historical supplies of product by Kilgore, where a settlement is being negotiated, and £4.3 million in settlement of claims regarding the manufacture of certain components for the Next Generation Light Anti-Tank Weapon ("NLAW") combat weapon by Chemring Energetics UK. The estimated value of these claim related costs has been reflected as a non-underlying item due to their scale and unusual nature. The cash payment associated with settlement of the NLAW claim occurred in November 2015, while the Kilgore claim related costs are expected to be settled over a five year period commencing in 2016.

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 2015.

The amortisation of intangible assets arising from business combinations was £14.0 million (2014: £16.1 million), with the decrease principally reflecting amortisation of £2.6 million in the comparative period relating to discontinued operations. The amortisation of intangible assets arising from business combinations is treated as non-underlying to improve comparability and understanding of the results given its large size and non-cash nature.

The cash outflow from non-underlying items was £8.4 million (2014: £25.9 million).

Shareholder returns

Underlying earnings per share from continuing operations were 8.1p (2014: 11.6p), a decrease of 30.2%. The total loss per share from continuing operations was 2.7p (2014: 0.7p).

Shareholders' funds were £290.6 million (2014: £300.3 million), with the decrease principally comprising the loss after tax for the year and dividends paid.

Pensions

The deficit on the Group's defined benefit pension schemes was £17.7 million (2014: £21.8 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 2012 has been prepared and updated to 31 October 2015, using the projected unit credit method. This valuation showed a deficit of £17.8 million (2014: £22.0 million). The reduction reflects the funding structure agreed with the trustees in June 2013, under which contributions of £5.0 million were paid in FY15, partly offset by the effect of changes in actuarial assumptions. The Group has given a bank guarantee and letters of credit totalling £13.5 million (2014: £21.6 million) to the Scheme in respect of future contributions, which are progressively reducing as contributions are paid under the new funding structure.

Research and development

R&D expenditure, including discontinued operations, was £56.3 million (2014: £52.0 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:

	2015 £m	2014 £m
Customer-funded R&D	**38.2**	28.5
Internally-funded R&D		
– expensed to the income statement	**9.2**	11.6
– capitalised	**8.9**	11.9
Total R&D expenditure	**56.3**	52.0
Analysed as:		
Continuing operations	**56.3**	49.9
Discontinued operations	**–**	2.1
	56.3	52.0

Amortisation of development and patent costs relating to continuing operations was £6.4 million (2014: £5.8 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 FY16 as additional Sensors & Electronics projects complete their development phase.

Cash flow

The cash inflow generated from underlying operations was £35.4 million (2014: £63.5 million). A summary of underlying free cash flow is set out below:

	2015 £m	2014 £m
Underlying operating profit	**34.4**	49.0
Depreciation and loss/(profit) on disposal of non-current assets	**16.6**	16.8
Amortisation of development costs, patents and licences	**6.4**	6.7
	57.4	72.5
Increase in working capital	**(18.2)**	(2.0)
Other movements	**(3.8)**	(7.0)
Cash generated from underlying operations	**35.4**	63.5
Expenditure on capitalised development costs	**(8.9)**	(12.1)
Expenditure on property, plant and equipment	**(8.2)**	(10.9)
Tax	**(1.3)**	(3.4)
Interest	**(11.8)**	(20.6)
Underlying free cash flow	**5.2**	16.5
Analysed as:		
Continuing operations	**5.2**	1.1
Discontinuing operations	**–**	15.4
	5.2	16.5

Expenditure on property, plant and equipment was £8.2 million (2014: £10.9 million). This comprised various projects related to health and safety improvements, production automation and systems upgrades, including £0.6 million relating to the implementation of an enterprise resource planning system at Chemring Defence.

Expenditure on capitalised development projects was £8.9 million (2014: £12.1 million), of which £7.2 million (2014: £9.8 million) related to the Sensors & Electronics segment, where significant investment has been made in technology developed in association with Programs of Record and for UK product launches. The carrying value of capitalised development costs at 31 October 2015 of £36.1 million included £12.1 million in respect of US Sensors & Electronics projects, £3.6 million in relation to the Perception cyber-protection product and £3.8 million in respect of the CENTURION launcher.

Tax payments were £1.3 million (2014: £3.4 million), with the reduction reflecting the lower profitability of the Group.

Working capital

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

	2015 £m	2014 £m
Inventories	**96.2**	78.1
Trade receivables	**66.1**	59.3
Contract receivables	**15.2**	20.2
Trade payables	**(46.7)**	(37.1)
Advance payments	**(11.5)**	(4.5)
Other items	**(37.5)**	(46.0)
Working capital	**81.8**	70.0

Working capital was £81.8 million (2014: £70.0 million). Inventory increased in each operating segment. The rise in Energetic Systems was due in part to the customer acceptance issues at Chemring Ordnance relating to APOBS units towards the end of FY15, which led to an increase in inventory of £2.6 million. These issues are expected to be resolved in the first half of FY16. Sensors & Electronics inventory increased in relation to newly-launched hand-held chemical detection products (£1.9 million) and procurement of inventory relating to the Resolve EW system in anticipation of orders to be received in FY16 (£2.4 million).

Trade receivables increased due to the concentration of revenue towards the final quarter of the year, and also included £6.8 million in respect of FY14 sales for which collection is linked to receipt of the advance payment associated with the major 40mm ammunition contract secured in FY15.

Contract-accounted revenues represented 3.4% (2014: 22.0%) of revenue from continuing operations, with the decline reflecting an absence of major production contract activity within Sensors & Electronics.

Working capital continues to be a key focus area and the operational improvement at sites such as Chemring Energetic Devices will drive greater efficiency, notably through the reduction of inventories. In the near term, the principal drivers of working capital will be the timing of major contracts within Energetic Systems.

Net debt and covenants

Net debt at 31 October 2015 was £154.3 million (2014: £135.6 million). The Group's principal debt facilities comprise £166.5 million of private placement loan notes and a £70.0 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. Together with a smaller US facility, the Group had £78.5 million (2014: £75.7 million) of undrawn borrowing facilities at the year end.

In addition to borrowing facilities, the Group had £62.4 million (2014: £62.3 million) of facilities in respect of bonding and trade finance requirements. At 31 October 2015, £28.0 million (2014: £31.4 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, being the ratio between underlying earnings before interest, tax, depreciation and amortisation ("underlying EBITDA") and net 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 was 3.00x at January 2015, 3.75x at April 2015, 3.50x at July 2015 and 3.00x at October 2015. The increased permitted ratios at April and July 2015 were agreed with the revolving credit facility syndicate in May 2015 and a ratio of 3.00x applied at those dates prior to that revision.

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, with a maximum permitted ratio of total gross debt to underlying EBITDA of 3.75x. The second test measures leverage by reference to adjusted debt, which is calculated as total gross debt less proceeds from the sale of the European munitions businesses that were offered to note holders in 2014 to repay outstanding notes at par, but in relation to which such offer was not accepted. The value of such proceeds at 31 October 2015 was £4.6 million (2014: £4.5 million). The maximum permitted ratio of adjusted debt to underlying EBITDA was 3.00x at January 2015, 3.75x at April 2015, 3.50x at July 2015 and 3.00x at October 2015. The increased permitted ratios at April and July 2015 were agreed with loan note holders in May 2015 and a ratio of 3.00x applied at those dates prior to that revision.

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

	2015	2014
Covenant ratios – revolving credit facility		
Maximum allowed ratio of net debt to underlying EBITDA	**3.00x**	3.00x
Actual ratio of net debt to underlying EBITDA	**2.83x**	1.93x
Minimum allowed ratio of underlying EBITDA to finance costs	**4.00x**	4.00x
Actual ratio of underlying EBITDA to finance costs	**4.75x**	4.28x
Covenant ratios – loan note agreements		
Maximum allowed ratio of adjusted debt to underlying EBITDA	**3.00x**	3.00x
Actual ratio of adjusted debt to underlying EBITDA	**2.84x**	2.25x
Maximum allowed ratio of total debt to underlying EBITDA	**3.75x**	3.75x
Actual ratio of total debt to underlying EBITDA	**2.92x**	2.31x
Minimum allowed ratio of underlying EBITDA to finance costs	**3.50x**	3.50x
Actual ratio of underlying EBITDA to finance costs	**4.67x**	4.39x

During January 2016, changes were made to covenants under the revolving credit facility and loan notes in respect of the permitted ratios at the 31 October 2015 and 31 January 2016 test dates.

Certain of these changes, in respect of the 31 January 2016 test date only, are in effect whether or not the Rights Issue proceeds. These unconditional changes are an increase in the permitted leverage ratio under the revolving credit facility from 3.00x to 3.50x at the 31 January 2016 test date and an increase in the permitted adjusted debt leverage ratio under the private placement loan notes from 3.00x to 4.00x.

The remaining amended covenant ratios, summarised in the table below, will be in effect only if the Rights Issue proceeds and, in the case of the amendments relating to the loan notes, if not less than 60% of the gross proceeds of the Rights Issue are applied in prepayment of amounts outstanding under the loan notes no later than 29 April 2016:

	31 October 2015		**31 January 2016**	
	Original	**Amended**	Original	**Amended**
Covenant ratios - revolving credit facility				
Maximum allowed ratio of net debt to underlying EBITDA	3.00x	**3.90x**	3.00x	**3.90x**
Minimum allowed ratio of underlying EBITDA to finance costs	4.00x	**3.50x**	4.00x	**3.50x**
Covenant ratios - loan note agreements				
Maximum allowed ratio of adjusted debt to underlying EBITDA	3.00x	**4.00x**	3.00x	**4.00x**
Maximum allowed ratio of total debt to underlying EBITDA	3.75x	**4.00x**	3.75x	**4.00x**
Minimum allowed ratio of underlying EBITDA to finance costs	3.50x	**3.50x**	3.50x	**3.50x**

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

	2015 £m	2014 £m
Loan notes, net of facility fees	**(161.3)**	(155.6)
Revolving credit facility	**–**	–
Other loans and finance leases	**(0.6)**	(1.8)
Gross debt	**(161.9)**	(157.4)
Cash	**7.6**	21.8
Net debt	**(154.3)**	(135.6)

Going concern and long-term viability statement

The Group's business activities, key performance indicators, and principal risks and uncertainties are described within the 2015 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 cashflow forecast for the period through to October 2017, being at least 12 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 cashflows.

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. The 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 included mitigating actions that can be taken if needed and, based on the application of these shows minimal 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 2015 Annual Report and Accounts. As a consequence, the directors believe that the Company is well placed to manage its risks.

The Group is seeking to raise £80.8 million via a Rights Issue in order to achieve a more appropriate capital structure with reduced indebtedness, and also to increase the headroom on its near-term covenants to an appropriate level. This is subject to shareholder approval, and the subsequent repayment of private placement loan note debt is expected to complete by April 2016. Both of these events will provide further headroom at all future covenant test dates.

In making these statements, the directors have made the following key assumptions:

- the Rights Issue is approved by shareholders and completes during February 2016; and
- at least 60% of the gross proceeds from the Rights Issue will be used to repay private placement loan note debts during April 2016.

If the Rights Issue does not proceed to completion, certain of the amendments to the financial covenants under the Group's existing finance agreements will not become effective. While the Group is, as at the most recent test date of 31 October 2015, in compliance with the unmodified financial covenants in its existing finance agreements, and has agreed an unconditional variation of certain maximum leverage ratios under its existing finance agreements for the 31 January 2016 test date, there is minimal headroom under a reasonable worst case with no Rights Issue proceeds and therefore a risk, in this scenario, that the Group will exceed the unmodified maximum leverage ratios permitted under the existing finance agreements as at 30 April 2016 and subsequent quarterly test dates if the Rights Issue does not proceed.

The directors having considered the forecasts, the risks, associated mitigating actions and probability of the Rights Issue proceeding, 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 2018 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 and probability of the Rights Issue proceeding, 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 2018.

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 2015 of £569.6 million represents an increase of 17.0% on the prior year, reflecting the receipt of the 40mm contract and other order wins. As at 31 October 2015, of the orders on hand of £569.6 million, £345.0 million were expected to be fulfilled in the year ending 31 October 2016.

	Order intake		Order book	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Countermeasures	**119.1**	132.4	**184.1**	193.3
Sensors & Electronics	**95.3**	125.6	**75.8**	77.5
Energetic Systems	**242.4**	150.0	**309.7**	216.0
Group	**456.8**	408.0	**569.6**	486.8

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.

	2015 £m	2014 £m
Countermeasures	**125.8**	96.1
Sensors & Electronics	**99.1**	154.4
Energetic Systems	**152.4**	152.6
Continuing operations	**377.3**	403.1

SEGMENTAL UNDERLYING OPERATING PROFIT

Segmental underlying operating profit is stated before charges for unallocated corporate costs and non-underlying items, as shown in note 5 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 decreased by 26.0% 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.

	2015 £m	2014 £m
Countermeasures	**17.5**	9.7
Sensors & Electronics	**9.3**	31.9
Energetic Systems	**15.1**	15.0
Continuing operations	**41.9**	56.6

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 reflect the impact of movements in revenue, offset by the benefit of cost saving measures.

	2015 %	2014 %
Countermeasures	**13.9**	10.1
Sensors & Electronics	**9.4**	20.7
Energetic Systems	**9.9**	9.8
Continuing operations	**11.1**	14.0

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. In addition, 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	
	2015 £m	2014 £m	2015 £m	2014 £m
Countermeasures	**31.5**	28.0	**35.4**	30.4
Sensors & Electronics	**19.8**	15.2	**18.2**	13.4
Energetic Systems	**40.9**	41.9	**42.6**	34.3
Central	**(10.4)**	(15.1)	**-**	-
Continuing operations	**81.8**	70.0	**96.2**	78.1

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 decrease in the year reflects the Group's trading performance in difficult market conditions.

	2015	2014
Continuing underlying earnings per share	**8.1p**	11.6p
Change on previous year	**(30.2%)**	(25.2)%

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.

	2015	2014
Revolving credit facility		
Maximum allowed ratio of net debt to underlying EBITDA	**3.00x**	3.00x
Actual ratio of net debt to underlying EBITDA	**2.83x**	1.93x
Loan note agreements		
Maximum allowed ratio of adjusted debt to underlying EBITDA	**3.00x**	3.00x
Actual ratio of adjusted debt to underlying EBITDA	**2.84x**	2.25x
Maximum allowed ratio of total debt to underlying EBITDA	**3.75x**	3.75x
Actual ratio of total debt to underlying EBITDA	**2.92x**	2.31x

INTEREST COVER

Interest cover provides a simple metric 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.

	2015	2014
Revolving credit facility		
Minimum allowed ratio of underlying EBITDA to finance costs	**4.00x**	4.00x
Actual ratio of underlying EBITDA to finance costs	**4.75x**	4.28x
Loan note agreements		
Minimum allowed ratio of underlying EBITDA to finance costs	**3.50x**	3.50x
Minimum allowed ratio of underlying EBITDA to finance costs	**4.67x**	4.39x

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 decreased by 22.9% to £35.4 million during the year, reflecting the change in underlying operating profit and increase in working capital.

	2015 £m	2014 £m
Underlying continuing operating cash flow	**35.4**	45.9

SAFETY

Many Chemring 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. We are pleased to see that our improved near miss reporting systems, hazard hunts and other activities have increased the quantity of near misses reported across the Group. Each of these is reviewed and resolved gradually reducing risk.

	2015	2014
Lagging indicators		
Fatalities	**-**	1
Lost time incidents	**15**	11
Significant energetic incidents not causing injury	**-**	-
Leading indicators		
Near misses reported and actioned	**2,801**	1,995

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.

Risk organisational structure

The Board
Overall responsibility for risk management

↓

Audit Committee
Reviews the effectiveness of the Group's systems of internal control

↓

Risk Management Committee
Monitors and reviews the Group's risk register

↓

Business Unit Management
Maintains business unit risk registers and provides input to the Risk Management Committee

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 system development

The Group's risk management procedures were updated during the year in response to the 2014 update to the UK Corporate Governance Code (the "Code"), and a new risk management framework was adopted by the business units.

The framework used by the Group 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" was significantly enhanced in 2015 with the appointment of KPMG as internal auditors, reporting directly to the Audit Committee and the Board.

Risk management framework

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 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 24 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 32 to 37.

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 C2.1 of 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 non-executive directors appointed in the US. The US non-executive directors provide guidance and monitor governance in the US businesses throughout the year. External non-executive directors are also appointed to the Boards of the Group's Norwegian and Australian subsidiaries.
- 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.
- The scope of the Group's internal audit function was broadened during the year following the appointment of KPMG to provide internal audit services. Internal audit now reviews a wider range of non-financial processes and procedures, which provides additional assurance to the Board on internal control. The internal auditors report to the Audit Committee on a quarterly basis, and progress on identified improvement actions is monitored.

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 2015, 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 AND UNCERTAINTIES

The principal risks and uncertainties which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results have not changed significantly from those set out in the Group's 2014 Annual Report and Accounts and the 2015 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 mitigation 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.

Risk description	Potential impacts	Likelihood of occurrence	Trend	Mitigation actions
Health, safety and environmental risks				
Health and safety		3	↓	
• The Group's operations which utilise energetic materials are subject to inherent health and safety risks. • Upset conditions can occur during manufacturing operations which may expose employees to increased quantities of hazardous materials. • The handling and disposal of energetics waste can result in unplanned ignitions.	• Incidents may occur which could result in harm to employees, the temporary shutdown of facilities or other disruption to manufacturing processes. • The Group may be exposed to financial loss, regulatory action, and potential liabilities for workplace injuries and fatalities.			• The Board believes that responsibility for the delivery of world-class safety standards is an integral part of operational management accountability. The Board is committed to ensuring that the Group's leadership operates with health and safety as the top priority, and that the strength of the Group's safety culture and the quality of its protective systems deliver operations where all employees and visitors feel and are absolutely safe. • The Group's Safety Leadership Programme continues to be rolled-out across the businesses, and has now been attended by more than 130 senior employees. A "train-the-trainer" module has been developed to enable the business units to run the programme locally. • All employees receive a booklet setting out the Group's statements of intent in relation to delivery of its health and safety strategy, and the behaviours required of them as individuals. All employees are encouraged to report potential hazards, and to raise any health and safety concerns through the appropriate channels. • A culture assessment tool has been developed for the internal health and safety audit programme. • The Group continues to invest in state-of-the-art process safety systems and equipment. The Group's safety and loss prevention programmes require detailed pre-construction reviews of process changes and new operations, and safety audits of operations are undertaken on a regular basis. • Improved processes for managing upset conditions have been adopted. • Following an incident at Chemring Australia's burning ground, all waste burning sites and associated processes were audited during the year, and an improvement programme has since been implemented to raise standards across the Group. • All businesses are expected to pro-actively manage their own risks but, in addition, the most significant site risks at each business and their associated mitigation programmes are reviewed quarterly by the Risk Management Committee. • Health and safety is included on the agenda at every Board meeting, and is discussed at the monthly Group Executive Committee meeting. Further details on the Group's approach to health and safety are set out in the corporate responsibility review.

Risk description	Potential impacts	Likelihood of occurrence	Trend	Mitigation actions
Environmental laws and regulations		3		
• The Group's operations and ownership or use of real property are subject to a number of federal, state and local environmental laws and regulations, including those relating to discharge of hazardous materials, remediation of contaminated sites, and restoration of damage to the environment. • At certain sites that the Group owns or operates, or formerly owned or operated, there is known or potential contamination for which there may be a requirement to remediate or provide resource restoration.	• The Group could incur substantial costs, including remediation costs, resource restoration costs, fines and penalties, or be exposed to third-party property damage or personal injury claims, as a result of liabilities associated with past practices or violations of environmental laws or non-compliance with environmental permits.			• All of the Group's businesses are certified to the environmental management system ISO 14001, which requires the setting of environmental goals and objectives focused on local aspects and impacts. • The Group has monitoring programmes at certain sites, for which appropriate financial provision has been made. In certain circumstances, the Group procures environmental liability insurance, subject to applicable insurance conditions.
Market risks				
Possible defence budget cuts		2		
• Defence spending depends on a complex mix of political considerations, budgetary constraints and the requirements of the armed forces to address specific threats and perform certain missions. Defence spending may therefore be subject to significant fluctuations from year to year. • Given the large budget deficits and the prevailing economic conditions in many NATO countries, there may be continued downward pressure on defence budgets.	• The Group's financial performance may be adversely impacted by lower defence spending by its major customers. • Short-term trading and cash constraints may impact on the Group's ability to invest in longer-term technologies and capabilities.			• In recognition of the issues affecting the Group's traditional NATO markets, business development activities are being focused on non-NATO markets, where defence expenditure is forecast to grow strongly over the next five to ten years. The Group continues to make progress on developing its routes to market in the Middle East, India and the Far East. • The Group continually assesses whether its planned organic growth strategies and product developments align with government priorities for future funding. Opportunities for development of commercial products are being explored in some areas. • Actions have been taken to restructure and "right-size" the businesses, and reduce overheads, to ensure the businesses remain sustainable. • Further site consolidation continues to be explored, within the constraints imposed by export control legislation and customer requirements.

Risk description	Potential impacts	Likelihood of occurrence	Trend	Mitigation actions
Market risks continued				
Timing and value of orders		2	⬅➡	
• The Group's profits and cash flows are dependent, to a significant extent, on the timing of award of defence contracts. In general, the majority of the Group's contracts are of a relatively short duration and, with the exception of framework contracts with key customers, do not cover multi-year requirements. • The Group anticipates that delays in the placement of orders by NATO customers, as a result of budgetary constraints, are likely to continue in the short to medium term.	• An unmitigated delay in the receipt of orders could affect the Group's earnings and achievement of its budget, in any given financial year. • If the Group's businesses are unable to continue trading profitably during periods of lower order intake, financial performance will deteriorate and assets may be impaired.			• To mitigate the order placement dynamics within NATO markets, the Group continues to focus on the expansion of its business in non-NATO markets, where defence expenditure is forecast to increase. • Maximising order intake remains a key objective for the businesses, and they continue to address this through the strengthening of their sales and marketing resources. The businesses also continue to pursue long-term, multi-year contracts with their major customers wherever possible. • The Group has undertaken various restructuring projects over the last year, aimed at restoring the profitability of those Group businesses which have suffered most from order delays. • Site optimisation plans continue to be refined to ensure that the Group utilises its manufacturing facilities as efficiently as possible, within the constraints imposed by export control legislation and customer requirements.
Contract-related risks		3	⬅➡	
• The Group's government contracts may be terminated at any time and may contain other unfavourable provisions. • The Group may need to commit resources in advance of contracts becoming fully-effective, to ensure prompt fulfilment of orders or to enable conditions precedent to be met.	• The Group may suffer financial loss if its contracts are terminated by customers, or a termination arising out of the Group's default may have an adverse effect on its ability to re-compete for future contracts and orders.			• The Group negotiates with customers to ensure 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.

Risk description	Potential impacts	Likelihood of occurrence	Trend	Mitigation actions
Political risks		2	↔	
• The Group is active in several countries that are suffering from political, social and economic instability. • In addition, there is a significant risk of political unrest and changes in the political structure in certain non-NATO countries to which the Group currently sells.	• The Group's business in certain countries may be adversely affected in a way that is material to the Group's financial position and the results of its operations. • Political changes could impact future defence expenditure strategy and the Group's ability to export products to certain countries. • During periods of unrest, delays in obtaining export licences can result in delayed revenues.			• The Group's businesses strive to maintain relationships at all levels within the political structure of certain key countries, in order to ensure that they are aware of and can react to proposed changes, if and when they occur. • Wherever possible, the businesses implement financing arrangements, such as letters of credit and advance payments, for contracts with high-risk customers, which are intended to mitigate the impact of a deterioration in the customer's financial position and in certain circumstances, the businesses 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	↑	
• The Group requires competent management to lead it through the next stage of its development. In challenging markets and difficult times, there is an increased risk of loss of key personnel. • As the shape of the Group's business also changes, with an increased focus on electronics, there is a need to ensure that the businesses build an appropriate skill base to enable them to compete successfully in new markets and product areas.	• If key personnel are not incentivised appropriately to remain within the Group, its operations may suffer from loss of management expertise and knowledge.			• Incentivisation arrangements have been streamlined and improved in certain areas of the business, to ensure that employees are suitably incentivised to deliver key strategic objectives. • Succession plans are being developed further throughout the business
Manufacturing risks		2	↓	
• The Group's manufacturing activities may be exposed to business continuity risks, arising from plant failures, supplier interruptions or quality issues. • Site consolidation plans may not be effectively implemented.	• Interruptions to production and sales could result in financial loss, reputational damage and loss of future business. • Failure to complete planned site consolidation activities may result in long-term inefficiencies, and increasing misalignment of organisational skills and market requirements.			• All of the Group's businesses are required to prepare business continuity plans. • The Group continues to refine its requirements for reporting of key performance indicators, in order to provide better visibility on operational performance, and to facilitate the identification of potential production and quality issues at an early stage. • The Group insures certain business interruption risks where appropriate • Detailed plans are developed for all restructuring and consolidation projects, and progress is monitored by the Group Executive Committee.

Risk description	Potential impacts	Likelihood of occurrence	Trend	Mitigation actions
Technological risks		2	↓	
• The Group may fail to maintain its position on key future programmes due to issues with capability development, technology transfer or cost-effective manufacture. • The Group needs to continually add new products to its current range, through innovation and continuing emphasis on research and development. New product development may be subject to delays, or may fail to achieve the requisite standards to satisfy volume manufacturing requirements and the production of products against high reliability and safety criteria to meet customer specifications. • The Group also needs to ensure that it continues to upgrade its existing product range to compete with emerging technologies.	• Failure to obtain production contracts on major development programmes may significantly impact the future performance and value of individual businesses. • Failure to complete planned product development and upgrades successfully may have financial and reputational impacts, and may result in obsolescence or loss of future business.			• Close relationships are maintained with customers on all key future programmes, to ensure product and capability development aligns with customer requirements. • The Group has introduced a more focused product development and technology investment approach, in order to ensure that resources are applied appropriately across the Group in support of the five year plan. A Technology Review Board has been established to review all proposed research and development projects to ensure that key initiatives are being prioritised and to eliminate possible duplication of effort in different parts of the Group. • Working groups have been established to drive and co-ordinate the Group's technology growth in certain key areas, such as cyber security.
Legal and compliance risks				
Product liability and other customer claims		3	↔	
• The Group may be subject to product liability and other claims from customers or third parties, in connection with (i) the non-compliance of products or services with the customer's requirements, due to faults in design or production; (ii) the delay or failed supply of the products or the services indicated in the contract; or (iii) possible malfunction or misuse of products. • As many of the Group's products are single use devices, it is often impossible to conduct functional testing without destroying the product, and this increases the risk of possible product failure, either in use or during customers' own sample-based functional tests.	• Substantial claims could harm the Group's business and its financial position. • In addition, any accident, product failure, incident or liability, even if fully insured, could negatively affect the Group's reputation among customers and the public, thereby making it more difficult for the Group to compete effectively. • Material breaches in the performance of contractual obligations may also lead to contract termination and the calling of performance bonds.			• The businesses maintain rigorous control of their production processes, monitoring critical parameters on a batch or unit basis. State-of-the-art techniques, including statistical process control or Six Sigma, are applied and, where appropriate, processes are automated to reduce the scope for human error. Detailed assessments of incoming components and materials are conducted to ensure compliance with specifications. • Product liability claims from third parties for damage to property or persons are generally covered by the Group's insurance policies, subject to applicable insurance conditions.

