

THIS DOCUMENT AND ANY ACCOMPANYING DOCUMENTS ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take, you are recommended to seek immediately your own financial advice from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under the Financial Services and Markets Act 2000 if you are resident in the UK or, if not, from another appropriately authorised independent financial adviser.

This document comprises (i) a circular prepared in accordance with the Listing Rules of the Financial Conduct Authority (“FCA”) made under section 73A of the FSMA and (ii) a prospectus relating to Chemring Group PLC (“Chemring”, the “Company” or the “Group”) prepared in accordance with the Prospectus Rules of the FCA made under section 73A of the FSMA. This document has been approved by the FCA in accordance with section 85 of the FSMA, will be made available to the public and has been filed with the FCA in accordance with the Prospectus Rules. This document together with the documents incorporated into it by reference (as set out in Part X “Documentation Incorporated by Reference” of this document) will be made available to the public in accordance with Prospectus Rule 3.2.1 by the same being made available, free of charge, at www.chemring.co.uk and at the Company’s registered office at Roke Manor, Old Salisbury Lane, Romsey, Hampshire SO51 0ZN, England.

If you sell or have sold or have otherwise transferred all of your Shares (other than ex-rights) held in certificated form before 8.00 a.m. (London time) on 9 February 2016 (the “Ex-Rights Date”) please send this document, together with any Provisional Allotment Letter, if and when received, at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee except that such documents should not be sent to any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including, subject to certain exceptions, but not limited to the United States or the Commonwealth of Australia, its territories and possessions, Canada, Japan and the Republic of South Africa (“Excluded Territories”). If you sell or have sold or have otherwise transferred all or some of your Existing Shares (other than ex-rights) held in uncertificated form before the Ex-Rights Date, a claim transaction will automatically be generated by Euroclear which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee. If you sell or have sold or otherwise transferred only part of your holding of Existing Shares (other than ex-rights) held in certificated form before the Ex-Rights Date, you should refer to the instruction regarding split applications in Part III “Terms and Conditions of the Rights Issue” of this document and in the Provisional Allotment Letter.

The distribution of this document, the Provisional Allotment Letter and the transfer of Nil Paid Rights, Fully Paid Rights and New Shares into jurisdictions other than the UK may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws or regulations of such jurisdictions. In particular, subject to certain exceptions, this document, the enclosures and the Provisional Allotment Letter and any other such documents should not be distributed, forwarded to or transmitted in or into the United States or the Excluded Territories.



Chemring Group PLC

(incorporated and registered in England and Wales with registered number 86662)

4 for 9 Rights Issue of 85,915,828 New Shares at 94 pence per New Share

Notice of General Meeting

Joint Sponsors, Joint Global Coordinators and Joint Bookrunners

Investec

J.P. Morgan Cazenove

Co-Bookrunner

Barclays

Financial Adviser

Rothschild

A Notice of General Meeting of the Company, to be held at 9.30 a.m. on 8 February 2016, is set out at the end of this document. Whether or not you intend to be present at the General Meeting, you are asked to complete and return the enclosed Form of Proxy in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received by the Registrar, Computershare Investor Services PLC (“Computershare”) at The Pavilions, Bridgwater Road, Bristol BS99 6ZY, by not later than 9.30 a.m. on 6 February 2016 (or, in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting).

The Shares are listed on the premium listing segment of the Official List maintained by the FCA and traded on the main market for listed securities of London Stock Exchange plc (the “London Stock Exchange”). Application will be made to the UK Listing Authority and to the London Stock Exchange for the New Shares to be admitted to the Official List of the UK Listing Authority and to trading on the main market for listed securities of the London Stock Exchange, respectively. It is expected that Admission will become effective and that dealings on the London Stock Exchange in the New Shares (nil paid) will commence at 8.00 a.m. (London time) on 9 February 2016.

Your attention is drawn to the letter of recommendation from the Chairman which is set out in Part I “Letter from the Chairman of Chemring Group PLC” of this document. Your attention is also drawn to the section headed “Risk Factors” at the beginning of this document which sets out certain risks and other factors that should be considered by Shareholders when deciding on what action to take in relation to the Rights Issue, and by others when deciding whether or not to purchase Nil Paid Rights, Fully Paid Rights or New Shares.

The Nil Paid Rights, the Fully Paid Rights, the New Shares and the Provisional Allotment Letters have not been and will not be registered under the US Securities Act of 1933, as amended (the “Securities Act”) or under any securities laws of any state or other jurisdiction of the United States and may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from or in a transaction not subject to the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States. There will be no public offer of the Nil Paid Rights, the Fully Paid Rights or the New Shares in the United States.

The Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters and the New Shares will not be registered or qualified for distribution to the public under the securities laws of any Excluded Territory and may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within such jurisdictions except pursuant to an applicable exemption from, and in compliance with, any applicable securities laws and, in the case of Canada, except pursuant to and in compliance with such procedures as the Company may approve. There will be no public offer in any of the Excluded Territories. Investec Bank plc (“Investec”), J.P. Morgan Securities plc (which conducts its UK investment banking services as “J.P. Morgan Cazenove”), Barclays Bank PLC (“Barclays”) and N M Rothschild & Sons Limited (“Rothschild”) are authorised by the Prudential Regulation Authority (“PRA”) and regulated by the Financial Conduct Authority (“FCA”) and the PRA in the UK. Investec, J.P. Morgan Cazenove and Barclays (together, the “Underwriters”) and Rothschild are acting for Chemring and are acting for no one else in connection with the Rights Issue and will not regard any other person as a client in relation to the Rights Issue and will not be responsible to anyone other than Chemring for providing the protections afforded to their respective clients, nor for providing advice in connection with the Rights Issue or any other matter, transaction or arrangement referred to in this document.

None of the Underwriters or Rothschild accepts any responsibility whatsoever for the contents of this document, including its accuracy, completeness or verification, or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Nil Paid Rights, the Fully Paid Rights or the New Shares or the Rights Issue. The Underwriters and Rothschild accordingly disclaim any and all liability whether arising in tort, contract or otherwise which they might otherwise have in respect of this document or any such statement.

Subject to the passing of the Resolutions, it is expected that Qualifying Non-CREST Shareholders other than, subject to certain exceptions, those with registered addresses in the Excluded Territories will be sent a Provisional Allotment Letter on 8 February 2016, and that Qualifying CREST Shareholders will receive a credit to their appropriate stock accounts in CREST in respect of the Nil Paid Rights to which they are entitled on 9 February 2016. The Nil Paid Rights so credited are expected to be enabled for settlement by Euroclear as soon as practicable after Admission.

The Underwriters may, in accordance with applicable legal and regulatory provisions and subject to the Underwriting Agreement, engage in transactions in relation to the Nil Paid Rights, the Fully Paid Rights, the Shares and/or related instruments for their own account for the purpose of hedging their underwriting exposure or otherwise. Except as required by applicable law or regulation, the Underwriters do not propose to make any public disclosure in relation to such transactions.

The latest time and date for acceptance and payment in full for the New Shares by holders of the Nil Paid Rights is expected to be 11.00 a.m. on 23 February 2016. The procedures for delivery of the Nil Paid Rights, acceptance and payment are set out in Part III “Terms and Conditions of the Rights Issue” of this document and, for Qualifying Non-CREST Shareholders other than, subject to certain exceptions, those with registered addresses in the United States or the Excluded Territories only, also in the Provisional Allotment Letter. Qualifying CREST Shareholders other than, subject to certain exceptions, those with registered addresses in the United States or the Excluded Territories should refer to paragraph 2.5 of Part III “Terms and Conditions of the Rights Issue” of this document.

The Nil Paid Rights, the Fully Paid Rights, the New Shares and the Provisional Allotment Letters have not been approved or disapproved by the US Securities and Exchange Commission, any state’s securities commission in the United States or any US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Nil Paid Rights, the Fully Paid Rights or the New Shares or the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence.

This document does not constitute an offer of Nil Paid Rights, Fully Paid Rights or New Shares to any person with a registered address, or who is located, in the United States or the Excluded Territories or in any other jurisdiction in which such an offer or solicitation is unlawful. The Nil Paid Rights, the Fully Paid Rights, the New Shares and the Provisional Allotment Letters have not been and will not be registered or qualified for distribution to the public under the relevant laws of any state, province or territory of the United States or any Excluded Territory and may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within the United States or any Excluded Territory except pursuant to an applicable exemption and, in the case of Canada, pursuant to and in compliance with such procedures as the Company may approve.

The Underwriters may arrange for the offer of New Shares in the United States not taken up in the Rights Issue only to persons reasonably believed to be “qualified institutional buyers” (“QIBs”) within the meaning of Rule 144A under the Securities Act (“Rule 144A”) in reliance on an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The New Shares, the Nil Paid Rights and the Fully Paid Rights offered outside the United States are being offered in reliance on Regulation S under the Securities Act (“Regulation S”). **Prospective investors**

are hereby notified that sellers of the Nil Paid Rights, the Fully Paid Rights or the New Shares may be relying on the exemption from registration provisions under Section 5 of the Securities Act, provided by Rule 144A thereunder.

In addition, until 40 days after the commencement of the Rights Issue, an offer, sale or transfer of the Nil Paid Rights, the Fully Paid Rights, the Provisional Allotment Letters or the New Shares within the United States by a dealer (whether or not participating in the Rights Issue) may violate the registration requirements of the Securities Act.

All Overseas Shareholders and any person (including, without limitation, a nominee or trustee) who has a contractual or legal obligation to forward this document or any Provisional Allotment Letter, if and when received, or other document to a jurisdiction outside the UK should read the information set out in paragraph 2.5 of Part III “Terms and Conditions of the Rights Issue” of this document.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Notice to all Investors

Any reproduction or distribution of this document, in whole or in part, and any disclosure of its contents or use of any information contained in this document for any purpose other than considering an investment in the Nil Paid Rights, the Fully Paid Rights or the New Shares is prohibited. By accepting delivery of this document, each offeree of the Nil Paid Rights, the Fully Paid Rights and/or the New Shares agrees to the foregoing.

The distribution of this document and/or the Provisional Allotment Letters and/or the transfer of the Nil Paid Rights, the Fully Paid Rights and/or the New Shares into jurisdictions other than the UK may be restricted by law. Persons into whose possession these documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, such documents should not be distributed, forwarded to or transmitted, subject to certain exceptions, in or into the United States or the Excluded Territories. The Nil Paid Rights, the Fully Paid Rights, the New Shares and the Provisional Allotment Letters are not transferable, except in accordance with, and the distribution of this document is subject to, the restrictions set out in paragraph 2.5 of Part III “Terms and Conditions of the Rights Issue” of this document. No action has been taken by the Company or by the Underwriters that would permit an offer of the New Shares or rights thereto or possession or distribution of this document or any other offering or publicity material or the Provisional Allotment Letters, the Nil Paid Rights, or the Fully Paid Rights in any jurisdiction where action for that purpose is required, other than in the UK.

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by the Company or by the Underwriters and Rothschild. Neither the delivery of this document nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Group since the date of this document or that the information in this document is correct as at any time subsequent to its date.

Without limitation, the contents of the websites of the Group do not form part of this document.

Capitalised terms have the meanings ascribed to them, and certain technical terms are explained, in Part XI “Definitions” of this document.

WHERE TO FIND HELP

Part II “Some Questions and Answers about the Rights Issue” of this document answers some of the questions most often asked by shareholders about rights issues. If you have further questions, please call the Shareholder Helpline on 0370 889 3289 (from within the UK) or on +44 (0)370 889 3289 (if calling from outside the UK). Lines are open from 8.30 a.m. to 5.30 p.m. (London time) Monday to Friday (except UK public holidays). Calls may be recorded and randomly monitored for security and training purposes. Please note that, for legal reasons, the Shareholder Helpline is only able to provide information contained in this document and information relating to the Company’s register of members and is unable to give advice on the merits of the Rights Issue or to provide financial, tax or investment advice.

This document is dated 21 January 2016.

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SUMMARY

Summaries are made up of disclosure requirements known as “Elements”. These Elements are numbered in Sections A-E (A.1 – E.7). This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of “not applicable”.

SECTION A – INTRODUCTION AND WARNINGS

A.1	<i>Warning</i>	<p>This summary should be read as an introduction to this document.</p> <p>Any decision to invest in the securities should be based on consideration of this document as a whole by the investor. Where a claim relating to the information contained in this document is brought before a court, the plaintiff investor might, under the national legislation of the Member States of the European Economic Area, have to bear the costs of translating this document before the legal proceedings are initiated.</p> <p>Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this document or it does not provide, when read together with the other parts of this document, key information in order to aid investors when considering whether to invest in the securities.</p>
A.2	<i>Consent for Intermediaries</i>	<p>Not applicable. No consent has been given by the Company or any person responsible for drawing up this document to use this document for subsequent sale or placement of securities by financial intermediaries.</p>

SECTION B – ISSUER

B.1	<i>Legal and commercial name</i>	<p>Chemring Group PLC (“Chemring”, the “Company” or the “Group”)</p>
B.2	<i>Domicile and legal form</i>	<p>Chemring was incorporated and registered in England and Wales on 30 November 1905 as a private limited company under the Companies Acts 1862 to 1900, with the name British Foreign & Colonial Automatic Light Controlling Company Limited and with registered number 86662. On 24 July 1958, the Company changed its name to Automatic Light Controlling Company Limited. On 1 October 1974, the Company changed its name to Chemring Limited. On 1 October 1981, it re-registered as a public limited company under the name of Chemring PLC. On 5 February 1986, the Company changed its name to Chemring Group PLC</p>
B.3	<i>Current operations and principal activities</i>	<p>Chemring is a global business that specialises in the manufacture of high technology products and services to the aerospace, defence and security markets. Employing approximately 3,000 people worldwide, and with production facilities in four countries, Chemring meets the needs of customers in more than 50 countries worldwide.</p> <p>The Group has established itself as a trusted supplier to key government agencies, contractors and businesses. Leveraging its customer relationships and market knowledge, the Group is able to obtain critical insight into customers’ threats and requirements for protection and detection solutions, and using this insight is able to develop new technologies to meet these requirements.</p>

		<p>The Group operates in three strategic product segments: Countermeasures, Sensors & Electronics, and Energetic Systems with a diverse portfolio of products that deliver high reliability solutions to protect people, platforms, missions and information against constantly changing threats. Operating in niche markets and with strong investment in research and development, the Company has the agility to rapidly react to urgent customer needs.</p>
B.4a	<i>Significant recent trends affecting the Group and the industry in which it operates</i>	<p>The Board's expectations for the current financial year remain unchanged.</p> <p>Trading since the start of the current financial year has been below management's expectations; although order intake remains robust. Revenue has been impacted in part due to rephasing of deliveries. Some customer acceptance delays at the end of the previous financial year 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 the current financial year. The first quarter of the Group's financial year typically has a low level of revenues and that is again expected this financial year.</p> <p>The order book as at 31 October 2015 increased 17.0 per cent. to £569.6 million, of which £330.9 million is currently expected to be recognised as revenue in the 2016 financial year, representing almost 75.0 per cent. of the expected revenue of approximately £450.0 million for the 2016 financial year. 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 the 2015 financial year. The order book as at 31 December 2015 was £600.5 million.</p> <p>The multi-year revenues associated with the 40mm contract are expected to commence in the first half of the current financial year once the cash advance payment is received from the Group's customer, this contract is expected to provide significant contribution to the current financial year. As previously announced, the 40mm contract is expected to result in the Group's financial performance for the current financial year being weighted towards the Energetic Systems segment, with a lower contribution from Sensors & Electronics while its US operations focus on research and development activity under long-term Programs of Record.</p> <p>The expected profile of orders, revenue and margins mean that the Group continues to expect the current financial year to reflect a significant second half weighting.</p> <p>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, the Group's continued customer focus means it is well positioned to benefit from any sustained increase in demand in its markets.</p>
B.5	<i>Group structure</i>	<p>Chemring is the ultimate parent company of the Group, which comprises the Company and its subsidiary undertakings..</p>