Risk description	Potential impacts	Likelihood of occurrence	Trend	Mitigation actions
Compliance and corruption risks		3	⬅➡	
• 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.	• Non-compliance could result in administrative, civil or criminal liabilities, and could expose the Group to fines, penalties, suspension or debarment, and reputational damage. • Loss of key operating permits and approvals could result in temporary or permanent site closures, and loss of business.			• The Group has a central legal and compliance function which assists and monitors all Group businesses, supported by dedicated internal legal resource in the US. The Group's internal audit activities also incorporate a review of legal risks. • The Group operates under a Global Code of Business Principles, which stipulates the standard of acceptable business conduct required from all employees and third parties acting on the Group's behalf. The Group has also adopted a Bribery Act Compliance Manual, incorporating all of its anti-bribery policies and procedures. • A significant proportion of the Group's management have received training in relation to ethics and anti-corruption.
Reputational risks				
Cyber-related risks		3	⬆	
• Cyber security and related risks are key emergent areas of critical importance for all businesses, particularly for those involved in the defence and security sector. Threats emanate from a wide variety of sources and could target a range of systems for a wide range of purposes, making response particularly difficult. The data and systems which need to be protected include customer classified or sensitive information, commercially sensitive information, employee-related data and safety-critical manufacturing systems.	• The Group may suffer from critical systems failures, or its intellectual property, or that of its customers, may fall into the hands of third parties. • In addition to business interruption and financial loss, the Group may suffer reputational damage and its business of providing cyber-security services to customers may be irreparably damaged.			• A detailed threat assessment has been completed, and an action plan to counter the Group's identified major threats has been implemented. • The Group adopts a number of cyber security defence measures, encompassing, as appropriate to the nature of the threat and sensitivity of data or systems being protected, hardware, software, system, process or people-based solutions. Where appropriate, government or commercial accreditation of networks and systems is obtained in support of the overall cyber security programme. • A review of the Group's IT and security systems is included within the internal audit programme.
Financial risks				
• Details of the financial risks to which the Group is potentially exposed and details of mitigating factors are set out in the financial review and note 24 of the group financial statements.				

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.

All of the Group's businesses are certified to the international health and safety management system OHSAS18001.

Energetic events

There was one lost time incident in the year involving energetic materials, in which an employee suffered burns at Chemring ustralia's facility. As a result of wearing the correct protective personal equipment, the employee made a full recovery and was soon able to return to work. We cannot, and will not, be complacent in this area, and we have reviewed all similar operations at our facilities with the aim of ensuring that this type of incident cannot recur.

The Group had no other significant energetic events during the year.

Culture and behaviour

In 2014, the Group's Safety Leadership Programme was launched and delivered to members of the Executive Committee, non-executive directors, and all business unit management teams. The aims of the programme are to reinforce safety leadership, and to provide tools and techniques to drive improvements in safety culture across the Group. In 2015 we continued to deliver the programme and extended it to selected managers and supervisors.

The Safety Leadership Programme complements ongoing improvements within the Group that focus on ensuring that buildings, processes and products are as safe as reasonably practicable for employees and product users. This is being achieved through improvements in process safety management systems, investment in automation, remote operations and infrastructure, and also by improvements to risk control systems and asset integrity.

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 2015 the lost time incident rate rose slightly.

The Group's historical lost time incident rate is as follows:

2015	2014	2013	2012	2011
0.57	0.43	0.83	0.52	0.86

The most common lost time injury types continue to be slips, trips and falls.

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 2015 the Group had 2,849 (2014: 2,848) 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.

Directors

Male	6 (86%)
Female	1 (14%)

Senior Managers

Male	53 (82%)
Female	12 (18%)

All Employees

Male	1,911 (67%)
Female	937 (33%)

Ethnic diversity – all employees

Male	2,226 (78%)
Female	622 (22%)

Senior managers are generally directors and functional heads within subsidiary and head office 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 and US 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 matter are fully satisfied.

The Group carries a £1.5 million (2014: £2.5 million) provision in respect of environmental liabilities, which the Board considers to be adequate (see note 25 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 2015 produced by Ricardo-AEA. The reporting period covered aligns with the Group's financial year ended 31 October 2015. 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_2e (tonnes)
Gas	33,405	0.18445	6,161
Heating oil	7,792	0.26798	2,088
Liquid petroleum gas	1,983	0.21468	426

The use of any means of transport, machinery or equipment operated, owned or controlled by the Group	Quantity (tonnes)	Conversion factor	CO_2e (tonnes)
Diesel	264	3.0903	816
Liquid petroleum gas	119	2.9426	350
Petroleum	114	2.9900	341

The operation or control of any manufacturing process by the Group	CO_2e (tonnes)
On-site waste incineration	5,516
Fugitive emissions	209

Total Scope 1 emissions	15,907

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.

Scope 2 emissions

Purchased energy	Quantity (Mwh)	Conversion factor	CO_2e (tonnes)
Electricity:			
– Australia	977	0.81360	795
– Norway	39,314	0.01372	539
– UK	15,930	0.46219	7,363
– USA	35,972	0.49845	17,930
Total Scope 2 emissions			26,627

	2015	2014	2013
Total greenhouse gas emissions	**Tonnes**	Tonnes	Tonnes
Scope 1	**15,907**	22,717	24,417
Scope 2	**26,627**	31,336	36,183
Total	**42,534**	54,053	60,600

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

	2015	2014
Total emissions (tonnes CO2)	**42,534**	54,053
Group revenue (£m)	**377**	475
Total CO2 per £m of revenue	**113**	114

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

The UK businesses have fully complied with the requirements of the Environment Agency's Energy Savings Opportunity Scheme (ESOS).

The Group participated in the 2015 Carbon Disclosure Project.

Waste

	2015 Tonnes waste	2014 Tonnes waste	2013 Tonnes waste	2012 Tonnes waste	2011 Tonnes waste
Recycled, non-hazardous	**968**	731	2,240	1,804	1,684
Recycled, hazardous	**287**	262	226	387	415
Not recycled, non-hazardous	**748**	659	1,080	1,028	1,018
Not recycled, hazardous	**696**	401	490	469	388
Total	**2,699**	2,053	4,036	3,688	3,505

Water

	2015 m^3	2014 m^3	2013 m^3	2012 m^3	2011 m^3
Total water consumption	**721,401**	924,889	1,606,541	1,646,906	1,441,000

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 ethical 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, a 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 43 has been approved by the Board of directors and signed on its behalf by:

Michael Flowers
Group Chief Executive
21 January 2016

Peter Hickson

Non-Executive Chairman,
Nomination (Chair), Remuneration

Length of service on Board (as at 21 January 2016):
5 years, 7 months

Experience:

- Finance experience from CFO positions
- Board experience at Chairman level
- Chartered Accountant

Peter Hickson joined the Group as a non-executive director on 1 July 2010, and was appointed Chairman of the Board on 1 October 2010. Currently Chairman of Communisis plc, and a non-executive director of Harworth Group plc.

Peter has had senior management experience with a number of large international companies, and previous appointments include Chairman of Anglian Water Group, Senior Independent Director of London & Continental Railways Ltd, Finance Director of Powergen plc and non-executive directorships of Scottish Power plc, Marconi Corporation plc, RAC plc and Kazakhmys plc. He is also the UK Chairman of Orbis Charitable Trust, the international sight saving charity, and a Fellow of the Institute of Chartered Accountants.

Michael Flowers

Group Chief Executive

Length of service on Board (as at 21 January 2016):
1 year, 7 months

Experience:

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

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

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

Steve Bowers

Group Finance Director

Length of service on Board (as at 21 January 2016):
3 years, 1 month

Experience

- Financial expertise
- Chartered Accountant

Steve Bowers was appointed Group Finance Director on 7 January 2013. He was formerly Finance Director of Umeco plc until its acquisition by Cytec UK Holdings Limited in July 2012.

During Steve's time with Umeco he was involved in both acquisitions and disposals, as well as in the management of financial reporting, treasury functions and banking relationships. Prior to his appointment as Finance Director, he held a number of financial roles at Umeco, alongside the role of Company Secretary. He qualified as a Chartered Accountant with KPMG LLP and is a member of the Institute of Chartered Accountants.

Sarah Ellard

Group Legal Director & Company Secretary

Length of service on Board (as at 21 January 2016):
4 years, 4 months

Experience

- Legal, compliance and governance expertise
- Chartered Secretary

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

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

Andy Hamment

Non-Executive Director,
Audit, Remuneration

Length of service on Board (as at 21 January 2016):
2 years, 7 months

Experience

- Extensive knowledge of the defence industry
- Senior Board experience

Andy Hamment was appointed as a non-executive director on 1 July 2013. He is also a non-executive director of Senior PLC, and was previously Group Marketing Director and a main Board director of Ultra Electronics plc.

Andy has worked in defence and manufacturing industries for most of his career, primarily in business development and management roles. He joined Dowty in 1988 as Managing Director of its Controls business, and participated in the management buy-out that created Ultra Electronics.

Ian Much

Senior Independent Non-Executive Director,
Audit, Nomination, Remuneration (Chair)

Length of service on Board (as at 21 January 2016):
11 years, 2 months

Experience

- Board experience at Chief Executive level
- Key shareholder representative

Ian Much joined the Group as a non-executive director in December 2004. He is Senior Independent Director and Chairman of the Remuneration Committee.

Previous appointments include Chief Executive of De La Rue plc and T&N plc, and non-executive director of Admiral plc, Camelot plc, Manchester United plc, Simplyhealth Group Ltd and Senior plc. He is currently a non-executive director and Chairman of the Remuneration Committee of BTG plc.

Nigel Young

Non-Executive Director,
Audit (Chair), Nomination, Remuneration

Length of service on Board (as at 21 January 2016):
2 years, 9 months

Experience

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

Nigel Young became a non-executive director on 1 May 2013, following his appointment as Interim Chief Financial Officer in August 2012. Previous appointments include Finance Director of ALVIS PLC, First Technology PLC, Babcock International Group PLC and Morgan Advanced Materials Plc. Nigel has also undertaken a number of interim finance roles including McBride Plc. He is currently a non-executive director and Chairman of P2i Limited, a provider of liquid repellent nanotechnology and is a Trustee and Board member of certain development charities.

The directors present their annual report, together with the audited financial statements of the Group and the Company, for the year ended 31 October 2015.

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

- strategic report on pages 1 to 43;
- corporate governance report on pages 50 to 57;
- Audit Committee report on pages 58 to 61;
- directors' remuneration report on pages 62 to 83;
- directors' responsibilities statement on page 49; and
- notes to the financial statements as detailed in this section.

Business review

The strategic report on pages 1 to 43 provides a review of the Group's business development, performance and position during and at the end of the financial year, its strategy and likely future development, key performance indicators, and a description of the principal risks and uncertainties facing the business. Further information regarding financial risk management policies and financial instruments is given in note 24 to the group financial statements.

There have been no significant events since the balance sheet date, other than as referred to in note 40 of the group financial statements.

There have been no significant events since the balance sheet date.

Results and dividends

The loss attributable to the Group's shareholders for the year was £0.4 million (2014: £54.9 million).

An interim dividend of 2.4p per ordinary share was paid in September 2015. The directors are not recommending the payment of a final dividend, and therefore the total dividend for the year is 2.4p (2014: 4.1p).

Directors and their interests

The present directors are shown on pages 44 and 45.

Vanda Murray resigned as a director on 19 March 2015.

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

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

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

Other than in relation to their service contracts, none of the directors is or was beneficially interested in any significant contract to which the Group was a party during the year ended 31 October 2015.

Information required in relation to directors' shareholdings is set out in the directors' remuneration report on page 81.

Substantial shareholdings

At 20 January 2016, the following substantial holdings in the ordinary share capital of the Company had been notified to the Company in accordance with Chapter 5 of the Disclosure and Transparency Rules of the Financial Conduct Authority:

Name	% Interest
Schroders Plc	10.2
Investco Limited	8.1
UBS Global Asset Management	5.5
Jupiter Asset Management Limited	5.4
Old Mutual Asset Managers	5.1
Majedie Asset Management Limited	5.0
Thameside MBC re Greater Manchester Pension FundPension Fund	5.0
Neptune Investment Management Limited	5.0
J P Morgan Chase & Co	4.9
Investec Asset Management Limited	4.8
Ameriprise Financial, Inc.	4.8
AXA S.A. and its group of companies	4.8
Standard Life Investments Limited	4.6
BT Pension Scheme Trustees Limited as Trustee of the BT Pension Scheme	3.8
Cantillion Capital Management LLC	3.6
Hermes Equity Ownership Services Limited	2.9
Norges Bank	2.9

Employees and employee consultation

Details of the Group's employment policies and employee consultation practices are set out in the corporate responsibility review on pages 39 and 40.

Political donations

No political donations were made during the year (2014: £nil).

Contractual arrangements

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

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

Change of control

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

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

Share capital and shareholder rights

General

The Company's share capital consists of ordinary shares of 1p each and preference shares of £1 each, which are fully paid-up and quoted on the main market of the London Stock Exchange. Full details of the movements in the issued share capital of the Company during the financial year are provided in note 27 to the group financial statements.

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

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

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

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

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

Issue of shares

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

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

Purchase of own shares

The Company did not purchase any of its ordinary shares (2014: nil) during the year, and no ordinary shares (2014: nil) were distributed following vesting of awards under the Chemring Group Performance Share Plan. At 31 October 2015, the Company held a total of 2,198,814 ordinary shares in treasury (representing 1.12% of the ordinary shares in issue on 1 November 2015).

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

Employee share schemes and plans

Approach to share ownership

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

The Group operated four share-based plans during the year, as set out below. Further details of awards and vesting are provided in note 31 to the group financial statements.

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

The UK Sharesave Plan is open to all eligible UK employees. Employees may choose between three and five year savings periods, at the end of which the employee can choose to exercise the option or seek the return of their savings. A grant of options was made on 30 July 2015.

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

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

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

This is the primary long-term incentive plan for executive directors and senior employees. Discretionary awards are granted over a fixed number of shares by reference to salary, and awards ordinarily vest, subject to meeting performance criteria, on the third anniversary of the grant date.

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

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

Going concern

Details of the conclusions arrived at by the directors in preparing the financial statements on a going concern basis are set out in the financial review on page 25.

Close company provisions

As far as the directors are aware, the close company provisions of the Taxes Acts do not apply to the Group nor has there been any change in that respect since 31 October 2015.

Additional information, as required by Listing Rules Requirement 9.8.4

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

- capitalised interest (see notes 9 and 15);
- long-term incentive schemes (see directors' remuneration report);
- allocation of equity securities for cash (see note 27);
- contracts of significance (see note 40);
- election of independent directors (see corporate governance report);
- contractual arrangements (see directors' report);
- details of independent directors (see directors' report); and
- substantial shareholders (see directors' report).

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

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

Provision of information to the auditor

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

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

Auditor

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

Annual General Meeting

The resolutions to be proposed at the Annual General Meeting to be held on 21 March 2016, together with explanatory notes, appear in the separate Notice of Annual General Meeting sent to all shareholders.

Statement of directors' responsibilities

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

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

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

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

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

Directors' responsibility statement

Each of the directors, whose names and functions are listed on pages 44 to 45, confirms that to the best of their knowledge:

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

This responsibility statement was approved by the Board of directors on 21 January 2016 and is signed on its behalf by:

Michael Flowers
Group Chief Executive

Steve Bowers
Group Finance Director

Peter Hickson

Chairman

INTRODUCTION BY THE CHAIRMAN

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

As reported in the Chairman's statement, we will be reshaping the membership of the Board this year. I have decided to stand down as Chairman, and from the Board, as soon as a suitable replacement has been identified and appointed. Ian Much, the Senior Independent Director, will retire at the Annual General Meeting, and will be succeeded as Senior Independent Director by Nigel Young, the Chairman of the Audit Committee, and in addition, Andy Hammett has indicated that, for personal reasons, he intends also to stand down from the Board as soon as a replacement can be appointed. Details of the recruitment process for my successor and new non-executive directors are set out later in this report.

We completed our first externally-facilitated review of the Board's performance during the year. This proved to be a valuable exercise and identified a number of areas in which it was felt we could improve our effectiveness. Further details are set out on pages 55 and 56.

We also took steps to improve our internal audit processes during the year with the appointment of KPMG as internal auditors. In addition, the enhanced requirements on risk management and internal control set out in the September 2014 update of the UK Corporate Governance Code necessitated a review of our risk management processes. Our internal control environment has benefited from both of these initiatives.

The Group's trading issues towards the end of the year inevitably resulted in significant engagement and dialogue with shareholders and our finance providers, particularly in relation to the proposed forthcoming Rights Issue. We have endeavoured to factor in stakeholders' views on the Rights Issue to our decision-making process over the last few months, and we remain receptive to continuing feedback on the Group and its activities.

Compliance statement

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

The Company was in compliance with the provisions of the Code throughout the year ended 31 October 2015.

Peter Hickson
Chairman

The Board

Composition of the Board and independence

The Board currently comprises three executive directors and four non-executive directors (including the Chairman). The biographical details of individual directors, including details of their other business commitments, are set out on pages 44 and 45.

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

The Board considers all of the non-executive directors to be independent in judgment and character, and considered Peter Hickson to be independent on his appointment as Chairman. Nigel Young was employed as the Group's Interim Chief Financial Officer for a period of six months from August 2012, prior to his appointment as a non-executive director but the Board does not consider that this short period of employment impacted his independence, and his contribution to the Board continues to be impartial and objective. Ian Much has now served as a non-executive director for just over eleven years but he continues to fulfil both of his roles as Senior Independent Director and Chairman of the Remuneration Committee in an unbiased and objective manner, and his experience remains very valuable to the Board.

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

Matters reserved for approval of the Board

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

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

Board responsibilities

The key responsibilities of the Board members are as follows:

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

Operation of the Board

Board meetings and attendance

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

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

Board member	Board (10 meetings)	Audit Committee (4 meetings)	Remuneration Committee (3 meetings)
Peter Hickson	10(10)	–	2(3)
Steve Bowers	9(10)	–	–
Sarah Ellard	10(10)	–	–
Michael Flowers	9(10)	–	–
Andy Hamment	10(10)	4(4)	3(3)
Ian Much	10(10)	4(4)	3(3)
Vanda Murray (resigned 19 March 2015)	5(5)	1(1)	3(3)
Nigel Young	10(10)	4(4)	3(3)

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

The maximum number of meetings which each director could have attended is shown in brackets. Mr Flowers and Mr Bowers were absent from the Board meeting scheduled for 27 October 2015, as they were required to meet with shareholders following the release of the Group's trading update announcement the previous evening.

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

Whilst the Nomination Committee was engaged in the search for new non-executive directors during the year, it did not meet separately on a formal basis. Appointment and succession-related matters were considered and discussed by the Board as a whole.

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

Board activity throughout the year

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

November 2014	December 2014	January 2015	February 2015
Briefing on the proposed acquisition of certain assets of the Wallop Defence Systems countermeasures business	Presentation on 2014 health and safety performance	Report from the Audit Committee	Update on the proposed acquisition of certain assets of the Wallop Defence Systems countermeasures business
Review of the Group's tax strategy	Presentation from financial advisers on bid defence strategy	Approval of preliminary announcement and annual results	Briefing on the proposed reorganisation of the Roke business
Approval of finalised 2015 budget		Review of requirements for the potential appointment of new non-executive directors	
Presentation on key R&D projects			

March 2015	April 2015	May 2015	June 2015
Briefing on a safety incident at Chemring Australia	Consideration of future strategy for Chemring Energetic Devices	Board site visits to Chemring Energetic Devices and Kilgore Flares	Approval of interim results and payment of interim dividend
Update on status of key litigation matters	Review of senior management resource and succession planning requirements	Joint meeting with the Board of Chemring North America	Update on potential acquisition and divestment opportunities
	Consideration of new risk management framework		Presentation on cyber security risks
	Approval of amendments to bank facilities and loan note agreements		Approval of plan for Board performance evaluation

July 2015	September 2015	October 2015
Presentations on future strategy for the three business segments	Consideration of the interim management statement	Consideration of 2016 budget
Consideration of the Group's updated five year plan	Review of the Group's Policy on the Sale of Goods and Services	Consideration and approval of trading update announcement
	Review of the Group's overseas financing structures	Approval of standby Rights Issue

Board effectiveness

Appointments to the Board

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

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

Subsequent to the year end, The Miles Partnership has been retained to lead the search for a new Chairman for the Group. This process is being managed, during the initial stages, by Ian Much and Nigel Young.

Neither Catalyst Advisors LP nor The Miles Partnership has any other relationships with the Group.

Diversity

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

Re-election of directors

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

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

Ian Much will stand down as a non-executive director at the forthcoming Annual General Meeting.

Induction

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

The Company Secretary also provides detailed information on directors' legal duties and responsibilities on appointment.

Training and development

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

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

Independent advice

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

Conflicts of interest

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

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

Performance evaluation

The Board engaged in an externally-facilitated review of its performance during the year, utilising the services of Lintstock Limited.

2015 Performance evaluation process

Evaluation process was tailored by Lintstock to the Group's specific requirements, with input from the Chairman and the Company Secretary

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Questionnaires were circulated to the Board electronically and responses collated by Lintstock

↓

Initial feedback was presented to the Chairman and the Company Secretary by Lintstock

↓

Lintstock presented the full evaluation results to the Board and facilitated discussions on the development of a number of Board objectives

The evaluation considered topics under the following headings:

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

The Board also considered, as a case study, the effectiveness of its role in the acquisition of 3d-Radar AS during the previous year.

The overall outcomes of the evaluation process were positive, and provided assurance to the Chairman that the Board and its committees are performing effectively, and that each director contributes to the overall effectiveness and success of the Group. The principal actions agreed to be taken as a result of the evaluation are set out below:

Outcome	Action planned and taken during the year
The Board should spend more time on strategic planning and reviewing the execution of strategic plans.	An offsite strategy day was held in July 2015, which was also attended by the Group Director of Strategy & Technology and the Executive Committee representatives for each of the three business segments. This will be repeated on an annual basis.
At least one new non-executive director is required.	A role specification was developed and the Chairman is leading the search for potential candidates.
The Board requires increased exposure to management and more site visits.	More Board meetings will be held at the businesses in 2016, with dedicated time allocated to management briefings.
Additional focus on risk management is required.	The Group's risk management framework has been updated, and additional time has been allocated to risk management on the Board agendas.
The Board should meet informally prior to Board meetings on a more frequent basis.	Additional sessions have been scheduled in the 2016 Board calendar.

Board committees

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

Audit Committee

The Audit Committee comprises three independent non-executive directors. At the date of this report, the Audit Committee members were Nigel Young (Chairman), Andy Hamment and Ian Much.

Nigel Young acted as Interim Chief Financial Officer for the Group between August 2012 and January 2013, and was formerly the finance director of several public companies. The remaining members of the Committee have all served as executive directors of public companies and as non-executive directors on other audit committees, and have extensive commercial and financial experience. The Board therefore considers that each member of the Audit Committee has the requisite recent and relevant financial experience to satisfy the requirements of the Code.

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

The Audit Committee report is set out on pages 58 to 61.

Remuneration Committee

The Remuneration Committee comprises four independent non-executive directors. At the date of this report, the Remuneration Committee members were Ian Much (Chairman), Andy Hamment, Peter Hickson and Nigel Young.

Three scheduled Remuneration Committee meetings were held during the year, together with two ad hoc meetings. Further details on the Remuneration Committee and its activities, and the Company's policies on directors' remuneration are set out in the directors' remuneration report on pages 62 to 83.

Nomination Committee

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

Executive Committee

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

The current members of the Executive Committee are:

- Michael Flowers (Group Chief Executive)
- Rik Armitage (Group Director - Strategy & Technology)
- Steve Bowers (Group Finance Director)
- Terry Bridgewater (Group Director of Safety)
- Stuart Cameron (Managing Director - Chemring Energetics)
- Simon Darling (Managing Director - Chemring Countermeasures UK)
- Sarah Ellard (Group Legal Director & Company Secretary)
- Juan Navarro (President - Chemring North America)
- Rupert Pittman (Group Director of Corporate Affairs)

Michael Flowers chairs the Executive Committee, which meets monthly.

Key responsibilities delegated to the Executive Committee by the Board

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

Relations with shareholders and other providers of capital

Shareholder engagement

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

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

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

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

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

Annual General Meeting

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

Engagement with other providers of capital

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

Accountability

Financial and business reporting

The statement of directors' responsibilities in respect of the financial statements and accounting records maintained by the Company is set out on page 49.

Having taken all the matters considered by the Board and brought to the attention of the Board during the year into account, the Board is satisfied that the annual report and accounts for the year ended 31 October 2015, taken as a whole, is fair, balanced and understandable. Furthermore, the Board believes that the disclosures set out on pages 2 to 13 provide the information necessary to assess the Company's performance, business model and strategy.

Risk management and internal control

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

The Board undertakes an annual review of the effectiveness of the Group's systems of internal control, including financial, operational and compliance controls, and risk management systems. Further details of the review undertaken during the financial year ended 31 October 2015 are set out on pages 1 to 43.

Going concern and long-term viability statement

Details of the conclusions arrived at by the directors in preparing the financial statements on a going concern basis and the assessment of the Group's long-term viability are set out in the financial review on page 25.

Insurance

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

Nigel Young

Chairman

ANNUAL STATEMENT BY THE CHAIRMAN OF THE AUDIT COMMITTEE

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

In addition to our usual activities, we took an important step forward during the year in appointing KPMG to provide internal audit services across the Group. The scope of the internal audit activity has now been broadened to include a more comprehensive review of non-financial controls, and KPMG's deployment of subject-matter experts to look at specialist areas, such as IT and cyber, has greatly improved the Audit Committee's visibility on the effectiveness of internal controls across the Group. The adoption of a unified approach to internal audit across all of the businesses units is also proving beneficial, in allowing us to identify areas of best practice which can be replicated across the Group.

There was also a significant focus on risk management during the year, to address the requirements of the latest update to the UK Corporate Governance Code. The Committee will continue to review the effectiveness of the enhanced risk management systems which have adopted over the forthcoming year, to ensure that they are operating effectively and to identify any improvements which may be beneficial.

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

Nigel Young
Chairman

Operation of the Audit Committee

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

Key responsibilities

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

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

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

Meetings

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

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

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

Principal activities of the Audit Committee during the year

November 2014	• Approval of the appointment of KPMG to provide internal audit services to the Group
January 2015	• Review of the Group's preliminary announcement and annual results for the year ended 31 October 2014, including the Group's going concern status • Consideration of the auditor's report on the results of the full year audit • Consideration of the auditor's report on the Group's financial controls, accounting resources and financial reporting systems • Review of proposed amendments to the Group Accounting Policy Manual • Approval of KPMG's internal audit plan for 2015
April 2015	• Consideration of the auditor's plan for the half year results review • Consideration of KPMG's internal audit report • Annual review of the Committee's terms of reference • Consideration of the Group Legal Director's ethics and compliance report • Review of the Group's updated risk management framework
June 2015	• Review of the Group's half year results, including the going concern status • Consideration of the auditor's report on the results of the interim review • Review of the internal control environment and the auditors observations thereon • Consideration of KPMG's internal audit report
September 2015	• Review of audit services for the year ended 31 October 2015 Consideration of the auditor's plan for the full year audit and their proposed fees • Annual review of policy on the provision of non-audit services by the external auditor • Consideration of KPMG's internal audit report

Significant issues considered by the Audit Committee during the year

Revenue recognition, and contract accounting policies and procedures	The Committee reviews the Group's revenue recognition and contracting accounting policies and procedures on an ongoing basis, to ensure that they remain appropriate and that the Group's internal controls are operating effectively in this area. The Committee considered the key assumptions underlying the accounting treatment of all contracts which were subject to contract accounting during the year, and approved the treatment where appropriate. The level of revenue and profit recognised in respect of those contracts which were material to the Group's half and full year results was also reviewed in detail by the Committee.
Impairment of goodwill and other intangible assets	The Committee considered the management's review of the carrying value of goodwill and intangible assets held on the Group's balance sheet as at 31 October 2014 and 30 April 2015, against the latest forecasts for each of the applicable businesses.
Capitalised research and development costs	The Committee continued to monitor the level of research and development costs capitalised during the year, and the periods over which such costs are to be capitalised.
Going concern	In order to satisfy itself that the Group has sufficient financial resources to enable it to continue trading for the foreseeable future, the Committee regularly reviews the adequacy of the Group's financing facilities against future funding requirements and working capital projections. The Committee received regular reports from the Group Finance Director on the Group's financial covenant compliance position throughout the year. Based on its review of the Group's forecasts and detailed discussions with the external auditor, the Committee recommended to the Board the adoption of the going concern basis for the preparation of both the 2014 financial statements and the 2015 interim results. Further details on the Group's going concern status can be found in the financial review on page 25.

External audit

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

Audit effectiveness and tendering

Deloitte LLP has been the Company's auditor for many years, and was reappointed at the last Annual General Meeting in March 2015. In the opinion of the Committee, the relationship with the auditor currently works well, and having reviewed their independence and effectiveness, the Committee has not considered it necessary to date to require Deloitte LLP to re-tender for the audit work. Accordingly, the Committee has recommended to the Board that Deloitte LLP be proposed for reappointment as auditor at the forthcoming Annual General Meeting.

The Committee acknowledges the recommendation in the Code that, for FTSE 350 companies, the external audit contract should be put out to tender at least every ten years. The Group is not a constituent of the FTSE 350 and therefore is not currently subject to any mandatory auditor rotation requirement. The Committee will keep under review the timing of its next tender process but does not currently intend that the audit will be put out to tender during 2016.

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

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

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

Auditor independence

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

The Committee has adopted a policy which states that the external auditor should not be appointed to provide any corporate finance or similar consultancy services, unless the Committee agrees that their appointment would be in the best interests of the Company's shareholders in particular circumstances and would not create any direct conflict with their role as external auditor.

The policy does permit the provision of tax advisory services by the auditor, provided that the provision of such advice does not conflict with the external auditor's statutory responsibilities and ethical guidance.

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

- tax compliance services relating to corporation tax returns and other overseas regulatory tax returns;
- tax advisory services relating to advice given on the Group's tax structures; and
- corporate finance services relating to various proposed financial transactions, where the auditor is considered best placed to perform these services.

Details of the amounts paid to the external auditor during the year for audit and other services are set out in note 6 to the group financial statements.

Since the year end, Deloitte LLP has been appointed to act as reporting accountant on the prospectus for the proposed forthcoming Rights Issue. This is a very significant transaction for the Group, and it was considered that Deloitte LLP's pre-existing knowledge of the Group would be very beneficial in undertaking this work.

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

Internal audit

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

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

Following a detailed review by the Committee of the Group's internal audit activities in 2014, it was concluded that it would be beneficial to broaden the scope of these activities to incorporate a more comprehensive review of non-financial controls. As a consequence, KPMG LLP was appointed to provide internal audit services for the Group in the year ended 31 October 2015.

The KPMG internal audit programme covers financial and commercial processes, governance issues, and key corporate risks. The wider scope of the internal audit activities, combined with the adoption of a broadly consistent audit approach across all of the Group's businesses, has provided the Committee with greater insight into the Group's control environment and has identified several areas in which best practice in certain businesses can be shared across the Group.

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ANNUAL STATEMENT BY THE CHAIRMAN OF THE REMUNERATION COMMITTEE

Ian Much

Chairman

Shareholders will be aware that we received a disappointing level of approval for last year's remuneration report. As disclosed to shareholders in March 2015, we took a number of steps during the year to address shareholder concerns regarding the 2014 annual bonus arrangements.

It was agreed that the financial underpin (EPS and cash) for the personal objectives element of the 2015 bonus plan would be set at the same level as the threshold for each financial target, i.e. 90% of the targets for the year. Further details of the targets and the performance against them are set out later in the report. For the 2016 financial year, we have reverted to setting the financial underpin for the personal objectives independently of that for the financial performance elements. This will be reported in next year's remuneration report.

During the year, the committee also conducted a policy review more generally, and concluded that it is largely fit for purpose. However, as the current long-term incentive plan is due to expire on 22 March 2016, requiring a vote to approve a new plan at the 2016 Annual General Meeting, it is our intention to propose the following amendments to the policy, which we will also seek to renew at the 2016 Annual General Meeting:

- **Annual bonus metrics**

  The bonus metrics used to measure financial performance in the 2015 financial year were EPS and cash flow. An adjusted EPS measure also accounts for 50% of the performance target for the long-term incentive plan, and some of our investors have commented that there may be an element of double-counting of performance in its use in both the bonus and long-term incentive plan. Having completed our review, we believe EPS to be most appropriate as a measure of long-term performance, and we therefore propose to replace EPS in the bonus plan with a different measure of profitability that is more closely linked to operational performance and with better line of sight for management. For the 2016 financial year, this will be operating profit, which is a key measure used in our reporting to shareholders. For future awards, the underpin which must be satisfied before the personal objectives element of the bonus becomes payable will take account of non-financial measures, including health and safety performance, as well as financial measures.

- **Long-term incentive plan**

  The structure of the new long-term incentive plan will remain unchanged. As under the existing plan, the individual limit will be 150% of salary (200% in exceptional circumstances) and, for the first award, the performance metrics - growth in adjusted EPS and relative TSR - will be the same as in 2015. The rules of the new plan will provide greater flexibility for awards to non-Board roles to be granted with different vesting conditions to awards to roles on the Board, and will include the ability to apply clawback in a wider range of circumstances.

The Committee listened carefully to the feedback received during the course of the year, and we believe that these changes will ensure that the remuneration policy remains fit for purpose.

In addition to the changes to the policy outlined above, the Committee met in December 2015 to review the salaries of the executive directors and formally determine the level of achievement against the 2015 bonus plan metrics. Given the performance of the Company in 2015, the Committee felt it appropriate that salaries remain unchanged this year. In addition, no bonuses will be paid in respect of the 2015 financial year, as the threshold performance targets for the financial elements of the bonus were not achieved.

We continue to welcome feedback on our remuneration arrangements from all interested parties, and hope that you are able to support our policy and implementation report at the Annual General Meeting on 21 March 2016.

Ian Much
Chairman of the Remuneration Committee
21 January 2016

REMUNERATION POLICY

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

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

In determining remuneration for the executive directors and other senior managers, the Remuneration Committee seeks to maintain a competitive package of rewards, required to promote the long-term success of the Company, without being excessive by reference to market rates across comparator companies. Performance-related elements should be transparent, stretching and rigorously applied, form a significant proportion of the total remuneration package of each executive director, and align the interests of executives with those of shareholders, by ensuring that a significant proportion of remuneration is performance-related and delivered in shares.

The table below summarises the Committee's future policy on the remuneration of executive directors which, if approved by shareholders at the forthcoming Annual General Meeting on 21 March 2016, will become binding immediately thereafter and take effect from 1 November 2015. It is intended that the policy will remain valid until the 2019 Annual General Meeting.

The current policy, which was approved by shareholders at the 2014 Annual General Meeting, is set out in full in the 2014 annual report, and details of the changes proposed to the current policy are set out fully in the notes to the policy table below. In summary, the principal changes proposed to the policy are as follows:

- **Annual bonus metrics**

  The current bonus metrics used to measure financial performance are EPS and cash flow. In future, it is proposed to allow greater flexibility in the choice of financial metric. For the 2016 financial year, operating profit will replace EPS but cash flow will continue to be used. In addition, for future awards, the underpin which applies to the personal objectives element of the bonus will be broadened, so that in addition to profit and cash flow the Committee will take account of other measures in determining whether the personal objectives element should be paid.

- **Long-term incentive plan**

  The proposed new long-term incentive plan, for which shareholder approval will be sought at the forthcoming Annual General Meeting, will remain essentially unchanged in its application for executive directors. The clawback and malus provisions will also be expanded so that these apply in a wider range of circumstances.

Further details of the full policy are set out on pages 67 and 68.

Element	Purpose and link to strategy	Operation	Maximum	Performance assessment
Salary	• Reflects the performance of the individual, their skills and experience over time, and the responsibilities of the role • Provides an appropriate level of basic fixed income, avoiding excessive risk arising from over reliance on variable income	• Normally reviewed annually with effect from 1 January • Benchmarked periodically against companies with similar characteristics and companies within the same sector • Salaries take account of complexity of the role, market competitiveness, Group performance and the increases awarded to the wider workforce	• Salary increases will normally be in line with those received by the wider workforce • More significant increases may be awarded at the discretion of the Committee, for example where there is a change in responsibilities, to reflect individual development and performance in the role	• None, although overall individual and company performance is a factor considered when setting and reviewing salaries
Bonus	• Incentivises annual delivery of financial, strategic and personal goals • Maximum bonus only payable for achieving demanding targets • Delivery of a proportion of bonus in deferred shares plus the ability to receive dividend equivalents provides alignment with shareholders' interests and assists with retention	• Paid in cash, with up to 40% deferred as a conditional award of deferred shares • Vesting of deferred shares is subject to continued employment (save in "good leaver" scenarios) at the end of three years from the award of the bonus • The payment of any earned bonus remains ultimately at the discretion of the Committee • Non-pensionable • Executives are entitled to receive, on vesting of deferred share awards, the value of dividend payments that would otherwise have been paid on the deferred shares during the deferral period	• Group Chief Executive - 125% of salary • Other executive directors - 100% of salary	• Mix of Group financial objectives and personal objectives - financial objectives will determine the majority of the award and will typically include a measure of profitability and cash flow, although the Committee has discretion to select other metrics • Personal objectives will be measurable and linked to goals that are consistent with the Group's longer-term goals • Payment of the personal objectives element will be subject to an underpin based on the Committee's assessment of underlying business performance, including *inter alia* levels of profitability and cash flow, as well as health and safety performance • Performance below the threshold for each financial target results in zero payment in respect of that element. Payment rises from 0% to 100% of the maximum opportunity for levels of performance between threshold and maximum with 50% of the maximum normally payable for on-target performance • Includes a clawback mechanism in the event of misconduct, error in calculation of performance, or a material misstatement of the Group's financial results

Element	Purpose and link to strategy	Operation	Maximum	Performance assessment
Long-term incentive plan **(performance share plan - "PSP")**	• Incentivises executives to achieve targets aligned to the Group's main strategic objectives of delivering sustainable growth and shareholder returns • Delivery of awards in shares plus the ability to receive dividend equivalents helps align executives' rewards with shareholders' interests	• Annual grants of shares, which vest subject to the Group's performance measured over at least three years • Executives are entitled to receive the value of dividend payments that would otherwise have been paid on vested awards • All awards are subject to the discretions given to the Committee in the plan rules during the vesting period	• Normally 150% of base salary (although grants up to 200% of base salary may be made in exceptional circumstances such as on recruitment)	• Awards made prior to 2014 are based on the conditions described on page 79 of this report • Awards from 2014 onwards are subject to targets based on EPS growth and relative TSR measured against a peer group of international defence sector companies. For awards granted in 2016, each measure will determine the vesting of 50% of the award; however, the Committee will have discretion to set different weightings and to introduce additional metrics for awards in future years • Targets for the EPS condition are set by the Remuneration Committee prior to each grant. Targets for the relative TSR condition are based on a sliding scale, with median representing threshold performance and upper quartile representing maximum performance • For each measure, performance below threshold results in zero payment. Payment rises from 25% to 100% of the maximum opportunity for that measure for levels of performance between threshold and maximum • Includes a clawback mechanism in the event of misconduct, error in calculation of performance, or a material misstatement of the Group's financial results
All-employee share schemes	• All employees, including executives, are encouraged to acquire shares by participating in the Group's all-employee share plans - the UK Sharesave Plan and the US Stock Purchase Plan	• The UK Sharesave Plan and US Stock Purchase Plans have standard terms	• Participation limits are those set by the relevant tax authorities from time-to-time	• N/A

Element	Purpose and link to strategy	Operation	Maximum	Performance assessment
Pension	• Provides modest retirement benefits that reward sustained contribution	• Ongoing pension provision is in the form of a cash supplement, subject to auto-enrolment in the Group's stakeholder scheme • Longer-serving employees have accrued benefits under the Group's defined benefit scheme, which was closed on 6 April 2010	• 20% of base salary cash supplement paid in lieu of occupational pension scheme membership • However, from 1 January 2014, all UK employees, including the executive directors, were subject to auto-enrolment into the Group's defined contribution stakeholder scheme, with an employer contribution of 4% of base salary. If executives do not opt out of this scheme, their cash supplement will be reduced by 4%	• N/A
Other benefits	• Provides a competitive package of benefits that assists with recruitment and retention	• Main benefits currently provided to UK executives are a fully-expensed company car or car allowance, life assurance, permanent health insurance and private medical insurance • Executive directors are eligible for other benefits which are introduced for the wider workforce on broadly similar terms	• Company car up to an annual lease cost of £12,000 or cash allowance of up to £25,000 per annum • Other benefits will be in line with market. The value of each benefit is based on the cost to the Company and is not pre-determined • Any reasonable business- related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit	• N/A

Notes:

1. A description of how the Company intends to implement the policy set out in this table for 2016 is set out in the annual report on remuneration on pages 73 to 83.
   The remuneration policy for the executive directors and other senior executives is designed with regard to the policy for employees across the Group as a whole. However, there are some differences in the structure of the remuneration policy for senior executives. In general, these differences arise from the development of remuneration arrangements that are market competitive for the various categories of individuals. They also reflect the fact that, in the case of the executive directors and other senior executives, a greater emphasis tends to be placed on performance-related pay in the market.
2. All-employee share plans do not have performance conditions. Executive directors are eligible to participate in the UK Sharesave Plan on the same terms as other employees.
3. Copies of the PSP rules are available on request from the Company Secretary.
4. As described on page 81, the Company operates share ownership guidelines requiring executive directors to acquire and hold a specified level of shareholding.

Committee discretions

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

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

If an event occurs which results in the annual bonus plan or PSP performance conditions and/or targets being deemed no longer appropriate (e.g. a material acquisition or divestment), the Committee will have the ability to adjust appropriately the measures and/or targets and alter weightings, provided that the revised conditions or targets are not materially less difficult to satisfy.

Outstanding share incentive awards that remain unvested or unexercised at the date of this report, as detailed on pages 79 and 80, remain eligible for vesting or exercise based on their original award terms.

Selection of performance metrics and targets

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

The annual bonus plan performance metrics include a mix of financial targets and personal objectives, reflecting the key annual priorities of the Group. The financial metrics determine the majority of the bonus and normally include cash flow - a key measure of the Group's ability to invest in the business, and a measure of profitability which reflects the Group's financial performance and is a key measure for its shareholders. For the 2016 financial year, this will be operating profit. The personal objectives agreed on an annual basis will be measurable and based on individual performance, and will be consistent with the achievement of the Group's longer-term goals.

The Remuneration Committee has decided to apply TSR and EPS performance conditions to awards made under the PSP, as these measures are directly aligned to the success of the Group's recovery. EPS is a measure of the Group's overall financial success and TSR provides an external assessment of the Company's performance against its peer group. TSR also aligns the rewards received by executives with the returns received by shareholders. Details of the EPS targets applied to 2015 awards and those to be made in 2016 are set out on pages 78 to 79, and further details on the TSR targets for 2015 and 2016 awards are also set out on pages 78 to 79.

The Committee will review the choice and relative balance of performance measures and the appropriateness of performance targets prior to each grant of awards under the PSP. The EPS targets are reset prior to each grant, following a review of internal and external expectations of future EPS growth for the Group, and are based on growth in adjusted EPS. The TSR comparator group is reviewed prior to each grant to ensure it remains appropriate. The Committee retains discretion to set different targets and introduce additional metrics in line with our strategy for future awards, providing that, in the opinion of the Committee, the new targets are no less challenging in light of the prevailing circumstances than those set previously.

How employees' pay is taken into account

In addition to determining the remuneration arrangements for the executive directors, the Committee considers and approves the base salaries for thirteen other senior executives, and reviews salaries for the next tier of management at each of the Group's businesses. The Committee also receives information on general pay levels and policies across the Group. The Committee, therefore, has due regard to salary levels across the Group in applying its remuneration policy.

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

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

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

Long-term incentives are provided to the most senior executives and those identified as having the greatest potential to influence performance within the Group. However, in order to encourage wider employee share ownership, the Company also operates a sharesave plan in the UK and a stock purchase plan in the US, in which all UK and US employees are eligible to participate on completion of six months' service.

How shareholders' views are taken into account

The Remuneration Committee considers shareholder feedback received on the directors' remuneration report each year and guidance from shareholder representative bodies more generally. Shareholders' views are key inputs when shaping remuneration policy.

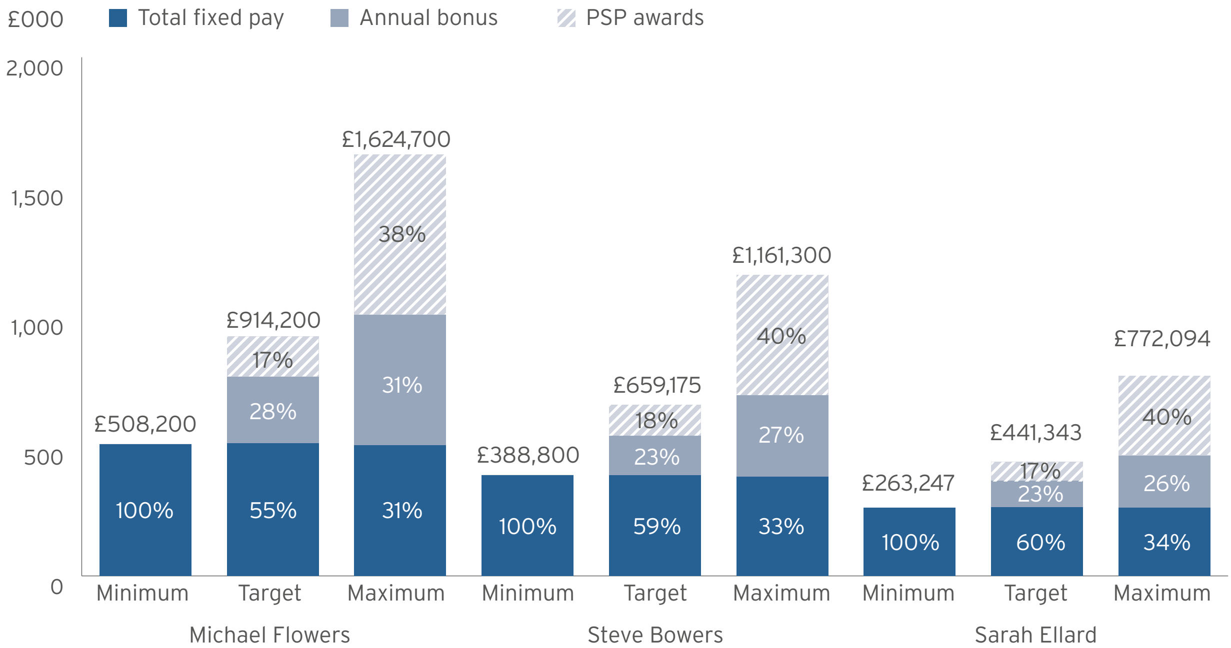
In March 2015, the Committee consulted with the Company's largest shareholders on the feedback received on the directors' remuneration report for 2014 and the proposed implementation of the remuneration policy for 2015, with particular reference to the performance measures to be adopted for the 2015 annual bonus plan. As a result of the feedback received, we confirmed on our website that the financial underpin (EPS and cash) for the personal objectives element of the 2015 bonus plan would be set at the same level as the threshold for each financial target. Further details on the 2015 annual bonus plan targets are set out on page 77. Feedback received in relation to the use of EPS as a metric in both the bonus and the PSP has also resulted in a change to our future policy, with EPS being removed as a bonus measure and replaced by operating profit for the 2016 financial year.

Legacy arrangements

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

Potential remuneration scenarios for executive directors

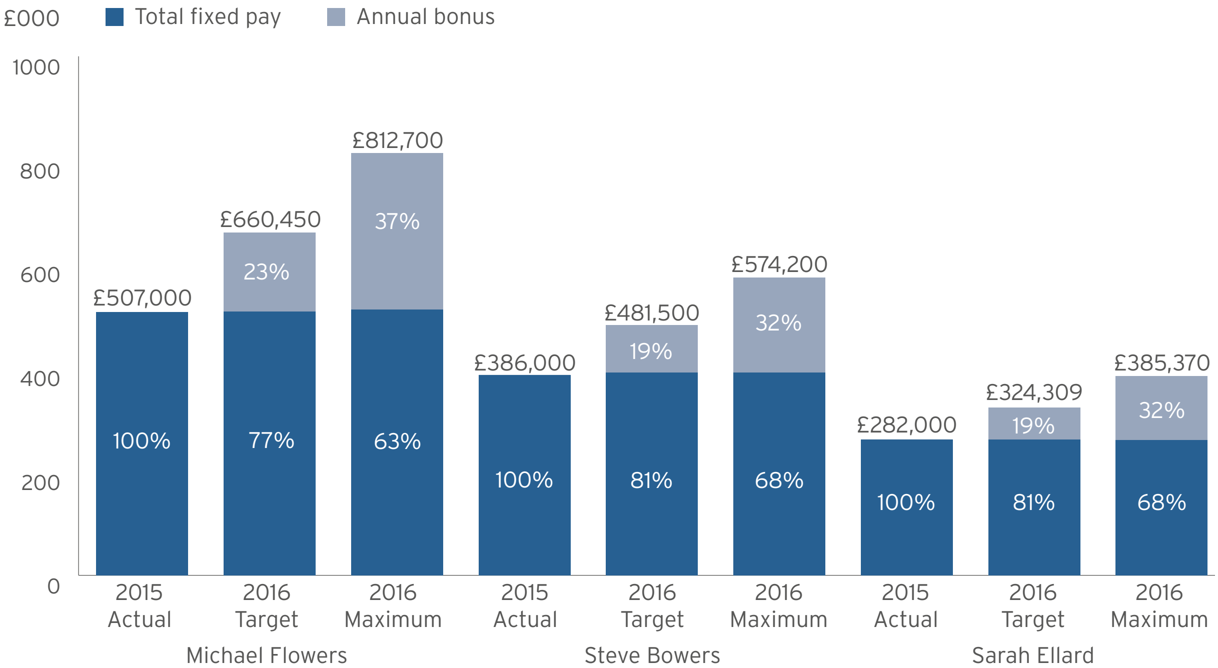
The chart below details the hypothetical composition of each executive director's remuneration package and how it could vary at different levels of performance under the policy set out above. The executive directors will not receive either the "target" or "maximum" packages in 2016, as there are no performance share plan awards due to vest.



Assumptions:

1. *Minimum = fixed pay only (2016 salary plus benefits plus pension cash supplement).*
   On target = fixed pay plus target annual bonus of 62.5% of salary for the Group Chief Executive and 50% for the other executive directors plus target PSP awards of 37.5% of salary for the Group Chief Executive and other executive directors.
   Maximum = fixed pay plus maximum annual bonus of 125% of salary for the Group Chief Executive and 100% for the other executive directors plus maximum PSP awards of 150% of salary for the Group Chief Executive and other executive directors.
2. *As required by the regulations, no account is taken of the impact future share price growth might have on the value of remuneration delivered in shares. The assumptions noted for on target performance in the graph are for incentive purposes only.*
3. *The PSP awards section of the bars is shaded, as these awards are subject to performance in future years and cannot ordinarily vest until three years after grant.*
4. *Salary levels (on which other elements of the packages are calculated) are based on those applying to 31 December 2015. Note that Sarah Ellard's remuneration reflects her current contractual office-based hours, and may eb increased or decreased pro-rata should these change in future.*
5. *The value of taxable benefits is based on an estimated cost of £21,000 for Michael Flowers, £18,000 for Steve Bowers and £19,000 for Sarah Ellard.*
6. *Pension provision is 20% of salary for each director.*
7. *The executive directors may participate in all-employee share schemes on the same basis as other employees. The value that may be received under these schemes is subject to tax-approved limits. For simplicity, the value that may be received from participating in these schemes has been excluded from the above charts.*

The additional chart below compares the actual realisable value of each executive director's remuneration package for 2016 with the potential scenarios set out above, taking account of the fact that no deferred bonus share awards or PSP awards are due to vest during 2015 or 2016.



Assumptions:

1. *2015 Actual = fixed pay (2015 annualised salary plus benefits plus pension cash supplement).*
   2016 Target = fixed pay (2016 salary plus benefits plus pension cash supplement) plus target annual cash bonus of 62.5% of salary for the Group Chief Executive and 50% for the other executive directors.
   Maximum = maximum annual cash bonus of 125% of salary for the Group Chief Executive and 100% for the other executive directors.
2. *Other assumptions as above.*

Policy on payments for loss of office

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

Other than in certain "good leaver" circumstances (including, but not limited to, redundancy, ill-health or retirement), no bonus would be payable unless the individual remains employed and is not under notice at the payment date. Any bonuses paid to a "good leaver" would be based on an assessment of their individual and the Company's performance over the period, and pro-rated for the proportion of the bonus year worked.

Deferred bonus share awards will also normally lapse on cessation of employment, unless the executive director is deemed to be a "good leaver" by the Remuneration Committee, as referred to above, in which case they would vest in full.

With regards to long-term incentive awards, the PSP rules provide that other than in certain "good leaver" circumstances, awards lapse on cessation of employment. Where an individual is a "good leaver", the Remuneration Committee's policy for PSP awards made from 2014 onwards is normally to permit awards to remain outstanding until the end of the original performance period, when a pro-rata reduction will be made to take account of the proportion of the vesting period that lapsed prior to termination of employment, although the Committee has discretion to partly or completely disapply pro-rating in exceptional circumstances. The Remuneration Committee has discretion to deem an individual to be a "good leaver". In doing so, it will take account of the reason for their departure and the performance of the individual.

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

Executive directors' service agreements and loss of office payments

The current executive directors have rolling service contracts, details of which are summarised in the table below:

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

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

Recruitment of executive directors

Salaries for new hires (including internal promotions) will be set to reflect their skills and experience, the Company's intended pay positioning, and the market rate for the applicable role.

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

Benefits will be provided in line with those offered to other executive directors, taking account of local market practice, with relocation expenses or arrangements provided if necessary. Tax equalisation may also be considered if an executive is adversely affected by taxation due to their employment with the Company. Legal fees and other costs incurred by the individual may also be paid by the Company.
The aggregate incentive opportunity offered to new recruits will normally be no higher than that offered under the annual bonus plan and the performance share plan to the existing executive directors. Different performance measures and targets may be set initially for the annual bonus plan, taking into account the responsibilities of the individual and the point in the financial year at which they join. A performance share plan award may be granted shortly following appointment (assuming the Company is not in a close period). Any increases in incentive quantum offered above this limit will be contingent on the Company receiving shareholder approval for an amendment to its approved policy at its next general meeting.

Current entitlements (benefits, bonus and share schemes) may be bought out on terms that are no more favourable than a like-for-like basis (with a comparable time horizon, fair value and subject to performance conditions). The Group's existing incentive arrangements will be used to the extent possible, although awards may also be granted outside of these schemes, if necessary, and as permitted under the Listing Rules.

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

Policy for non-executive directors

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

Non-executive directors' letters of appointment

Non-executive directors do not receive compensation for loss of office but are appointed for a fixed term of three years, renewable for further three year terms if both parties agree and subject to annual re-election by shareholders. All of the non-executive directors' appointments may be terminated on three months' notice by either party.

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

Name	Date original term commenced	Date current term commenced	Expected expiry date of current term
Peter Hickson* (Chairman)	1 July 2010 (Chairman since 1 October 2010)	1 July 2013	2016
Andy Hamment*	1 July 2013	1 July 2013	2016
Ian Much	1 December 2004	1 December 2013	21 March 2016
Nigel Young	1 May 2013	1 May 2013	30 April 2016

* Mr HIckson and Mr Hamment are expected to stand down from the Board during 2016 when suitable replacements are identified.