B.6	Major shareholders	<p>Insofar as is known to the Company, the name of each person who, directly or indirectly, has an interest in 3.0 per cent. or more of the Company's issued share capital, and the amount of such person's interest, as at 20 January 2016 (being the latest practicable date prior to the publication of this document) are as follows:</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"></th> <th colspan="2" style="text-align: right;"><i>Shares</i></th> </tr> <tr> <th style="text-align: left;"><i>Name</i></th> <th style="text-align: right;"><i>No.</i></th> <th style="text-align: right;"><i>%</i></th> </tr> </thead> <tbody> <tr> <td>Schroders plc</td> <td style="text-align: right;">19,807,251</td> <td style="text-align: right;">10.25</td> </tr> <tr> <td>Investco Ltd</td> <td style="text-align: right;">15,662,550</td> <td style="text-align: right;">8.10</td> </tr> <tr> <td>UBS Global Asset Management</td> <td style="text-align: right;">10,646,898</td> <td style="text-align: right;">5.51</td> </tr> <tr> <td>Jupiter Asset Management Ltd</td> <td style="text-align: right;">10,432,858</td> <td style="text-align: right;">5.40</td> </tr> <tr> <td>Neptune Investment Management</td> <td style="text-align: right;">9,711,698</td> <td style="text-align: right;">5.02</td> </tr> <tr> <td>Thameside MBC re Greater Manchester Pension Fund</td> <td style="text-align: right;">9,668,177</td> <td style="text-align: right;">5.00</td> </tr> <tr> <td>Majedie Asset Management Ltd</td> <td style="text-align: right;">9,665,995</td> <td style="text-align: right;">5.00</td> </tr> <tr> <td>Ameriprise</td> <td style="text-align: right;">9,459,203</td> <td style="text-align: right;">4.89</td> </tr> <tr> <td>Investec Asset Management Ltd</td> <td style="text-align: right;">9,352,078</td> <td style="text-align: right;">4.84</td> </tr> <tr> <td>Cantillon Capital Management LLC</td> <td style="text-align: right;">7,032,280</td> <td style="text-align: right;">3.64</td> </tr> </tbody> </table> <p>Insofar as is known to the Company, the Company is not directly or indirectly owned or controlled by another corporation, any foreign government, or any other natural or legal person, severally or jointly.</p> <p>None of the major Shareholders referred to above has different voting rights from other Shareholders.</p>		<i>Shares</i>		<i>Name</i>	<i>No.</i>	<i>%</i>	Schroders plc	19,807,251	10.25	Investco Ltd	15,662,550	8.10	UBS Global Asset Management	10,646,898	5.51	Jupiter Asset Management Ltd	10,432,858	5.40	Neptune Investment Management	9,711,698	5.02	Thameside MBC re Greater Manchester Pension Fund	9,668,177	5.00	Majedie Asset Management Ltd	9,665,995	5.00	Ameriprise	9,459,203	4.89	Investec Asset Management Ltd	9,352,078	4.84	Cantillon Capital Management LLC	7,032,280	3.64																								
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B.7	Historical financial information of Chemring	<p>The tables below set out the Group's summary financial information for the periods indicated reported in accordance with IFRS as adopted by the EU. The consolidated summary financial information for the Group for the years ended 31 October 2015 and 31 October 2014 has been extracted without material adjustment from the Chemring Annual Report and Accounts for 2015 and 2014, respectively. The consolidated summary historical financial information for the Group for the year ended 31 October 2013 has been extracted from the comparative financial information contained in the Chemring Annual Report and Accounts for 2014 due to the retrospective restatement of the 2013 financial information for the adoption of IAS 19 (Revised) Employee Benefits and for the representation of the income statement for the discontinuing operations.</p> <p>The summary historical financial information presented below reflects the Group's financial results inclusive of acquisition and amortisation expenses and other non-recurring items over the periods described.</p> <p>Consolidated income statement</p> <table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"></th> <th colspan="3" style="text-align: right;"><i>Year ended 31 October</i></th> </tr> <tr> <th style="text-align: left;"></th> <th style="text-align: right;"><i>2015</i></th> <th style="text-align: right;"><i>2014</i></th> <th style="text-align: right;"><i>2013⁽¹⁾</i></th> </tr> <tr> <th style="text-align: left;"></th> <th colspan="3" style="text-align: right;"><i>(audited)</i></th> </tr> <tr> <th style="text-align: left;"></th> <th colspan="3" style="text-align: right;"><i>(£ million)</i></th> </tr> </thead> <tbody> <tr> <td>Continuing Operations</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Revenue</td> <td style="text-align: right;">377.3</td> <td style="text-align: right;">403.1</td> <td style="text-align: right;">472.3</td> </tr> <tr> <td>Operating profit/(loss)</td> <td style="text-align: right;">5.5</td> <td style="text-align: right;">25.4</td> <td style="text-align: right;">(46.7)</td> </tr> <tr> <td>Finance income</td> <td style="text-align: right;">–</td> <td style="text-align: right;">0.1</td> <td style="text-align: right;">0.2</td> </tr> <tr> <td>Finance expense</td> <td style="text-align: right;">(14.6)</td> <td style="text-align: right;">(30.7)</td> <td style="text-align: right;">(20.0)</td> </tr> <tr> <td>Profit/(loss) before tax</td> <td style="text-align: right;">(9.1)</td> <td style="text-align: right;">(5.2)</td> <td style="text-align: right;">(66.5)</td> </tr> <tr> <td>Tax (charge)/credit on profit/(loss)</td> <td style="text-align: right;">3.8</td> <td style="text-align: right;">3.8</td> <td style="text-align: right;">10.9</td> </tr> <tr> <td>Profit/(loss) after tax</td> <td style="text-align: right;">(5.3)</td> <td style="text-align: right;">(1.4)</td> <td style="text-align: right;">(55.6)</td> </tr> <tr> <td>Discontinued Operations</td> <td></td> <td></td> <td></td> </tr> <tr> <td>Profit/(loss) after tax from discontinued operations</td> <td style="text-align: right;">4.9</td> <td style="text-align: right;">(53.5)</td> <td style="text-align: right;">7.3</td> </tr> <tr> <td>Profit/(loss) for the period</td> <td style="text-align: right;">(0.4)</td> <td style="text-align: right;">(54.9)</td> <td style="text-align: right;">(48.3)</td> </tr> </tbody> </table>		<i>Year ended 31 October</i>				<i>2015</i>	<i>2014</i>	<i>2013⁽¹⁾</i>		<i>(audited)</i>				<i>(£ million)</i>			Continuing Operations				Revenue	377.3	403.1	472.3	Operating profit/(loss)	5.5	25.4	(46.7)	Finance income	–	0.1	0.2	Finance expense	(14.6)	(30.7)	(20.0)	Profit/(loss) before tax	(9.1)	(5.2)	(66.5)	Tax (charge)/credit on profit/(loss)	3.8	3.8	10.9	Profit/(loss) after tax	(5.3)	(1.4)	(55.6)	Discontinued Operations				Profit/(loss) after tax from discontinued operations	4.9	(53.5)	7.3	Profit/(loss) for the period	(0.4)	(54.9)	(48.3)
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(1) The restatement of the Group's consolidated income statement for the year ended 31 October 2013 relates to the prior period expense as a result of the adoption of IAS19 (Revised) Employee Benefits and the representation of the impact of the discontinuing operations that occurred in 2014. See note 2 and note 33, respectively, to the Group's consolidated audited financial statements included in the Group's Annual Report and Accounts for 2014 for further details.

Consolidated balance sheet

	<i>As at 31 October</i>		
	<i>2015</i>	<i>2014</i>	<i>2013</i>
	<i>(audited)</i>		
	<i>(£ million)</i>		
Non-current assets	447.0	447.8	582.0
Current assets	197.4	191.3	340.0
Total assets	644.4	639.1	922.0
Current liabilities	(111.3)	(98.6)	(198.3)
Non-current liabilities	(242.5)	(240.2)	(339.9)
Total liabilities	(353.8)	(338.8)	(538.2)
Net assets	290.6	300.3	383.8

Consolidated cash flow statement

	<i>Year ended 31 October</i>		
	<i>2015</i>	<i>2014</i>	<i>2013</i>
	<i>(audited)</i>		
	<i>(£ million)</i>		
Net cash inflow from operating activities	25.7	46.2	55.4
Net cash inflow/(outflow) from investing activities	(17.1)	113.3	(19.5)
Net cash outflow from financing activities	(22.7)	(151.3)	(117.8)
Increase /(decrease) in cash and cash equivalents	(14.1)	8.2	(81.9)
Cash and cash equivalents at beginning of year	21.8	14.2	96.0
Effect of foreign exchange rate changes	(0.1)	(0.6)	0.1
Cash and cash equivalents at end of year	7.6	21.8	14.2

Certain significant changes to the Group's financial condition and results of operations occurred during the years ended 31 October 2015, 2014 and 2013. These changes are set out below.

Revenue decreased by £25.8 million, or 6.4 per cent., from £403.1 million in the year ended 31 October 2014 to £377.3 million in the year ended 31 October 2015, and decreased £69.2 million, or 14.7 per cent., from £472.3 million in the year ended 31 October 2013 to £403.1 million in the year ended 31 October 2014.

Loss before tax increased by £3.9 million from a loss of £5.2 million in the year ended 31 October 2014 to a loss of £9.1 million in the year ended 31 October 2015, and loss before tax decreased £61.3 million, or 92.2 per cent., from a loss of £66.5 million in the year ended 31 October 2013 to a loss of £5.2 million in the year ended 31 October 2014.

Loss for the period decreased by £54.5 million from a loss of £54.9 million in the year ended 31 October 2014 to a loss of £0.4 million in the year ended 31 October 2015, and loss for the period increased £6.6 million, or 13.7 per cent., from a loss of £48.3 million in the year ended 31 October 2013 to a loss of £54.9 million in the year ended 31 October 2014.

Net debt increased from £154.3 million as at 31 October 2015 to £195.6 million as at 31 December 2015.

		Save as set out above, there has been no significant change in the financial condition or operating results of the Group during the three years ended or subsequent to 31 October 2015, the date to which the latest audited year-end financial information in relation to the Group was prepared.																																																																																
B.8	<i>Pro forma financial information</i>	<p>Selected key unaudited pro forma financial information is set out below. The unaudited pro forma net assets statement of the Group set out below has been prepared on a voluntary basis and for illustrative purposes only in accordance with Annex II of the Prospectus Rules and on the basis of the notes set out below to illustrate the impact of the Rights Issue, the repayment of the US Notes, as defined in note 3 to the pro forma net assets statement table, and the amendments to the Group's Existing Finance Agreements, as defined below, on the net assets of the Group as at 31 October 2015 as if they had taken place at that date.</p> <p>The unaudited pro forma net assets statement has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent Chemring's actual financial position or results. The pro forma financial information has been prepared under IFRS and on the basis set out in the notes below and in accordance with Annex II to the PD regulation. The pro forma financial information is stated on the basis of the accounting policies of Chemring.</p> <p>The unaudited pro forma financial information does not take into account trading of the Group subsequent to the period end balance sheet date of 31 October 2015.</p> <p>The Group's "Existing Finance Agreements" comprise its facility documents for its unsecured, multi-currency revolving credit facility entered into on 31 July 2014 (the "Facility Agreement"), its bonding lines with Barclays and Santander UK plc (collectively with the Facility Agreement, the "UK Club Facility Documents") and its US Note Purchase Agreements, as defined below.</p> <p>Selected unaudited pro forma net assets statement</p> <table border="1"> <thead> <tr> <th></th> <th style="text-align: right;"><i>As at</i> 31 October 2015⁽¹⁾</th> <th colspan="2" style="text-align: center;"><i>Adjustments</i></th> <th></th> </tr> <tr> <th></th> <th></th> <th style="text-align: center;"><i>Rights Issue</i>⁽²⁾</th> <th style="text-align: center;"><i>US Notes Paydown</i>⁽³⁾⁽⁴⁾</th> <th style="text-align: center;"><i>Total</i></th> </tr> <tr> <th></th> <th></th> <th colspan="3" style="text-align: center;"><i>£ million</i></th> </tr> </thead> <tbody> <tr> <td>Non-current assets</td> <td style="text-align: right;">447.0</td> <td style="text-align: center;">–</td> <td style="text-align: center;">–</td> <td style="text-align: right;">447.0</td> </tr> <tr> <td>Current assets</td> <td style="text-align: right;">197.4</td> <td style="text-align: center;">75.2</td> <td style="text-align: center;">(54.9)</td> <td style="text-align: right;">217.7</td> </tr> <tr> <td>Total assets</td> <td style="text-align: right;">644.4</td> <td style="text-align: center;">75.2</td> <td style="text-align: center;">(54.9)</td> <td style="text-align: right;">664.7</td> </tr> <tr> <td>Current liabilities</td> <td style="text-align: right;">(111.3)</td> <td style="text-align: center;">–</td> <td style="text-align: center;">–</td> <td style="text-align: right;">(111.3)</td> </tr> <tr> <td>Non-current liabilities</td> <td style="text-align: right;">(242.5)</td> <td style="text-align: center;">–</td> <td style="text-align: center;">50.1</td> <td style="text-align: right;">(192.4)</td> </tr> <tr> <td>Total liabilities</td> <td style="text-align: right;">(353.8)</td> <td style="text-align: center;">–</td> <td style="text-align: center;">50.1</td> <td style="text-align: right;">(303.7)</td> </tr> <tr> <td>Net assets</td> <td style="text-align: right;">290.6</td> <td style="text-align: center;">75.2</td> <td style="text-align: center;">(4.8)</td> <td style="text-align: right;">361.0</td> </tr> <tr> <td>Net debt</td> <td style="text-align: right;">(154.3)</td> <td style="text-align: center;">75.2</td> <td style="text-align: center;">(4.8)</td> <td style="text-align: right;">(83.9)</td> </tr> <tr> <td>Facility Agreement leverage^(5,6)</td> <td style="text-align: right;">2.83</td> <td style="text-align: center;">–</td> <td style="text-align: center;">–</td> <td style="text-align: right;">1.63</td> </tr> <tr> <td>Facility Agreement interest cover</td> <td style="text-align: right;">4.75</td> <td style="text-align: center;">–</td> <td style="text-align: center;">–</td> <td style="text-align: right;">4.75</td> </tr> <tr> <td>US Notes adjusted leverage</td> <td style="text-align: right;">2.84</td> <td style="text-align: center;">–</td> <td style="text-align: center;">–</td> <td style="text-align: right;">2.01</td> </tr> <tr> <td>US Notes gross leverage</td> <td style="text-align: right;">2.92</td> <td style="text-align: center;">–</td> <td style="text-align: center;">–</td> <td style="text-align: right;">2.09</td> </tr> <tr> <td>US Notes interest cover</td> <td style="text-align: right;">4.67</td> <td style="text-align: center;">–</td> <td style="text-align: center;">–</td> <td style="text-align: right;">4.67</td> </tr> </tbody> </table> <p><i>Notes:</i></p> <p>(1) The net assets of the Group as at 31 October 2015 have been extracted without adjustment from the Group's 2015 Annual Report and Accounts, as incorporated by reference in Part X of this document.</p>		<i>As at</i> 31 October 2015 ⁽¹⁾	<i>Adjustments</i>					<i>Rights Issue</i> ⁽²⁾	<i>US Notes Paydown</i> ⁽³⁾ ⁽⁴⁾	<i>Total</i>			<i>£ million</i>			Non-current assets	447.0	–	–	447.0	Current assets	197.4	75.2	(54.9)	217.7	Total assets	644.4	75.2	(54.9)	664.7	Current liabilities	(111.3)	–	–	(111.3)	Non-current liabilities	(242.5)	–	50.1	(192.4)	Total liabilities	(353.8)	–	50.1	(303.7)	Net assets	290.6	75.2	(4.8)	361.0	Net debt	(154.3)	75.2	(4.8)	(83.9)	Facility Agreement leverage ^(5,6)	2.83	–	–	1.63	Facility Agreement interest cover	4.75	–	–	4.75	US Notes adjusted leverage	2.84	–	–	2.01	US Notes gross leverage	2.92	–	–	2.09	US Notes interest cover	4.67	–	–	4.67
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		<p>(2) Adjustments to reflect the net proceeds of the Rights Issue receivable by the Company of approximately £75.2 million (being gross proceeds of £80.8 million less estimated fees relating to the Rights Issue of approximately £5.6 million, excluding VAT).</p> <p>(3) The “US Notes” are comprised of the following:</p> <p>(a) the Group’s \$125 million 6.28 per cent. notes due 12 November 2017 and £12.5 million 6.81 per cent. notes due 12 November 2017, each as amended and supplemented by amendment agreements (together, the “2007 Notes”); and</p> <p>(b) the Group’s \$80 million 5.26 per cent. notes due 19 November 2016, \$140 million 5.68 per cent. notes due 19 November 2019, and \$60 million 5.68 per cent. notes due 19 November 2019, each as amended and supplemented by amendment agreements (collectively, the “2009 Notes”).</p> <p>(4) Adjustments to reflect:</p> <p>(a) part utilisation of the net proceeds of the Rights Issue for the repayment of the Facility Agreement (£nil drawn as at 31 October 2015) and repayment of a proportion of the US Notes (£48.5 million); and</p> <p>(b) approximately £6.5 million of fees and expenses in connection with the repayment of the US Notes and the amendments to the Existing Finance Agreements.</p> <p>(5) Based on the consolidated total net borrowings (as defined in the applicable covenants).</p> <p>(6) Based on the 2015 Consolidated EBITDA (as defined in the applicable covenants).</p>
B.9	<i>Profit forecast or estimate</i>	Not applicable. There is no profit forecast or profit estimate.
B.10	<i>Qualifications in the audit report on the historical financial information</i>	Not applicable. There are no qualifications to the accountants’ report on the historical financial information of the Company.
B.11	<i>Insufficient working capital</i>	Not applicable. The Company is of the opinion that, taking into account the net proceeds of the Rights Issue and taking into account available headroom under the Group’s UK Club Facility Documents, the Group has sufficient working capital for its present requirements, that is, for at least 12 months from the date of publication of this document.

SECTION C – SECURITIES

C.1	<i>Type and class of securities</i>	<p>Pursuant to the Rights Issue, the Company will issue 85,915,828 new ordinary shares of one pence each in the capital of the Company (the “New Shares”). Each New Share is expected to be issued at a premium of 93 pence to its nominal value of one pence. When admitted to trading, the New Shares will be registered with ISIN number GB00B45C9X44 and SEDOL number B45C9X4.</p> <p>The ISIN number for the Nil Paid Rights is GB00BYVXM652 and the ISIN number for the Fully Paid Rights is GB00BYVXM769.</p>
C.2	<i>Currency</i>	United Kingdom pounds sterling.
C.3	<i>Issued share capital</i>	On 20 January 2016 (being the last practicable date prior to the publication of this document), the Company had 193,310,614 Shares of 1 pence each (fully paid), excluding the 2,198,814 Shares held in treasury and the nominal share capital of the Company amounted to £1,933,106.14.
C.4	<i>Rights attaching to the Shares</i>	The New Shares will, when issued and fully paid, rank equally in all respects with the Existing Shares, including the right to receive all dividends and other distributions made, paid or declared after the date of issue of the New Shares.
C.5	<i>Restrictions on transfer</i>	There are no restrictions on the free transferability of the Shares.