ANNUAL REPORT ON REMUNERATION

This part of the report has been prepared in accordance with Part 3 of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended), and 9.8.6R of the Listing Rules. The annual report on remuneration will be put to an advisory shareholder vote at the 2016 Annual General Meeting. The information on pages 76 to 83 has been audited.

The Remuneration Committee and its advisers

Members of the Remuneration Committee

Name	From	To
Ian Much (Chairman)	1 December 2004	Present
Andy Hamment	1 July 2013	Present
Peter Hickson	1 July 2010	Present
Vanda Murray	1 November 2011	19 March 2015
Nigel Young	1 May 2013	Present

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

Meetings

The Remuneration Committee met for three scheduled meetings during the year. In addition, two additional ad hoc meetings were convened to deal with matters arising between scheduled meetings. Details of the attendance of the Committee members at scheduled meetings are set out on page 53 of the corporate governance report.

Principal activities of the Remuneration Committee during the year

November 2014	• Initial consideration of financial targets for the 2015 bonus plan • Review of performance conditions for 2015 awards under the performance share plan
December 2014	• Approval of financial targets and personal objectives for the 2015 bonus plan • Approval of annual salary increases for the executive directors and the senior management team
January 2015	• Approval of bonus payments for the 2014 financial year • Grant of deferred share awards in respect of 2014 bonus payments • Grant of 2015 awards under the performance share plan • Approval of the directors' remuneration report for 2014
September 2015	• Review of remuneration policy • Initial consideration of structure of new long-term incentive plan

Advisers

During the year, the Committee retained New Bridge Street (an Aon Hewitt company, part of Aon plc) to advise on remuneration and incentive plan related matters and the setting of remuneration for new appointments. New Bridge Street was appointed by the Committee and is a signatory to the Remuneration Consultants' Group Code of Conduct, which sets out guidelines to ensure that its advice is independent and free from undue influence. The Company received no other services from New Bridge Street during the year. However, the Group's UK flexible benefits scheme is administered by Aon Consulting (Benefits) Limited, part of Aon plc. The fees paid to New Bridge Street in 2015 were £22,297 (2014: £14,917).

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

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

Application of the remuneration policy for 2016

Base salary

The executive directors' salaries were reviewed in December 2015 but no increases were approved, as a result of the performance of the Company during 2015. The current salaries of the executive directors are set out below

	Salary as at 1 January 2016	Percentage increase
Michael Flowers	£406,000	0%
Steve Bowers	£309,000	0%
Sarah Ellard	£203,539	0%

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

Fees for the Chairman and non-executive directors

As detailed in the remuneration policy, the Company's approach to setting the non-executive directors' remuneration takes account of recognised practice, and is set at a level that is sufficient to attract and retain high-calibre non-executives. Details of the current fees are set out below. There were no changes during the year.

	Fee as at 1 January 2016	Percentage increase
Chairman's fee[1]	£187,000	0%
Other non-executive directors' base fee	£55,000	0%
Audit Committee Chair fee	£8,000	0%
Remuneration Committee Chair fee	£8,000	0%

Notes:
1. The Chairman's annual fee of £187,000 is fixed for his current three year term of appointment, which expires on 30 June 2016.

Annual bonus plan performance targets

The annual bonus plan for 2016 will operate on a similar basis to 2015. The performance measures and weightings for the annual bonus plan will therefore be as follows:

Measure	As a percentage of maximum bonus opportunity
Operating profit	37.5%
Cash flow	37.5%
Personal objectives	25.0%

No bonus will be payable in respect of the personal objectives unless the Committee is satisfied that this is justified by the Group's underlying performance, including *inter alia* levels of profitability and cash flow. Further details of the targets are not being disclosed prospectively as these are commercially sensitive. A detailed description of the personal objectives and performance against them will be included in next year's annual report on remuneration.

The 2016 bonus plan is consistent with the remuneration policy detailed in last year's annual report in terms of maximum bonus opportunity, deferred share arrangements and clawback, save that clawback may now be applied in a wider range of circumstances.

Long-term incentive targets

It is intended that the performance condition for the annual awards granted to the executive directors under the PSP in 2016 and beyond will incorporate two metrics, namely growth in adjusted EPS and relative TSR measured against an international peer group of defence sector companies, as listed below. Each metric will determine the vesting of 50% of the 2015 awards. 25% of each part of the award will vest for threshold or median performance, with full vesting of each part of the award for stretch or upper quartile performance.

The EPS performance condition for the 2016 awards has not been finalised at the time of completion of this report and will be disclosed to shareholders at the time the awards are granted.

The defence sector peer group for the 2016 awards comprises: Alliant Techsystems, BAE Systems, Cobham, Cohort, Esterline Technologies, Finmeccanica, FLIR Systems, L3 Communications, QinetiQ Group, Raytheon, Rheinmetall, Rockwell Collins, and Ultra Electronics.

Directors' emoluments

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

	Year	Salaries and fees £'000	Taxable benefits[1] £'000	Bonus (cash and deferred shares)[2] £'000	PSP £'000	Pension benefits[3] £'000	Other	Total £'000
Executives								
Michael Flowers	**2015**	**405**	**21**	**–**	**–**	**81**	**–**	**507**
(appointed 24 June 2014)	2014	142	7	84	–	21	–	254
Steve Bowers	**2015**	**308**	**18**	**–**	**–**	**61**	**–**	**387**
	2014	296	18	171	–	59	–	544
Sarah Ellard	**2015**	**219**	**19**	**–**	**–**	**44**	**–**	**282**
	2014	215	18	109	–	43	–	385
Non-executives								
Andy Hamment	**2015**	**55**	**–**	**–**	**–**	**–**	**–**	**55**
	2014	55	–	–	–	–	–	55
Peter Hickson	**2015**	**187**	**2**	**–**	**–**	**–**	**–**	**189**
	2014	187	2	–	–	–	–	189
Ian Much[4]	**2015**	**63**	**–**	**–**	**–**	**–**	**–**	**63**
	2014	63	–	–	–	–	–	63
Vanda Murray	**2015**	**21**	**–**	**–**	**–**	**–**	**–**	**21**
(resigned 19 March 2015)	2014	55	–	–	–	–	–	55
Nigel Young[4]	**2015**	**63**	**–**	**–**	**–**	**–**	**–**	**63**
	2014	63	–	–	–	–	–	63
Total remuneration	**2015**	**1,321**	**60**	**–**	**–**	**186**	**–**	**1,567**
	2014	1,076	60	364	–	123	–	1,608

Notes:
1. Comprises a fully-expensed company car for Sarah Ellard (annual lease cost £9,000) or cash allowance (£20,000 per annum for Michael Flowers and £18,000 per annum for Steve Bowers), plus private medical insurance.
2. 40% of any bonus is delivered as an award of deferred shares.
3. The executive directors receive a cash supplement of 20% of salary in lieu of occupational pension scheme membership.
4. Nigel Young and Ian Much each receive an additional fee of £8,000 per annum, included in the figures above, in respect of their Chairmanship of the Audit Committee and the Remuneration Committee respectively. Ian Much also serves as the Senior Independent Director but he receives no additional fee for this role.

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

Details of variable pay earned in the year

Annual bonus

The Committee has consistently set highly-challenging targets for the achievement of maximum bonuses. The financial targets for the 2015 bonus plan, compared with actual performance, were as follows:

Metric	Weighting	Performance	Target	Actual	Payout (as % of salary)
Earnings per share	50%	Threshold	13.5p		
		Target	15.0p	8.1p	0%
		Maximum	16.5p		
Operating cash flow	50%	Threshold	£63.4m		
		Target	£70.5m	£35.4m	0%
		Maximum	£77.6m		

The personal objectives set in respect of the 2015 bonus plan are set out below:

Executive	Personal objectives	Key aspects of performance against individual objectives	Payout (as % of salary)
Michael Flowers	• Health and safety	• Enhanced internal audit programme • Further roll-out of Safety Leadership Programme • Completed new automated manufacturing facilities at Chemring Countermeasures UK and Chemring Energetics UK	0%
	• Strategy development	• Reviewed and updated strategy and organisation for business segments and Group	
	• Acquisitions and divestments	• Progressed acquisition of Wallop Defence Systems' countermeasures assets	
	• R&D and new product development	• Secured three R&D programmes for Next Generation Chemical Detection • Initial contract award for Perception cyber security system	
	• Operational performance improvement	• Ongoing investment and improvement at all sites, with all businesses profitable in 2015	
Steve Bowers	• Financial reporting	• Fully implemented Cognos central financial reporting system	0%
	• Financing	• Secured new banking relationships for trade finance	
	• Internal audit	• Implemented new internal audit programme (outsourced to KPMG) across the Group	
	• Development of the Group's financial organisation	• Updated Group Accounting Policy Manual issued	
Sarah Ellard	• Development of the Group's commercial and legal organisation	• Enhanced UK legal and compliance team resource	0%
	• Acquisitions and divestments	• Progressed acquisition of Wallop Defence Systems' countermeasures assets	
	• Group property portfolio	• Downsized London office facility • Completed surrender of legacy leases	
	• Litigation	• Settled several key litigation matters	

No bonuses are due to the executive directors for 2015.

Performance share plan

Vesting of 2013 PSP awards

The PSP awards granted on 31 January 2013 and 27 June 2013 were based on the Group's average share price over the period from 1 August 2015 to 31 October 2015. The performance condition for these awards was as follows:

Condition	Threshold vesting	Full vesting	Actual	Vesting
Average share price from 1 August 2015 to 31 October 2015	350p (25% vests)	500p or more (100% vests)	223p	0%

Based on the above, all PSP awards granted on 31 January 2013 and 27 June 2013 will lapse. Details of the awards granted to the executive directors on these dates are provided below:

Executive	Vesting date	Number of shares at grant	Number of shares to vest	Number of shares to lapse	Value of dividends
Michael Flowers	27 June 2016	79,796	Nil	79,796	Nil
Steve Bowers	31 January 2016	149,564	Nil	149,564	Nil
Sarah Ellard	31 January 2016	114,213	Nil	114,213	Nil

PSP awards granted in the year

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

Executive	Date of grant	Value of award	Closing share price on date of grant	Number of conditional shares awarded	Face value	% that vests at threshold	Vesting determined by
Michael Flowers	26 January 2015	150% of salary	230.5p	261,935	£603,760	25%	EPS growth (50%) and relative TSR performance (50%), as detailed below
Steve Bowers	26 January 2015	150% of salary	230.5p	199,354	£459,511	25%	
Sarah Ellard	26 January 2015	150% of salary	230.5p	143,867	£331,613	25%	

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

The performance conditions applying to the awards made in 2015 are based as to one half of each award on the Company's compound EPS growth over three financial years, and as to the other half of each award on the Company's TSR performance over the same three year performance period.

The EPS performance condition will be measured as follows:

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

The TSR performance condition will be measured as follows:

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

The comparator group for the 2015 awards comprises Alliant Techsystems, BAE Systems, Cobham, Cohort, Esterline Technologies, Finmeccanica, FLIR Systems, L3 Communications, QinetiQ Group, Raytheon, Rheinmetall, Rockwell Collins, and Ultra Electronics.

Performance conditions for outstanding awards

	Measure	Director	Awards to executive directors	Threshold vesting	Full vesting
Awards made on 31 January 2013 and 27 June 2013	Average share price from 1 August 2015 to 31 October 2015	Michael Flowers[1] Steve Bowers Sarah Ellard	150% of salary	350p (25% vests)	500p or more (100% vests)
Awards made on 28 April 2014, 8 July 2014 and 26 January 2015	Total compound earnings per share growth per annum over three financial years (50% of award)	Michael Flowers Steve Bowers Sarah Ellard	150% of salary	5% p.a. (25% vests)	10% p.a. (100% vests)
	Rank of the Company's total shareholder return against the total shareholder return of the members of the comparator group (50% of award)			Median ranking (25% vests)	Upper quartile ranking (100% vests)

Notes:
1. The award made to Michael Flowers on 27 June 2013 was valued at 100% of salary.
2. Earnings per share is calculated on a fully-diluted and normalised basis, as specified by the Committee prior to grant.

Summary of outstanding PSP awards

	Number of shares under award						
Executive	At 1 November 2014	Awarded during the year	Lapsed during the year	Vested during the year	At 31 October 2015	Date of vesting	Closing share price on date of grant (p)
Michael Flowers	79,796	–	–	–	79,796	27 June 2016	282.0
	94,827	–	–	–	94,827	28 April 2017	229.0
	186,046	–	–	–	186,046	8 July 2017	199.0
	–	261,935			261,935	26 January 2018	230.5
	360,669	**261,935**	–	–	**622,604**		
Steve Bowers	149,564	–	–	–	149,564	31 January 2016	283.6
	193,965	–	–	–	193,965	28 April 2017	229.0
	–	199,354	–	–	199,354	26 January 2018	230.5
	343,529	**199,354**	–	**–**	**542,883**		
Sarah Ellard	79,197	–	(79,197)	–	–	27 January 2015	387.3
	114,213	–	–		114,213	31 January 2016	283.6
	139,978	–	–	–	139,978	28 April 2017	229.0
	–	143,867	–	–	143,867	26 January 2018	230.5
	333,388	**143,867**	(79,197)	–	**398,058**		

Notes:
1. None of the awards granted on 27 January 2012 vested as the threshold EPS performance target was not met.
2. As explained above, the awards granted on 31 January 2013 and 27 June 2013 will lapse as the share price target has not been met.

Sharesave awards

No options were granted to the executive directors under the Chemring Group 2008 UK Sharesave Plan during the year. Details of their outstanding options as at 31 October 2015 are shown below.

Executive	Number of share options	Exercise price	Exercise date
Michael Flowers	11,042	163p	1 October 2017 – 31 March 2018
Steve Bowers	9,202	163p	1 October 2019 – 31 March 2020
Sarah Ellard	–	–	–

Deferred share awards

Deferred share awards granted in the year

On 27 January 2015, the following deferred share awards were granted to the executive directors in satisfaction of 40% of their total bonus payments for 2014:

Executive	Date of grant	Value of award	Number of conditional shares awarded	Closing share price on date of grant (p)	Face value	Date of vesting
Michael Flowers	27 January 2015	40% of 2014 bonus payment	14,606	226.5	£33,083	27 January 2018
Steve Bowers	27 January 2015	40% of 2014 bonus payment	29,727	226.5	£67,332	27 January 2018
Sarah Ellard	27 January 2015	40% of 2014 bonus payment	18,973	226.5	£42,974	27 January 2018

Notes:

1. *Vesting of deferred bonus share awards is subject only to continued service.*

Summary of outstanding deferred share awards

	Number of shares under award						
Executive	At 1 November 2014	Awarded during the year	Lapsed during the year	Vested during the year	At 31 October 2015	Date of vesting	Closing share price on date of grant (p)
Michael Flowers	–	14,606	–	–	14,606	27 January 2018	226.5
	–	**14,606**	**–**	**–**	**14,606**		
Steve Bowers	19,097	–	–	–	19,097	23 January 2017	229.0
	–	29,727	–	–	29,727	27 January 2018	226.5
	19,097	**29,727**	**–**	**–**	**48,824**		
Sarah Ellard	12,600	–	–	–	12,600	23 January 2017	229.0
	–	18,973	–	–	18,973	27 January 2018	226.5
	12,600	**18,973**	**–**	**–**	**31,573**		

Directors' shareholdings

Shareholding guidelines apply to executive directors and other participants in the PSP. Executive directors are expected to build-up and maintain a shareholding in the Company equivalent to one year's basic salary, by retaining 50% of the after-tax gain on vested PSP awards until such time as the guidelines have been met. Other participants in the PSP are expected to retain a shareholding equivalent to 25% to 50% of their basic salary.

The interests of the directors in the ordinary shares of the Company at 31 October 2015 are shown below. All are beneficial holdings.

				Unvested and subject to performance conditions under the PSP					
Executive	Legally owned (number of shares)	Value of legally owned shares as % of salary[1]	Guideline met	2013 award	2014 award	2015 award	Total at 31 October 2015	Deferred bonus share awards	Sharesave options
Michael Flowers	90,680	38%	No	79,796	280,873	261,935	**622,604**	14,606	11,042
Steve Bowers	-	-	No	149,564	193,965	199,354	**542,883**	48,824	9,202
Sarah Ellard	33,500	28%	No	114,213	139,978	143,867	**398,058**	31,573	-
Andy Hamment	50,000	-	-	-	-	-	**-**	-	-
Peter Hickson	210,000	-	-	-	-	-	**-**	-	-
Ian Much	26,500	-	-	-	-	-	**-**	-	-
Nigel Young	-	-	-	-	-	-	**-**	-	-

Notes:

1. Based on the number of shares legally owned, prevailing base salary and share price of 172p, at 31 October 2015.

The directors' share interests at 31 October 2015 include shares held by the directors' adult children, as required by the Companies Act 2006.

There have been no changes to the directors' interests in shares since 31 October 2015.

Pension

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

		Total benefit accrued at 31 October 2014			Total benefit accrued at 31 October 2015				
	Cash in lieu of pension contributions £000	Pension £000p.a.	Cash £000	Transfer value of accrued benefit at 31 Oct 2014 £000	Pension £000p.a.	Cash £000	**Transfer value of accrued benefit at 31 Oct 2015 £000**	Increase in transfer value during year (less members' contributions) £000	Value of benefit for single figure £000
Michael Flowers	**81**	-	-	-	-	-	**-**	-	81
Steve Bowers	**61**	-	-	-	-	-	**-**	-	61
Sarah Ellard	**44**	24	72	461	24	72	**461**	-	44

Notes:

1. Sarah Ellard receives a 20% cash supplement in lieu of pension. Michael Flowers and Steve Bowers did not opt out of the company's defined contribution pension scheme on auto-enrolment, and therefore receive a 16% cash supplement and a 4% pension contribution.
2. Transfer values represent liabilities of the applicable scheme, and do not represent sums paid to individuals.
3. Transfer values have been calculated in accordance with the Occupational Pension Scheme (Transfer Value) Regulations 1996.
4. Sarah Ellard left pensionable service on 6 April 2010 and therefore has not accrued additional pension over the year. The accrued benefits shown are the benefits at the date of exit.
5. The scheme provided pension at a rate of 1/80th of final pensionable salary plus a cash lump sum of 3/80ths for each year of membership. Final pensionable salary was capped at the HMRC notional earnings cap, and the scheme assumed a normal retirement age of 65. Early retirement is permissible form age 55 but accrued benefits are reduced accordingly using the early retirement factors in force at the date of early retirement.

Loss of office payments

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

As disclosed in last year's annual report, the Company agreed to make a total payment of £593,135, representing twelve months' pay in lieu of notice and compensation for loss of contractual benefits (including pension contributions), to the former Chief Executive, Mark Papworth, following the termination of his employment on 24 June 2014. The payment was made in twelve monthly instalments, over the period from July 2014 to June 2015, in accordance with his contract. Mr Papworth was required to mitigate his loss during this period, and any employment income he received would have reduced the value of the payments due from the Company.

Mr Papworth filed an employment tribunal claim against the Company in respect of the termination of his employment. Following the withdrawal of the claim, the Company paid him £25,000 as a contribution towards his legal costs.

Payments to past directors

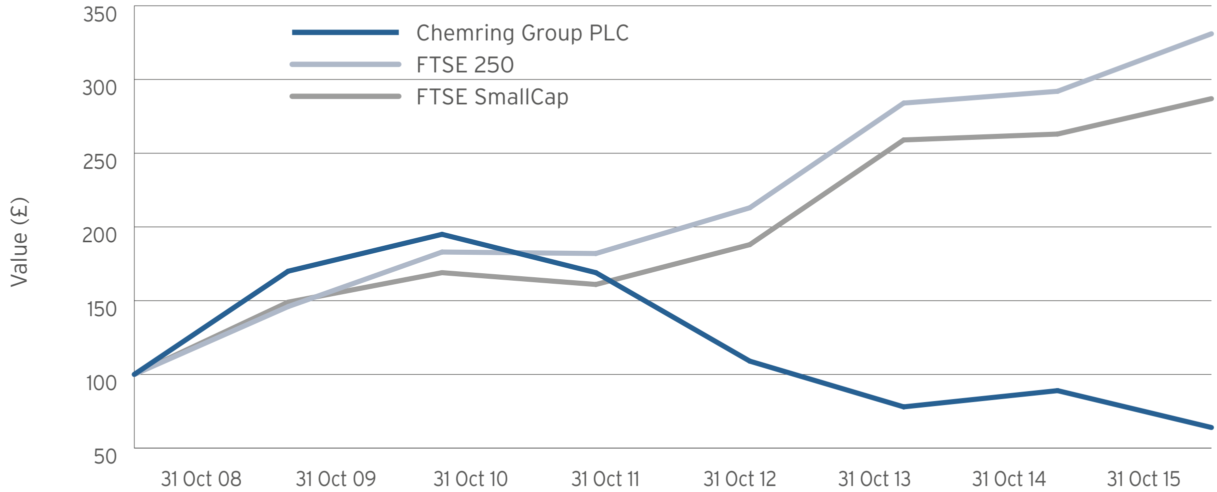
Other than the payments made to Mr Papworth, as disclosed above, no payments were made to past directors during the year.

Performance graph and table

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

Total shareholder return

This graph shows the value, by 31 October 2015, of £100 invested in Chemring Group PLC on 31 October 2008 with the value of £100 invested in the FTSE 250 and FTSE SmallCap. The other points are the values at intervening financial year ends.



Source: Thomson Reuters

Group Chief Executive's remuneration

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

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

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

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

Percentage change in the Group Chief Executive's remuneration

The table below shows the percentage change in the Group Chief Executive's total remuneration (excluding the value of any PSP awards and pension benefits receivable in the year) between the 2014 and 2015 financial years, compared to that of the average for all eligible employees of the Group.

	% Change from 2014 to 2015		
	Salary	Benefits	Annual bonus
Group Chief Executive	1.3	2.0	(100.0)
Average of other employees	4.3	3.2	(57.1)

Relative importance of spend on pay

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

	2015 £m	*2014* £m	% change
Staff costs	123.4	144.9	(14.8)
Dividends	7.9	7.9	0
Retained profits	85.7	95.7	(10.4)

£1.2 million of the staff costs figure for 2015 relates to pay for the executive directors. This is different to the aggregate of the single figures for the year under review due to the way in which share-based awards are accounted for.

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

Shareholder voting on the directors' remuneration report at the 2015 Annual General Meeting

At the Annual General Meeting held on 19 March 2015, the directors' remuneration report (including the policy and the implementation report) received the following votes from shareholders:

	Total number of votes	% of votes cast
Directors' remuneration report		
For	82,074,006	57.2%
Against	61,415,442	42.8%
Total votes cast (for and against excluding withheld votes)	**143,489,448**	**100.0%**
Votes withheld[1]	14,407,194	9.1%
Total votes cast (including withheld votes)	**157,896,642**	**100.0%**

Notes:

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

Approval of the directors' remuneration report

The directors' remuneration report was approved by the Board on 21 January 2016.

Signed on behalf of the Board

Ian Much
Chairman of the Remuneration Committee

Opinion on financial statements of Chemring Group plc

In our opinion:

- **the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 October 2015 and of the group's loss for the year then ended;**
- **the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.**

The financial statements comprise the Consolidated Income Statement, the Consolidated and Parent Company Statements of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated and Parent Company Statements of Changes in Equity and the related notes 1 to 41. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1 to the financial statements and the directors' statement on the longer-term viability of the group contained within the strategic report on page 25.

We have nothing material to add or draw attention to in relation to:

- the directors' confirmation on page 25 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 32 to 37 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the director's explanation on page 25 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

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

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

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

Risk	How the scope of our audit responded to the risk
The appropriateness of the going concern basis of accounting in preparing the financial statements *Refer to page 105 and 106 (critical accounting judgements and key sources of estimation uncertainty – going concern); page 106 (accounting policies – going concern); and page 60 (Audit Committee report – significant issues considered).* In considering the use of the going concern basis of accounting in preparing the financial statements, there are a number of judgements that have been made in respect of forecast trading assumptions. The nature of the group's business is such that its revenue is typically made up of relatively short term contracts with government counterparties, which are subject to acceleration, delays or cancellations at short notice, which in turn makes it challenging to forecast results. In addition to these forecast trading assumptions, management has assumed that the Rights Issue for £80.8 million that has been proposed to shareholders will be approved.	We reviewed management's consideration of the adoption of the going concern assumption with particular focus on the financial covenant tests associated with the Group's sources of debt for a period of at least 12 months from the date of our audit report. Our audit work assessed the adequacy of the design and implementation of controls over the forecasting process. Our work included challenging management's forecasts by understanding the root cause analysis of the volatile trading compared to forecasts, consideration of the wider economic environment including customers and major programmes, understanding the existing order book coverage of revenue over the forecast period, and understanding the individual contracts on a business by business basis that drive the forecasts, including the 40mm ammunition contract with a customer in the Middle East. In addition we have considered the risks within each business, in light of the challenging trading environment, to identify how these risks could impact on the Group's ability to deliver against forecast. These risks include production challenges, the timing of revenue recognition on secured contracts, and the ability for new products to deliver revenue over the forecast period. Specifically on the announced Rights Issue we have reviewed and understood the terms on which the rights option has been put to shareholders. We have performed sensitivity analysis over the forecast period based on our understanding and challenge of the assumptions made by management and mitigating actions available, to determine the cash requirement of the Group and covenant compliance. We have further challenged this through a review of post year-end trading performance against expectation. We have reviewed the disclosure made in the area of Going Concern to ensure that it appropriately reflects the facts and circumstances within the Director's internal assessment of the use of the Going Concern assumption.

Risk	How the scope of our audit responded to the risk
Revenue recognition *Refer to page 105 (critical accounting judgements and key sources of estimation uncertainty – assessment of contract accounting); pages 98 and 99 (accounting policies – revenue recognition); and page 60 (Audit Committee report – significant issues considered).* • Subject to meeting specific criteria, Chemring adopts long term contract accounting for certain of its contracts. Revenue recognised on this basis in the year was £12.8million. In these circumstances, a number of judgements are undertaken which specifically impact the extent of revenue recognised, such as judgements related to the existence of contractual arrangements with customers, the stage of completion, milestone attainment and risks associated with completing the contract.	Our audit work assessed the adequacy of the design and implementation of controls over long-term contract accounting. For a sample of contracts we reviewed the contract risk registers and evidence of progress made against the contract to confirm that revenue and profit recognised to date are based on management's current best estimate of the degree of contract completion. We verified that the manufactured assets were specific to the contract. We also assessed the extent to which the outcome of the contract could be estimated reliably and obtained adequate support for key judgements taken. We understood and challenged management's assumptions by referring to evidence including signed contract terms and associated evidence of an arrangement, latest project status reports, and discussing contract progress and future risks with contract engineers. We also critically assessed the reliability of management estimates through consideration of the historical accuracy of prior year management estimates and considering the extent to which any other evidence, including industry reports around major programmes, and our knowledge of the Aerospace and Defence industry, contrasted with the assumptions made.
• Judgements are taken in recognising revenue relating to the delivery of goods, most notably due to the complex contractual and shipping terms with regards to the transfer of risk and reward and the appropriate point at which revenue should be recognised. The delay in revenue recognition on a 40mm ammunition contract with a customer in the Middle East is an example of this.	Our audit work assessed the adequacy of the design and implementation of controls around revenue recognition. In response to the risk arising from complex contractual terms, we reviewed contractual evidence to understand how the specific terms were recorded and the appropriate revenue recognition policies applied. We then performed a sample test of sales recognised either side of the year end to substantiate that the appropriate terms of the relevant contracts had been followed and that the risks and rewards associated with the contract had passed to the customer. We used external evidence such as shipping documentation, export licences, letters of credit or client acceptance documentation to confirm that revenue had been recognised in the appropriate period.

Risk	How the scope of our audit responded to the risk
Valuation of goodwill and/or intangibles *Refer to page 106 (critical accounting judgements and key sources of estimation uncertainty – goodwill impairment); page 100 (accounting policies – intangible assets); and page 60 (Audit Committee report – significant issues considered).* • The assessment of the valuation of goodwill arising on historical acquisitions, is a judgemental process due to management's assertions regarding their recoverable amount. The Group recognised goodwill of £121.2million at 31 October 2015. There are a number of key judgements in determining the recoverable amount, including growth rates in future cashflow forecasts, timing of contract wins and conversion into revenue, launch of new products and associated revenues, and discount rates applied to these forecasts	Our audit work assessed the adequacy of the design and implementation of controls over monitoring the carrying value of goodwill. We challenged the assumptions used by management in their annual impairment assessment by benchmarking to independently available data, peer group analysis, our by using our understanding of the secured orders underpinning the Group's short-term cash flow forecasts and our assessment of the longer term growth rates employed. In addition, valuation specialists within the audit team provided a challenge over the discount rate applied to these cash flows through the use of external data and benchmarking. Having audited the assumptions within management's annual impairment assessment, we checked the arithmetic accuracy of the impairment model using these assumptions to confirm their conclusions with respect to the recoverability of the carrying value of goodwill and other intangibles.
• The valuation of intangibles arising from internal capitalised development costs, is judgemental due to management's assertions regarding their capital nature and their recoverable amount. £36.1million of such costs have been capitalised at 31 October 2015.	We reviewed the design and implementation of controls over the capture of costs and the on-going monitoring of capital development projects. For significant projects we tested a sample of costs incurred. Additionally we gained an understanding of the project plan and progress made to date through enquiries with non-finance personnel, evidencing the status of secured orders and income, routes to market and the identification of potential customers to help us assess whether carrying values were supportable. This involved review of documentation with third parties, understanding contract progress, ongoing customer interest and future risks with the commercial and business development team and allowed us to critically assess the recoverability of the related assets.
Provisioning for taxation *Refer to page 106 (critical accounting judgements and key sources of estimation uncertainty – tax); and pages 101 and 102 (accounting policies – tax); and pages 113, 130 and 131 (notes to the group financial statements – tax).* Provisioning for taxation requires complex judgements to be taken in respect of the various tax jurisdictions in which the Group operates. The provisions are judgemental as a result of their nature and technical complexity.	Our audit work assessed the adequacy of the design and implementation of controls over accounting for taxation. We evaluated the appropriateness of management's assumptions and estimates in their assessment and valuation of the tax risks within the Group including review of correspondence on the status of tax compliance and tax audits in the various jurisdictions in which the Group operates, and benchmarking against our assessment of the range of potential outcomes in respect of the uncertain tax treatments adopted. We involved tax specialists within the audit team to provide detailed knowledge and expertise in assessing tax treatments in certain jurisdictions.

Risk	How the scope of our audit responded to the risk
The appropriateness and completeness of provisions made by management *Refer to page 106 (critical accounting judgements and key sources of estimation uncertainty – legal); pages 104 and 105 (accounting policies – provisions and contingent liabilities); and pages 130 and 141 (notes to the group financial statements – provisions and contingent liabilities).* Management recognises provisions in respect of product failures, environmental matters and legal claims. The outcomes of these claims are subject to management judgement, as shown in the current year where claim related costs have been incurred of £8.5m in respect of claims brought by the US Department of Justice relating to historic supplies of product by Kilgore, and settlement of claims regarding the manufacture of certain components for the Next Generation Light Anti-Tank Weapon ("NLAW") combat weapon by Chemring Energetics. Provisions total £21.4 million at 31 October 2015.	Our audit work assessed the adequacy of the design and implementation of controls in relation to provisions. We recalculated and challenged management's estimates for the provisions in conjunction with our understanding of the potential liability as set out in contract terms. For product failures, we challenged the level of provisioning by verifying the actual failure costs incurred to date and the products in circulation subject to customer dispute using external evidence, such as correspondence with third parties. In response to litigation and environmental risks, we circularised the Group's external legal advisors and held specific discussions with external advisors that are providing services to the Group in relation to certain claims and reviewed legal costs incurred in the year to confirm the completeness of legal cases to which the Group is party. Through external evidence including submitted legal advice and discussion with management, we sought to challenge the basis for management's expectations over likely outcomes and their subsequent quantification of the related provisions.

In the current year we have included the risk in respect of the Going Concern assumption in light of the Group's volatile trading and post-year end announced Rights Issue and associated covenant alleviations in place on the private placement loan notes and bank funding facility.

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

Our application of materiality	We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work. We have used professional judgement in determining an appropriate materiality benchmark. As a result of the business performance in the year, on-going volatile market pressure and the statutory loss before tax, we have included consideration of alternative benchmarks in reaching our conclusion. We derived materiality by using 7.5% of a 3 year average for continuing underlying pre-tax profit measure reported by the Group that is adjusted to the reported results that management believe are of interest to the users of the financial statements. This serves to reduce the volatility that one-off significant contracts have had on the Group's trading result for the year ended 31 October 2015. The result is that materiality has reduced significantly year on year. On this basis we determined materiality for the Group to be £2.1million (2014: £2.9million), which equates to 10% of underlying pre-tax profit (2014: 10%), under 1% of revenue (2014: 1%), and under 1% of a larger net asset position (2014: 1%). We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £41,500 (2014: £58,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.
An overview of the scope of our audit	Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, we focused our group audit scope primarily on the audit work at 14 locations (2014: 17 locations), reduced from 2014 due to the restructuring and divestment that has taken place. 9 (2014: 10) of these were subject to a full audit, whilst the remaining 5 (2014: 7) were subject to either an audit of specified account balances or specified audit procedures where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those locations. These 14 locations represent the principal business units and account for 97% (2014: 97%) of the Group's net assets, 93% (2014: 96%) of the Group's revenue and 97% (2014: 99%) of the Group's underlying profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the 14 locations was executed at levels of materiality applicable to each individual entity which were lower than group materiality and ranged from £0.5million to £1.5million (2014: £0.5million to £1.9million). At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances. The group audit team continued to follow a programme of planned visits that has been designed so that the Senior Statutory Auditor or a senior member of the group audit team visits each of the locations where the group audit scope was focused at least once every three years and the most significant of them at least once a year. Every year, regardless of whether we have visited or not, we include the component audit team in our team briefing, direct the scope of their work for the purposes of our group audit, discuss their local risk assessment, and review documentation of the findings from their work.

Opinion on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

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

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

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor	As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews. This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.
Scope of the audit of the financial statements	An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Anna Marks ACA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, UK
21 January 2016

CONSOLIDATED INCOME STATEMENT
For the year ended 31 October 2015

	Note	2015 Underlying performance* £m	2015 Non-underlying items* £m	2015 Total £m	2014 Underlying performance* £m	2014 Non-underlying items* £m	2014 Total £m
Continuing operations							
Revenue	4,5	**377.3**	**-**	**377.3**	403.1	–	403.1
Operating profit/(loss)	5,6	**34.4**	**(28.9)**	**5.5**	46.7	(21.3)	25.4
Finance income	5,8	**-**	**-**	**-**	0.1	–	0.1
Finance expense	5,9	**(14.6)**	**-**	**(14.6)**	(18.7)	(12.0)	(30.7)
Profit/(loss) before tax	5	**19.8**	**(28.9)**	**(9.1)**	28.1	(33.3)	(5.2)
Tax (charge)/credit on profit/(loss)	5,10	**(4.1)**	**7.9**	**3.8**	(5.7)	9.5	3.8
Profit/(loss) after tax		**15.7**	**(21.0)**	**(5.3)**	22.4	(23.8)	(1.4)
Discontinued operations							
Profit/(loss) after tax from discontinued operations	33	**-**	**4.9**	**4.9**	1.5	(55.0)	(53.5)
Profit/(loss) after tax		**15.7**	**(16.1)**	**(0.4)**	23.9	(78.8)	(54.9)

Earnings/(loss) per ordinary share	Note	2015 Underlying performance*	2015 Non-underlying items*	2015 Total	2014 Underlying performance*	2014 Non-underlying items*	2014 Total
Continuing operations							
Basic	12	**8.1p**	**(10.8)p**	**(2.7)p**	11.6p	(12.3)p	(0.7)p
Diluted	12	**7.9p**	**(10.6)p**	**(2.7)p**	11.3p	(12.0)p	(0.7)p
Continuing operations and discontinued operations							
Basic	12	**8.1p**	**(8.3)p**	**(0.2)p**	12.4p	(40.8)p	(28.4)p
Diluted	12	**7.9p**	**(8.1)p**	**(0.2)p**	12.1p	(40.5)p	(28.4)p

* Further information about non-underlying items is set out in notes 5 and 6.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 October 2015

	Note	2015 £m	2014 £m
Loss after tax attributable to equity holders of the parent as reported		**(0.4)**	(54.9)
Items that will not be reclassified subsequently to profit or loss			
Actuarial losses on defined benefit pension schemes	35	**-**	(4.8)
Movement on deferred tax relating to pension schemes	26	**-**	1.1
		-	(3.7)
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translation of foreign operations		**(2.6)**	(14.6)
Current tax on items taken directly to equity		**0.6**	-
Deferred tax on exchange differences on translation of foreign operations	26	**(0.6)**	0.5
		(2.6)	(14.1)
Total comprehensive loss attributable to equity holders of the parent		**(3.0)**	(72.7)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 October 2015

	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2014	2.0	230.7	12.9	1.2	(32.6)	95.7	(9.6)	300.3
Loss after tax	–	–	–	–	–	(0.4)	–	(0.4)
Other comprehensive income/(loss)	–	–	–	–	0.3	(2.9)	–	(2.6)
Tax relating to components of other comprehensive income	–	–	–	–	-	-	–	-
Total comprehensive income/(loss)	–	–	–	–	0.3	(3.3)	–	(3.0)
Dividends paid	–	–	–	–	–	(7.9)	–	(7.9)
Share-based payments (net of settlement)	–	–	–	–	–	1.2	–	1.2
At 31 October 2015	**2.0**	**230.7**	**12.9**	**1.2**	**(32.3)**	**85.7**	**(9.6)**	**290.6**

	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2013	2.0	230.7	12.9	1.3	(26.0)	172.5	(9.6)	383.8
Loss after tax	–	–	–	–	–	(54.9)	–	(54.9)
Other comprehensive loss	–	–	–	–	(6.6)	(2.8)	–	(19.4)
Tax relating to components of other comprehensive income	–	–	–	–	-	1.6	–	1.6
Total comprehensive loss	–	–	–	–	(6.6)	(66.1)	–	(72.7)
Dividends paid	–	–	–	–	–	(12.0)	–	(12.0)
Share-based payments (net of settlement)		–	–	–	–	1.2	–	1.2
Transfers between reserves	–	–	–	(0.1)	–	0.1	–	–
At 31 October 2014	2.0	230.7	12.9	1.2	(32.6)	95.7	(9.6)	300.3

CONSOLIDATED BALANCE SHEET
As at 31 October 2015

	Note	2015 £m	2015 £m	2014 £m	2014 £m
Non-current assets					
Goodwill	13	**121.2**		119.7	
Development costs	14	**36.1**		33.2	
Other intangible assets	14	**74.2**		85.9	
Property, plant and equipment	15	**168.0**		177.1	
Deferred tax	26	**47.5**		31.9	
			447.0		447.8
Current assets					
Inventories	18	**96.2**		78.1	
Trade and other receivables	19	**93.1**		90.7	
Cash and cash equivalents	20,38	**7.6**		21.8	
Derivative financial instruments	24	**0.5**		0.7	
			197.4		191.3
Total assets			**644.4**		639.1
Current liabilities					
Borrowings	21,38	**-**		(0.3)	
Obligations under finance leases	21,22	**(0.5)**		(1.0)	
Trade and other payables	23	**(96.2)**		(86.0)	
Provisions	25	**(5.1)**		(2.9)	
Current tax		**(7.9)**		(6.7)	
Derivative financial instruments	24	**(1.6)**		(1.7)	
			(111.3)		(98.6)
Non-current liabilities					
Borrowings	21,38	**(161.3)**		(155.6)	
Obligations under finance leases	21,22	**-**		(0.4)	
Trade and other payables	23	**(1.7)**		(2.0)	
Provisions	25	**(16.3)**		(24.1)	
Deferred tax	26	**(45.1)**		(35.5)	
Preference shares	21,27	**(0.1)**		(0.1)	
Retirement benefit obligations	35	**(17.7)**		(21.8)	
Derivative financial instruments	24	**(0.3)**		(0.7)	
			(242.5)		(240.2)
Total liabilities			**(353.8)**		(338.8)
Net assets			**290.6**		300.3
Equity					
Share capital	27		**2.0**		2.0
Share premium account			**230.7**		230.7
Special capital reserve			**12.9**		12.9
Revaluation reserve			**1.2**		1.2
Translation reserve			**(32.3)**		(32.6)
Retained earnings			**85.7**		95.7
			300.2		309.9
Own shares	29		**(9.6)**		(9.6)
Equity attributable to equity holders of the parent			**290.6**		300.3
Total equity			**290.6**		300.3

These financial statements of Chemring Group PLC (registered number 86662) were approved and authorised for issue by the Board of directors on 21 January 2016.

Signed on behalf of the Board

Michael Flowers
Director

Steve Bowers
Director

CONSOLIDATED CASH FLOW STATEMENT
For the year ended 31 October 2015

	Note	2015 £m	2014 £m
Cash flows from operating activities			
Cash generated from continuing operations	36	**35.4**	45.9
Cash generated from discontinued operations	33,36	**–**	17.6
	36	**35.4**	63.5
Acquisition and disposal related costs	32	**(0.7)**	(7.5)
Business restructuring and incident costs	5	**(7.6)**	(6.4)
Claim related costs	5	**(0.1)**	–
		27.0	49.6
Tax paid		**(1.3)**	(3.4)
Net cash inflow from operating activities		**25.7**	46.2
Cash flows from investing activities			
Purchases of intangible assets		**(8.9)**	(12.1)
Purchases of property, plant and equipment		**(8.2)**	(10.9)
Receipt of finance income		**–**	0.2
Receipts from sales of businesses, net of cash transferred	17,33	**–**	137.1
Acquisition of subsidiary undertaking, net of cash acquired		**–**	(1.4)
Proceeds on disposal of property, plant and equipment		**–**	0.4
Net cash (outflow)/inflow from investing activities		**(17.1)**	113.3
Cash flows from financing activities			
Dividends paid	11	**(7.9)**	(12.0)
Finance expense paid		**(11.8)**	(32.8)
Capitalised facility fees paid		**(1.8)**	(2.8)
Repayments of borrowings		**(0.3)**	(102.1)
Repayments of obligations under finance leases		**(0.9)**	(1.6)
Net cash outflow from financing activities		**(22.7)**	(151.3)
(Decrease)/increase in cash and cash equivalents		**(14.1)**	8.2
Cash and cash equivalents at beginning of year		**21.8**	14.2
Effect of foreign exchange rate changes		**(0.1)**	(0.6)
Cash and cash equivalents at end of year	20,38	**7.6**	21.8

1. General information

Chemring Group PLC is a company incorporated in England and Wales under registration number 86662. The address of the registered office is Roke Manor, Old Salisbury Lane, Romsey, Hampshire, SO51 0ZN. The nature of the Group's operations and its principal activities are set out in note 5 and in the directors' report on pages 46 to 49. These financial statements are the consolidated financial statements of Chemring Group PLC and its subsidiaries (the "Group").

The financial statements are presented in pounds sterling, being the currency of the primary economic environment in which the group operates, and rounded to the nearest £0.1 million. Foreign operations are included in accordance with the policy set out in note 3.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Group and the Company have adequate resources to continue to adopt the going concern basis of accounting in preparing these financial statements. Further detail is contained in the statement on going concern on page 25.

2. Adoption of new and revised standards

The following International Financial Reporting Committee ("IFRIC") interpretations, amendments to existing standards and new standards were adopted in the year ended 31 October 2015 but have not materially impacted the reported results or the financial position:

- *Investment Entities*, amendments to IFRS 10, IFRS 12 and IAS 27;
- IAS 19 (amended) *Defined Benefit Plans: Employee Contributions*;
- IAS 27 (revised) *Separate Financial Statements*;
- IAS 36 (amended) *Recoverable Amount Disclosures for Non-Financial Assets*;
- IAS 32 (amended) *Offsetting Financial Assets and Financial Liabilities*;
- IAS 39 (amended) *Novation of Derivatives and Continuation of Hedge Accounting*;
- IFRIC 21 *Levies*;
- Annual Improvements to IFRSs (2010-2012) Cycle; and
- Annual Improvements to IFRSs (2012-2014) Cycle.

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

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

- IFRS 9 *Financial Instruments Novation of Derivatives and Continuation of Hedge Accounting*;
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*, amendments to IFRS 10 and IAS 28;
- IFRS 11 (amended) *Accounting for Acquisitions of an Interest in a Joint Operation*;
- IFRS 15 *Revenue from Contracts with Customers*;
- *Clarification of Acceptable Methods of Depreciation and Amortisation*, amendments to IAS 16 and IAS 38;
- IAS 27 (amended) *Equity Method in Separate Financial Statements*; and
- Annual Improvements to IFRSs (2012-2014) Cycle.

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

- IFRS 9 *Financial Instruments* will impact both the measurement and disclosure of financial instruments;
- IFRS 15 *Revenue from Contracts with Customers* will impact the validity and timing of revenue recognised under contract accounting. This may particularly affect contracts with variable consideration or specific contract terms allowing the customer to modify or curtail its requirements; and
- IFRS 16 *Leases* will impact the measurement, recognition, presentation and disclosure of leases, particularly operating leases where the term is longer than 12 months.

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

3. Accounting policies

Basis of preparation

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

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

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

Basis of consolidation

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

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

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

Operating profit

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

Revenue recognition

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

Sale of goods

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

Rendering of services

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

3. Accounting policies continued

Contract accounting

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

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

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

Investment income

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

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

Acquisitions and disposals

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

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

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

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

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

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

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

3. Accounting policies continued

Non-current assets held for sale

Non-current assets and disposal groups classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Intangible assets

Goodwill

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

Acquired intangibles

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

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

Development costs

Development costs that qualify as intangible assets are capitalised as incurred and, once the relevant intangible asset is ready for use, are amortised on a straight-line basis over their estimated useful lives, averaging five years (2014: five years).

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

Patents and licences

Patents and licences are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives, averaging seven years (2014: seven years).

Property, plant and equipment

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

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

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

Investments in associates

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

3. Accounting policies continued

Impairment of non-current assets

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

Inventories

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

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

Borrowing costs

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

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

Government grants

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

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

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

Tax

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

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

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

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

3. Accounting policies continued

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

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

Special capital reserve

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

Foreign currencies

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

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

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

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

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

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

Financial instruments

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

Financial assets

Trade receivables

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

Cash and cash equivalents

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

3. Accounting policies continued

Financial liabilities and derivative financial instruments

Financial liabilities

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

Bank borrowings

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

Trade payables

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

Derivative financial instruments and hedge accounting

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

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

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

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

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

Hedges of net investments in foreign operations

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

Embedded derivative financial instruments

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

3. Accounting policies continued

Retirement benefit costs

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

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

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

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

Leased assets

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

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

Share-based compensation

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

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

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

Provisions

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

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

Environmental provisions

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

3. Accounting policies continued

Restructuring provisions

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

Warranty provisions

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

Disposal provisions

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

Contingent liabilities

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

Non-GAAP information

In the analysis of the Group's financial performance and position, operating results and cash flows, information is presented to provide readers with additional information that is prepared on a non-GAAP basis and which is regularly reviewed by management. The principal non-GAAP information presented is the underlying measure of earnings. This is considered by the directors to allow a more meaningful comparison of earnings trends. Further description on underlying earnings can be found in note 12 of these finacial statements.

Post balance sheet events

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

Critical accounting judgements and sources of estimation uncertainty

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

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

Assessment of contract accounting

The Group has contracts that fall into different accounting periods. In assessing the allocation of revenues and costs to individual accounting periods, and the consequential assets and liabilities, the Group estimates the total revenues and costs forecast to arise in respect of the contract and the stage of completion based on an appropriate measure of performance as described under the revenue recognition policy on pages 98 and 99. The Group utilises assumptions and projections, principally relating to future material, labour and overhead costs. As a consequence there is a risk that total contract costs will exceed those originally estimated and the margin will decrease. Changes to initial assumptions, which are reviewed on a regular basis, may result in revisions to estimated costs and anticipated margins. These are recognised in the period in which the estimated costs are revised. The determination of appropriate accounting policies for recognising revenue and costs in respect of these contracts requires judgement, in particular (i) whether contract accounting is the most appropriate method of recognising revenue on these contracts; and (ii) the appropriate measure of stage of completion of the contract.

3. Accounting policies continued

Going concern

Determining the going concern basis for the Group involves significant estimation uncertainty and requires management judgment in its assessment. 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 2017.

Additional detailed sensitivity analysis has been performed on the forecasts to consider the impact of severe, but plausible, reasonable worst case scenarios on the covenant requirements. These scenarios, which sensitised the forecast for specific identified risks, modelled the reduction in anticipated levels of undelying EBITDA and the associated increase in net debt.

Goodwill impairment

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit, and to determine a suitable discount rate in order to calculate present value (see note 13). In reviewing the carrying value of goodwill of the Group's businesses, the Board has considered the separate plans and cash flows of these businesses consistent with the requirements of IAS 36 *Impairment of Assets*. The plans and cash flows of these businesses reflect current and anticipated conditions in the defence industry.

Tax

The largest category of deferred tax asset which contains significant estimation uncertainty and which requires management judgement in assessing its recoverability relates to tax losses carried forward (see note 26).

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

Legal

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

4. Revenue

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

Revenue by destination	2015 £m	2014 £m
Continuing operations		
UK	**63.9**	80.5
USA	**171.4**	230.2
Europe	**37.8**	41.4
Asia Pacific	**49.0**	30.2
Middle East	**54.0**	17.5
Rest of the world	**1.2**	3.3
	377.3	403.1
Discontinued operations		
UK	**-**	1.8
USA	**-**	3.1
Europe	**-**	8.8
Asia Pacific	**-**	3.9
Middle East	**-**	54.2
Rest of the world	**-**	-
	-	71.8
	377.3	474.9

Revenue from contract accounting for continuing operations within these figures amounted to £12.8 million (2014: £88.6 million).

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

5. Business segments

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

Countermeasures Development and manufacture of expendable countermeasures for air, sea and land platforms, and land-based electronic warfare equipment.

Sensors & Electronics Development and manufacture of IED detection equipment, chemical and biological threat detection equipment, IED electronic countermeasures, network protection technologies and explosive ordnance disposal equipment.

Energetic Systems Development, procurement and manufacture of signals and illumination devices and payloads, cartridge/propellant actuated devices, pyrotechnic devices for satellite launch and deployment, missile and ammunition components, 40mm ammunition, propellants, warheads, fuses, separation sub-systems, actuators and energetic materials.

5. Business segments continued

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

Revenue	2015 £m	2014 £m
Continuing operations		
Countermeasures	**125.8**	96.1
Sensors & Electronics	**99.1**	154.4
Energetic Systems	**152.4**	152.6
	377.3	403.1
Discontinued operations	**–**	71.8
	377.3	474.9

Underlying operating profit	2015 £m	2014 £m
Continuing operations		
Countermeasures	**17.5**	9.7
Sensors & Electronics	**9.3**	31.9
Energetic Systems	**15.1**	15.0
	41.9	56.6
Unallocated corporate costs	**(7.5)**	(9.9)
	34.4	46.7

Year ended 31 October 2015	Continuing Underlying £m	Continuing Total £m	Discontinued Underlying £m	Discontinued Total £m	Total Underlying £m	Total £m
Underlying operating profit	**34.4**	**34.4**	**–**	**–**	**34.4**	**34.4**
Acquisition and disposal related (costs)/credit (note 32)	–	(0.5)	–	4.9	–	**4.4**
Business restructuring and incident costs	–	(6.4)	–	–	–	**(6.4)**
Claim related costs	–	(8.5)	–	–	–	**(8.5)**
Intangible amortisation arising from business combinations (note 14)	–	(14.0)	–	–	–	**(14.0)**
Gain on the movement in the fair value of derivative financial instruments (note 24)	–	0.5	–	–	–	**0.5**
Non-underlying items	–	**(28.9)**	–	**4.9**	–	**(24.0)**
Operating profit/(loss)	**34.4**	**5.5**	–	**4.9**	**34.4**	**10.4**
Finance income	–	–	–	–	–	–
Finance expense	(14.6)	(14.6)	–	–	**(14.6)**	**(14.6)**
Profit/(loss) before tax	**19.8**	**(9.1)**	–	**4.9**	**19.8**	**(4.2)**
Tax	(4.1)	3.8	–	–	**(4.1)**	**3.8**
Profit/(loss) after tax	**15.7**	**(5.3)**	**–**	**4.9**	**15.7**	**(0.4)**

5. Business segments continued

Year ended 31 October 2014	Continuing Underlying £m	Continuing Total £m	Discontinued Underlying £m	Discontinued Total £m	Total Underlying £m	Total £m
Underlying operating profit	46.7	46.7	2.3	2.3	49.0	49.0
Acquisition and disposal related costs (note 32)	–	(0.6)	–	(8.0)	–	(8.6)
Business restructuring and incident costs	–	(7.2)	–	–	–	(7.2)
Loss on disposal of associate (note 17)	–	–	–	(0.9)	–	(0.9)
Profit on disposal of business (note 33)	–	0.5	–	26.0	–	26.5
Impairment of goodwill (note 13)	–	–	–	(45.9)	–	(45.9)
Impairment of acquired intangibles (note 14)	–	–	–	(10.7)	–	(10.7)
Impairment of assets held for sale (note 34)	–	–	–	(13.6)	–	(13.6)
Intangible amortisation arising from business combinations (note 14)	–	(13.5)	–	(2.6)	–	(16.1)
Loss on the movement in the fair value of derivative financial instruments (note 24)	–	(0.5)	–	(0.2)	–	(0.7)
Non-underlying items	–	(21.3)	–	(55.9)	–	(77.2)
Operating profit/(loss)	46.7	25.4	2.3	(53.6)	49.0	(28.2)
Finance income	0.1	0.1	0.1	0.1	0.2	0.2
Finance expense	(18.7)	(18.7)	(0.2)	(0.2)	(18.9)	(18.9)
Non-underlying accelerated interest costs	–	(12.0)	–	–	–	(12.0)
Profit/(loss) before tax	28.1	(5.2)	2.2	(53.7)	30.3	(58.9)
Tax	(5.7)	3.8	(0.7)	0.2	(6.4)	4.0
Profit/(loss) after tax	22.4	(1.4)	1.5	(53.5)	23.9	(54.9)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3.

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

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

Depreciation	**2015 £m**	2014 £m
Countermeasures	**8.0**	7.0
Sensors & Electronics	**2.5**	2.7
Energetic Systems	**4.8**	4.8
Discontinued operations	**–**	1.8
Unallocated corporate items	**1.0**	0.7
	16.3	17.0

	2015		2014	
Amortisation	**Within underlying operating profit £m**	**Within total operating profit £m**	Within underlying operating profit £m	Within total operating profit £m
Countermeasures	**1.6**	**1.6**	1.1	1.1
Sensors & Electronics	**3.6**	**10.8**	3.3	10.3
Energetic Systems	**1.0**	**7.8**	1.2	7.7
Discontinued operations	**–**	**–**	0.9	3.5
Unallocated corporate items	**0.2**	**0.2**	0.2	0.2
	6.4	**20.4**	6.7	22.8

Unallocated corporate costs

Unallocated corporate costs were £7.5 million (2014: £9.9 million), with the reduction reflecting the full year benefit of savings from the simplication of the Group's management structure and lower costs of annual bonus schemes.