C.6	<i>Admission</i>	Application will be made to the FCA and to the London Stock Exchange for the New Shares to be admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities respectively. It is expected that Admission of the New Shares (nil paid and fully paid) will become effective on 9 February 2016 and that dealings in New Shares will commence, nil paid, as soon as practicable after 8.00 a.m. on that date.
C.7	<i>Dividend policy</i>	<p>In view of the proposed Rights Issue, the Board is not recommending a final dividend in respect of the year ended 31 October 2015. The total dividend in respect of the 2015 financial year will therefore be the interim dividend of 2.4p (2014: 4.1p).</p> <p>In addition, the Board does not currently intend to propose an interim dividend in respect of the six month period ending 30 April 2016.</p> <p>The Board recognises that dividends are an important component of total shareholder returns. The Board intends to propose a final dividend for the 2016 financial year, assuming it is prudent to do so, and to continue paying dividends thereafter.</p>

SECTION D – RISKS

D.1	<i>Key information on the key risks specific to the Group</i>	<ul style="list-style-type: none"> ● 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 (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 scenario with no Rights Issue proceeds and therefore a risk 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. Any breach of these covenants would entitle the Group's lenders and US Noteholders to demand accelerated payment in full of the relevant amounts outstanding. Accordingly, if the Rights Issue does not proceed, and the Group is unable to obtain further waivers of, or amendments to, its financial covenants or is otherwise unable to avoid a breach of these covenants through the successful implementation of one or more funding alternatives, Shareholders are at risk of losing all or a substantial amount of their investment in the Company and the Group is at risk of not being able to continue as a going concern. ● A decline in government defence and security budgets or changes in budgetary priorities may adversely affect the Group's future revenues and limit its growth prospects. In the event that a significant number of the Group's government contracts, sub-contracts or prospects are delayed or cancelled, the Group's business, prospects, financial condition or results of operations may be materially adversely affected. ● The Group's profits and cash flows are dependent, to a significant extent, on the timing of the awarding of defence contracts. The majority of the Group's contracts are non-recurring and of a relatively short duration, and with the exception of the Group's framework agreements with certain key customers, the Group's contracts do not cover multi-year requirements. As a result, an unmitigated delay in the receipt of orders or securing new contracts could adversely affect the Group's earnings and achievement of its budget in any given financial year. ● The Group has a number of significant contractual relationships with agencies of sovereign governments, which can typically terminate or
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		<p>modify any of their contracts with the Group either for their convenience or if the Group defaults by failing to perform under the terms of the applicable contract. A termination arising out of the Group's default or for convenience by a sovereign government or one of its agencies could expose the Group to liability and have a material adverse effect on its ability to re-compete for future contracts and orders.</p> <ul style="list-style-type: none"> ● The Group generates revenue primarily from contracts for delivery for products and services, whereby suppliers and contractors are often utilised to help facilitate the fulfilment of a contract, and customers pay upon completion of a contract, or according to contractual schedules or milestones. There can be no assurance as to the timeliness of counterparty performance or other required steps, particularly in non-NATO markets, or whether they will be able to fulfil their payment obligations. Furthermore, because the Group has numerous contracts with agencies of sovereign governments, such customers may be unable or unwilling to pay in the event of a change in political policy, budget deficit or internal disorder, or for other reasons. ● There can be no assurance that the revenues projected in the Group's order book will be realised or, if realised, will result in profits. Delays, suspensions, cancellations, payment defaults and changes in scope of the order could materially reduce or eliminate the revenues and profits that the Group actually realises from the orders in its order book. If the Group experiences significant order terminations, suspensions or scope adjustments to contracts reflected in its order book, or if customers are unable to pay amounts owed to the Group, then the Group's cash flows, financial condition and results of operations may be materially adversely affected, and may be significantly different from expectations. ● Increased competition and bid protests in a budget-constrained environment may make it more difficult to maintain the Group's financial performance and customer relationships. A substantial portion of the Group's business is awarded through competitive bidding, and governments have increasingly relied upon competitive contract award types, including indefinite-delivery, indefinite-quantity and other multi-award contracts, which have the potential to create pricing pressure and result in reduced margins. Additionally, following contract awards, the Group may encounter significant expenses, delays and contract modifications as a result of bid protests from unsuccessful bidders. ● Due to the nature of the Group's business, notably the handling, transportation and disposal of hazardous materials, accidents have occurred and may occur during the course of its business even though the Group has implemented and continually improves upon its safety measures, policies, procedures and processes. Such accidents may result in the temporary shutdown of facilities or otherwise severely disrupt the Group's operations. This, in turn, may lead to orders being overdue as a result of significant production delays. Additionally, such accidents may result in reputational damage as well as potential liability for workplace injuries and fatalities. Further, in the event there are any significant claims for damages due to accidents suffered which are not covered by the Group's insurance policies, its financial condition and results of operations may be materially adversely affected. ● The Group conducts its business under various types of contractual arrangements where costs are estimated in advance. Although the bulk of the Group's contracts are in respect of pre-existing products for which costs can be estimated with a higher degree of accuracy than for non-pre-existing products, the accuracy of these cost estimates is subject to the Group's experience and technical expertise in understanding the complexity and challenges of each quotation and tender. If the Group
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		<p>fails to accurately estimate the resources and time necessary for these contracts or fails to complete these contracts within the time frame and costs that have been agreed upon, there may be a material impact on the profitability the Group realises on the contract, as well as on the Group's reputation.</p> <ul style="list-style-type: none"> ● The Group has customers in more than 50 countries and derives a substantial portion of its revenues from international sales. Furthermore, it intends to continue to expand its customer base as part of its strategy. Operating in international markets requires significant resources and management attention and subjects the Group to political, economic and regulatory risks.
D.3	Key information on the key risks specific to the Shares, the Nil Paid Rights or the Fully Paid Rights	<ul style="list-style-type: none"> ● The market value of the Shares may fluctuate significantly as a result of factors beyond the Group's control and may not always reflect the operating results or prospects of the Group. ● The market price for Shares may decline below the Issue Price and Shareholders may not be able to sell Shares at a favourable price after the Rights Issue. ● The implementation of the Rights Issue will result in the dilution of ownership of Existing Shares for Qualifying Shareholders who do not take up their rights in full.

SECTION E – OFFER

E.1	Net proceeds and costs	<p>The net proceeds of the Rights Issue (assuming take-up in full of all New Shares) are expected to be approximately £75.2 million (net of expenses). The total costs, charges and expenses payable by the Company in connection with the Rights Issue are estimated to be approximately £5.6 million (inclusive of VAT). No expenses will be charged by the Company to the purchasers of the New Shares.</p>
E.2a	Reasons for the Rights Issue and use of proceeds	<p>Reasons for the Rights Issue</p> <p>The Rights Issue is being pursued in order to assist the Group with reducing its debt in order to decrease the financial cost to the Group and reduce the time spent managing the Group's debt which will enable additional time and resources to be made available for further operational improvement and adequate investment in fully capturing the longer term growth opportunities available to the Group. While the Group is, as at the most recent test date (31 October 2015), in compliance with the unmodified financial covenants in its Existing Finance Agreements, and has agreed an unconditional waiver and 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 scenario with no Rights Issue proceeds and therefore a risk 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. Any breach of these covenants would entitle the Group's lenders and US Noteholders to demand accelerated payment in full of the relevant amounts (principal and other items) outstanding (£238.5 million as at 31 December 2015) following the issuance of a compliance certificate from the Group notifying the breach (which would be required, should a breach occur, to be delivered no later than 14 June 2016 in respect of the UK Club Facility Documents and 21 May 2016 in respect of the US Note Purchase Agreements, being the deadlines for the Group's certification of covenant compliance for the 30 April 2016 test date).</p> <p>The Board believes it is in the best interests of the Group to significantly reduce its structural indebtedness and that the appropriate leverage target for</p>

		<p>the Group over the medium-term is a net debt to EBITDA ratio of between 1.0x and 1.5x as the Group’s annual average. The proposed rights issue is a critical step towards achieving this medium-term target.</p> <p>In addition to substantially reducing the risk of financial covenant breach, a more appropriate capital structure will allow management to spend less time managing the Group’s financial covenants and more time on the business. It will also enable the Group to pursue certain growth initiatives and further cost reduction over the medium-term including, among other things: investment in the modernisation of facilities to enable further site consolidation, including the expected Torrance facility and the Alloy plant 2 closures in the 2018 and 2017 financial years, respectively; new product investments and research and development (“R&D”); supply chain and inventory management; and small scale accretive acquisitions that would strengthen existing market positions or capabilities. Furthermore, if the Group’s debt rating improves due to the reduction in its indebtedness, the Group may be able to obtain better pricing for future refinancings, expected in the financial years ending 31 October 2017, 2018 and 2019, respectively, than would otherwise be the case if the Rights Issue did not occur.</p> <p>Use of proceeds</p> <p>The Rights Issue is expected to raise £80.8 million in gross proceeds.</p> <p>Of the expected approximate £75.2 million of net proceeds from the Rights Issue, the Group expects to redeem or repurchase a minimum of £48.5 million in aggregate principal amount of the US Notes, with the balance of the net proceeds to be used for make-whole premiums pursuant to the terms of the US Note Purchase Agreements, as defined below, (£4.8 million), waiver and variation fees (£1.6 million), and general corporate purposes with the Board having regard to the scheduled repayment of any amounts outstanding of its \$80 million 5.26 per cent. notes due 19 November 2016.</p> <p>The “US Note Purchase Agreements” consist of the note purchase agreements entered into with noteholders in respect of the 2007 Notes, as amended (the “2007 Note Purchase Agreement”), and the note purchase agreements entered into with noteholders in respect of the 2009 Notes, as amended (the “2009 Note Purchase Agreement”), together.</p>
E.3	<i>Terms and conditions of the Rights Issue</i>	<p>Pursuant to the Rights Issue, the Company is proposing to offer 85,915,828 New Shares by way of a Rights Issue to Qualifying Shareholders other than to Shareholders, subject to certain exceptions, with a registered address, or located or resident in, one of the Excluded Territories or, subject to certain exceptions, the United States and Canada. The offer is to be made at 94 pence per New Share, payable in full on acceptance by no later than 11.00 a.m. on 23 February 2016. The Rights Issue is expected to raise approximately £75.2 million, net of expenses. The Issue Price represents a 38.2 per cent. discount to the theoretical ex-rights price based on the closing middle-market price of 178 pence per Share on 20 January 2016 (being the last business day before the announcement of the terms of the Rights Issue).</p> <p>The Rights Issue will be made on the basis of:</p> <p style="text-align: center;">4 New Shares at 94 pence per New Share for every 9 Existing Shares</p> <p>held by Qualifying Shareholders at the close of business on the Record Date.</p> <p>Entitlements to New Shares will be rounded down to the nearest whole number and fractional entitlements will not be allotted to Shareholders but will be aggregated and issued into the market for the benefit of the Company. Holdings of Existing Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue.</p> <p>The Rights Issue is fully underwritten by the Underwriters pursuant to the Underwriting Agreement.</p>

		<p>The Rights Issue will result in 85,915,828 New Shares being issued (representing approximately 44.4 per cent. of the existing issued share capital and 30.8 per cent. of the enlarged issued share capital immediately following completion of the Rights Issue).</p> <p>The Rights Issue is conditional, among other things, upon:</p> <ul style="list-style-type: none"> (i) the Underwriting Agreement having become unconditional in all respects save for the condition relating to Admission; (ii) Admission becoming effective by not later than 8.00 a.m. on 9 February 2016 (or such later time and date as the parties to the Underwriting Agreement may agree); and (iii) the passing, without material amendment, of the Resolutions. <p>The New Shares, when issued and fully paid, will rank <i>pari passu</i> in all respects with the existing issued Shares, including the right to receive dividends or distributions made, paid or declared after the date of issue of the New Shares. Application will be made to the FCA and to the London Stock Exchange for the New Shares to be admitted to the Official List and to trading on the London Stock Exchange. It is expected that Admission will occur and that dealings in the New Shares (nil paid) on the London Stock Exchange will commence at 8.00 a.m. on 9 February 2016.</p>
E.4	<i>Material interests</i>	Not applicable. There are no interests, including conflicting interests, which are material to the Rights Issue, other than those disclosed in B.6 above.
E.5	<i>Selling Shareholder</i>	Not applicable. The Rights Issue comprises an offer of New Shares to be issued by the Company.
E.6	<i>Dilution</i>	Qualifying Shareholders who do not take up their entitlements to New Shares will have their proportionate shareholdings in the Company diluted by approximately 30.8 per cent. as a consequence of the Rights Issue.
E.7	<i>Expenses charged to the investor</i>	Qualifying Shareholders will not be charged expenses by the Company in respect of the Rights Issue.

RISK FACTORS

The Rights Issue and any investment in the New Shares, the Nil Paid Rights and/or the Fully Paid Rights are subject to a number of risks. Accordingly, Shareholders and prospective investors should carefully consider the factors and risks associated with any investment in the New Shares, the Nil Paid Rights and/or the Fully Paid Rights, the Group's business and the industry in which it operates, together with all other information contained in this document and all of the information incorporated by reference into this document, including, in particular, the risk factors described below, and their personal circumstances prior to making any investment decision. Some of the following factors relate principally to the Group's businesses. Other factors relate principally to the Rights Issue and an investment in the New Shares, the Nil Paid Rights and/or the Fully Paid Rights. The Group's businesses, operating results, financial condition and prospects could be materially and adversely affected by any of the risks described below. In such case, the market price of the Nil Paid Rights, the Fully Paid Rights and/or New Shares may decline and investors may lose all or part of their investment.

Prospective investors should note that the risks relating to the Group, its industry and the New Shares, the Nil Paid Rights and/or the Fully Paid Rights summarised in the section of this document headed "Summary" are the risks that the Directors believe to be the most essential to an assessment by a prospective investor of whether to consider an investment in the New Shares, the Nil Paid Rights and/or the Fully Paid Rights. However, as the risks which the Group faces relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the section of this document headed "Summary" but also, among other things, the risks and uncertainties described below.

The following is not an exhaustive list or explanation of all risks which investors may face when making an investment in the New Shares, the Nil Paid Rights and/or the Fully Paid Rights and should be used as guidance only. Additional risks and uncertainties relating to the Group that are not currently known to the Group, or that it currently deems immaterial, may individually or cumulatively also have a material adverse effect on the Group's business, prospects, operating results and financial position and, if any such risk should occur, the price of the New Shares, the Nil Paid Rights and/or the Fully Paid Rights may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the New Shares, the Nil Paid Rights and/or the Fully Paid Rights is suitable for them in the light of the information in this document and their personal circumstances.

Risks relating to the business of the Group

The Group may be materially adversely affected and is at risk of not being able to continue as a going concern if the Rights Issue does not proceed.

In the event that the Rights Issue does not complete, there is minimal headroom under a reasonable worst case scenario with no Rights Issue proceeds and therefore a risk of the Group not being able to continue as a going concern as discussed below.

The Group has agreed with the main lenders under the Group's UK Club Facility Documents (together, the "Lenders") and holders under the US Note Purchase Agreements (the "US Noteholders") to make certain amendments to the terms of the Existing Finance Agreements, certain of which are conditional on the Group receiving the net proceeds of the Rights Issue and at least 60.0 per cent. of the gross proceeds of the Rights Issue being applied in prepayment of amounts outstanding under the US Note Purchase Agreements by no later than 29 April 2016.

However, in the event that the Rights Issue does not proceed to completion, certain of the amendments will not remain effective and the Group will be subject to the unmodified covenants under the Existing Finance Agreements. While the Group is, as at the most recent test date (31 October 2015), in compliance with the unmodified financial covenants in its Existing Finance Agreements, and has agreed an unconditional waiver and variation of certain maximum leverage ratios under its Existing Finance Agreements for the 31 January 2016 test date (subject to a payment by the Company of an additional waiver and variation fee of 60bps (approximately £1.0 million) of the outstanding amounts in respect of the US Note Purchase Agreements by 1 April 2016 should the Rights Issue not proceed), there is minimal headroom under a reasonable worst case scenario with no Rights Issue proceeds and

therefore a risk 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. Any breach of these covenants would entitle the Group's lenders and US Noteholders to demand accelerated payment in full of the relevant amounts (principal and other items) outstanding (£238.5 million as at 31 December 2015) following the issuance of a compliance certificate from the Group notifying the breach (which would be required, should a breach occur, to be delivered no later than 14 June 2016 in respect of the UK Club Facility Documents and 21 May 2016 in respect of the US Note Purchase Agreements, being the deadlines for the Group's certification of covenant compliance for the 30 April 2016 test date). Following any such demand, the Group does not expect to have the funds available to repay such amounts at that time. In such circumstances, in the absence of being able to successfully agree or implement any of the alternatives discussed below, the Group would be unable to continue as a going concern.

As a result, if the Rights Issue does not proceed, the Group would first seek to renegotiate the terms of the Existing Finance Agreements with the Lenders and Noteholders to secure further waivers and amendments of the financial covenants in order to avoid any such breach. However, the Group may be unable to obtain such amendments from the Lenders and/or US Noteholders either at all or without significant cost to the Group in the form of additional fees payable to the Lenders, increased coupon payments or additional restrictions on corporate actions (e.g. acquisitions and disposals), which could adversely affect or delay implementation of the Group's strategies. Furthermore, without the proceeds of the Rights Issue, any amendments to the Existing Finance Agreements would only serve as a short-term solution that would not fundamentally address the Group's balance sheet and capitalisation concerns in the longer term.

If the Lenders and/or US Noteholders do not agree to commercially acceptable amendments of the Group's financial covenants under the Existing Finance Agreements, the Group may seek alternative long-term committed debt facilities to replace the Facility Agreement and/or refinance amounts outstanding under the US Notes and enable the repayment of its indebtedness, including any make-whole premiums. The terms of any such new facilities, if available at all, would likely be significantly more expensive and onerous than those which currently apply under the Existing Finance Agreements, and which would apply under the amendments if the Rights Issue proceeds to completion. If alternative committed debt facilities could not be secured on commercially acceptable terms, or at all, then the Group could try to secure other forms of funding, such as through a new equity restructuring, most likely with private capital investors, which may result in a significant dilution of Existing Shareholders' equity interests in the Company. The Group could take action to effect disposals of assets, such as the disposal of one or more of the Group's businesses to facilitate a reduction of the Group's outstanding indebtedness. However, the Existing Finance Agreements restricts the Group's ability to make any such disposals and the Group would need to receive the approval of the Lenders and/or the US Noteholders to further amend the Existing Finance Agreements, which could be withheld.

As any of these alternatives to the Rights Issue would require the participation, agreement or approval of external parties, the Directors are not confident that any such alternative courses of action could be achieved in the limited time available, or that they ultimately would be successful.