5. Business segments continued

Intra-group transactions

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

Business restructuring and incident costs

In 2015, restructuring costs of £6.4 million included £4.6 million relating to restructuring of the UK Sensors & Electronics businesses, £1.3 million relating to restructuring of the US Sensors & Electronics businesses, and £0.5 million relating to simplification and integration activities at other business units.

In 2014, restructuring and incident costs of £7.2 million included £1.1 million relating to senior executives leaving and £4.2 million relating to simplification and integration activities at business units. £0.9 million related to excess property costs and £1.0 million related to the incident at the Kilgore site.

In 2015 there was a £1.2 million difference between the business restructuring and incident costs recognised in the income statement and the outflow appearing in the cash flow statement due to the timing of payments and non-cash movements.

Claim related costs

Claim related costs of £8.5 million comprise £4.2 million in relation to claims brought by the US Department of Justice relating to historical supplies of product by Kilgore, where a settlement is being negotiated, and £4.3 million in settlement of claims regarding the manufacture of certain components for the Next Generation Light Anti-Tank Weapon ("NLAW") combat weapon by Chemring Energetics. The estimated value of these claim related costs has been reflected as a non-underlying item due to their scale and unusual nature. The cash payment associated with settlement of the NLAW claim occurred in November 2015, while the Kilgore claim related costs are expected to be settled over a five year period commencing in 2016.

Non-underlying items

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

Non-underlying items by segment	**2015 £m**	2014 £m
Countermeasures	**4.4**	2.0
Sensors & Electronics	**13.1**	7.8
Energetic Systems	**11.3**	7.1
Discontinued operations	**(4.9)**	55.9
Unallocated	**0.1**	16.4
	24.0	89.2

Unallocated items include £nil (2014: £12.0 million) of accelerated interest due on early repayment of loan notes.

Information on major customers

Included in segmental revenues for continuing operations are revenues of £110.6 million (2014: £172.9 million), which arose from sales to the Group's largest customer. The largest customer had sales reported in all of the Group's business segments. This was the only individual customer where direct sales accounted for more than 10% of Group revenue from continuing and discontinued operations for the year.

The Group does not disclose assets or liabilities by segment in the monthly management accounts provided to the Executive Committee or the Board. The Improvements to IFRSs amendment document issued in April 2009 only requires to be disclosed that information that is provided to the chief operating decision maker as a key decision-making tool. The Group has adopted this amendment in order to clarify that the chief operating decision maker does not use this information as a key decision tool. IFRS 8 *Operating Segments* requires a geographic analysis of non-current assets, and a disclosure of non-current assets by location is therefore shown below:

Non-current assets by location	**2015 £m**	2014 £m
UK	**244.4**	233.3
USA	**177.1**	184.5
Europe	**4.3**	5.1
Australia	**21.2**	24.9
	447.0	447.8

6. Operating profit

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

	2015 £m	2014 £m
Revenue	**377.3**	403.1
Cost of sales	**(272.5)**	(276.4)
Administrative expenses	**(70.4)**	(80.0)
Acquisition and disposal related costs (note 32)	**(0.5)**	(0.6)
Business restructuring and incident costs (note 5)	**(6.4)**	(7.2)
Claim related costs (note 5)	**(8.5)**	–
Profit on disposal of business (note 33)	**–**	0.5
Intangible amortisation arising from business combinations (note 14)	**(14.0)**	(13.5)
Gain/(loss) on the movement in the fair value of derivative financial instruments (note 24)	**0.5**	(0.5)
Non-underlying items	**(28.9)**	(21.3)
Operating profit	**5.5**	25.4

Operating profit is stated after charging/(crediting):

		2015 Continuing £m	2015 Total £m	2014 Continuing £m	2014 Total £m
Research and development costs	– customer-funded	**38.2**	**38.2**	28.5	28.5
	– internally-funded	**9.2**	**9.2**	9.7	11.6
Amortisation	– arising from business combinations	**14.0**	**14.0**	13.5	16.1
	– development costs	**6.2**	**6.2**	5.6	6.5
	– patents and licences	**0.2**	**0.2**	0.2	0.2
Depreciation of property, plant and equipment	– owned assets	**16.2**	**16.2**	14.8	16.6
	– leased assets	**0.1**	**0.1**	0.4	0.4
Loss/(profit) on disposal of non-current assets		**0.3**	**0.3**	(0.3)	(0.2)
Operating lease rentals	– plant and machinery	**0.8**	**0.8**	1.1	1.3
	– other	**0.8**	**0.8**	1.3	1.3
Government grants		**(0.1)**	**(0.1)**	(0.1)	(0.1)
Foreign exchange losses/(gains)		**0.7**	**0.7**	(0.4)	(1.0)
Staff costs (note 7)		**123.4**	**123.4**	128.0	144.9
Cost of inventories recognised as an expense		**144.4**	**144.4**	158.9	194.0
Acquisition and disposal related costs/(credit) (note 32)		**0.5**	**(4.4)**	0.6	8.6
Business restructuring and incident costs (note 5)		**6.4**	**6.4**	7.2	7.2
Claim related costs (note 5)		**8.5**	**8.5**	–	–
Loss on disposal of associate		**–**	**–**	–	0.9
Profit on disposal of business (note 33)		**–**	**–**	(0.5)	(26.5)
Impairment of goodwill (note 13)		**–**	**–**	–	45.9
Impairment of acquired intangibles (notes 13 and 14)		**–**	**–**	–	10.7
Impairment of assets held for sale (note 34)		**–**	**–**	–	13.6
(Gain)/loss on the movement in the fair value of derivative financial instruments (note 24)		**(0.5)**	**(0.5)**	0.5	0.7
Auditor's remuneration		**1.5**	**1.5**	1.2	3.1

6. Operating profit continued

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

Auditor's remuneration	2015 £m	2014 £m
Fees payable to the Company's auditor and its associates for:		
– the audit of the Company's annual accounts	**0.4**	0.4
– the audit of the Company's subsidiaries, pursuant to legislation	**0.4**	0.4
	0.8	0.8
Other services		
Audit-related assurance services	**0.1**	0.1
Tax services – compliance	**0.4**	0.2
Tax services – advisory	**0.2**	0.3
Corporate finance services	**–**	1.7
	0.7	2.3
	1.5	3.1

Included in the fees for the audit of the Company's annual accounts is £0.2 million (2014: £0.2 million) in respect of the parent company.

A description of the work of the Audit Committee is set out in the Audit Committee report on pages 58 to 61, and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditor. No services were provided by the auditor pursuant to contingent fee arrangements. In the year ended 31 October 2014, remuneration related to corporate finance services principally comprised the non-recurring support work on the European munitions businesses disposal.

During the year, the Group incurred professional fees with other accountancy firms for the provision of corporate finance services of £nil (2014: £0.3 million).

7. Staff costs

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

	2015 Number	2014 Number
Production	**2,353**	2,535
Administration, sales and marketing	**445**	500
	2,798	3,035

At the year end, the number of employees was 2,849 (2014: 2,848). The costs incurred in respect of employees, including share-based payments, were:

	2015 £m	2014 £m
Wages and salaries	**105.0**	120.3
Social security costs	**11.4**	17.4
Other pension costs	**5.8**	6.0
Share-based payment charge	**1.2**	1.2
	123.4	144.9

8. Finance income

	2015 £m	2014 £m
Bank interest income for continuing operations	**–**	0.1

9. Finance expense

	2015 £m	2014 £m
Bank overdraft and loan interest	**2.3**	3.4
Loan notes interest	**9.8**	13.4
Finance lease interest	**0.1**	0.1
Amortisation of debt finance costs	**2.1**	2.9
Interest cost of retirement benefit obligations (note 35)	**0.9**	1.1
Capitalised interest on qualifying assets (note 15)	**(0.6)**	(2.2)
Finance expense for continuing operations	**14.6**	18.7

Borrowing costs capitalised in the cost of qualifying assets are calculated by applying a rate of 7% (2014: 7%) to expenditure on such assets.

Tax relief of approximately £0.1 million (2014: £0.4 million) has been recognised on the capitalised interest and included in the tax charge.

Non-underlying items include £nil (2014: £12.0 million) of accelerated interest due on early repayment of loan notes. Including this non-underlying item, the total finance expense for continuing operations was £14.6 million (2014: £30.7 million).

10. Tax

	2015 £m	2014 £m
Current tax charge	**(2.8)**	(5.3)
Deferred tax credit (note 26)	**6.6**	9.1
Tax credit for continuing operations	**3.8**	3.8

The tax credit relating to discontinued operations amounted to £nil (2014: £0.2 million).

Income tax in the UK is calculated at 20.4% (2014: 21.8%) of the taxable profit for the year. Tax for other jurisdictions is calculated at the rates prevailing in those jurisdictions.

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

	2015 £m	2014 £m
Loss before tax from continuing operations	**(9.1)**	(5.2)
Tax at the UK corporation tax rate of 20.4% (2014: 21.8%)	**1.9**	1.1
Expenses not deductible for tax purposes	**(3.1)**	(3.4)
Changes in tax rates	**0.1**	(0.1)
Research and development tax relief	**(0.3)**	–
Tax losses not recognised/carried forward	**(5.1)**	(0.1)
Prior period adjustments	**(1.6)**	(0.7)
Overseas profits taxed at rates different to the UK standard rate	**11.9**	7.0
Tax credit for continuing operations	**3.8**	3.8

In addition to the tax credit in the income statement, a tax credit of £nil (2014: £1.6 million charge) has been recognised in equity in the year.

The effective rate of tax on the loss before tax of the Group is 90.5% (2014: 6.8%), and the effective rate of tax on the underlying profit before tax of the Group is 20.7% (2014: 21.1%). The increase in the effective rate of tax on the loss before tax of the Group is primarily as a result of the tax treatment of non-underlying items.

11. Dividends

	2015 £m	2014 £m
Dividends paid on ordinary shares of 1p each		
Final dividend for the year ended 31 October 2014: 1.7p (2013: 3.8p)	**3.2**	7.3
Interim dividend for the year ended 31 October 2015: 2.4p (2014: 2.4p)	**4.7**	4.7
Total dividends	**7.9**	12.0

No final dividend is being proposed. The total dividend for the year will therefore be 2.4p (2014: 4.1p).

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

12. Earnings per share

Earnings per share are based on the average number of shares in issue, excluding own shares held, of 193,297,912 (2014: 193,296,666) and the loss on continuing operations after tax of £5.3 million (2014: £1.4 million). Diluted earnings per share has been calculated using a diluted average number of shares in issue, excluding own shares held, of 193,297,912 (2014: 193,296,666) and the loss on continuing operations after tax of £5.3 million (2014: £1.4 million). No dilution has been recognised for the purposes of basic earnings per share due to there being a loss per share for both the years ended 31 October 2015 and 31 October 2014. Dilution has, however, been recognised in the calculation of underlying earnings per share for the years ended 31 October 2015 and 31 October 2014, using a diluted average number of shares in issue, excluding own shares held, of 197,653,532 (2014: 197,285,824).

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

	2015 Ordinary shares Number 000s	2014 Ordinary shares Number 000s
Weighted average number of shares used to calculate basic loss per share	**193,298**	193,297
Additional shares issuable other than at fair value in respect of options outstanding	**–**	–
Weighted average number of shares used to calculate diluted loss per share	**193,298**	193,297
Additional shares issuable other than at fair value in respect of options outstanding	**4,356**	3,989
Weighted average number of shares used to calculate diluted underlying earnings per share	**197,654**	197,286

Continuing operations

	2015		2014	
	Basic £m	Diluted £m	Basic £m	Diluted £m
Underlying profit after tax	**15.7**	**15.7**	22.4	22.4
Non-underlying items	**(21.0)**	**(21.0)**	(23.8)	(23.8)
Total loss after tax	**(5.3)**	**(5.3)**	(1.4)	(1.4)

	2015		2014	
	Basic Pence	Diluted Pence	Basic Pence	Diluted Pence
Loss per share	**(2.7)**	**(2.7)**	(0.7)	(0.7)
Underlying earnings per share	**8.1**	**7.9**	11.6	11.3

12. Earnings per share continued

Continuing and discontinued operations

	2015		2014	
	Basic £m	Diluted £m	Basic £m	Diluted £m
Underlying profit after tax	**15.7**	**15.7**	23.9	23.9
Non-underlying items	**(16.1)**	**(16.1)**	(78.8)	(78.8)
Total loss after tax	**(0.4)**	**(0.4)**	(54.9)	(54.9)

	2015		2014	
	Basic Pence	Diluted Pence	Basic Pence	Diluted Pence
Loss per share	**(0.2)**	**(0.2)**	(28.4)	(28.4)
Underlying earnings per share	**8.1**	**7.9**	12.4	12.1

Underlying discontinued operations contributed both basic and diluted earnings per share of nil (2014: 0.8p) in the year ended 31 October 2015.

The number of shares in issue differs from the number held by third parties due to the fact that the Company holds own shares in treasury. Further information on own shares held is set out in note 29.

Reconciliation of basic profit after tax to underlying profit after tax

Underlying basic earnings are defined as earnings before acquisition and disposal related costs, business restructuring and incident costs, profit/loss on disposal of businesses, items deemed to be of an exceptional nature, impairment of goodwill and acquired intangibles, impairment of assets held for sale, intangible amortisation arising from business combinations and gains/losses on the movement in the fair value of derivative financial instruments, net of related tax effects. The directors consider this measure of earnings allows a more meaningful comparison of earnings trends. A reconciliation of the total and adjusted measures of (loss)/profit after tax is set out below:

	2015 £m	2014 £m
Loss after tax	**(0.4)**	(54.9)
Exclude:		
Acquisition and disposal related (credit)/costs	**(4.4)**	8.6
Business restructuring and incident costs	**6.4**	7.2
Claim related costs	**8.5**	–
Loss on disposal of associate	**-**	0.9
Profit on disposal of business	**-**	(26.5)
Impairment of goodwill	**-**	45.9
Impairment of acquired intangibles	**-**	10.7
Impairment of assets held for sale	**-**	13.6
Intangible amortisation arising from business combinations	**14.0**	16.1
Non-underlying accelerated interest costs	**-**	12.0
(Gain)/loss on the movement in the fair value of derivative financial instruments	**(0.5)**	0.7
Tax on non-underlying items	**(7.9)**	(10.4)
Non-underlying items	**16.1**	78.8
Underlying profit after tax	**15.7**	23.9

13. Goodwill

	£m
Cost	
At 1 November 2013	240.0
Disposals	(1.5)
Foreign exchange adjustments	(1.5)
At 1 November 2014	237.0
Foreign exchange adjustments	4.7
At 31 October 2015	241.7
Accumulated impairment losses	
At 1 November 2013	(71.7)
Impairment	(45.9)
Foreign exchange adjustments	0.3
At 1 November 2014	(117.3)
Foreign exchange adjustments	(3.2)
At 31 October 2015	(120.5)
Carrying amount	
At 31 October 2015	**121.2**
At 31 October 2014	119.7

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

The Group tests goodwill at least annually for impairment. Tests are conducted more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value-in-use calculations. The key assumptions for the value-in-use calculations have been individually estimated for each CGU and include the discount rates and expected changes to cash flows during the period for which management has detailed plans, which are unpinned by the winning and execution of key contracts.

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to each of the CGUs. Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital of 8.8% (2014: 9.0%) which have been adjusted for a premium specific to each of the CGUs to account for differences in currency risk, country risk and other factors affecting specific CGUs, have been used to discount projected cash flows. These premiums range from 2% to 5% (2014: 1% to 3%).

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

Pre-tax discount rates, derived from the Group's post-tax weighted average cost of capital of 8.8% (2014: 9.0%) which have been adjusted for a premium specific to each of the CGUs to account for differences in currency risk, country risk and other factors affecting specific CGUs, have been used to discount projected cash flows. These premiums range from 2% to 5% (2014: 1% to 3%).

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

13. Goodwill continued

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

	2015 %	2014 %	2015 £m	2014 £m
Roke Manor Research Limited	**14.3**	12.3	**28.4**	28.4
Chemring Energetics UK Limited	**12.9**	13.6	**18.1**	18.1
Non-Intrusive Inspection Technology, Inc.	**17.6**	14.5	**16.1**	15.6
Chemring Detection Systems, Inc.	**17.2**	15.4	**14.3**	13.8
Chemring Energetic Devices, Inc.	**17.8**	13.1	**13.5**	13.0
Other			**30.8**	30.8
			121.2	119.7

The pre-tax discount rates used for other CGUs ranged from 14.4% to 18.3% (2014: 12.9% to 15.9%).

The weighted average cost of capital is derived using beta values of a comparator group of defence companies adjusted for funding structures as appropriate. The beta values of this group have reduced during the year but this has been offset by higher specific premiums leading to generally higher pre-tax discount rates being used compared to the year ended 31 October 2014.

Following a detailed review, no impairment losses were recognised in the years ended 31 October 2015 and 31 October 2014, other than in relation to the discontinued operations as detailed in note 33.

Stress testing was performed on the forecasts to consider the impact of severe but plausible reasonable worst case scenarios in the first two years, including significant delays to major contracts and new product launches, the temporary closure of a major facility, followed by a 10% fall in the forecast cashflows. Under these circumstances, Chemring Energetics UK would require an impairment charge of up to £3.0 million against goodwill, but no impairment would be required for any of the other CGUs in these scenarios.

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

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

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

14. Other intangible assets

	Development costs £m	Acquired order book £m	Acquired technology £m	Acquired customer relationships £m	Patents and licences £m	Total £m
Cost						
At 1 November 2013	46.1	62.6	61.3	131.0	2.2	257.1
Additions	11.9	–	1.2	–	0.5	1.7
Disposals	(10.1)	(4.0)	(4.9)	(29.7)	(1.3)	(39.9)
Impairment	–	(14.0)	(1.3)	(10.0)	–	(25.3)
Transfer between categories	–	(27.2)	27.2	–	–	–
Foreign exchange adjustments	(0.1)	(0.4)	–	(1.0)	–	(1.4)
At 1 November 2014	47.8	17.0	83.5	90.3	1.4	192.2
Additions	8.9	–	–	–	–	–
Disposals	(2.7)	(17.5)	–	–	–	(17.5)
Transfer between categories	0.1	–	–	–	–	–
Foreign exchange adjustments	0.4	0.5	2.3	2.8	0.1	5.7
At 31 October 2015	54.5	–	85.8	93.1	1.5	180.4
Amortisation						
At 1 November 2013	13.4	40.9	18.3	60.9	1.5	121.6
Charge	6.5	0.9	7.4	7.8	0.2	16.3
Disposals	(5.3)	(3.9)	(1.0)	(10.9)	(1.0)	(16.8)
Impairment	–	(8.0)	(0.5)	(6.1)	–	(14.6)
Transfer between categories	–	(13.2)	13.2	–	–	–
Foreign exchange adjustments	–	–	–	(0.2)	–	(0.2)
At 1 November 2014	14.6	16.7	37.4	51.5	0.7	106.3
Charge	6.2	0.3	7.7	6.0	0.2	14.2
Disposals	(2.5)	(17.5)	–	–	–	(17.5)
Foreign exchange adjustments	0.1	0.5	1.0	1.6	0.1	3.2
At 31 October 2015	18.4	–	46.1	59.1	1.0	106.2
Carrying amount						
At 31 October 2015	**36.1**	**–**	**39.7**	**34.0**	**0.5**	**74.2**
At 31 October 2014	33.2	0.3	46.1	38.8	0.7	85.9

Acquired intangibles are recognised at fair value on acquisition and are amortised over their estimated useful lives. Fair values for acquired intangibles are assessed by reference to future estimated cash flows, discounted at an appropriate rate to present value, or by reference to the amount that would have been paid in an arm's length transaction between two knowledgeable and willing parties. Other intangible assets are recognised at cost and are amortised over their estimated useful economic lives, which are set out in note 3.

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

Included within the development costs of £36.1 million, individually material balances relate to CENTURION £3.8 million (2014: £3.6 million), Perception £3.6 million (2014: £2.7 million) and Next Generation Chemical Detector £5.3 million (2014: £3.3 million). Development costs are amortised over their useful economic lives estimated to be between three and fifteen years, with the remaining amortisation periods for these assets ranging up to fourteen years.

Acquired technology of £39.7 million includes individually material balances relating to NIITEK £4.4 million (2014: £4.7 million), Chemring Energetic Devices £12.9 million (2014: £15.1 million) and Roke £3.6 million (2014: £4.1 million). The remaining amortisation periods for these assets are eight years, four years and seven years respectively.

Acquired customer relationships of £34.0 million include individually material balnces relating to Chemring Energetic Devices £6.8 million (2014: £7.2 million), Chemring Ordnance £3.9 million (£5.7 million) and Roke £5.5 million (2014: £6.6 million). The remaining amortisation periods for these assets are 11 years, six years and five years respectively.

15. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost or valuation			
At 1 November 2013	123.2	179.8	303.0
Additions	5.3	8.2	13.5
Disposals	(37.9)	(65.6)	(103.5)
Foreign exchange adjustments	(1.7)	(3.2)	(4.9)
At 1 November 2014	88.9	119.2	208.1
Additions	2.0	7.3	9.3
Disposals	(0.2)	(4.7)	(4.9)
Transfer between categories	15.1	(14.8)	0.3
Foreign exchange adjustments	(0.8)	(1.1)	(1.9)
At 31 October 2015	105.0	105.9	210.9
Depreciation			
At 1 November 2013	15.9	64.8	80.7
Charge	2.8	14.2	17.0
Disposals	(12.2)	(52.2)	(64.4)
Foreign exchange adjustments	(0.5)	(1.8)	(2.3)
At 1 November 2014	6.0	25.0	31.0
Charge	3.1	13.2	16.3
Disposals	(0.2)	(4.6)	(4.8)
Transfer between categories	0.1	0.2	0.3
Foreign exchange adjustments	–	0.1	0.1
At 31 October 2015	9.0	33.9	42.9
Carrying amount			
At 31 October 2015	**96.0**	**72.0**	**168.0**
At 31 October 2014	82.9	94.2	177.1

The carrying amount of the Group's plant and equipment includes £3.7 million (2014: £5.3 million) in respect of assets held under finance leases. During the year, £0.6 million (2014: £2.2 million) of interest was capitalised, as set out in note 9. In the year, £0.7 million (2014: £0.6 million) of capitalised interest was charged as depreciation on completion of the relevant projects and £nil (2014: £0.9 million) was disposed of. This results in a net book value for capitalised interest of £14.7 million (2014: £14.8 million).

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

	2015 £m	2014 £m
30 September 1997 depreciated replacement cost	**5.8**	5.8
Freehold at cost	**99.2**	83.1
	105.0	88.9

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

	2015 £m	2014 £m
Cost	**103.0**	86.9
Accumulated depreciation	**(8.3)**	(5.2)
Historical cost value	**94.7**	81.7

All other tangible fixed assets are stated at historical cost.

The total additions during 2015 of £9.3 million is different to the figure of £8.2 million shown in the cash flow statement, due to the application of IAS 23 *Borrowing Costs* and the timing of payments.

At 31 October 2015, the Group had entered into contractual commitments for the acquisition of property, plant and equipment amounting to £1.5 million (2014: £6.0 million).

16. Subsidiary undertakings

All subsidiary undertakings have been reflected in these financial statements. The subsidiary undertakings held at 31 October 2015, all 100% owned by the Group, are shown below. All of these subsidiary undertakings are wholly controlled by Chemring Group PLC.

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

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

17. Interest in associate

On 29 October 2014, the Group's 49% shareholding in the associate, CIRRA S.A, was sold to Etienne LACROIX Tous Artifices S.A., the 51% shareholder of the associate prior to that date, for a cash consideration of £0.5 million (€0.6 million). The sale resulted in a loss on disposal after tax of £0.9 million, which was treated as a non-underlying item in the Group financial statements for the year ended 31 October 2014. The results of the associate relate to the Group's share of CIRRA S.A.'s result based on the locally-produced management accounts.

Amounts relating to associate:

	2015 £m	2014 £m
Revenue	**-**	1.1
Loss after tax	**-**	(0.1)
Group's share of loss after tax	**-**	–
Loss on disposal before tax – non-underlying	**-**	0.9
Loss on disposal after tax – non-underlying	**-**	0.9

18. Inventories

	2015 £m	2014 £m
Raw materials	**28.7**	25.0
Work in progress	**51.7**	36.3
Finished goods	**15.8**	16.8
	96.2	78.1

There are no significant differences between the replacement cost of inventory and the fair values shown above. The Group recognised £2.3 million (2014: £1.9 million) as a write down of inventories to net realisable value.

19. Trade and other receivables

	2015 £m	2014 £m
Trade receivables	**67.1**	59.7
Allowance for doubtful debts	**(1.0)**	(0.4)
	66.1	59.3
Contract receivables	**15.2**	20.2
Other debtors	**5.0**	4.2
Prepayments and accrued income	**6.8**	7.0
	93.1	90.7

All amounts shown above are due within one year.

The average credit period taken by customers on sales of goods, calculated using a countback basis, is 34 days (2014: 29 days). No interest is charged on receivables from the date of invoice to payment.

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

Within the trade receivables balance at the end of the year, £6.8 million was due from Pacem Solutions, LLC, in respect of sales in the year ended 31 October 2014. The directors believe this amount to be recoverable and accordingly have not made a provision against this balance. As all remaining significant overdue receivables are covered by the allowance for doubtful debts, an ageing analysis has not been shown. The majority of the trade receivables balance was not yet due at the year end based on the credit terms provided to customers.

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

Of the trade receivables balance at the end of the year, £8.4 million was due from the US DoD, £6.8 million was due from Pacem Solutions, LLC, and £5.5 million was due from the Royal Saudi Air Force. There are no other customers who represent more than 5% of the total trade receivables.

20. Cash and cash equivalents

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

Included within cash is £0.1 million (2014: £0.6 million) of restricted cash.

21. Borrowings

		2015 £m	2014 £m
Within current liabilities			
Bank loans and overdrafts	– Sterling denominated	**–**	0.3
Finance leases	– Sterling denominated	**0.5**	1.0
Borrowings due within one year		**0.5**	1.3
Within non-current liabilities			
Loan notes	– Sterling denominated	**8.1**	8.1
	– US dollar denominated	**153.2**	147.5
Finance leases	– Sterling denominated	**–**	0.4
Preference shares		**0.1**	0.1
Borrowings due after more than one year		**161.4**	156.1
		161.9	157.4

Analysis of borrowings by currency:

	2015 £m	2014 £m
Sterling	**8.7**	9.9
US dollar	**153.2**	147.5
	161.9	157.4

The weighted average interest rates paid were as follows:

		2015 %	2014 %
Bank overdrafts		**3.1**	2.8
UK bank loans	– Sterling denominated	**3.1**	2.8
Overseas bank loans	– US dollar denominated	**–**	3.2
Loan notes	– Sterling denominated	**7.6**	7.3
	– US dollar denominated	**4.7-7.0**	5.0-6.7

An analysis of borrowings by maturity is as follows:

	2015				2014			
	Bank loans and overdrafts £m	**Loan notes £m**	**Other borrowings £m**	**Total £m**	Bank loans and overdrafts £m	Loan notes £m	Other borrowings £m	Total £m
Borrowings falling due:								
– within one year	**–**	**–**	**0.5**	**0.5**	0.3	–	1.0	1.3
Borrowings falling due:								
– within one to two years	**–**	**28.4**	**–**	**28.4**	–	–	0.4	0.4
– within two to five years	**–**	**132.9**	**–**	**132.9**	–	83.2	–	83.2
– after five years	**–**	**–**	**0.1**	**0.1**	–	72.4	0.1	72.5
	–	**161.3**	**0.1**	**161.4**	–	155.6	0.5	156.1
Total borrowings	**–**	**161.3**	**0.6**	**161.9**	0.3	155.6	1.5	157.4

Other borrowings comprises finance leases and preference shares.