As a result, if the Rights Issue does not proceed to completion and the Group is unable to secure amendments to its financial covenants under the Existing Finance Agreements, and under a reasonable worst case scenario is unable to avoid a breach of such financial covenants or refinance the Group's indebtedness through the successful implementation of one or more of the alternatives discussed above, then the Lenders and US Noteholders may demand the accelerated repayment in full of any amounts outstanding under the Existing Finance Agreements, in which case Shareholders could lose all or part of the value of their investment in the Company.

A decline in government defence and security budgets or changes in budgetary priorities may adversely affect the Group's future revenues and limit its growth prospects.

As a defence and security equipment manufacturer, the majority of the Group's revenues are either directly or indirectly from government agencies. As a result of the concentration of the Group's business with governmental agencies, its revenues, income and cash flows would be adversely affected if a significant number of its government contracts, sub-contracts or prospects are delayed or cancelled for budgetary or other reasons.

The factors that could cause the Group's government contracts, sub-contracts or prospects to be delayed or cancelled include:

- budget constraints that affect government spending generally, or specific departments or agencies, and changes in fiscal policies or a reduction of available funding for defence-related programs;
- changes in laws and regulations or the adoption of new laws and regulations pertaining to government procurement;
- curtailment of a government's use of outsourced service providers and a government's insourcing of certain services;
- delays in the payment of the Group's invoices by government payment offices; and
- contravention of legislation and/or regulations which may apply to government contracts.

As a result of prevailing economic conditions, relatively fewer active military operations worldwide and large budget deficits in many North Atlantic Treaty Organization ("NATO") member countries, defence expenditure could continue to be negatively impacted. The Group has experienced reductions and delays in the placement of orders by NATO customers as a result of budgetary constraints, and anticipates that such delays are likely to continue in the short to medium term.

In the event that a significant number of the Group's government contracts, sub-contracts or prospects are delayed or cancelled, the Group's business, prospects, financial condition or results of operations may be materially adversely affected.

Additionally, the Group's business could be adversely affected if the demand for and priority of funding for combat operations overseas decreases, which may reduce the demand for the Group's services on contracts supporting certain operations for the US Department of Defense ("DoD"), the UK Ministry of Defence ("MoD") and other customers.

The majority of the Group's contracts are non-recurring, short-term contracts. The Group's financial results are dependent on the timing of award of defence contracts and its ability to secure new contracts.

The Group's profits and cash flows are dependent, to a significant extent, on the timing of the awarding of defence contracts. The majority of the Group's contracts are non-recurring and of a relatively short duration, and with the exception of the Group's framework agreements with certain key customers, the Group's contracts do not cover multi-year requirements. Framework agreements and long-term contracts, which may have a duration of up to 10 years, are utilised throughout the Group's business and product offerings, but cover less than 20.0 per cent. of the Group's total revenue. As a result, an unmitigated delay in the receipt of orders could affect the Group's earnings and achievement of its budget in any given financial year. Additionally, due to the timing of the Group's financial year end, delays in the finalisation of contracts (or the conditions precedent thereto) or delays in payments on these contracts from the third to the fourth quarter of a calendar year could materially adversely affect the Group's reported financial year results.

The Group operates in a competitive market where it is difficult to predict when, or if at all, it will be awarded contracts, as such awards often involve complex, lengthy negotiations and bidding processes, the results of which are generally based on a combination of factors including pricing, technical requirements, delivery lead time and reputation in the market. These negotiations and bidding processes are more complex in defence markets outside NATO, and uncertainties regarding the timing of contract awards in regions including the Middle East and Asia-Pacific are therefore more significant in respect of potential contracts with customers in these regions. There can be no assurance that the Group will be able to secure new contracts (or new contracts of a similar value or margins to existing ones) on a regular basis. If the Group is unable to secure new contracts or if there is any significant lapse of time between the Group's orders due to the fact that it is unable to secure new contracts on a regular basis, then the Group's financial condition and results of operations may be materially adversely affected.

The Group's government contracts may be terminated at any time and may contain other unfavourable provisions.

As a defence and security equipment manufacturer, the majority of the Group's revenues are either directly or indirectly from government agencies. Sovereign governments and their agencies can typically terminate or modify any of their contracts with the Group either for their convenience or if the Group defaults by failing to perform under the terms of the applicable contract. A termination arising out of the Group's default could expose it to liability and have a material adverse effect on its ability to re-compete for future contracts and orders. For example, the Group's US government contracts often contain provisions that allow the US government to unilaterally suspend the Group from receiving new US contracts pending resolution of alleged violations of procurement laws or regulations, reduce the value of existing contracts, issue modifications to a contract and control and potentially prohibit the export of its products, services and associated materials.

Government agencies routinely audit government contracts, and the Group, like all entities that contract with government agencies, has had, and in the future expects to have, its major government contracts, notably those with US government agencies, audited at some point during the life of the contract. These agencies review a contractor's performance on its contract, pricing practices, cost structure and compliance with applicable laws, regulations and standards. If the Group is audited, it will not be reimbursed for any costs found to be improperly allocated to a specific contract, while it would be required to refund any improper costs for which it had already been reimbursed. Therefore, an audit could result in a substantial adjustment to the Group's revenues. If a government audit uncovers improper or illegal activities, the Group may be subject to civil and criminal penalties and administrative sanctions, including termination of contracts, forfeitures of profits, suspension of payments, fines and suspension or debarment from doing business with the relevant government agencies and other government customers. The Group could suffer serious reputational harm if allegations of impropriety were made against it. A governmental determination of impropriety or illegality, or an allegation of impropriety, could materially adversely affect the Group's business, financial condition or results of operations.

The Group's contracts, including receipt of payment, may not be fulfilled in a timely manner, or at all.

The Group generates revenue primarily from contracts for delivery for products and services, whereby suppliers and contractors are often utilised to help facilitate the fulfilment of a contract, and customers pay upon completion of a contract, or according to contractual schedules or milestones. There can be no assurance as to the timeliness of counterparty performance or other required steps, particularly in non-NATO markets, or whether they will be able to fulfil their payment obligations. As the Group extends credit terms to its customers, the Group is subject to credit risk should customers fail to promptly settle the amounts due to the Group for completed contracts. Such extended payment terms may impose a burden on the Group's cash flow. See "Cash flow constraints arising from the Group's indebtedness and timing of contracted payments may restrict the Group's ability to make investments and execute new strategies".

Furthermore, because the Group has numerous contracts with agencies of sovereign governments, such customers may be unable or unwilling to pay in the event of a change in political policy, budget deficit or internal disorder, or for other reasons. Additionally, the Group's non-NATO business counterparts often insist on providing a lump sum payment on completion of a contract rather than milestone payments. Though the Group utilises letters of credit, advanced payments and other actions to help mitigate these risks when the risks are considered a realistic possibility, the Group may not have recourse against such customers for non-payment due to the sovereign government's exercise of sovereign immunity.

Any of the foregoing could prevent the Group from realising profit on the contracts it undertakes, and could materially adversely affect the Group's financial condition and results of operations.

The Group's order book is subject to unexpected adjustments and cancellations and may not be a reliable indicator of future revenues or earnings.

As at 31 October 2015, the Group's order book (defined as orders on hand from customers that have been accepted by the Group for fulfilment in the future) was £569.6 million. There can be no assurance that the revenues projected in the Group's order book will be realised or, if realised, will result in profits.

Delays in recognition of revenue projected in the Group's order book in the third and fourth quarters of the calendar year may also negatively affect the Group's financial year results due to the timing of the Group's financial year end. Because of order cancellations or changes in the scope and schedule of orders, the Group cannot predict with certainty when or if the order book will be performed. In addition, even where an order proceeds as scheduled, it is possible that contracted parties may default and fail to pay amounts owed to the Group. Delays, suspensions, cancellations, payment defaults and changes in scope of the order could materially reduce or eliminate the revenues and profits that the Group actually realises from the orders in its order book.

Reductions in the Group's order book due to cancellation or modification by a customer or for other reasons may materially adversely affect the revenues and earnings that the Group actually receives from contracts included in its order book. A number of the contracts in the Group's order book provide for cancellation fees in the event that customers cancel orders. These cancellation fees usually provide for reimbursement of the Group's out-of-pocket costs, revenues for work performed prior to cancellation and a varying percentage of the profits that would have been realised by the Group had the contract been completed. However, the Group typically does not have any contractual right upon cancellation to the total revenues reflected in its order book. Therefore, the Group's order book over a given period may not necessarily be indicative of the revenue or profit it will realise for that period.

If the Group experiences significant order terminations, suspensions or scope adjustments to contracts reflected in its order book, or if customers are unable to pay amounts owed to the Group, then the Group's cash flows, financial condition and results of operations may be materially adversely affected, and may be significantly different from expectations.

Increased competition and bid protests in a budget-constrained environment may make it more difficult to maintain the Group's financial performance and customer relationships.

As a defence and security equipment manufacturer, the majority of the Group's revenues are either directly or indirectly from government agencies. A decrease in defence spending, as has been experienced in recent years, has increased competition for bids for contracts, and has ultimately driven down profit margins for defence suppliers. Additionally, the Group experiences increased competition in non-NATO markets as it faces competition from competitors from NATO countries who have also expanded into non-NATO markets as well as companies that traditionally have supplied non-NATO regions. This increased competition may also lead to decreased profit margins for the Group as it may be required to decrease its bids in order to win government contracts in non-NATO countries.

A substantial portion of the Group's business is awarded through competitive bidding. Governments have increasingly relied upon competitive contract award types, including indefinite-delivery, indefinite-quantity and other multi-award contracts, which have the potential to create pricing pressure and result in reduced margins.

Following contract awards, the Group may encounter significant expenses, delays and contract modifications as a result of bid protests from unsuccessful bidders. Unsuccessful bidders are frequently protesting in the hope of being awarded a subcontract for a portion of the work in return for withdrawing the protest. Bid protests could result in significant expenses for the Group, contract modifications or even loss of contract awards. Even where a bid protest does not result in the loss of a contract award, the resolution can extend the time until the contract activity can begin and, therefore, delay the recognition of sales. The foregoing could materially adversely affect the Group's financial condition and results of operations.

The Group may be adversely affected by accidents during the course of its business.

Due to the nature of the Group's business, notably the handling, transportation and disposal of hazardous materials, accidents have occurred and may occur during the course of its business even though the Group has implemented and continually improves upon its safety measures, policies, procedures and processes. Such accidents may result in the temporary shutdown of facilities or otherwise severely disrupt the Group's operations. This, in turn, may lead to orders being overdue as a result of significant production delays. In the event of such delays, the Group could be liable to pay damages under the contract or its contracts may be suspended. In such an event, the Group's business, results of operations and financial performance may be materially and adversely affected.

Additionally, such accidents may result in reputational damage as well as potential liability for workplace injuries and fatalities. Any accident, whether occasioned by the use of all or any part of the Group's products or technology or by its manufacturing operations, could adversely affect commercial acceptance of the Group's products and could result in claims for damages resulting from injuries. Further, in the event there are any significant claims for damages due to accidents suffered which are not covered by the Group's insurance policies, its financial condition and results of operations may be materially adversely affected.

The Group may experience losses or reduced profits under contracts if costs increase above estimates.

The Group conducts its business under various types of contractual arrangements where costs are estimated in advance. As part of its preparation process for the submission of quotations and tenders to its customers, the Group carries out budgeting estimates based on the scope of work, labour and material costs, third-party costs and other requirements. Although the bulk of the Group's contracts are in respect of pre-existing products for which costs can be estimated with a higher degree of accuracy than for non-pre-existing products, the accuracy of these cost estimates is subject to the Group's experience and technical expertise in understanding the complexity and challenges of each quotation and tender. If the Group fails to accurately estimate the resources and time necessary for these contracts or fails to complete these contracts within the time frame and costs that have been agreed upon, there may be a material impact on the profitability the Group realises on the contract, as well as on the Group's reputation.

Risks under the Group's contracts which may result in cost overruns, delays in the production of orders or other problems include:

- difficulties relating to the performance of sub-contractors, suppliers, equipment providers or other third parties;
- unanticipated technical problems, including issues with regard to the design phases of contracts;
- unforeseen increases in or failure to properly estimate the cost of materials, components, equipment, labour or the inability to obtain them in a timely manner;
- incorrect assumptions related to productivity and estimates of future economic conditions; and
- order modifications creating unanticipated costs or delays.

These risks tend to be exacerbated in the case of longer-term contracts since there is an increased risk that the circumstances under which the Group based its original bid may change, resulting in an increase in costs. In many of these contracts, the Group may not be able to obtain compensation for additional work performed or expenses incurred, and if a contracted order suffers any delays to its schedule, the Group may be contractually liable to pay liquidated damages. If the Group is unable to manage such cost overruns, its financial condition and results of operations could be materially adversely affected.

The Group's international sales are subject to political, economic and other uncertainties, which could have a material adverse effect on the Group's business.

The Group has customers in more than 50 countries and derives a substantial portion of its revenues from international sales. Furthermore, it intends to continue to expand its customer base as part of its strategy. Operating in international markets requires significant resources and management attention and subjects the Group to political, economic and regulatory risks. These include:

- failure to receive necessary permits, export licenses and approvals in a timely fashion, or at all;
- inability to secure or delays in securing letters of credit;
- risks of terrorism and civil unrest;
- inability to deliver product due to shipping or port restrictions;
- expropriation, confiscation or nationalisation of the Group's assets;
- renegotiation or nullification of the Group's existing contracts;
- changing political conditions, and changing laws and policies affecting trade and investment; and
- overlap of different tax structures.

Acts of terrorism and unrest in or around various countries with which the Group trades could limit or disrupt its markets and operations, resulting in fewer contracts, the termination of existing contracts or the non-payment of completed contracts. In particular, political unrest and changes in the political structure in certain non-NATO countries to which the Group currently sells its products could have an impact on such countries' future defence strategy, including the renegotiation, cancellation or nullification of the Group's existing contracts with customers in such countries, and the Group's ability to export products to these countries in the future. Sanctions and related legal regimes may also limit the Group's ability to obtain export licenses for non-NATO countries. Once an export license is obtained, the Group still faces hurdles, including the receipt of permits and availability of a suitable vessel and port facilities particularly in relation to its shipments to non-NATO countries and energetics and explosives which may be subject to higher scrutiny and restrictions. Additionally, the Group may also have difficulty obtaining letters of credit, notably in certain non-NATO countries, due to political circumstances or the lack of a robust banking sector. During periods of unrest in countries in which the Group operates, the Group could face delays in obtaining export licences, resulting in delayed revenues, which could materially adversely affect the Group's financial condition and results of operations.

The Group may face exposure to potential product liability and other customer claims.

The Group may be subject to product liability and other claims from customers or third parties, in connection with the non-compliance of its products or services with the customers' or third parties' requirements, or in connection with potential safety risks due to faults in design or production or possible malfunction or misuse of these products. As many of the Group's products are single-use devices, it is often not possible to conduct functional testing without destroying the product, and this increases the risk of possible product failure, either in use or during customers' sample-based functional tests.

In the event that the Group's products fail to perform as specified, users of these products may assert claims for substantial amounts. These claims could have a materially adverse effect on the Group's financial condition and results of operations. There is no assurance that the amount of the general product liability insurance that the Group maintains will be sufficient to cover potential claims or that the present amount of insurance can be maintained at the present level of cost, or at all. In addition, any accident, 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.

In addition, claims may also arise as a result of delayed or failed supply of the products or the services indicated in the Group's contracts with its customers. Material breaches in the performance of contractual obligations may also lead to payment of liquidated damages, contract termination and the calling of performance bonds.

If the Group is unable to keep pace with evolving products and service offerings and technological change, there could be a material adverse effect on its business, financial condition, results of operations and future prospects.

The change of technology is a key feature of many of the markets in which the Group markets its products, services and systems. To succeed in the future, the Group will need to continue to design, develop, manufacture, assemble, test, market and support new products and enhancements on a timely and cost-effective basis. In the past, the Group has allocated substantial funds to research and development programmes and other related investments. This practice will continue to be required in the future. Even so, the Group may not be able to successfully identify new opportunities and may not have the necessary financial resources to develop new products and systems in a timely or cost-effective manner. At the same time, products and technologies developed by others may render the Group's products, services and systems obsolete or non-competitive.

The Group will also need to ensure that new product development arising as a result of research and development activity is completed in a timely manner and to a standard which allows the Group to manufacture such new products in the requisite volumes. The new products will also need to be manufactured against high reliability and safety criteria to meet both regulatory and customer requirements. The Group's failure to achieve any of the foregoing may materially adversely affect the Group's reputation, as well as its financial condition, results of operations and prospects.

The Group is subject to the UK Bribery Act 2010 (the “Bribery Act”), the United States Foreign Corrupt Practices Act (the “FCPA”) and other similar laws and may become subject to further such laws in the future, and its failure to comply with the laws and regulations thereunder could result in penalties which could harm its reputation and materially adversely affect the Group’s business, financial condition, results of operations and prospects.

The Group is subject to the UK Bribery Act, the FCPA and other similar laws in other jurisdictions, which prohibit companies and their intermediaries from making improper payments to third parties, particularly to foreign officials, for the purpose of obtaining or keeping business and/or other benefits. In addition, some countries, notably certain non-NATO countries, in which the Group operates have, or are perceived to have, relatively high levels of corruption. Although the Group has developed policies and procedures designed to ensure that the Group, its employees and its sales partners comply with the Bribery Act, the FCPA and other similar laws, there is no assurance that such policies or procedures will work, or were fully embedded and have worked in the past effectively all of the time, or protect the Group against liability under the Bribery Act or the FCPA for actions taken by its agents, employees and intermediaries with respect to the Group’s business. If the Group is not in compliance with the Bribery Act, the FCPA or other laws governing the conduct of business with third parties, particularly government entities, it may be subject to criminal and civil penalties and other remedial measures, which could materially adversely affect the Group’s business, financial condition, results of operations and prospects. Any investigation or allegation of any potential violations of the Bribery Act, the FCPA or other anti-corruption laws by United Kingdom, United States or foreign authorities also could have a material adverse impact on the Group’s reputation, business, financial condition, results of operations and prospects. Furthermore, any remediation measures taken in response to such potential or alleged violations of the Bribery Act, the FCPA or other anti-corruption laws, including any necessary changes or enhancements to the Group’s procedures, policies and controls, and potential personnel changes and/or disciplinary actions, may materially adversely affect its business, financial condition, results of operations, cash flows and prospects.