21. Borrowings continued

Chemring has a £70.0 million, four year revolving credit facility with a syndicate of three banks expiring in July 2018. In addition, the Group has ancillary UK facilities of £58.6 million in respect of bonding and trade finance requirements, and a $15.0 million facility to fulfil US trade finance and working capital requirements. None of the borrowings in the current or the prior year were secured.

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

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

	2015 £m	2014 £m
Undrawn borrowing facilities	**78.5**	75.7

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

In respect of the revolving credit facility, leverage is measured by reference to net debt. The maximum permitted ratio of net debt to underlying EBITDA under the revolving credit facility was 3.00x at January 2015, 3.75x at April 2015, 3.50x at July 2015 and 3.00x at October 2015. The increased permitted ratios at April and July 2015 were agreed with the revolving credit facility syndicate in May 2015 and a ratio of 3.00x applied at those dates prior to that revision.

The provision of the private placement loan notes contain two leverage tests, each of which is tested quarterly. The first test measures leverage by reference to total gross debt to underlying EBITDA of 3.75x. The second test measures leverage by reference to adjusted debt, which is calculated as total gross debt less proceeds from the sales of the European munitions businesses that were offered to note holders in 2014 to repay outstanding notes at par, but in relation to which such offer was not accepted. The value of such proceeds at 31 October 2015 was £4.6 million (2014: £4.5 million). The maximum permitted ratio of adjusted debt to underlying EBITDA as 3.00x at January 2015, 3.75x at April 2015, 3.50x at July 2015 and 3.00x at October 2015. The increased permitted ratios at April and July 2015 were agreed with loan note holders in May 2015 and a ratio of 3.00x applied at those dates prior to that revision.

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

	2015	2014
Covenant ratios – revolving credit facility		
Maximum allowed ratio of net debt to underlying EBITDA	**3.00x**	3.00x
Actual ratio of net debt to underlying EBITDA	**2.83x**	1.93x
Minimum allowed ratio of underlying EBITDA to finance costs	**4.00x**	4.00x
Actual ratio of underlying EBITDA to finance costs	**4.75x**	4.28x
Covenant ratios – loan note agreements		
Maximum allowed ratio of adjusted debt to underlying EBITDA	**3.00x**	3.00x
Actual ratio of adjusted debt to underlying EBITDA	**2.84x**	2.25x
Maximum allowed ratio of total debt to underlying EBITDA	**3.75x**	3.75x
Actual ratio of total debt to underlying EBITDA	**2.92x**	2.31x
Minimum allowed ratio of underlying EBITDA to finance costs	**3.50x**	3.50x
Actual ratio of underlying EBITDA to finance costs	**4.67x**	4.39x

During January 2016, changes were made to covenants under the revolving credit facility and loan notes in respect of the permitted ratios at the 31 October 2015 and 31 January 2016 test dates.

Certain of these changes, in respect of the 31 January 2016 test date only, are in effect whether or not the Rights Issue proceeds. These unconditional changes are an increase in the permitted leverage ratio under the revolving credit facility from 3.00x to 3.50x at the 31 January 2016 test date and an increase in the permitted adjusted debt leverage ratio under the pricate placement loan notes from 3.00x to 4.00x.

21. Borrowings continued

The remaining amended covenant ratios, summarised in the table below, will be in effect only if the Rights Issue proceeds and, in the case of the amendments relating to the loan notes, if not less than 60% of the gross proceeds of the Rights Issue are applied in prepayment of amounts outstanding under the loan notes no later than 29 April 2016:

	31 October 2015		31 January 2016	
	Original	Amended	Original	Amended
Covenant ratios – revolving credit facility				
Maximum allowed ratio of net debt to underlying EBITDA	3.00x	3.90x	3.00x	3.90x
Minimum allowed ratio of underlying EBITDA to finance costs	4.00x	3.50x	4.00x	3.50x
Covenant ratios – loan note agreements				
Maximum allowed ratio of adjusted debt to underlying EBITDA	3.00x	4.00x	3.00x	4.00x
Maximum allowed ratio of total debt to underlying EBITDA	3.75x	4.00x	3.75x	4.00x
Minimum allowed ratio of underlying EBITDA to finance costs	3.50x	3.50x	3.50x	3.50x

22. Obligations under finance leases

	Minimum lease payments		Present value of minimum lease payments	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Amounts payable under finance leases:				
– within one year	**0.5**	1.0	**0.5**	1.0
– within two to five years	**–**	0.4	**–**	0.4
Present value of lease obligations	**0.5**	1.4	**0.5**	1.4
Less amounts due within one year shown within current liabilities			**(0.5)**	(1.0)
Amounts due for settlement after one year			**–**	0.4

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

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

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

23. Trade and other payables

	2015 £m	2014 £m
Within current liabilities		
Trade payables	**46.7**	37.1
Other payables	**20.5**	18.4
Other tax and social security	**3.7**	2.9
Advance payments	**11.5**	4.5
Accruals and deferred income	**13.8**	23.1
	96.2	86.0
Within non-current liabilities		
Other payables	**1.7**	2.0

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

The average credit period taken on purchases of goods is 92 days (2014: 54 days). No interest is charged on trade payables from the date of invoice to payment.

24. Financial instruments and risk management

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

The Group's global activities expose it to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to foreign currency and interest rate risk, including:

- forward foreign exchange contracts to manage the exchange risk arising from transactional foreign exchange exposures; and
- interest rate swap contracts to mitigate the risk of movement in interest rates.

Foreign exchange risk management

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

Transactional risk	The Group's policy is to hedge transactional currency exposures through the use of forward foreign exchange contracts. The measurement and control of this risk is monitored on a Group-wide basis.
Translation risk	The Group translates the results and net assets of overseas operations in accordance with the accounting policy in note 3. The translation risk on net assets is mitigated by the transfer of currencies between Group companies and the appropriate use of foreign currency borrowings.

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

	2015				2014			
	US dollar	**Euro**	**Norwegian krone**	**Australian dollar**	US dollar	Euro	Norwegian krone	Australian dollar
Monetary assets (£m)	**41.9**	**-**	**5.2**	**2.1**	39.5	-	5.4	2.4
Monetary liabilities (£m)	**(179.9)**	**(0.3)**	**(2.3)**	**(2.7)**	(188.9)	(0.7)	(2.3)	(3.4)

Foreign currency denominated net assets are partially hedged by foreign currency borrowings. The borrowings detailed below were designated as hedging instruments in net investment hedges, the increase results from fluctations in foreign exchange rates:

	2015				2014			
	US dollar	**Euro**	**Norwegian krone**	**Australian dollar**	US dollar	Euro	Norwegian krone	Australian dollar
Borrowings (£m)	**153.7**	**-**	**-**	**-**	148.4	-	-	-

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

The following table details the forward foreign exchange contracts outstanding:

	Average exchange rate		Expiring within one year		Expiring within one to two years		Expiring within two to five years	
	2015	2014	**2015 £m**	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m
US dollar	**1.56**	1.62	**53.6**	40.5	**6.6**	21.7	**-**	4.9
Euro	**1.37**	1.27	**0.5**	3.3	**-**	-	**-**	-

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

24. Financial instruments and risk management continued

Foreign currency sensitivity analysis

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

	+10 cents				–10 cents			
	US dollar impact		Euro impact		US dollar impact		Euro impact	
	2015 £m	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m	**2015 £m**	2014 £m
Revenue	**(11.6)**	(14.0)	**–**	(5.5)	**13.2**	15.8	**–**	6.4
Underlying operating profit	**(0.6)**	(1.9)	**–**	(0.2)	**0.6**	2.1	**–**	0.2
Interest	**0.6**	0.8	**–**	0.1	**(0.7)**	(0.9)	**–**	(0.2)
Underlying profit before tax	**–**	(1.1)	**–**	(0.1)	**(0.1)**	1.2	**–**	–

Interest rate risk

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

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

The Group entered into a floating to fixed interest rate swap contract for €50.0 million of Euro borrowings at a weighted average rate of 3.73%, which expired on 30 April 2015, and a fixed to floating interest rate swap contract for $80.0 million of US dollar borrowings at a weighted average rate of 3.86%, which expired on 12 May 2015.

At 31 October 2015, the Group has outstanding fixed interest loan notes in the US totalling £166.5 million (2014: £161.0 million). These loan notes are repayable in November 2016 ($48.9 million), November 2017 (£8.1 million and $79.8 million) and November 2019 ($115.9 million). The loan notes provide a natural hedge against the Group's investment in its US businesses.

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

Liquidity risk

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

	2015			2014		
	Derivative payables £m	**Loans and overdrafts £m**	**Total £m**	Derivative payables £m	Loans and overdrafts £m	Total £m
Falling due:						
– within one year	**54.1**	**–**	**54.1**	43.8	0.3	44.1
– within one to two years	**6.6**	**31.6**	**38.2**	21.7	–	21.7
– within two to five years	**–**	**134.9**	**134.9**	4.9	88.6	93.5
– after five years	**–**	**–**	**–**	–	72.4	72.4
	60.7	**166.5**	**227.2**	70.4	161.3	231.7

24. Financial instruments and risk management continued

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

	2015 £m	2014 £m
Sterling	**51.2**	69.1
US dollar	**68.8**	77.8
Australian dollar	**1.4**	2.4
Euro	**0.1**	0.1
Other currencies	**6.0**	5.4
	127.5	154.8
Overdraft offset	**(33.1)**	(48.6)
	94.4	106.2

	2015 £m	2014 £m
Cash at bank and in hand	**7.6**	21.8
Trade receivables	**66.1**	59.3
Contract receivables	**15.2**	20.2
Other receivables	**5.0**	4.2
Derivative financial instruments	**0.5**	0.7
	94.4	106.2

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

The foreign currency balances are predominantly attributable to overseas business units and therefore do not result in significant exposure to transactional risks for the Group. Included within cash is £0.1 million (2014: £0.6 million) of restricted cash.

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

	2015			2014		
	Floating rate £m	Fixed rate £m	Total £m	Floating rate £m	Fixed rate £m	Total £m
Sterling	**-**	**76.5**	**76.5**	-	60.2	60.2
US dollar	**-**	**211.6**	**211.6**	50.0	176.0	226.0
Euro	**-**	**-**	**-**	-	0.8	0.8
Other currencies	**-**	**1.1**	**1.1**	-	7.1	7.1
	-	**289.2**	**289.2**	50.0	244.1	294.1
Overdraft offset			**(33.1)**			(48.6)
			256.1			245.5

	2015 £m	2014 £m
Bank loans and overdrafts	**-**	0.3
Loan notes	**161.3**	155.6
	161.3	155.9
Preference shares (note 27)	**0.1**	0.1
Obligations under finance leases (note 22)	**0.5**	1.4
	161.9	157.4
Trade payables due within one year	**46.7**	37.1
Accruals	**13.5**	18.6
Other payables	**20.5**	20.4
Other tax and social security	**3.7**	2.9
Corporation tax	**7.9**	6.7
Derivative financial instruments due within one year	**1.6**	1.7
Derivative financial instruments due after more than one year	**0.3**	0.7
	256.1	245.5

24. Financial instruments and risk management continued

The weighted average interest rate of fixed rate financial liabilities at 31 October 2015 was 6.0% (2014: 5.4%) and the weighted average period of funding was three years (2014: four years).

Derivative financial instruments

During the year the Group had two interest rate swap contracts, one from floating rate to fixed rate that expired on 30 April 2015 at a weighted average interest rate of 3.73%, and one from fixed rate to floating rate that expired on 12 May 2015 at a weighted average interest rate of 3.86%. The fair value of these interest rate swap contracts recognised in the balance sheet at 31 October 2015 was a liability of £nil (2014: £0.8 million). The Group also has forward foreign exchange contracts with fair values of £1.9 million liability (2014: £1.6 million liability) and £0.5 million asset (2014: £0.7 million asset). The net value of these derivative financial instruments is a liability of £1.4 million (2014: £1.7 million).

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

	2015 £m	2014 £m
Interest rate swap contracts	**–**	(0.8)
Forward foreign exchange contracts	**(1.4)**	(0.9)
	(1.4)	(1.7)

These derivative financial instruments are classified on the balance sheet as follows:

	2015 £m	2014 £m
Included in current assets	**0.5**	0.7
Included in current liabilities	**(1.6)**	(1.7)
Included in non-current liabilities	**(0.3)**	(0.7)
	(1.4)	(1.7)

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

	2015 £m	2014 £m
(Gain)/loss on the movement in the fair value of derivative financial instruments	**(0.5)**	0.7

Fair value hierarchy

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

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

24. Financial instruments and risk management continued

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

	2015			2014		
	Level 1 £m	**Level 2 £m**	**Total £m**	Level 1 £m	Level 2 £m	Total £m
Assets						
Forward foreign exchange contracts	**–**	**0.5**	**0.5**	–	0.7	0.7
Total assets	**–**	**0.5**	**0.5**	–	0.7	0.7

	2015			2014		
	Level 1 £m	**Level 2 £m**	**Total £m**	Level 1 £m	Level 2 £m	Total £m
Liabilities						
Borrowings	**–**	**(161.3)**	**(161.3)**	–	(155.6)	(155.6)
Interest rate swap contracts	**–**	**–**	**–**	–	(0.8)	(0.8)
Forward foreign exchange contracts	**–**	**(1.9)**	**(1.9)**	–	(1.6)	(1.6)
Total liabilities	**–**	**(163.2)**	**(163.2)**	–	(158.0)	(158.0)

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

Credit risk

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

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

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

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

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

Capital management

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

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

25. Provisions

	Legal provision £m	Environmental provision £m	Warranty provision £m	Restructuring provision £m	Disposal provision £m	Other provision £m	Total £m
At 1 November 2014	4.5	2.5	1.3	1.1	16.2	1.4	27.0
Provided	4.1	0.1	–	–	–	4.4	8.6
Foreign exchange adjustments	–	–	–	–	(1.9)	–	(1.9)
Paid	(0.7)	–	(0.1)	(0.8)	(0.6)	(0.1)	(2.3)
Released	–	–	(1.1)	(0.2)	(1.8)	–	(3.1)
Reclassification	–	(1.1)	–	(0.1)	(0.1)	(5.6)	(6.9)
At 31 October 2015	**7.9**	**1.5**	**0.1**	**–**	**11.8**	**0.1**	**21.4**

These provisions are classified on the balance sheet as follows:

	2015 £m	2014 £m
Included in current liabilities	**5.1**	2.9
Included in non-current liabilities	**16.3**	24.1
	21.4	27.0

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

The legal provision represents the estimated legal liabilities faced by the Group at the balance sheet date. Further details of the Group's contingent liabilities are set out in note 39.

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

The warranty provision represents management's best estimate of the Group's liability for defective products, based on past experience.

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

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

26. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Tax losses £m	Acquired intangibles £m	Other £m	Total £m
At 1 November 2013	17.4	(5.3)	(4.5)	20.9	(11.4)	17.1
(Credit)/charge to income	(2.5)	1.8	(5.7)	(2.1)	(0.8)	(9.3)
Credit to equity	–	(1.1)	–	(0.5)	–	(1.6)
Amounts arising on disposals	–	0.2	2.7	(3.9)	(1.6)	(2.6)
At 1 November 2014	14.9	(4.4)	(7.5)	14.4	(13.8)	3.6
(Credit)/charge to income	(1.1)	0.9	(15.4)	(2.2)	11.2	(6.6)
Charge to equity	0.2	–	0.2	(0.3)	0.5	0.6
At 31 October 2015	**14.0**	**(3.5)**	**(22.7)**	**11.9**	**(2.1)**	**(2.4)**

The Finance (No. 2) Act 2015, which provides for reductions in the main rate of UK corporation tax from 20% to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020, was substantively enacted on 26 October 2015.

The closing UK deferred tax asset as at 31 October 2015 has been calculated at 20%. We estimate that reflecting the future rate changes to 19% and subsequently 18% would increase our UK deferred tax asset recognised at 31 October 2015 from £2.8 million to £2.9 million. The actual impact will be dependent on the precise timing of utilisation of the various categories of deferred tax assets and liabilities.

26. Deferred tax continued

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

	2015 £m	2014 £m
Non-current liabilities	**45.1**	35.5
Non-current assets	**(47.5)**	(31.9)
	(2.4)	3.6

At the balance sheet date, the Group had unrecognised tax losses of £26.3 million (2014: £0.7 million) potentially available for offset against future profits in certain circumstances, the increase arising primarily as a result of the current year tax losses arising in the UK. No deferred tax asset has been recognised in respect of this amount because of the unpredictability of future taxable qualifying profit streams.

27. Share capital

	2015 £m	2014 £m
Issued and fully paid		
195,504,091 (2014: 195,495,925) ordinary shares of 1p each	**2.0**	2.0

During the year, 8,166 ordinary shares (2014: 2,007) were issued for cash to employees under the Group's approved savings-related share schemes.

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

28. Reserves

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

Included within retained earnings are £1.9 million (2014: £2.1 million) relating to the share-based payment reserve and £1.9 million (2014: £1.9 million) of the Company's own shares held by the Group's Employment Share Ownership Plan Trust.

29. Own shares

	2015 £m	2014 £m
At beginning and end of the year	**9.6**	9.6

The own shares reserve represents the cost of shares in the Company purchased in the market and held by the Group to satisfy awards under the Group's share-based incentive schemes, details of which are set out in note 31. No ordinary shares (2014: nil) were acquired during the year and no ordinary shares (2014: nil) were distributed following the vesting of awards under the PSP. The total number of ordinary shares held in treasury at 31 October 2015 was 2,198,814 (2014: 2,198,814), with an average cost of 439.0p (2014: 439.0p) per share.

This represents 1.1% of the total issued and fully-paid ordinary share capital.

30. Obligations under non-cancellable operating leases

	2015 £m	2014 £m
Minimum lease payments under operating leases recognised in the income statement	**1.6**	2.6

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

	2015 £m	2014 £m
Within one year	**3.0**	2.7
In the second to fifth years	**6.0**	5.8
Over five years	**0.2**	1.9
	9.2	10.4

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

31. Share-based payments

The Group operates share-based compensation arrangements to provide incentives to the Group's senior management and eligible employees. The Group recognised a net charge of £1.2 million (2014: £1.2 million) in respect of share-based payments during the year.

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

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

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

	Number of conditional shares	
	2015	2014
Outstanding at beginning of the year	**3,186,452**	2,929,675
Awarded	**1,560,801**	2,057,945
Lapsed	**(780,533)**	(1,801,168)
Outstanding at end of the year	**3,966,720**	3,186,452
Subject to vesting at end of the year	**–**	–

31. Share-based payments continued

The following PSP awards were outstanding at 31 October 2015:

Date of award	Number of ordinary shares under award	Vesting price per share Pence	Date when awards due to vest
31 January 2013	813,478	nil	31 January 2016
27 June 2013	79,796	nil	27 June 2016
28 April 2014	1,326,599	nil	28 April 2017
8 July 2014	186,046	nil	8 July 2017
26 January 2015	1,560,801	nil	26 January 2018

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

The PSP awards made in the year ended 31 October 2015 had targets based on earnings per share growth and total shareholder return. The PSP awards made in the year ended 31 October 2015 have been valued using the following modelling inputs:

Share price at valuation	231.0p
Exercise price	nil
Risk-free rate	0.66%
Expected volatility	42%
Fair value	363.0p

The weighted average fair value of awards made during the year was 363.0p (2014: 318.3p).

No awards vested in the year ended 31 October 2015 or the year ended 31 October 2014. The charge recognised in respect of PSP awards is based on their fair value at the grant date.

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

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

	Number of deferred shares	
	2015	2014
Outstanding at beginning of the year	**579,378**	509,349
Awarded	**–**	130,000
Lapsed	**(7,437)**	(59,971)
Exercised	**(441,941)**	–
Outstanding at end of the year	**130,000**	579,378
Subject to vesting at end of the year	**–**	–

The following RSP awards were outstanding at 31 October 2015:

Date of award	Number of ordinary shares under award	Vesting price per share Pence	Date when awards due to vest
28 April 2014	130,000	nil	31 December 2015

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

The weighted average fair value of awards made during the year ended 31 October 2014 was 229.0p.

31. Share-based payments continued

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

Options were granted during the year on 30 July 2015.

	2015		2014	
	Number of share options	**Weighted average exercise price Pence**	Number of share options	Weighted average exercise price Pence
Outstanding at beginning of the year	**1,122,986**	**191.5**	836,377	261.8
Granted	**329,532**	**174.0**	726,146	163.0
Exercised	**(8,166)**	**214.0**	(2,007)	223.0
Lapsed	**(142,127)**	**191.7**	(437,530)	278.5
Outstanding at end of the year	**1,302,225**	**186.4**	1,122,986	191.5
Subject to exercise at end of the year	**157,551**	**238.2**	1,805	344.4

The following options were outstanding at 31 October 2015:

Date of award	Number of ordinary shares under award	Exercise price per share Pence	Dates between which options may be exercised
30 July 2010	9,350	478.4	1 October 2015 – 31 March 2016
29 July 2011	9,587	508.0	1 October 2016 – 31 March 2017
30 July 2012	148,201	223.0	1 October 2015 – 31 March 2016
30 July 2012	60,663	223.0	1 October 2017 – 31 March 2018
30 July 2013	59,449	239.0	1 October 2016 – 31 March 2017
30 July 2013	46,311	239.0	1 October 2018 – 31 March 2019
30 July 2014	497,656	163.0	1 October 2017 – 31 March 2018
30 July 2014	143,544	163.0	1 October 2019 – 31 March 2020
30 July 2015	245,404	174.0	1 October 2018 - 31 March 2019
30 July 2015	82,060	174.0	1 October 2020 - 31 March 2021

The weighted average fair value of options granted in the year was 43.0p (2014: 41.3p).

The weighted average fair value of options exercised in the year was 63.1p (2014: 67.0p).

The weighted average share price on exercise of the options during the year was 224.0p (2014: 228.5p).

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

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

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

	2015		2014	
	Number of share options	**Weighted average exercise price Pence**	Number of share options	Weighted average exercise price Pence
Outstanding at beginning of the year	**77,689**	**215.9**	106,088	253.5
Granted	**-**	**-**	36,199	174.0
Lapsed	**(41,490)**	**262.0**	(64,598)	248.0
Outstanding at end of the year	**36,199**	**174.0**	77,689	215.9
Subject to exercise at end of the year	**-**	**-**	–	–

31. Share-based payments continued

The following options were outstanding at 31 October 2015:

Date of award	Number of ordinary shares under award	Exercise price per share Pence	Dates between which options may be exercised
30 July 2014	36,199	174.0	1 August 2016 – 31 October 2016

The weighted average fair value of options granted in the year to 31 October 2014 was 41.0p.

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

32. Acquisitions

No acquisitions were made during the year but, as a result of ongoing mergers, disposals and acquisitions activity, and acquisitions in prior years, an acquisition and disposal related credit of £4.4 million (2014: £8.6 million cost) was recognised in the income statement as non-underlying item, in accordance with IFRS 3 (Revised) *Business Combinations*. The acquisition and disposal related (credit)/costs were comprised as follows:

	2015 £m	2014 £m
3d-Radar acquisition	**–**	0.1
European munitions businesses disposal	**(3.8)**	7.4
Chemring Defence Germany disposal	**(0.5)**	0.6
Chemring Energetic Devices' Clear Lake disposal	**–**	0.5
Marine business disposal	**(0.6)**	–
Proposed acquisition of Wallop Defence Systems' assets	**0.5**	–
	(4.4)	8.6

Included in the amounts above are costs of £0.5 million (2014: £0.6 million) relating to continuing operations.

The value of the acquisition and disposal related credit differs from the cash outflow from acquisition and disposal related costs of £0.7 million due to a net decrease in acquisition and disposal related costs within creditors and provisions during the year ended 31 October 2015 of £3.7 million.

33. Discontinued operations and disposals

There were no disposals during the year ended 31 October 2015. A credit of £4.9 million was recognised as a result of a review of expected liabilities under the sales agreements relating to the discontinued operations.

In the year ended 31 October 2014, the Group disposed of its European munitions businesses, comprising Mecar and Simmel, to Nexter Systems SA for gross cash proceeds of £134.5 million (€165.3 million). The disposal of Mecar was completed on 19 May 2014 and the disposal of Simmel was completed on 27 May 2014.

On 27 May 2014, the Group also completed the disposal of its German subsidiary, Chemring Defence Germany GmbH, for cash proceeds of £2.2 million (€2.8 million) to Drew Marine Germany GmbH.

On 24 January 2014, the Group completed the sale of Chemring Energetic Devices' business located in Clear Lake, South Dakota to Amtec Corporation, USA for cash proceeds of £6.2 million ($10.5 million).

On 29 October 2014, the Group sold its 49% shareholding in its associate CIRRA S.A. for a cash consideration of £0.5 million (€0.6 million), as set out in note 17.

33. Discontinued operations and disposals continued

The results of the discontinued operations in the year ended 31 October 2014, excluding Clear Lake, to their dates of disposal, which have been included in the consolidated income statement and the consolidated statement of cash flows, were as follows:

	Underlying			Non-underlying				
	European munitions businesses £m	Chemring Defence Germany £m	Total £m	European munitions businesses £m	Chemring Defence Germany £m	CIRRA £m	Total £m	Total £m
Revenue	67.9	3.9	71.8	–	–	–	–	71.8
Operating profit	2.7	(0.4)	2.3	(47.1)	(7.9)	(0.9)	(55.9)	(53.6)
Net finance expense	(0.1)	–	(0.1)	–	–	–	–	(0.1)
Tax	(0.7)	–	(0.7)	0.9	–	–	0.9	0.2
Profit/(loss) after tax	1.9	(0.4)	1.5	(46.2)	(7.9)	(0.9)	(55.0)	(53.5)

	European munitions businesses £m	Chemring Defence Germany £m	Total £m
Net cash inflow from operating activities	16.7	0.9	17.6
Net cash outflow from financing activities	(0.1)	–	(0.1)
Net cash flow from discontinued operations	16.6	0.9	17.5

The net assets of the disposed businesses at their dates of disposal during the year ended 31 October 2014 were as follows:

	European munitions businesses £m	Chemring Defence Germany £m	Total £m
Goodwill	47.3	–	47.3
Development costs	4.1	0.7	4.8
Other intangible assets	33.7	–	33.7
Property, plant and equipment	37.5	0.9	38.4
Inventories	30.7	3.1	33.8
Trade and other receivables	85.8	3.7	89.5
Cash and cash equivalents	(2.5)	0.8	(1.7)
Trade and other payables	(66.8)	(1.9)	(68.7)
Current tax	(0.1)	0.1	–
Provisions	(5.3)	(0.9)	(6.2)
Deferred tax	(5.8)	0.7	(5.1)
Translation reserve	(2.1)	0.9	(1.2)
Provisions for liabilities retained following the disposals	6.9	1.4	8.3
	163.4	9.5	172.9
Impairment			(70.2)
Profit on disposal			26.0
			128.7
Net cash inflow arising on disposals:			
Consideration for shares received in cash and cash equivalents			128.7
Cash and cash equivalents disposed of			1.7
Discontinued operations			130.4
Proceeds from disposal of Clear Lake			6.2
Proceeds from disposal of associate			0.5
Receipts from sales of businesses, net of cash transferred			137.1

34. Held for sale

At 31 October 2015 and 31 October 2014 there were no businesses held for sale.

During the year ended 31 October 2014, an impairment of assets held for sale of £13.6 million was recorded in relation to Chemring Defence Germany and Simmel. Both businesses were subsequently sold during that year, as set out in note 33.

35. Pensions

In the UK, the Group operates a defined benefit scheme (the "Chemring Group Staff Pension Scheme"). In Norway, Chemring Nobel operates a defined benefit scheme (the "Chemring Nobel Scheme"). The Group's other UK and overseas pension arrangements are all defined contribution schemes, with a combined cost of £5.8 million (2014: £6.0 million).

The Chemring Group Staff Pension Scheme is a funded scheme and the assets of the scheme are held in a separate trustee administered fund. The scheme was closed to future accrual on 6 April 2012. A full actuarial valuation of the Chemring Group Staff Pension Scheme as at 6 April 2012 has been completed and updated to 31 October 2015 by a qualified actuary, using the projected unit credit method. The main assumptions for the scheme are detailed below. The deficit of the Chemring Group Staff Pension Scheme was £17.8 million at 31 October 2015 (2014: £22.0 million).

Under the funding plan agreed with the trustees following the 2012 actuarial valuation, the Company has agreed to eliminate the deficit indicated by that valuation over a period of seven years. This funding plan provides for contributions of £8.2 million to be paid by the Group in monthly instalments during the year ended 31 October 2014 and, thereafter, £5.0 million per annum to be paid in monthly instalments until 2019. The Company and the trustees monitor funding levels annually, and a new funding plan is agreed with the trustees every three years, based on actuarial valuations. The Group considers that the current contribution rates agreed with the trustees are sufficient to eliminate the calculated deficit over the agreed period.

The Group has provided a bank guarantee and letters of credit totalling £13.5 million (2014: £21.6 million) to the Chemring Group Staff Pension Scheme, comprising a £6.3 million letter of credit and a £7.2 million bank guarantee, which may only be drawn upon certain events of default by the Company. The value of the bank guarantee and letters of credit has reduced during the year as deficit reduction payments have been made by the Company.

The unfunded pension scheme relating to Chemring Defence Germany (the "Chemring Defence Germany Scheme") transferred to the purchaser of that business on 27 May 2014, as set out in note 33.

The Chemring Nobel Scheme is an unfunded scheme. The actuarial liability has been calculated at 31 October 2015 by a qualified actuary using the projected unit credit method. The main assumptions used were a discount rate of 2.5% and rate of increase in deferred pensions of 3.3%. The net surplus of the Chemring Nobel Scheme was £0.1 million at 31 October 2015 (2014: £0.2 million).

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

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

	2015 £m	2014 £m
Present value of funded and unfunded obligations	**(81.1)**	(80.9)
Fair value of schemes' assets	**63.4**	59.1
Net retirement benefit obligation recognised in the balance sheet	**(17.7)**	(21.8)

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

	2015 £m	2014 £m
Chemring Group Staff Pension Scheme	**(17.8)**	(22.0)
Chemring Defence Germany Scheme	**–**	–
Chemring Nobel Scheme	**0.1**	0.2
Net retirement benefit obligation recognised in the balance sheet	**(17.7)**	(21.8)

35. Pensions continued

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

	2015 £m	2014 £m
Amounts included within finance expense		
Expected return on schemes' assets	**2.1**	2.0
Discount on schemes' liabilities	**(3.0)**	(3.1)
	(0.9)	(1.1)
Net charge recognised in the income statement	**(0.9)**	(1.1)

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

	2015 £m	2014 £m
Actual return less expected return on schemes' assets at the balance sheet date	**0.5**	0.3
Actuarial losses and changes in assumptions underlying the present value of the schemes' liabilities	**(0.5)**	(5.1)
Actuarial loss recognised in the statement of comprehensive income	**–**	(4.8)

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

	2015 £m	2014 £m
Opening defined benefit obligations	**(80.9)**	(76.7)
Discount on schemes' liabilities	**(3.0)**	(3.1)
Actuarial losses and changes in assumptions underlying the present value of the schemes' liabilities	**(0.5)**	(5.1)
Release of liability in relation to the disposal of Chemring Defence Germany	**–**	1.0
Benefits paid	**3.3**	3.0
Closing defined benefit obligations	**(81.1)**	(80.9)

The Chemring Group Staff Pension Scheme had 1,092 members at the end of the year (2014: 1,110). Of these members 49.0% (2014: 47.4%) were pensioners drawing benefits from the scheme and the balance were deferred members. The duration of the liability is long with pension payments expected to be made for at least the next 40 years.

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

	2015 £m	2014 £m
Opening fair value of schemes' assets	**59.1**	51.6
Expected return on schemes' assets	**2.1**	2.0
Actuarial gains less expected return on schemes' assets	**0.5**	0.3
Contributions from sponsoring companies	**5.0**	8.2
Benefits paid	**(3.3)**	(3.0)
Closing fair value of schemes' assets	**63.4**	59.1

The pension schemes' assets are analysed as follows:

	2015 £m	2014 £m	2015 %	2014 %
Equities	**41.5**	39.2	**65.5**	66.3
Bonds	**21.9**	19.9	**34.5**	33.7
	63.4	59.1	**100.0**	100.0

The expected rate of return on the schemes' assets was 3.7% (2014: 3.8%). This was determined by reference to relevant published indices.

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

35. Pensions continued

The history of experience gains and losses is as follows:

	2015 £m	2014 £m	2013 As restated £m	2012 £m	2011 £m
Present value of funded and unfunded obligations	**(81.1)**	(80.9)	(76.7)	(71.6)	(65.2)
Fair value of schemes' assets	**63.4**	59.1	51.6	44.6	40.0
Deficit in the schemes	**(17.7)**	(21.8)	(25.1)	(27.0)	(25.2)
Experience gains on schemes' liabilities	**-**	-	1.3	-	-
Percentage of schemes' liabilities	**-**	-	1.7%	-	-
Experience gains/(losses) on schemes' assets	**0.4**	0.3	5.9	1.4	(1.3)
Percentage of schemes' assets	**0.6%**	0.5%	11.4%	3.1%	(3.3%)

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

	2015 £m	2014 £m
Opening deficit in the schemes	**(21.8)**	(25.1)
Contributions	**5.0**	8.2
Other finance costs	**(0.9)**	(1.1)
Release of liability in relation to the disposal of Chemring Defence Germany	**-**	1.0
Actuarial loss and changes in assumptions underlying the present value of schemes' liabilities	**-**	(4.8)
Closing deficit in the schemes	**(17.7)**	(21.8)

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

		2015 %	2014 %
Discount rate		**3.7**	3.8
Rate of increase in salaries		**n/a**	n/a
Rate of increase in deferred pensions		**3.3**	3.3
Rate of increase in pensions in payment (where applicable)		**3.3**	3.3
Inflation	– RPI	**3.4**	3.4
	– CPI	**2.5**	2.5
Expected return on scheme assets		**3.7**	3.8

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

This results in the following life expectancies at age 65:

		2015	2014
Future pensioners	– male	**88.7**	88.6
	– female	**91.4**	91.3
Current pensioners	– male	**86.5**	86.3
	– female	**89.4**	89.2

The most significant assumptions in the pension valuation are the discount rate applied to the liabilities, the inflation rate to be applied to pension payments and the mortality rates. If the discount rate used in determining retirement benefit obligations were to change by 0.1% then it is predicted that the deficit in the scheme would change by approximately £1.6 million. A change in the rate of inflation by 0.1% is predicted to change the deficit by approximately £0.6 million and a one year change to the longevity assumption would change the deficit by approximately £2.7 million. The principal risks to the schemes are that the investments do not perform as well as expected, the discount rate continues to fall driven by lower market interest rates and that the rate of improvement in mortality assumed is insufficient and life expectancies continue to rise.

The Group anticipates contributions to the defined benefit schemes for the year ending 31 October 2016 will be £5.0 million (2014: £5.0 million).

36. Cash generated from underlying operations

	2015 £m	2014 £m
Operating profit from continuing operations	**5.5**	25.4
Operating profit/(loss) from discontinued operations	**4.9**	(53.6)
	10.4	(28.2)
Impairment of goodwill	**–**	45.9
Impairment of acquired intangibles	**–**	10.7
Impairment of assets held for sale	**–**	13.6
Amortisation of development costs	**6.2**	6.5
Intangible amortisation arising from business combinations	**14.0**	16.1
Amortisation of patents and licences	**0.2**	0.2
Loss/(profit) on disposal of non-current assets	**0.3**	(0.2)
Depreciation of property, plant and equipment	**16.3**	17.0
(Gain)/loss on the movement in the fair value of derivative financial instruments	**(0.5)**	0.7
Share-based payment expense	**1.2**	1.2
Employer contributions to retirement benefit obligations	**(5.0)**	(8.2)
Operating cash flows before movements in working capital	**43.1**	75.3
(Increase)/decrease in inventories	**(19.1)**	2.3
(Increase)/decrease in trade and other receivables	**(3.1)**	24.0
Increase/(decrease) in trade and other payables	**9.3**	(26.8)
Decrease in provisions	**(5.3)**	(1.5)
	24.9	73.3
Add back non-underlying items:		
Acquisition and disposal related (credit)/costs	**(4.4)**	8.6
Business restructuring and incident costs	**6.4**	7.2
Claim related costs	**8.5**	–
Profit on disposal of businesses	**–**	(26.5)
Loss on disposal of associate	**–**	0.9
Cash generated from underlying operations	**35.4**	63.5
Analysed as:		
Continuing operations	**35.4**	45.9
Discontinued operations	**–**	17.6
	35.4	63.5

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

	2015 £m	2014 £m
(Decrease)/increase in cash and cash equivalents	**(14.1)**	8.2
Decrease in debt and lease financing due to cash flows	**3.0**	106.5
(Increase)/decrease in net debt resulting from cash flows	**(11.1)**	114.7
Effect of foreign exchange rate changes	**(5.5)**	1.3
Amortisation of debt finance costs	**(2.1)**	(2.9)
Movement in net debt	**(18.7)**	113.1
Net debt at beginning of the year	**(135.6)**	(248.7)
Net debt at end of the year	**(154.3)**	(135.6)

38. Analysis of net debt

	At 1 Nov 2014 £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	**At 31 Oct 2015 £m**
Cash at bank and in hand	21.8	(14.1)	–	(0.1)	**7.6**
Debt due within one year	(0.3)	0.3	–	–	**–**
Debt due after one year	(155.6)	1.8	(2.1)	(5.4)	**(161.3)**
Finance leases	(1.4)	0.9	–	–	**(0.5)**
Preference shares	(0.1)	–	–	–	**(0.1)**
	(135.6)	(11.1)	(2.1)	(5.5)	**(154.3)**

39. Contingent liabilities

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

At 31 October 2015, the Group had contingent liabilities in respect of bank and contractual performance guarantees and other matters arising in the ordinary course of business. Where it is expected that a material liability will arise in respect of these matters, appropriate provision is made within the financial statements. As the conditions of these guarantees are currently being met, no obligating event is foreseeable and therefore no provision has been made.

The Group is, from time to time, party to legal proceedings and claims, and is involved in correspondence relating to potential claims, which arise in the ordinary course of business. The Group is currently engaged in pre-action correspondence with the Defense Contract Audit Agency of the US Department of Defense in relation to disputed pricing calculations on certain contracts fulfilled by Alloy Surfaces.

In light of the current status of these matters, the directors do not consider the outcome of all the proceedings, actions and claims in which it is currently involved, either individually or in aggregate, will have a material adverse effect upon the Group's financial position. A provision of £7.9 million (2014: £4.5 million) exists to cover estimated settlement and legal costs for the Group with regards to pending and probable legal actions. This provision is detailed in note 25.

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

40. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions with the Group's pension schemes are disclosed in note 35.

Trading transactions

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

Remuneration of key management personnel

For the purposes of remuneration disclosure, key management personnel includes only the executive directors and excludes the other senior business managers and members of the Executive Committee. Their remuneration is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*. Further information on the remuneration of individual directors is provided in the audited part of the directors' remuneration report on pages 76 to 83.

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

	2015 £m	2014 £m
Remuneration of key management personnel	**1.9**	1.8

Further detail can be found in the directors' remuneration report on pages 62 to 83.

41. Events since the end of the year

On 24 November 2015, the Group reached an agreement with Esterline to buy patents, equipment, stock and selected contracts relating to Esterline's UK-based subsidiary, Wallop Defence Systems Limited, for an initial cash consideration of £2.5 million. Additional payments of up to £9.0 million, which are conditional on the receipt of specific orders in the future, may be made over the next three years. The assets to be purchased relate to air countermeasures and pyrotechnic products, which, pending regulatory approval, will be manufactured at Chemring's existing UK operations and further expand the Group's product offerings in Countermeasures. Completion of the transaction, which is subject to approval by the MoD and the CMA, is expected to occur in early 2016. The asset purchase agreement contains customary warranties, representations, indemnities and covenants for a transaction of this nature.

Further to the announcement on 26 October 2015, the Board of Chemring Group PLC announced on 21 January 2016 a fully underwritten Rights Issue to raise gross proceeds of approximately £80.8 million to reduce its indebtedness. The Rights Issue is being pursued in order to assist the Group with reducing its indebtedness thereby enabling additional time and resources to be made available for further operational improvement and capturing the longer term growth opportunities available to the Group. As set out on page 25, the Group's debt providers have agreed to waive any event of default and amend the operation of the relevant covenants to ensure the Group remains in compliance with its facility agreements. These changes represent only a one-time modification that does not fundamentally address the Group's balance sheet and capitalisation concerns over the longer term. The Board believes that a medium-term net debt to EBITDA target ratio of between 1.0x and 1.5x as an average annual is appropriate for the Group; the proposed Rights Issue is a critical step towards achieving this target.

Net proceeds of £75.2 million will be used to redeem £48.5 million in aggregate principal amount of the loan notes, with the balance used for make whole premiums, waiver fees and general corporate purposes with the Board having regard to future debt maturities.

The Rights Issue is a fully underwritten 4 for 9 rights issue at a price of 94 pence per new share issued. The issue price represents a 38.2% discount to the theoretical ex-rights price of an existing share, when calculated by reference to the closing middle-market price of 178 pence per existing share on 20 January 2016 (being the last business day prior to the date of the announcement of the Rights Issue). The Rights Issue is subject to shareholder approval.

PARENT COMPANY BALANCE SHEET
As at 31 October 2015

	Note	2015 £m	2015 £m	2014 As restated* £m	2014 As restated* £m
Non-current assets					
Plant, property and equipment	2	**0.2**		0.2	
Investments in subsidiaries	3	**511.3**		511.0	
Deferred tax asset	5	**8.2**		8.5	
Amounts owed by subsidiary undertakings	5	**400.6**		457.6	
			920.3		977.3
Current assets					
Trade and other receivables	5	**7.3**		17.6	
Cash and cash equivalents		**2.7**		21.8	
			10.0		39.4
Total assets			**930.3**		1,016.7
Current liabilities					
Trade and other payables	6		**(124.2)**		(25.5)
Non-current liabilities					
Trade and other payables	6	**(263.4)**		(462.6)	
Provisions	7	**(2.1)**		(2.3)	
Preference shares	8	**(0.1)**		(0.1)	
Retirement benefit obligations	12	**(6.6)**		(8.1)	
			(272.2)		(473.1)
Total liabilities			**(396.4)**		(498.6)
Net assets			**533.9**		518.1
Equity					
Share capital	9		**2.0**		2.0
Share premium account			**230.7**		230.7
Special capital reserve			**12.9**		12.9
Retained earnings			**297.9**		282.1
			543.5		527.7
Own shares	10		**(9.6)**		(9.6)
Equity attributable to the equity holders of the parent			**533.9**		518.1
Total equity			**533.9**		518.1

These financial statements of Chemring Group PLC (registered number 86662) were approved and authorised for issue by the Board of directors on 21 January 2016.

Signed on behalf of the Board

Michael Flowers
Director

Steve Bowers
Director

* The restatement relates to the prior period non-current liabilities as a result of the adoption of FRS 101 *Reduced Disclosure Framework*. See note 1 for further details.

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 October 2015

	2015 £m	2014 As restated* £m
Profit after tax attributable to equity holders of the parent as reported	**22.5**	204.8
Restatement of pensions on adoption of FRS 101	**-**	3.2
Profit after tax attributable to equity holders of the parent as restated	**22.5**	208.0
Items that will not be reclassified to profit or loss		
Other recognised losses restated	**-**	(2.7)
Total comprehensive income attributable to the equity holders of the parent	**22.5**	205.3

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 31 October 2015

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

	Share capital £m	Share premium account £m	Special capital reserve £m	Profit and loss acount As restated* £m	Own shares £m	Total As restated* £m
At 1 November 2013	2.0	230.7	12.9	87.6	(9.6)	323.6
Profit after tax	–	–	–	208.0	–	208.0
Other comprehensive loss	–	–	–	(2.7)	–	(2.7)
Total comprehensive income	–	–	–	205.3	–	205.3
Dividends paid	–	–	–	(12.0)	–	(12.0)
Share-based payments (net of settlement)	–	–	–	1.2	–	1.2
At 31 October 2014	2.0	230.7	12.9	282.1	(9.6)	518.1

Profit attributable to shareholders

In accordance with the concession granted under section 408 of the Companies Act 2006, the profit and loss account of Chemring Group PLC has not been presented separately in these financial statements. There is no material difference between the results disclosed and the results on an unmodified historical cost basis. The Company reported a profit for the year ended 31 October 2015 of £22.5 million (2014: £208.0 million). The restatement relates to the prior period profit after tax as a result of the adoption of FRS 101 *Reduced Disclosure Framework*.

The auditor's remuneration for audit and other services is disclosed in note 6 to the Group financial statements.

Cash flow statement

In accordance with the exemption under FRS 101 *Reduced Disclosure Framework*, the Company's cash flow statement has not been presented separately in these financial statements.

Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the financial review on page 20 to 25.

1. Chemring Group PLC accounting policies

Transition to FRS 101 *Reduced Disclosure Framework*

For all periods up to and including the year ended 31 October 2014, the Company prepared its financial statements in accordance with previously extant United Kingdom Generally Accepted Accounting Practice (UK GAAP). These financial statements, for the year ended 31 October 2015, are the first the Company has prepared in accordance with FRS 101 *Reduced Disclosure Framework*.

Accordingly, the Company has prepared financial statements which comply with FRS 101 applicable for periods beginning on or after 1 November 2014 and the significant accounting policies meeting those requirements are described in the relevant notes.

The Company has taken early adoption of the July 2015 amendments to FRS 101 in relation to the exemption from presenting a statement of financial position and related notes as at the date of transition.

The financial statements for the year ended 31 October 2014 have been restated to reflect the transition from UK GAAP to FRS 101. The impact of this is non-current liabilities have increased by £10.4 million to £473.1 million to reflect the recognition of the retirement benefit obligations and non-current assets have increased by £8.5 million to £977.3 million as a result of the reclassification and recognition of additional deferred tax assets. Subsequently, retained earnings have decreased by £6.5 million to £282.1 million.

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

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:
- share-based payments;
- business combinations;
- financial instruments;
- fair value measurements;
- presentation of comparative information in respect of certain assets;
- IFRSs issued but not yet effective;
- related party transactions; and
- assumptions and sensitivities for impairment review.

Accounting convention

The financial statements are prepared under the historical cost convention, as modified by the revaluation of property, in accordance with the Companies Act 2006.

Related parties

The Company is exempt under FRS 8 *Related Party Disclosures* from disclosing transactions with other members of the Group.

Revenue recognition

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to its net carrying amount.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment is held at cost less accumulated depreciation and any recognised impairment loss. No depreciation is provided on freehold land. On other assets, depreciation is provided at rates calculated to write down their cost or valuation to their estimated residual values by equal instalments over their estimated useful economic lives, which are:

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

1. Chemring Group PLC accounting policies continued

Investment in Group undertakings

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

Operating leases

Operating lease rental charges are taken to the income statement on a straight-line basis over the life of the lease.

Provisions

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

Tax

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

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

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

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

Special capital reserve

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

Foreign currencies

The functional currency of the Company is sterling. Transactions in foreign currencies are translated into sterling at the rates prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at rates prevailing on the balance sheet date. These translation differences are included in the profit and loss account.

For a forward foreign exchange contract to be treated as a hedge the instrument must be related to actual foreign currency assets or liabilities, or to a probable commitment. It must involve the same currency or similar currencies as the hedged item and must also reduce the risk of foreign currency exchange movements on the Company's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account, or as adjustments to the carrying amount of fixed assets, only when the hedged transaction has itself been reflected in the Company's financial statements.

For an interest rate swap to be treated as a hedge the instrument must be related to actual assets or liabilities or a probable commitment, and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting interest payable over the periods of the contracts.

If an instrument ceases to be accounted for as a hedge, for example because the underlying hedged position is eliminated, the instrument is marked to market and any resulting profit or loss recognised at that time.

1. Chemring Group PLC accounting policies continued

Bank borrowings

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

Retirement benefit costs

The Company operates a defined benefit pension scheme. The defined benefit scheme is a multi-employer scheme including employees of other Group companies. The scheme assets and liabilities have been allocated across these Group companies using a method that management consider to be the most appropriate.

The Company also operates a defined contribution pension scheme. The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contribution payable in the year. Differences between amounts payable and actually paid are shown as accruals or prepayments in the balance sheet.

Share-based compensation

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

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

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

2. Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Total £m
Cost			
At 1 November 2013	0.2	1.5	1.7
Additions	0.1	0.1	0.2
Disposals	(0.2)	(0.4)	(0.6)
At 1 November 2014	0.1	1.2	1.3
Additions	–	0.1	0.1
At 31 October 2015	0.1	1.3	1.4
Depreciation			
At 1 November 2013	0.1	1.3	1.4
Charge	-	0.1	0.1
Disposals	(0.1)	(0.3)	(0.4)
At 1 November 2014	–	1.1	1.1
Charge	–	0.1	0.1
At 31 October 2015	-	1.2	1.2
Net book value			
At 31 October 2015	**0.1**	**0.1**	**0.2**
At 31 October 2014	0.1	0.1	0.2

The Company had no capital commitments as at 31 October 2015 or 31 October 2014. Land and buildings represent leasehold improvements.

3. Investments

	Shares in subsidiary undertakings £m	Loans to subsidiary undertakings £m	Total £m
Cost			
At 1 November 2013	588.1	6.3	594.4
Disposals	(39.5)	-	(39.5)
At 31 October 2014	548.6	6.3	554.9
Additions	–	0.3	0.3
At 31 October 2015	548.6	6.6	555.2
Impairment			
At 1 November 2013	19.2	–	19.2
Charge	24.7	–	24.7
At 1 November 2014 and 31 October 2015	43.9	–	43.9
Carrying amount			
At 31 October 2015	**504.7**	**6.6**	**511.3**
At 31 October 2014	504.7	6.3	511.0

4. Investments in Group undertakings

Details of the Group undertakings at 31 October 2015 are set out in note 16 of the Group financial statements.

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

5. Trade and other receivables

	2015 £m	2014 £m
Within current assets		
Other debtors	**5.1**	10.0
Corporation tax recoverable	**1.7**	6.8
Prepayments and accrued income	**0.5**	0.8
	7.3	17.6
Within non-current assets		
Deferred tax asset (see note 11)	**8.2**	8.5
Amounts owed by subsidiary undertakings	**400.6**	457.6
	408.8	466.1

An asset of £0.5 million (2014: £0.7 million) is recognised within other receivables in respect of the fair value of derivative financial instruments, as set out in note 24 of the Group financial statements. The directors consider that the carrying value of the trade and other receivables approximates to their fair value.

During the year ended 31 October 2014, amounts owed by subsidiary undertakings were written down by £225.2 million as a consequence of lower expectations of future trading performance and cash flows. These lower expectations reflect the continuing challenging economic conditions facing the defence industry.

6. Trade and other payables

	2015 £m	2014 £m
Within current liabilities		
Derivative financial instruments (note 24 of the Group financial statements)	**1.5**	1.7
Trade payables	**0.9**	1.1
Amounts owed to subsidiary undertakings	**113.7**	12.6
Other payables	**-**	2.5
Other tax and social security	**0.2**	0.2
Accruals and deferred income	**7.9**	7.4
	124.2	25.5
Within non-current liabilities		
Derivative financial instruments (note 24 of the Group financial statements)	**0.3**	0.6
Loan notes	**161.3**	155.6
Amounts owed to subsidiary undertakings	**101.8**	306.4
	263.4	462.6

An analysis of borrowings by maturity is as follows:

	2015 £m	2014 £m
Borrowings falling due:		
– within one to two years	**28.4**	–
– within two to five years	**132.9**	83.2
– after five years	**-**	72.4
	161.3	155.6

The interest incurred on the above borrowings is detailed within notes 9 and 21 of the Group financial statements.

7. Provisions

	Diposal provision £m	Other provision £m	Total £m
At 1 November 2014	0.7	1.6	2.3
Paid	–	(0.2)	(0.2)
At 31 October 2015	**0.7**	**1.4**	**2.1**

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

The disposal provision relates to estimated liabilities faced by the Company in respect of Mecar under the terms of the sale agreement.

8. Preference shares

	2015 £m	2014 £m
Cumulative preference shares (62,500 shares of £1 each)	**0.1**	0.1
	0.1	0.1

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

9. Share capital

	2015 £m	2014 £m
Issued, allotted and fully paid		
195,504,091 (2014: 195,495,925) ordinary shares of 1p each	**2.0**	2.0

During the year, 8,166 ordinary shares (2014: 2,007) were issued for cash to employees under the Group's approved savings-related share schemes.

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

Share-based incentive schemes

Full details of the schemes are set out in note 31 of the Group financial statements.

10. Own shares

	2015 £m	2014 £m
At beginning and end of the year	**9.6**	9.6

The own shares reserve represents the cost of shares in Chemring Group PLC purchased in the market and held by the Group to satisfy awards under the Group's share-based incentive schemes (see note 31 of the Group financial statements). During the year, no ordinary shares (2014: nil) were acquired and no ordinary shares (2014: nil) were distributed following the vesting of awards under the Chemring Group Performance Share Plan. The total number of ordinary shares held in treasury at 31 October 2015 was 2,198,814 (2014: 2,198,814), with an average cost of 439.0p (2014: 439.0p) per share.

This represents 1.1% of the total issued and fully-paid ordinary share capital.

11. Deferred tax asset

	2015 £m	2014 £m
At beginning of the year as restated	**8.5**	2.2
(Charge)/credit to income statement as restated	**(0.3)**	6.3
At the end of the year as restated	**8.2**	**8.5**
The amount provided represents:		
Other timing differences	**8.2**	8.5

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

12. Pensions

As a result of adoption FRS 101 in the current year, the Company has assumed its share of the assets and liabilities of the Group's defined beneift pension scheme, as detailed in Note 1.

An analyis of the provision balance is shown below:

	Total £m
At 1 November 2013	8.9
Contributions	(3.2)
Other finance costs	0.4
Actuarial gain	2.0
At 1 November 2014	8.1
Contributions	(2.0)
Other finance costs	0.5
At 31 October 2015	**6.6**

Further details are set out in note 35 of the Group financial statements.

13. Staff costs

	2015 Number	2014 Number
Average monthly number of total employees (including executive directors)	**27**	37

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

	2015 £m	2014 £m
Wages and salaries	**3.4**	4.9
Social security costs	**0.5**	0.7
Other pension costs	**0.4**	0.6
	4.3	6.2

Disclosures in respect of directors' emoluments can be found in the directors' remuneration report on pages 62 to 83.

NOTES

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Find out more online

For more information about Chemring Group PLC, please visit www.chemring.co.uk where the latest shareholder information can be accessed, including:

- Current share price
- Key financial information
- Financial calendar
- Shareholder services and notices
- Corporate governance
- RSS news feeds
- Results and presentations
- Analysts' forecasts
- Regulatory news

Chemring Group PLC's Annual Report and Accounts 2015 and the Notice for the Annual General Meeting can also be viewed and downloaded at www.chemring.co.uk/investors

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