As a contractor with government agencies and government-regulated customers, the Group is subject to procurement rules and regulations and procurement delays.

As a contractor with government agencies and government-regulated customers, the Group must comply with specific procurement regulations and other requirements, which can change from time to time. Additionally, these requirements may be less clear in non-NATO and developing countries, which may require the Group to devote additional time and resources to ensure compliance with a country’s specific procurement regulations and other requirements. These requirements, although customary when entering into contracts with government bodies, increase the Group’s bidding, performance and compliance costs. If procurement requirements or “eligibility to bid” criteria change, the Group’s eligibility to bid for such contracts may be affected or the costs of bidding for or complying with such contracts could increase and materially adversely affect the Group’s financial condition and results of operations.

Failure to comply with or satisfy bid criteria, procurement rules and regulations could result in reductions in the number or value of contracts awarded to the Group, the Group not being allowed to participate in future tenders, or contract modifications or terminations, any or all of which could materially adversely affect the Group’s financial condition and results of operations. Failure to comply with these rules and regulations or meet the relevant criteria could lead to the Group being unable to contract with the government body concerned either at all or for a period of time, and could negatively impact the Group’s reputation and ability to procure future contracts.

In addition, defence sector contracts may require relevant approvals from government ministers or senior civil servants, government departments, or other government bodies or agencies. It is possible that, due to difficulties in obtaining such approvals, contracts may be delayed before procurement has started, during the tender stage, during the period between being appointed as the preferred bidder and execution of final contracts or prior to the delivery of products (and recognition of revenue). For example, delays in necessary permits and export approvals in respect of the Group’s contract to supply 40mm ammunition to a Middle East customer adversely affected the Group’s results of operations for the year ended 31 October 2015.

Delays in awarding defence contracts may also arise from challenges to the award of the contracts by competitors. See “—Increased competition and bid protests in a budget-constrained environment may make it more difficult to maintain the Group’s financial performance and customer relationships”.

These matters are beyond the Group's control and any resulting delays could materially adversely affect the Group's business, financial condition, results of operations and prospects.

Like all businesses contracting with government bodies or agencies, the Group faces additional risks of challenge related to customer compliance with procurement, state aid, intra vires and other legal requirements for the validity of such customer's actions, which could materially adversely affect the Group's business, financial condition, results of operations and prospects.

For example, certain of the Group's US entities currently hold classified facility security clearances. Given that the Group is not a US entity, certain of the Group's US entities operate under a Special Security Agreement ("SSA") with the US Department of Defense. The SSA is designed to protect the Group's US entities within the SSA from foreign ownership, control, and influence, including the Group's unauthorised access to classified information and controlled unclassified information. A failure to meet the requirements or breach of the SSA could result in the Group losing its facility security clearances, among other legal consequences and fines, as well as potential debarment from US government contracts, which in turn could materially adversely affect the Group's business operations and financial results in the United States and globally.

Changes in government legislation, regulations or policies affecting the industries relevant to the Group's business.

Any changes in government legislation, regulations or policies affecting the industries relevant to the Group's business operations in the countries in which it operates could have a negative effect on its business. The compliance with any new or changed government legislation, regulations or policies may also increase the Group's costs, and any significant increase in compliance costs arising from such amended or new government legislation, regulations or policies may adversely affect the Group's results of operations. Additionally changes to sanctions and related legal regimes in NATO and other countries in which the Group does business could adversely affect the Group's ability to obtain the necessary export licenses or to otherwise conduct business in other countries. Such changes in government legislation, regulations and policies could materially adversely affect the Group's financial condition and results of operations.

Cash flow constraints arising from the Group's indebtedness and timing of contracted payments may restrict the Group's ability to make investments and execute new strategies.

The Group's ability to make investments in growth opportunities and to execute its strategies is dependent on the amount of cash available to it, which in turn is dependent on the future operating performance of the Group, its current level of indebtedness and its obligations to make repayments of indebtedness to debt providers. For example, the Group's non-NATO business counterparties sometimes constrain the Group's ability to receive milestone payments by instead insisting on a lump sum payment occurring on completion of a contract.

The Group's operating performance is to a certain extent subject to market conditions and business factors that are beyond the Group's control, and may vary over time. In contrast, the Group is required to make scheduled repayments of its indebtedness and has in place debt facilities that expire on specified dates in the future. As a result, there can be no assurance that the Group's cash flow from operations, after paying the principal and interest on its debt, will be sufficient to fund the Group's planned investments or to allow the Group to implement new strategies.

If the Group's cash flows are constrained in this way, the Group may have to reduce or delay capital expenditures, forego growth opportunities, sell assets, seek additional capital or restructure or refinance its debt in order to carry forward its plans. Furthermore, in the event that the Group disposes of material assets or restructures or refinances its debt to provide additional cash, there can be no assurance as to the terms of any such transaction or how quickly such transaction could be completed. The Group's ability to refinance its indebtedness or obtain additional financing in order to increase available cash would depend on, among other things:

- the financial condition of the Group at the time;
- restrictions in the agreements governing the Group's other indebtedness; and
- other factors, including the condition of the financial markets and the defence industry.

Failure to comply with the terms of the Group's remaining indebtedness, after the Rights Issue, could result in a default that could have material adverse consequences.

After completion of the Rights Issue and application of the proceeds thereof, the Group will continue to have debt obligations of £113.4 million as at 31 October 2015 (after giving effect to the transactions described herein), and a failure to comply with the obligations contained in the agreements governing the Group's indebtedness could, in the longer term (that is, beyond the period ending 12 months from the date of this document), result in an event of default under such agreements, which could result in an acceleration of debt under other instruments evidencing indebtedness that contain cross-acceleration or cross-default provisions if the Group were unable to obtain a waiver from its lenders in relation to such obligations. If the Group's indebtedness were to be accelerated, there can be no assurance that the Group's future cash flow or assets, in the longer term, would be sufficient to repay in full such indebtedness. Furthermore, any failure by the Group to comply with the terms of its indebtedness could negatively affect the Group's credit rating, making it more difficult for the Group to obtain debt financing in the future on acceptable terms, or at all.

The Group may from time to time undertake acquisitions that could potentially deliver less revenues, cash flows and earnings than anticipated and may have unexpected liabilities, and the Group may seek to dispose of businesses from time to time. The Group may experience difficulties integrating acquired businesses in a timely manner, and may not realise anticipated synergies.

The Group has selectively pursued acquisitions and undertaken disposals in the past as part of its strategy, and may do so in the future where such acquisitions and disposals offer significant scope for operational synergies and cost reduction. The Group may experience difficulties in integrating newly-acquired businesses, and the anticipated benefits of such acquisitions may not be realised fully, or at all, and may take longer to realise than expected. The Group's performance will depend in part on whether it can effectively and efficiently integrate acquired businesses, which may be complex, time consuming and expensive, and may involve a number of risks, including the costs and expenses associated with any unexpected difficulties with respect to such businesses. Even if the Group is able to integrate newly-acquired businesses successfully, it nevertheless may not realise the synergies, cost savings, revenue and cash flow enhancements, growth, operational efficiencies and other benefits that it expected. Acquired businesses may also have unexpected liabilities for which the Group will be responsible.

The Group may make further disposals in the future. However, the Group's ability to successfully dispose of businesses depends on a number of factors, many of which are outside of the Group's control, and the Group may not be able to dispose of a business in a timely manner. For example, a buyer may not be available, or the Group may not be successful in negotiating satisfactory terms with prospective buyers. Even if a disposal is successful, the Group may face indemnity and other liability claims by the acquirer or other parties.

As a result, acquisitions or disposals undertaken by the Group may be costly and may not deliver the expected benefits, which could materially adversely affect the Group's business, financial condition and results of operations.

The Group is dependent on its continued ability to retain its key management personnel and on its ability to attract, assimilate and retain trained personnel in the future.

The Group's continued success in challenging markets and difficult times is dependent on its ability to retain and incentivise its senior management and other key personnel. Much of the Group's business is dependent on senior management's relationship with and reputation among its customers. The loss of services of such managers or personnel without a suitable replacement could result in the loss of management relationships, expertise and knowledge available to the Group, and consequently materially adversely affect the Group's results of operations and prospects.

The Group's operations require the services of employees with the technical training and experience necessary to obtain the required operational results. As such, the Group's operations depend to a considerable extent on the availability of such personnel and on the ability of the Group to attract and retain such personnel. If the Group were to suffer any significant loss of personnel to competitors, retirement or for other reasons, or were unable to attract additional or replacement personnel with the requisite level of training and experience to adequately operate its business, then the Group's operations could be materially adversely affected.

Non-renewal or revocation of the Group's permits, grants and/or licences could affect its business activities.

The Group's businesses are subject to certain laws and regulations in the countries in which they operate. The various entities in the Group are granted various licences, permits, certificates and approvals by the relevant regulatory authorities. The durations of these licences, permits and certificates are often fixed and are renewable upon expiry but are subject to fulfilment of the standards and requirements set out by the regulatory authorities. Therefore, any non-renewal or revocation of the licences, permits or certificates for whatever reason by the relevant authorities may affect the Group's business operations. Furthermore, there is no assurance that more stringent requirements relating to business operations, environmental protection and safety will not be imposed on the Group by the relevant government authorities in the future. These additional regulations may restrict the Group's ability to operate its businesses, and it may face actions for non-compliance if it fails to comply with any of such requirements, thereby materially adversely affecting the Group's financial condition and results of operations.

The Group's operations involve the handling, transportation and disposal of hazardous materials, and environmental laws and regulations and civil liability for contamination of the environment or related personal injuries may result in increases in the Group's operating costs and capital expenditures and decreases in its profit and cash flows.

The Group's operations are subject to various environmental laws and regulations within the countries in which it operates, relating to the discharge, storage, treatment, handling, disposal and remediation of certain materials, substances and wastes used in its operations.

The Group's operations involve the handling, transportation and disposal of hazardous materials. Failure to properly handle these materials could pose a health risk to humans or wildlife, and could cause personal injury and property damage (including environmental contamination). If an accident were to occur, its severity could be significantly affected by the volume of the materials and the speed of corrective action taken by emergency response personnel, as well as other factors beyond the Group's control, such as weather and wind conditions. Actions taken in response to an accident could result in significant costs.

Governmental requirements relating to the protection of the environment, including solid waste management, air quality, water quality and remediation of contaminated sites, have a substantial impact on the Group's operations. These requirements are complex and subject to frequent change. In some cases, these requirements can impose liability for the entire cost of remediation on any responsible party without regard to negligence or fault, and can impose liability on the Group for the conduct of others or conditions others have caused, or for acts of the Group that complied with all applicable requirements when the Group performed them.

At certain sites that the Group owns or operates, or formerly owned or operated, there is known or potential contamination for which there is a requirement to remediate or provide resource restoration. Chemring Energetic Devices, which is based in Downers Grove, Illinois, United States, is located on a site that has been designated under the United States Comprehensive Environmental Response, Compensation, and Liability Act of 1980 as a site requiring environmental remediation. The Group is in ongoing discussions with the US Environmental Protection Agency regarding its obligations in relation to the site, for which it has made a provision of £1.5 million.

Compliance with amended, new or more stringent environmental requirements, stricter interpretations of existing requirements or the future discovery of contamination may require the Group to make material expenditures or subject the Group to liabilities that are not currently anticipated. Such expenditures and liabilities may adversely affect the Group's business, financial condition, results of operations and cash flows. In addition, some of the Group's operations and the operations of predecessor owners of some of the Group's properties could expose the Group to civil claims by third parties for liability resulting from alleged contamination of the environment or personal injuries caused by releases of hazardous substances into the environment.

The Group seeks to protect itself from liability associated with accidents in the contracts it enters into but there can be no assurance that such contractual limitations on liability will be effective in all cases or that the Group's or its customers' insurance will cover all the liabilities that the Group has assumed

under those contracts. The costs of defending against a claim arising out of a contamination incident or precautionary evacuation, and any damages awarded as a result of such a claim, could materially adversely affect the Group's financial condition and results of operations.

The Group maintains certain insurance coverage as part of its overall risk management strategy and pursuant to requirements to maintain specific coverage in its financing agreements and in many of its contracts. However, these policies do not protect against all liabilities associated with accidents or for unrelated claims. In addition, comparable insurance may not continue to be available in the future on acceptable terms, or at all.

The Group is exposed to foreign currency fluctuations.

The Group's reporting currency is sterling. However, the revenue and costs of various Group entities may be denominated in sterling, US dollars, Australian dollars, euros, Norwegian kroner or other currencies, which are then translated into sterling at the applicable exchange rates for inclusion in the Group's financial information. In addition, certain of the Group's borrowings are denominated in currencies other than sterling. Therefore, the Group is exposed to fluctuations in exchange rates when converting non-sterling amounts into sterling for reporting purposes. Additionally, if in the future the Group expands its sales and operations into new markets, with different currencies, this could expose the Group to additional currency translation risks. Any fluctuation in the value of a relevant foreign currency against sterling will affect the value of the Group's revenues, costs, assets and liabilities, which may in turn affect the Group's reported financial condition and results of operations in a given reporting period.

Although most of the costs from the Group's operations are incurred in the same currency as the revenue generated by these operations, to the extent the Group is unable to match its revenue with costs denominated in the same currency, or if the currency in which the costs are denominated increases in value relative to the currency in which the revenue is denominated, it could have a material adverse effect on the Group's financial condition and results of operations.

In the majority of the Group's contracts, the Group receives either periodic payments through the life of a contract or a lump sum payment upon fulfilment of a contract. As the payment terms are set at the beginning of a contract, the Group is exposed to transaction risk where these payments are not made in the functional currency of the Group operation that is party to the contract. Though the Group works to include terms in its contracts as well as entering into currency hedges to help manage this risk, there can be no assurance that the Group will be able to effectively mitigate this risk, and fluctuations in the value of a relevant currency against the functional currency of the Group operation that is party to the contract, and fluctuations in the value of such functional currency against sterling, could have a material adverse effect on the Group's business, financial condition and results of operations.

The Group is exposed to disruptions to the supply of raw materials.

The Group sources raw materials from third party suppliers. As such, the Group is dependent on its suppliers for the timely delivery of the raw materials that the Group requires, and there can be no assurance that the Group's suppliers will be able to consistently deliver in a timely fashion. In the event that the Group's suppliers default on their contractual obligations or in the event of a disruption to the supply of raw materials, the Group may be unable to source the raw materials that it requires from alternative suppliers on a timely and competitive basis, or at all, and the fulfilment of the Group's contractual obligations to its customers could in turn be affected. In such an event, the Group's business and operations may be adversely affected.

Although the Group takes measures to minimise disruptions to the supply of raw materials by procuring raw materials from regular suppliers, there is no guarantee that the Group will always be able to identify a supplier that is able to supply raw materials of a quality, quantity, price and/or delivery time acceptable to the Group, taking into account the relevant project schedule.

In the event that there is a disruption to the Group's supply of raw materials, the Group's ability to fulfil its contractual obligations according to previously agreed timelines may be affected, which may materially adversely affect the Group's financial condition and results of operations.

The Group's insurance policies may be inadequate to cover its assets, operations and any loss arising from injuries or business interruptions.

The Group is exposed to liabilities that are unique to the products and services it provides. A significant portion of the Group's business relates to the design, testing and manufacture of explosives, combustibles, energetics and military arms and equipment. New technologies associated with these systems and products may be untested or unproven. In addition, certain of the Group's products, or activities in connection with which its products are used, are inherently dangerous.

The Group maintains certain insurance policies to provide commercially reasonable insurance coverage for its businesses in the countries in which the Group operates. However, the amount of the Group's insurance may not be adequate to cover all claims or liabilities, and the Group may be forced to bear substantial costs in the event of an accident or incident. Substantial claims resulting from an incident in excess of its insurance coverage could negatively affect the Group's financial condition and results of operations. Moreover, any accident or incident for which the Group is liable, even if fully insured, could negatively affect the Group's reputation with customers and the public, thereby making it more difficult to compete effectively, and could significantly impact the cost and availability of adequate insurance in the future.

The Group's business could be negatively impacted by security threats, including physical and cyber-security threats, and other disruptions.

The Group faces various security threats, including cyber threats, threats to the physical security of the Group's facilities and infrastructure, and threats from terrorist acts, as well as the potential for business disruptions associated with these threats. Although the Group employs a combination of bespoke and industry-standard security measures and technologies to monitor and mitigate these threats, there can be no guarantee that these measures and technologies will be sufficient to prevent security threats from materialising.

The Group is, from time to time, subject to cyber-based attacks and other attempts to threaten its information technology systems, including attempts to gain unauthorised access to proprietary information and attacks from computer hackers, viruses, malicious code and other security problems. From time to time, the Group experiences system interruptions and delays; however, though the Group has not experienced any material adverse impacts on the Group's operations due to a cyber-based attack, due to the evolving nature of these security threats, the impact of any future incident cannot be predicted.

The costs related to cyber or other security threats or disruptions may not be fully insured or indemnified by other means. Occurrence of any of these events could adversely affect the Group's internal operations, the services it provides to customers, the value of the Group's investment in research and development efforts and other intellectual property, the Group's future financial results, its reputation or its share price.

In addition, from time to time, the Group may replace and/or upgrade current financial, human resources and other information technology systems. These activities subject the Group to inherent costs and risks associated with replacing and updating these systems, including potential disruption of internal control structures, substantial capital expenditures, demands on management time and other risks of delays or difficulties in transitioning and integration. The implementation of new systems and upgrades may not result in productivity improvements at the levels anticipated, or at all. In addition, the implementation of new systems may cause disruptions in the Group's business operations. Such disruption and any other information technology system disruptions, and the Group's ability to mitigate those disruptions, if not anticipated and appropriately mitigated, could materially adversely affect the Group's financial condition and results of operations.

A change in the tax rates, tax laws or practice by the relevant tax authority or any failure by the Group to manage tax risks adequately may materially adversely affect the Group's reputation, financial condition and results of operations.

The Group is subject to corporate and other tax rules in the jurisdictions where it conducts its business operations. Changes in the tax rates, tax relief, tax laws or practice by the relevant tax authorities, or changes in interpretation of the law or the relevant tax authorities' practice, increasing challenges by

relevant tax authorities or any failure to manage tax risks adequately could result in increased charges, financial loss, penalties and reputational damage, which may materially adversely affect the Group's financial condition and results of operations. In addition, aggressive tax enforcement is becoming a higher priority for many tax authorities, which could lead to an increase in tax audits, inquiries and challenges of historically accepted intra-group financing and other arrangements. Tax authorities may also actively pursue additional taxes based on retroactive changes to tax laws.

The Group is required to exercise judgement when determining its provisions for income taxes and accounting for tax-related matters, including judgement in relation to the recognition of deferred tax assets. The Group regularly makes estimates where the ultimate tax determination is uncertain. The final determination of any tax audit, tax litigation, appeal of a taxing authority's decision or similar proceedings may take many years to resolve and may differ materially from that which is reflected in the Group's financial statements. The Group operates in many different tax jurisdictions and is therefore subject to routine periodic tax audits.

Any of the foregoing could materially adversely affect the Group's business, reputation, financial condition and results of operations.

The Group relies on intellectual property law and confidentiality agreements to protect its intellectual property. The Group also relies on intellectual property licenced from third parties. Failure to protect the Group's intellectual property rights, or an inability to obtain or renew licences to use intellectual property of third parties, could adversely affect the Group's financial condition and results of operations.

The Group's success depends, in part, on its ability to protect its proprietary information and other intellectual property. The Group's intellectual property could be stolen, challenged, invalidated, circumvented or rendered unenforceable. In addition, effective intellectual property protection may be limited or unavailable in certain jurisdictions.

Failure to protect the Group's intellectual property rights may result in the loss of valuable technologies or adversely affect the Group's competitive business position.

The Group relies significantly on proprietary technology, information, processes and know-how that are not subject to patent or copyright protection. The Group seeks to protect this information through trade secret or confidentiality agreements with employees, consultants, subcontractors or other parties, as well as through other security measures. These agreements and security measures may be inadequate to deter or prevent misappropriation of the Group's confidential information.

In the event of an infringement of the Group's intellectual property rights, a breach of a confidentiality agreement or the divulgence of proprietary information, the Group may not have adequate legal remedies to protect its intellectual property. Litigation to determine the scope of intellectual property rights, even if ultimately successful, could be costly and could divert management's attention away from other aspects of the Group's business. In addition, the Group's trade secrets, which protect the majority of the Group's intellectual property, may otherwise become known or be independently developed by competitors.

In some instances, the Group has augmented its technology base by licencing the proprietary intellectual property of third parties. In the future, the Group may not be able to obtain necessary licences on commercially reasonable terms, or at all, which could materially adversely affect the Group's financial condition and results of operations.

Risks relating to the Rights Issue and Investment in Shares

The market price of the Nil Paid Rights, Fully Paid Rights and/or Shares could be subject to volatility.

The market price of the Nil Paid Rights, the Fully Paid Rights and/or the Shares could be subject to significant fluctuations due to a change in sentiment in the market regarding the Nil Paid Rights, the Fully Paid Rights and/or the Shares (or securities similar to them), including, in particular, in response to various facts and events, including any regulatory changes affecting the Group's operations, variations in the Group's operating results and/or business developments of the Group and/or its competitors. Stock markets have from time to time experienced significant price and volume

fluctuations that have affected the market prices for securities and which may be unrelated to the Company's operating performance or prospects. Furthermore, the Group's operating results and prospects from time to time may be below the expectations of market analysts and investors. Any of these events could result in a decline in the market price of the Nil Paid Rights, the Fully Paid Rights and/or the Shares.

An active trading market for the New Shares, Nil Paid Rights and Fully Paid Rights may not develop.

Application has been made to admit the New Shares (nil and fully paid) to trading on the London Stock Exchange's main market for listed securities. It is expected that dealings in rights to subscribe for the New Shares on the London Stock Exchange's main market for listed securities will commence at 8.00 a.m. on 9 February 2016. There can be no assurance, however, that an active trading market in Nil Paid Rights or Fully Paid Rights will develop upon or following Admission.

The market price for the Shares may decline below the Issue Price and Shareholders may not be able to sell Shares at a favourable price after the Rights Issue

The public trading market price of the Shares may decline below the Issue Price. Should that occur prior to the latest time and date for acceptance under the Rights Issue, Qualifying Shareholders or renounees who exercise their rights in the Rights Issue will suffer an immediate loss as a result. Moreover, following the exercise of their rights, Shareholders may not be able to sell their New Shares at a price equal to or greater than the acquisition price for those shares.

Although the Group has no current plans for a subsequent offering of Shares, it is possible that it may decide to undertake such an offering in the future. An additional offering could have an adverse effect on the market price of the outstanding Shares.

Investors in the Nil Paid Rights, Full Paid Rights andlor New Shares may be subject to exchange rate risk.

The New Shares, Nil Paid Rights and Fully Paid Rights are priced in sterling. Accordingly, any investor outside the United Kingdom is subject to adverse movements to their local currency against sterling.

It may not be possible to effect service of process upon the Company or the Directors or enforce court judgments against the Company or the Directors.

The Company is incorporated in England and Wales. As a result, it may not be possible for investors outside of the UK to effect service of process outside the UK against the Company or the Directors or to enforce the judgement of a court outside the UK against the Company or the Directors.

The Company's ability to continue to pay dividends on the Shares will depend on the availability of distributable reserves.

The Company's ability to pay dividends is limited under English company law, which limits a company to only paying cash dividends to the extent that it has distributable reserves and cash available for this purpose. As a holding company, the Company's ability to pay dividends in the future is affected by a number of factors, principally its ability to receive sufficient dividends from subsidiaries. The payment of dividends to the Company by its subsidiaries is, in turn, subject to restrictions, including certain regulatory requirements and the existence of sufficient distributable reserves and cash in the Company's subsidiaries. The ability of these subsidiaries to pay dividends and the Company's ability to receive distributions from its investments in other entities are subject to applicable local laws and regulatory requirements and other restrictions, including, but not limited to, applicable tax laws and covenants in some of the Company's debt facilities. These laws and restrictions could limit the payment of future dividends and distributions to the Company by its subsidiaries, which could restrict the Company's ability to fund other operations or to pay a dividend to holders of the Existing Shares or the New Shares.

Shareholders who do not acquire New Shares in the Rights Issue will experience dilution in their ownership of the Company.

If a Shareholder does not take up the offer of New Shares under the Rights Issue, either because the Shareholder is in the United States or another jurisdiction where their participation is restricted for legal, regulatory and other reasons or because the Shareholder does not respond to the Rights Issue by

11.00 a.m. (London Time) on 23 February 2016, the expected latest time and date for acceptance and payment in full for that Shareholder's provisional allotment of New Shares, and that Shareholder's Nil Paid Rights to subscribe for New Shares lapse, the Shareholder's proportionate ownership and voting interests as well as the percentage that their shares will represent of the total share capital of the Company will be reduced accordingly. Even if a Shareholder elects to sell their unexercised Nil Paid Rights, or such Nil Paid Rights are sold on their behalf, the consideration the Shareholder receives may not be sufficient to compensate them fully for the dilution of their percentage ownership of the Company's share capital that may be caused as a result of the Rights Issue.

The Company has made arrangements under which the Underwriters, within the two Business Day period following the expiration of the latest time and date for acceptance and payment, will endeavour to find subscribers for New Shares not taken up by Shareholders. If, however, the Underwriters are unable to find subscribers for such New Shares or are unable to achieve a specified premium over the Issue Price and the related expenses of procuring such subscribers, Shareholders will not receive any consideration for the Nil Paid Rights they have not taken up. Furthermore, to the extent that Shareholders do not exercise their Nil Paid Rights to subscribe for New Shares, their proportionate ownership and voting interest in the Shares of the Company (upon the issue of New Shares) will, accordingly, be reduced, and the percentage that their Existing Shares represent of the Company's increased share capital after the issue of New Shares will accordingly be reduced.

Shareholders outside the United Kingdom may not be able to subscribe for New Shares in the Rights Issue.

In the case of an allotment of Shares for cash, Shareholders have certain statutory pre-emption rights unless those rights are disapplied by a special resolution of the Shareholders at a general meeting and such an issue could dilute the interests of the then existing Shareholders. Securities laws of certain jurisdictions may restrict the Company's ability to allow participation by Shareholders in the Rights Issue. In particular, holders of Shares who are located in the United States may not be able to exercise their pre-emption rights unless a registration statement under the Securities Act is effective with respect to such rights or an exemption from the registration requirements is available thereunder. The Rights Issue will not be registered under the Securities Act. Securities laws of certain other jurisdictions may restrict the Company's ability to allow participation by Shareholders in such jurisdictions in any future issue of shares carried out by the Company. Qualifying Shareholders who have a registered address in or who are resident in, or who are citizens of, countries other than the United Kingdom should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their Nil Paid Rights or to acquire Fully Paid Rights or acquire New Shares.

IMPORTANT INFORMATION

Market and industry information

Unless the source is otherwise stated, the market, economic and industry data in this Prospectus constitute the Directors' estimates, using underlying data from independent third parties. The Company obtained market data and certain industry forecasts used in this Prospectus from internal surveys, reports and studies, where appropriate, as well as market research and publicly available information.

Whilst the Directors believe the third-party information included herein to be reliable, the Company has not independently verified such third-party information, and neither the Company nor the Underwriters make any representation or warranty as to the accuracy or completeness of such information as set forth in this Prospectus. The Company confirms that all third-party data contained in this Prospectus has been accurately reproduced and, so far as the Company is aware and able to ascertain from information published by that third-party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Industry publications generally state that the information they contain has been obtained from sources believed to be reliable but that the accuracy or completeness of such information is not guaranteed. Similarly, internal surveys, reports and studies and market research, while believed by the Company to be reliable and accurately extracted by the Company for the purposes of this document, have not been independently verified and the Company makes no representation as to the accuracy of such information. Any industry forecasts are forward looking statements. See "Cautionary Note Regarding Forward Looking Statements" below.

Where third-party information has been used in this Prospectus, the source of such information has been identified.

Cautionary note regarding forward-looking statements

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.

You are advised to read this document and the information incorporated by reference into this document in their entirety, and, in particular, the section of this document headed "Risk Factors", for a further discussion of the factors that could affect the Group's future performance and the industry in which it operates. In light of these risks, uncertainties and assumptions, the events described in the forward looking statements in this document and/or the information incorporated by reference into this document may not occur.

Other than in accordance with their legal or regulatory obligations (including under the Listing Rules, the Disclosure and Transparency Rules and the Prospectus Rules), neither the Company nor the Underwriters undertake any obligation to update or revise publicly any forward looking statement, whether as a result of new information, future events or otherwise.

Presentation of financial information

Capitalisation and indebtedness information for the Group in this document is presented in sterling and is derived from financial information contained in the audited historical financial information of the Group prepared in accordance with IFRS as adopted by the EU. Other financial information, unless otherwise stated, has been extracted from the Annual Report and Accounts of the Group for each of the years ended 31 October 2015, 2014 and 2013. Where information has been extracted from the audited historical financial information of the Group, the information is audited unless otherwise stated.

Unless otherwise indicated, financial information for the Group in this document and the information incorporated by reference into this document is presented in sterling and has been prepared in accordance with IFRS as adopted by the EU.

The financial information presented in a number of tables in this document has been rounded to the nearest whole number or the nearest decimal. Therefore, the sum of the numbers in a column may not conform exactly to the total figure given for that column. In addition, certain percentages presented in the tables in this document reflect calculations based upon the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

Pro forma financial information

The unaudited pro forma statement information contained in Part VII “Unaudited Pro Forma Financial Information” is based on the historical financial information of Chemring contained in Part VI. The unaudited pro forma statement of net assets has been prepared to illustrate the effect on the net assets of Chemring as if the Rights Issue had taken place on 31 October 2015.

The unaudited pro forma statement of net assets has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and does not, therefore, represent the Group’s actual financial position or results. The pro forma financial information has been prepared on the basis set out in the notes below and in accordance with Annex I and Annex II to the PD Regulation. The pro forma financial information is stated on the basis of the recognition and measurement accounting policies of Chemring which are in accordance with the requirements of IFRS as adopted by the EU.

Non-IFRS information

This document contains certain financial measures that are not defined or recognised under IFRS, including underlying earnings before interest, tax, depreciation and amortisation (“underlying EBITDA”), net debt, adjusted debt, underlying continuing operating cash flow, underlying operating profit/(loss) from continuing operations, underlying profit/(loss) before tax from continuing operations, underlying operating profit/(loss) on discontinued operations, underlying operating margin, and effective rate of tax on the underlying profit/(loss) before tax. These measures are not measures of financial performance under IFRS and should not be considered as alternatives to other indicators of the Group’s operating performance, cash flows or any other measure of performance derived in accordance with IFRS. Information regarding these measures is sometimes used by investors to evaluate the efficiency of a company’s operations and its ability to employ its earnings toward repayment of debt, capital expenditures and working capital requirements. There are no generally accepted principles governing the calculation of these measures and the criteria upon which these measures are based can vary from company to company. These measures, by themselves, do not provide a sufficient basis to compare the Company’s performance with that of other companies and should not be considered in isolation or as a substitute for operating profit or any other measure as an indicator of operating performance, or as an alternative to cash generated from operating activities as a measure of liquidity.

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 EBITDA and debt, and the interest cover ratio between underlying EBITDA and finance costs. The calculation of these ratios, which are contained in this document, 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 provisions regarding covenant compliance calculations, which require adjustments to be made to values of underlying EBITDA, debt and finance costs disclosed in the Group's financial statements.

Underlying EBITDA

The Group uses underlying EBITDA, defined as underlying earnings before interest, tax, depreciation and amortisation, in managing its business. Underlying EBITDA is a non-IFRS measure. While the amounts included in underlying EBITDA have been derived from the Group's Annual Report and Accounts and unaudited consolidated financial information, underlying EBITDA itself is not a financial measure calculated in accordance with IFRS. Accordingly, underlying EBITDA should be viewed as supplemental to, but not as a substitute for, measures presented in the Group's Annual Report and Accounts and unaudited consolidated financial information, which are prepared in accordance with IFRS as adopted by the EU. The Group believes that underlying EBITDA is a measure commonly used by investors. However, underlying EBITDA as presented in this Prospectus may not be comparable to similarly-titled measures reported by other companies due to differences in the way it is calculated.

The table below sets out the reconciliation of the Group's total underlying EBITDA from profit/(loss) after tax for the periods indicated:

	<i>Year ended 31 October</i>		
	<i>2015</i>	<i>2014</i>	<i>2013</i>
		<i>(unaudited)</i>	
		<i>(£ million)</i>	
Profit/(loss) after tax	(0.4)	(54.9)	(48.3)
<i>Less:</i>			
Acquisition and disposal related (costs)/credit	4.4	(8.6)	(3.2)
Business restructuring and incident costs	(6.4)	(7.2)	(11.7)
Loss on disposal of associate	–	(0.9)	–
Profit on disposal of business	–	26.5	–
Impairment of goodwill	–	(45.9)	(50.9)
Impairment of acquired intangibles	–	(10.7)	(15.7)
Impairment of assets held for sale	–	(13.6)	(8.8)
Claim related costs	(8.5)	–	–
Intangible amortisation arising from business combinations	(14.0)	(16.1)	(18.8)
Gain/(loss) on the movement in the fair value of derivative financial instruments	0.5	(0.7)	0.1
Accelerated interest costs	–	(12.0)	–
Tax	7.9	10.4	19.7
Underlying profit/(loss) after tax	15.7	23.9	41.0
<i>Less:</i>			
Net finance expense	14.9	18.7	20.5
Tax charge/(credit) on profit/(loss)	4.1	6.4	10.6
Depreciation and amortisation expense	23.1	23.7	28.1
Underlying EBITDA	<u>57.7</u>	<u>72.7</u>	<u>100.2</u>

Net debt

The table below sets out the reconciliation of the Group's net debt from total liabilities for the periods indicated:

	<i>Year ended 31 October</i>		
	<i>2015</i>	<i>2014</i>	<i>2013</i>
		<i>(unaudited)</i>	
		<i>(£ million)</i>	
Total liabilities	353.8	338.8	538.2
<i>Less:</i>			
Working capital liabilities	(119.3)	(115.0)	(192.0)
Tax	(53.0)	(42.2)	54.2
Pension deficit	(17.7)	(21.8)	(25.1)
Derivative financial information	(1.9)	(2.4)	(4.0)
Gross Debt	161.9	157.4	262.9
Cash	(7.6)	(21.8)	(14.2)
Net debt	154.3	135.6	248.7

Adjusted debt

The table below sets out the reconciliation of the Group's adjusted debt from net debt for the periods indicated:

	<i>Year ended 31 October</i>		
	<i>2015</i>	<i>2014</i>	<i>2013</i>
		<i>(unaudited)</i>	
		<i>(£ million)</i>	
Net debt	154.3	135.6	248.7
<i>Plus:</i>			
Mark to market derivatives	1.5	1.9	1.8
Facility fees	5.2	5.4	5.5
Restricted cash	0.1	0.6	0.8
Revaluation of net debt	1.5	(2.9)	8.6
Adjusted debt	162.6	140.5	265.4

Underlying continuing operating cash flow

Underlying continuing operating cash flow from continuing operations provides a measure of the cash generated by the Group's continuing operations. It represents the cash that is generated to fund capital expenditure, interest payments, tax and dividends.

The table below sets out the reconciliation of the Group's underlying continuing operating cash flow from net cash inflow from operating activities for the periods indicated:

	<i>Year ended 31 October</i>		
	2015	2014 (unaudited) (£ million)	2013
Net cash inflow from operating activities	25.7	46.2	55.4
<i>Plus:</i>			
Acquisition and disposal related costs	0.7	7.5	3.8
Business restructuring and incident costs	7.6	6.4	8.9
Claim related costs	0.1	–	–
Tax paid	1.3	3.4	0.5
<i>Less:</i>			
Operating cash flow from discontinued operations	–	(17.6)	11.9
Underlying continuing operating cash flow	<u>35.4</u>	<u>45.9</u>	<u>80.5</u>

Underlying operating profit/(loss) from continuing operations

The table below sets out the reconciliation of the Group's underlying operating profit/(loss) from continuing operations from operating profit/(loss) for the periods indicated:

	<i>Year ended 31 October</i>		
	2015	2014 (unaudited) (£ million)	2013
Continuing operations			
Operating profit/(loss)	5.5	25.4	(46.7)
<i>Less:</i>			
Acquisition and disposal related (costs)/credit	(0.5)	(0.6)	(2.6)
Business restructuring and incident costs	(6.4)	(7.2)	(11.7)
Impairment of goodwill	–	–	(50.9)
Impairment of acquired intangibles	–	–	(15.7)
Impairment of assets held for sale	–	–	(8.8)
Profit on disposal of business	–	0.5	–
Claim related costs	(8.5)	–	–
Intangible amortisation arising from business combinations	(14.0)	(13.5)	(13.4)
Gain/(loss) on the movement in the fair value of derivative financial instruments	0.5	(0.5)	0.1
Underlying operating profit/(loss) from continuing operations	<u>34.4</u>	<u>46.7</u>	<u>56.3</u>

Underlying profit/(loss) before tax from continuing operations

The table below sets out the reconciliation of the Group's underlying profit/(loss) before tax from continuing operations from profit/(loss) before tax for the periods indicated:

	<i>Year ended 31 October</i>		
	<i>2015</i>	<i>2014</i> <i>(unaudited)</i>	<i>2013</i>
	<i>(£ million)</i>		
Continuing operations			
Profit/(loss) before tax	(9.1)	(5.2)	(66.5)
<i>Less:</i>			
Acquisition and disposal related (costs)/credit	(0.5)	(0.6)	(2.6)
Business restructuring and incident costs	(6.4)	(7.2)	(11.7)
Impairment of goodwill	–	–	(50.9)
Impairment of acquired intangibles	–	–	(15.7)
Impairment of assets held for sale	–	–	(8.8)
Profit on disposal of business	–	0.5	–
Claim related costs	(8.5)	–	–
Intangible amortisation arising from business combinations	(14.0)	(13.5)	(13.4)
Gain/(loss) on the movement in the fair value of derivative financial instruments	0.5	(0.5)	0.1
Accelerated interest costs	–	(12.0)	–
Underlying profit/(loss) before tax from continuing operations	<u>19.8</u>	<u>28.1</u>	<u>36.5</u>

Underlying operating profit/(loss) on discontinued operations

The table below sets out the reconciliation of the Group's underlying operating profit/(loss) on discontinued operations from profit/(loss) after tax from discontinued operations for the periods indicated:

	<i>Year ended 31 October</i>		
	<i>2015</i>	<i>2014</i> <i>(unaudited)</i>	<i>2013</i>
	<i>(£ million)</i>		
Profit/(loss) after tax from discontinued operations	4.9	(53.5)	7.3
<i>Less:</i>			
Acquisition and disposal related (costs)/credit	4.9	(8.0)	(0.6)
Loss on disposal of associate	–	(0.9)	–
Profit on disposal of business	–	26.0	–
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	–	(2.6)	(5.4)
Loss on the movement in the fair value of derivative financial instruments	–	(0.2)	–
Net finance expense	–	(0.1)	(0.7)
Tax	–	0.2	(1.8)
Underlying operating profit/(loss) on discontinued operations	<u>–</u>	<u>2.3</u>	<u>15.8</u>

Currencies

In this document and the information incorporated by reference into this document, references to “£”, “sterling”, “pence”, “pounds” or “GBP” are to the lawful currency of the United Kingdom and references to “US dollars”, “US\$”, “\$US”, “US¢” or “cents” are to the lawful currency of the United States. The abbreviation “€” represents the euro, the European single currency.

Average rate against sterling

Year	Period End	US dollar		
		Average	High	Low
2010	1.5591	1.5457	1.6377	1.4324
2011	1.5509	1.6037	1.6694	1.5390
2012	1.6242	1.5850	1.6276	1.5295
2013	1.6566	1.5648	1.6566	1.4858
2014	1.5581	1.6474	1.7165	1.5515
2015	1.4734	1.5283	1.5872	1.4654
2016 (through 19 January 2016)	1.4185	1.4494	1.4747	1.4185

Year	Period End	Australian dollar		
		Average	High	Low
2010	1.5239	1.6821	1.8231	1.5197
2011	1.5123	1.5536	1.6451	1.4828
2012	1.5643	1.5310	1.6161	1.4658
2013	1.8558	1.6228	1.8558	1.4442
2014	1.9082	1.8268	1.9216	1.7365
2015	2.0210	2.0358	2.2048	1.8424
2016 (through 19 January 2016)	2.0467	2.0653	2.0860	2.0267

Year	Period End	Norwegian Krone		
		Average	High	Low
2010	9.0924	9.3366	9.8001	8.7821
2011	9.2639	8.9876	9.3876	8.5936
2012	9.0289	9.2211	9.5818	8.8343
2013	10.0405	9.2029	10.1423	8.5139
2014	11.6647	10.3766	11.7255	9.8784
2015	13.0435	12.3318	13.2914	11.3222
2016 (through 19 January 2016)	12.4740	12.8664	13.1170	12.4740

Source: Bloomberg

No Profit Forecast

No statement in this document is intended as a profit forecast and no statement in this document should be interpreted to mean that earnings per Share for the current or future financial years would necessarily match or exceed the historical published earnings per Share.

Notice to investors in the United States of America

Subject to certain exceptions, neither this document nor the Provisional Allotment Letter constitutes, or will constitute, or forms part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, New Shares, Nil Paid Rights and/or Fully Paid Rights to any Shareholder with a registered address in, or who is resident of, the United States. If you are in the US, you may not exercise your Nil Paid Rights or Fully Paid Rights and/or acquire any New Shares offered hereby. Notwithstanding the foregoing, the Company reserves the right to offer and deliver the Nil Paid Rights to, and the Fully Paid Rights and the New Shares may be offered to and acquired by, a limited number of Shareholders in the US reasonably believed to be QIBs, within the meaning of Rule 144A, in offerings exempt from or in a transaction not subject to, the registration requirements under the Securities Act. The Nil Paid Rights, the Fully Paid Rights and the New Shares being offered outside the US are being offered in reliance on Regulation S. If you are a QIB located in the United States, in order to exercise your Nil Paid Rights or Fully Paid Rights and/or acquire any New Shares upon exercise thereof, you must sign and deliver an investor letter.

If you sign such an investor letter, you will be, amongst other things:

- representing that you and any account for which you are acquiring the New Shares, the Nil Paid Rights or the Fully Paid Rights are a QIB; and

- agreeing not to reoffer, sell, pledge or otherwise transfer the New Shares, the Nil Paid Rights, the Fully Paid Rights or the Provisional Allotment Letters, except:
 - in an offshore transaction in accordance with Rule 904 of Regulation S under the Securities Act (which, for the avoidance of doubt, includes a sale over the London Stock Exchange), and neither the seller nor any person acting on its behalf knows that the transaction has been pre-arranged with a buyer in the US;
 - to a QIB in a transaction in accordance with Rule 144A;
 - with respect to the New Shares only, pursuant to Rule 144 under the Securities Act (if available); or
 - in another transaction pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act,

and, in each case, in compliance with any applicable securities laws of any state or other jurisdiction of the US.

No representation has been, or will be, made by the Company or the Underwriters as to the availability of Rule 144 under the Securities Act or any other exemption under the Securities Act or any state securities laws for the reoffer, pledge or transfer of the New Shares.

Any envelope containing a Provisional Allotment Letter and post-marked from the US will not be valid unless it contains a duly executed investor letter in the appropriate form as described above, any Provisional Allotment Letter in which the exercising holder requests New Shares to be issued in registered form and gives an address in the US will not be valid unless it contains a duly executed investor letter.

The payment paid in respect of Provisional Allotment Letters that do not meet the foregoing criteria will be returned without interest.

Any person in the US who obtains a copy of this document and who is not a QIB will be unable to purchase, or subscribe for, Nil Paid Rights, Fully Paid Rights and/or New Shares and is required to disregard this document.

Overseas territories other than the United States and the Excluded Territories

Qualifying Shareholders who have registered addresses in or who are resident in, or who are citizens of, all countries other than the UK (other than the United States and the Excluded Territories) should refer to paragraph 2.5 of Part III “Terms and Conditions of the Rights Issue” of this document.

Available information

If, at any time, the Company is neither subject to Section 13 or Section 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, the Company will furnish, upon request, to any holder or beneficial holder of the Nil Paid Rights, the Fully Paid Rights or the New Shares, or any prospective purchaser designated by any such holder or beneficial owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act. In such cases, the Company will also furnish to each such owner all notices of general Shareholders’ meetings and other reports and communications that the Group generally makes available to Shareholders.

Enforcement of Civil Liberties

The ability of an Overseas Shareholder to bring an action against the Company may be limited under law. The Company is a public limited company incorporated in England and Wales. The rights of holders of Shares are governed by English law and by the Company’s memorandum and articles of association. These rights differ from the rights of shareholders in typical US corporations and some other non-UK corporations.

An Overseas Shareholder may not be able to enforce a judgment against some or all of the Directors and executive officers. The majority of the Directors and executive officers are residents of the UK. Consequently, it may not be possible for an Overseas Shareholder to effect service of process upon the Directors and executive officers within the Overseas Shareholder's country of residence or to enforce against the Directors and executive officers judgments of courts of the Overseas Shareholder's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that an Overseas Shareholder will be able to enforce any judgments in civil and commercial matters or any judgments under the securities laws of countries other than the UK against the Directors or executive officers who are residents of the UK or countries other than those in which judgment is made. In addition, English or other courts may not impose civil liability on the Directors or executive officers in any original action based solely on the foreign securities laws brought against the Company or the Directors in a court of competent jurisdiction in England or other countries.

RIGHTS ISSUE STATISTICS

Price per New Share	94 pence
Basis of Rights Issue	4 New Shares for every 9 Existing Shares
Number of Shares in issue at the date of this document ⁽¹⁾	193,310,614
Number of New Shares to be issued by the Company	85,915,828
Number of Shares in issue immediately following completion of the Rights Issue ⁽¹⁾⁽²⁾	279,226,442
New Shares as a percentage of enlarged issued share capital of the Company immediately following completion of the Rights Issue ⁽²⁾	30.8 per cent.
Estimated net proceeds receivable by the Company after expenses	£75.2 million
Estimated expenses in connection with the Rights Issue	£5.6 million

Notes:

- (1) Excluding the 2,198,814 Shares held in treasury.
- (2) Assuming that no Shares are issued as a result of the exercise of any options between 20 January 2016, being the latest practicable date prior to the publication of this document, and the completion of the Rights Issue.

EXPECTED TIMETABLE FOR THE RIGHTS ISSUE

2016 ^{(2) (3)}

Publication and posting of this document, the notice of General Meeting and the Form of Proxy	21 January 2016
Record Date for entitlements under the Rights Issue	close of business on 5 February 2016
Latest time and date for receipt of General Meeting Forms of Proxy	9.30 a.m. on 6 February 2016
General Meeting	9.30 a.m. on 8 February 2016
Date of dispatch of Provisional Allotment Letters (to Qualifying non-CREST Shareholders only ⁽¹⁾)	8 February 2016
Dealings in New Shares, nil paid, commence on the London Stock Exchange	8.00 a.m. on 9 February 2016
Shares marked ex-Rights	9 February 2016
Nil Paid Rights and Fully Paid Rights enabled in CREST	As soon as practicable after 8.00 a.m. on 9 February 2016
Recommended latest time for requesting withdrawal of Nil Paid Rights or Fully Paid Rights from CREST (i.e. if your Nil Paid Rights or Fully Paid Rights are in CREST and you wish to convert them into certificated form)	4.30 p.m. on 17 February 2016
Latest time and date for depositing renounced Provisional Allotment Letters, nil paid or fully paid, into CREST or for dematerialising Nil Paid Rights into a CREST stock account	3.00 p.m. on 18 February 2016
Latest time and date for splitting Provisional Allotment Letters	3.00 p.m. on 19 February 2016
Latest time and date for acceptance and payment in full and registration of renounced Provisional Allotment Letters	11.00 a.m. on 23 February 2016
Expected date of announcement of results of the Rights Issue through a Regulatory Information Service	24 February 2016
Dealings in the New Shares to commence on the London Stock Exchange fully paid	8.00 a.m. on 24 February 2016
New Shares credited to CREST stock accounts (uncertificated holders only ⁽¹⁾)	As soon as practicable after 8.00 a.m. on 24 February 2016
Despatch of definitive share certificates for New Shares in certificated form (to Qualifying non-CREST Shareholders only ⁽¹⁾)	by no later than 8 March 2016

Notes:

- (1) Subject to certain restrictions relating to Overseas Shareholders. See paragraph 2.5 of Part III “Terms and Conditions of the Rights Issue”.
- (2) The times and dates set out in the expected timetable of principal events above and mentioned throughout this document, by announcement through a Regulatory Information Services, and in the Provisional Allotment Letter may be adjusted by the Company, in which event details of the new dates will be notified to the FCA and to the London Stock Exchange and, where appropriate, to Shareholders.
- (3) References to times in this document are to London time unless otherwise stated.

DIRECTORS, COMPANY SECRETARY AND ADVISERS

Board of Directors

A list of the members of the Company's Board of Directors is set forth in the table below.

<i>Name</i>	<i>Position</i>
Peter Hickson	Chairman
Michael Flowers	Group Chief Executive
Steve Bowers	Group Finance Director
Sarah Ellard	Group Legal Director
Ian Much	Senior Independent Director
Nigel Young	Non-Executive Director
Andy Hamment	Non-Executive Director

Each of the Directors' business address is the Company's registered office address at Roke Manor, Old Salisbury Lane, Romsey, Hampshire SO51 0ZN, England.

Telephone: +44 (0)1794 833901

Group Company Secretary:	Sarah Ellard
Registered Office:	Roke Manor, Old Salisbury Lane, Romsey, Hampshire SO51 0ZN, England
Joint Sponsor, Joint Global Coordinator and Joint Bookrunner:	Investec Bank plc 2 Gresham Street London EC2V 7QP
Joint Sponsor, Joint Global Coordinator and Joint Bookrunner:	J.P. Morgan Securities plc 25 Bank Street Canary Wharf London E14 5JP
Co-Bookrunner:	Barclays Bank PLC 5 The North Colonnade Canary Wharf London E14 4BB
Financial Adviser to the Company	N M Rothschild & Sons Limited New Court, St Swithin's Lane London EC4N 8AL
Reporting Accountant and Auditors to the Company:	Deloitte LLP Abbots House Reading RG1 3BD
Legal advisers to the Company as to English and US law:	Freshfields Bruckhaus Deringer LLP 65 Fleet Street London EC4Y 1HS
Legal advisers to the Underwriters as to English and US law:	Simmons & Simmons LLP City Point One Ropemaker Street London EC2Y 9SS

Registrar:

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ

Receiving Agent:

Computershare Investor Services PLC
Corporate Actions Projects
Bristol
BS99 6AH

PART I – LETTER FROM THE CHAIRMAN OF CHEMRING GROUP PLC

Directors:

Peter Hickson, *Chairman*
Michael Flowers, *Group Chief Executive*
Steve Bowers, *Group Finance Director*
Sarah Ellard, *Group Legal Director*
Ian Much, *Senior Independent Director*
Nigel Young, *Non-Executive Director*
Andy Hamment, *Non-Executive Director*

Registered Office:

Roke Manor
Old Salisbury Lane
Romsey
Hampshire
SO51 0ZN

21 January 2016

To holders of Chemring Group PLC ordinary shares

Dear Shareholder

Proposed 4 for 9 Rights Issue of 85,915,828 New Shares at 94 pence per New Share and Notice of General Meeting

1. Introduction

The Board of Chemring announced today that it intends to raise approximately £80.8 million (before expenses) by way of a rights issue.

The purpose of this document is to explain the background to and reasons for the Rights Issue, set out the terms and conditions of the Rights Issue and provide you with a Notice of General Meeting to be held to consider and, if thought fit, to pass the Resolutions required to authorise Chemring to carry out the Rights Issue.

This document also explains why the Board considers that the Resolutions to be proposed at the General Meeting are in the best interests of Shareholders and why the Board unanimously recommends that Shareholders vote in favour of the Resolutions.

2. Background to and reasons for the Rights Issue

2.1 Background

During the period from 2005 to 2011 when global defence markets were growing strongly on the back of conflict, particularly in the Middle East and Afghanistan, Chemring grew rapidly through a series of acquisitions which were predominantly debt funded. The Group shifted much of its focus through acquisition towards sensors, electronics and detection equipment. By February 2012, when the United States had started to withdraw its troops from those regions, Chemring's net debt was approximately £340.0 million, predominantly in the form of loan notes issued via a series of US private placements. As these major conflicts subsided, there followed a significant decline in global defence spending, which has impacted the Group.

Steve Bowers was appointed Group Finance Director in January 2013, and Michael Flowers was appointed Group Chief Executive in June 2014. The Board has since been focused on reducing Chemring's debt burden, restructuring the cost base, driving operational improvements and repositioning the Group to take advantage of available opportunities for growth. In 2014, following a strategic review, Chemring disposed of its European munitions business and other assets, generating gross proceeds of £137.1 million. Of the net proceeds, £101.7 million were applied in the early repayment of US Notes in June and September 2014, to reduce the gross debt position and to lower ongoing interest charges. In July 2014, the Company refinanced its Facility Agreement providing committed funding to 2018.

The Group has been streamlined operationally including reducing overheads within the businesses, the removal of its divisional structure, closure of four corporate and administrative offices and a 50.0 per cent. reduction in corporate headcount, which has delivered approximately £10.0 million per annum in savings. Several of the businesses have been integrated, including the combination and restructuring of Chemring Energetic Devices' operations in Torrance and Downers Grove and the combination of Non-Intrusive Inspection Technology ("NIITEK") and Chemring Detection Systems in the Sensors & Electronics division. Similarly, the separation of the Roke contract R&D business from Chemring Technology Solutions' product business resulted in additional overhead savings in the 2015 financial year. There is further scope to integrate businesses and consolidate sites which is expected to reduce costs and release capital over the medium term. These include the closure of Chemring Energetic Devices' Torrance site (expected to deliver approximately \$5.0 million in annual overhead costs savings) in the 2018 financial year and the anticipated Alloy Surfaces' Plant 2 closure in the 2017 financial year which is enabled by an investment of approximately \$3.0 million at Alloy Surfaces' remaining production facility and is expected to deliver approximately \$1.4 million in annual cost savings from the 2018 financial year. There is also further corporate restructuring to be carried out in North America which is expected to reduce costs and promote greater collaboration among the Group's businesses.

The removal of the divisional structure and the integration of businesses has improved responsiveness, accountability and collaboration across the Group. The sharing of knowledge and best practice has enhanced production and safety performance, and shared and closer customer interaction and insight has improved the Group's anticipation of and reaction to changes in customer needs.

The Group's portfolio and segmental strategies have been aligned to meet future demand, and this focus is expected to deliver significant results against a challenging defence market.

Much of Chemring's growth between 2005 and 2011 was driven through the success of key US programmes including the Husky Mounted Detection System ("HMDS"), ground penetrating radar ("GPR"). As a result of the success of these products, they are currently transitioning through research and development phases, prior to becoming long-term Programs of Record, which are programs that are approved and funded across the DoD's Future Year Defense Program through its Program of Memorandum. In the future, as a core capability, these Programs of Record will be funded by the DoD's base budget.

Chemring has achieved key strategic wins on these long-term US programmes including being awarded the sole source Engineering and Manufacturing Development contract to design the next generation HMDS A2; being confirmed as the sole source provider for the Joint Biological Tactical Detection System ("JBTDs"); being down-selected on all three variants of the Next Generation Chemical Detection ("NGCD") development programme; and being the sole qualified supplier for the global F-35 fleet with Chemring Australia progressing well in its efforts to become qualified as a second source.

While significant progress has been made, the transition through research and development phases and the resulting pause in manufacturing for some of the Group's key sensors and electronics products has resulted in a temporary decline in earnings derived from these products. To counteract both this, and the pause in demand from its traditional US and UK customer base, Chemring has sought to target opportunities in other markets, particularly for the sale of its Sensors & Electronics products, with a focus on growing sales to customers based in the Middle East and Asia-Pacific.

During the financial year ended 31 October 2015, negotiations surrounding the supply of US Sensors & Electronics products into NATO countries and the Middle East were substantively progressed. However the receipt of orders was and continues to be slower than anticipated and as a result Sensors & Electronics reported an underlying profit of £9.3 million for the year ended 31 October 2015 (2014: £31.9 million; 2013: £44.7 million) on revenue of £99.1 million (2014: £154.4 million; 2013: £211.3 million).

In its interim results release in June 2015, Chemring announced that since the period ending 30 April 2015, orders exceeding £50.0 million had been received, primarily for supply to customers in the Middle East. Included within this order intake was a significant award for the provision of non-standard ammunition under a US government contract, which was expected to be wholly fulfilled in the 2015 financial year. In a trading update issued on 14 September 2015, the Group announced that this order was to be terminated for convenience by the US government. The loss of this contract was,

however, anticipated to be offset in part by profits from a recently received order, valued in excess of £100.0 million, relating to the supply of 40mm ammunition to a Middle East customer. At that time, the order for 40mm ammunition was expected to contribute both to the 2015 financial year results and to future financial years.

On 26 October 2015, Chemring announced that, notwithstanding whether the 40mm contract delivered the revenue and profit in the year ended 31 October 2015 previously expected, the Board had concluded that in any event it was in the best interests of the Group to significantly reduce its structural indebtedness and that the appropriate leverage target for the Group over the medium-term would be a net debt to EBITDA ratio of between 1.0x and 1.5x as the Group's annual average. As a result, the Board intended to undertake a rights issue to raise up to £90 million, conditional on securing covenant waivers from the Group's debt providers as a result of the reduction in the Group's profit and cash positions. The proposed rights issue was fully underwritten on a standby basis by Investec and J.P. Morgan Cazenove, the Group's joint brokers. The standby agreement contained customary representations and warranties, undertakings, conditions, and termination rights.

On 25 November 2015, Chemring announced that its trading performance for the year ended 31 October 2015 remained in line with guidance given in the trading update issued on 26 October 2015. Revenue in the final quarter of the 2015 financial year was £124.8 million, resulting in revenue for the year ended 31 October 2015 of £377.3 million (2014: £403.1 million). The Group also confirmed that no revenue or cash advance payment in respect of the 40mm ammunition contract to the Middle East, as disclosed in the 26 October 2015 trading update, was recognised for the year ended 31 October 2015, and that the export approvals associated with the contract have now been granted, and revenues on this contract are expected to commence once the cash advance is received. At 31 October 2015, the Group's order book was £569.6 million (2014: £486.8 million). Additionally, the Group announced that its net debt at 31 October 2015 was £154.3 million (2014: £135.6 million), just below the lower end of the £155-165 million range set out in the 26 October 2015 trading update.

Additionally, the Group announced that it had reached agreement with Esterline Corporation ("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 UK Competition and Markets Authority ("CMA"), is expected to occur in the second quarter of the 2016 financial year.

Chemring also announced that positive discussions, in relation to the waiver of any event of default that may have arisen from the matters described in the 26 October 2015 trading update and amendments to the operation of covenants, were continuing with the banks providing the Group's revolving credit facility and its loan note holders. The 25 November 2015 trading update also confirmed the Group's continued preparations for the proposed rights issue of up to £90 million described in the 26 October 2015 trading update, and that the proposed rights issue was anticipated to be launched in the first quarter of the 2016 financial year alongside the Group's 2015 financial year results.

Following the receipt of the export approvals, in the period since 31 October 2015, the Group provided a loan of \$5.0 million to its distributor in anticipation, and to avoid delay for reasons under the Group's control, of receipt of the cash advance payment.

2.2 *Reasons for the Rights Issue*

Whilst the Board's priority to date has been to effect the operational improvements referred to above, the recent progress of the Group has been impeded by its high level of debt and associated interest costs. Significant financial costs, including costs associated with the Group's previous debt covenant renegotiations, have been incurred and management time has been spent managing this debt, at the expense of further operational improvement and adequate investment in fully capturing the longer term growth opportunities open to the Group. Furthermore, the uneven timing of the Group's contracts coupled with challenging markets and the constraints of the financial covenant tests in the Group's existing finance agreements made it difficult for the Group to operate.

The Board considered a number of options before deciding to pursue the Rights Issue, including negotiating amendments to the Existing Finance Agreements without undertaking an equity capital raising, disposals of non-core assets and a smaller, non-preemptive placing of shares and/or waivers. However, predominantly due to timing concerns, which drove the stand-by nature of the Rights Issue, as well as the limited number of assets viewed as non-core and amount of funds that would be raised by the other options, the Board determined that the Rights Issue was in the best interest of the Group going forward.

The Board has sought and received confirmation from the banks providing its debt facilities and from holders of its US Notes (“US Noteholders”) that they have amended the operation of relevant covenants, such that the Group expects to remain in compliance with the terms of its Existing Finance Agreements. This expectation is dependent on the Group strengthening its capital structure through the proposed Rights Issue. While the Group is, as at the most recent test date (31 October 2015), in compliance with the unmodified financial covenants in its Existing Finance Agreements, and has agreed an unconditional waiver and 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 scenario with no Rights Issue proceeds and therefore a risk 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. Any breach of these covenants would entitle the Group’s lenders and US Noteholders to demand accelerated payment in full of the relevant amounts (principal and other items) outstanding (£238.5 million as at 31 December 2015) following the issuance of a compliance certificate from the Group notifying the breach (which would be required, should a breach occur, to be delivered no later than 14 June 2016 in respect of the UK Club Facility Documents and 21 May 2016 in respect of the US Note Purchase Agreements, being the deadlines for the Group’s certification of covenant compliance for the 30 April 2016 test date).

The Board accordingly believes it is in the best interests of the Group to significantly reduce its structural indebtedness and that the appropriate leverage target for the Group over the medium-term is a net debt to EBITDA ratio of between 1.0x and 1.5x as the Group’s annual average. The proposed rights issue is a critical step towards achieving this medium-term target.

In addition to substantially reducing the risk of financial covenant breach, a more appropriate capital structure will allow management to spend less time managing the Group’s financial covenants and more time on the business. It will also enable the Group to pursue certain growth initiatives and further cost reduction over the medium-term including, among other things: investment in the modernisation of facilities to enable further site consolidation, including the expected Torrance facility and the Alloy plant 2 closures in the 2018 and 2017 financial years, respectively; new product investments and R&D; supply chain and inventory management; and small scale accretive acquisitions that would strengthen existing market positions or capabilities. Furthermore, if the Group’s debt rating improves due to the reduction in its indebtedness, the Group may be able to obtain better pricing for future refinancings, expected in the financial years ending 31 October 2017, 2018 and 2019, respectively, than would be the case if the Rights Issue did not occur.

3. Use of proceeds

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 redeem or repurchase a minimum of £48.5 million in aggregate principal amount of the US Notes, with the balance of the net proceeds to be used for make-whole premiums pursuant to the terms of the US Note Purchase Agreements (£4.8 million), waiver and variation fees (£1.6 million), and general corporate purposes with the Board having regard to the scheduled repayment of any amount outstanding of its \$80 million 5.26 per cent. notes due 19 November 2016.

4. Financial impact of the Rights Issue

Had the Rights Issue taken place (and had part of the proceeds been used to reduce the Group’s borrowings) as at the last balance sheet date, being 31 October 2015, the effect on the balance sheet would have been an increase in cash and cash equivalents of £27.9 million and an increase in share capital and share premium totalling £75.2 million. The Group’s pro forma net debt to Consolidated

EBITDA ratio as at 31 October 2015 would have reduced from 2.83x as reported, to 1.63x taking into account the receipt of the net proceeds of the Rights Issue and the repayment of debt under the US Notes.

Your attention is also drawn to Part VII “Unaudited Pro Forma Financial Information” of this document which contains an unaudited pro forma statement of net assets that illustrates the effect of the Rights Issue and the repayment of debt under the US Notes on the Group’s net assets as at 31 October 2015 as if the Rights Issue had been undertaken at that date.

5. Terms of the Rights Issue and of the New Shares

The Company is proposing to raise approximately £75.2 million (net of expenses) pursuant to the Rights Issue. The Rights Issue is being fully underwritten by the Underwriters, subject to certain customary conditions. The principal terms of the underwriting agreement are summarised in paragraph 16.1 of Part IX “Additional Information” of this document. The Issue Price of 94 pence per New Share represents a discount of approximately 47.2 per cent. to the closing middle market price of 178 pence per Existing Share on 20 January 2016, the latest Business Day prior to the announcement of the Rights Issue and an approximate 38.2 per cent. discount to the theoretical ex-rights price of 152.2 pence per New Share by reference to the closing middle market price on the same basis.

Subject to the fulfilment of, among other things, the conditions set out below, Chemring will offer 85,915,828 New Shares to Qualifying Shareholders at an Issue Price of 94 pence per Share, payable in full on acceptance. The Rights Issue will be offered on the basis of:

4 New Shares at 94 pence per New Share for every 9 Existing Shares

held on the Record Date, and so in proportion to any other number of Existing Shares then held and otherwise on the terms and conditions set out in this document. Qualifying Non-CREST Shareholders with registered addresses in the United States or any of the Excluded Territories will not be sent Provisional Allotment Letters and Qualifying CREST Shareholders in such territories will not have their CREST stock accounts credited with Nil Paid Rights, except where Chemring and the Underwriters are satisfied that such action would not result in the contravention of any registration or other legal or regulatory requirement in such jurisdiction and, in the case of Canada, pursuant to and in compliance with such procedures as the Company may approve.

Fractions of New Shares will not be allotted to any Qualifying Shareholders, and, where necessary, fractional entitlements to New Shares will be rounded down to the nearest whole number.

The New Shares will, when issued and fully paid, rank *pari passu* in all respects with the Existing Shares.

The Rights Issue is conditional, among other things, upon:

- (i) the passing of the Resolutions at the General Meeting without material amendment;
- (ii) Admission of the New Shares becoming effective by not later than 8.00 a.m. on 9 February 2016 (or such later time and/or date as the parties to the Underwriting Agreement may agree);
- (iii) none of the warranties of Chemring under the Underwriting Agreement (in the good faith opinion of either of the Joint Global Coordinators) being untrue, inaccurate or misleading at the date of the Prospectus and at the time of Admission;
- (iv) save to the extent not material in the context of the Rights Issue, the underwriting of the New Shares or the applications for Admission, Chemring having complied with its obligations under the Underwriting Agreement;
- (v) no material adverse change having occurred in respect of Chemring (together with its subsidiaries and subsidiary undertakings) prior to Admission; and
- (vi) no matter requiring a supplement to this document having arisen between the time of publication of this document and Admission and no such supplement being published by Chemring before Admission which, in each case, in the good faith opinion of either of the Joint Global Coordinators (having consulted with Chemring where reasonably practicable), is materially

adverse in the context of Chemring (together with its subsidiaries and subsidiary undertakings) or the Rights Issue.

The Rights Issue is fully underwritten by the Underwriters pursuant to the Underwriting Agreement. The principal terms of the Underwriting Agreement are summarised in Part IX “Additional Information” of this document.

The Rights Issue will result in 85,915,828 New Shares being issued (representing approximately 44.4 per cent. of the existing issued share capital and 30.8 per cent. of the enlarged issued share capital immediately following completion of the Rights Issue).

The New Shares, when issued and fully paid, will rank *pari passu* in all respects with the existing issued Shares, including the right to receive dividends or distributions made, paid or declared after the date of issue of the New Shares. Application will be made to the FCA and to the London Stock Exchange for the New Shares to be admitted to the Official List and to trading on the London Stock Exchange. It is expected that Admission will occur and that dealings in the New Shares (nil paid) on the London Stock Exchange will commence at 8.00 a.m. on 9 February 2016.

Some questions and answers, together with details of further terms and conditions of the Rights Issue, including the procedure for acceptance and payment and the procedure in respect of rights not taken up, are set out in Parts II and III of this document and where relevant will also be set out in the Provisional Allotment Letter.

Overseas Shareholders should refer to paragraph 2.5 of Part III “Terms and Conditions of the Rights Issue” of this document for further information on their ability to participate in the Rights Issue.

6. Information relating to Chemring

The Group 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 offers a diverse portfolio of products that deliver high reliability solutions to protect people, platforms, missions and information against constantly-changing threats. Operating in niche markets and with strong investment in research and development, the Company has the agility to rapidly react to urgent customer needs. The Group employs approximately 3,000 people at fifteen facilities in the United States, the United Kingdom, Australia and Norway. The Group meets demanding customer requirements in defence and security markets in more than 50 countries worldwide.

In the year ended 31 October 2015, Chemring reported an underlying profit before tax of £19.8 million (2014: £28.1 million; 2013: £36.5 million) on revenue of £377.3 million (2014: £403.1 million; 2013: £472.3 million). Net assets as at 31 October 2015 were £290.6 million (as at 31 October 2014: £300.3 million; as at 31 October 2013: £383.8 million). Net debt as at 31 October 2015 was £154.3 million (as at 31 October 2014: £135.6 million; as at 31 October 2013: £248.7 million). As at 31 December 2015, as disclosed on page 120, the Group’s net debt was £195.6 million.

Countermeasures

The Group is the world leader in the design, development and manufacture of advanced expendable countermeasures and countermeasure suites for protecting air, sea and land platforms against guided missile threats. The Group has a broad product range including conventional flares; advanced flares; special material decoys; chaff; naval countermeasures; electronic intelligence equipment; and off-board electronic radio frequency countermeasures.

Sensors & Electronics

In Sensors & Electronics, Chemring serves niche requirements to detect explosive, chemical and biological threats, neutralise improvised explosive devices (“IEDs”) and prosecute land-based electronic warfare (detecting, intercepting and jamming electronic communications). The Group also provides research and development services to UK government agencies, including cyber-security consulting services, and is developing network security solutions for civilian use.

Energetic Systems

Chemring is a leading manufacturer of high-quality, high-reliability, energetic subsystems that meet the demanding requirements of mission critical systems in the aerospace, space and defence markets. Applications include emergency egress, missile components and satellite separation systems.

Chemring also produces a specialist range of military pyrotechnics and high explosive products, including mine-field clearance systems, demolition stores and 40mm ammunition.

7. Current trading and prospects in respect of Chemring

The Board's expectations for the current financial year remain unchanged.

Trading since the start of the current financial year has been below management's expectations; although order intake remains robust. Revenue has been impacted in part due to rephasing of deliveries. Some customer acceptance delays at the end of the previous financial year 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 the current financial year. The first quarter of the Group's financial year typically has a low level of revenues and that is again expected this financial year.

The order book as at 31 October 2015 increased 17.0 per cent. to £569.6 million, of which £330.9 million is currently expected to be recognised as revenue in the 2016 financial year, representing almost 75.0 per cent. of the expected revenue of approximately £450.0 million for the 2016 financial year. 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 the 2015 financial year. 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 the current financial year once the cash advance payment is received from the Group's customer, this contract is expected to provide significant contribution to the current financial year. As previously announced, the 40mm contract is expected to result in the Group's financial performance for the current financial year being weighted towards the Energetic Systems segment, with a lower contribution from Sensors & Electronics while its US operations focus on research and development activity under long-term Programs of Record.

The expected profile of orders, revenue and margins mean that the Group continues to expect the current financial year 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, the Group's continued customer focus means it is well positioned to benefit from any sustained increase in demand in its markets.

8. Board composition

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 the Group believes it is now time to reshape the membership of the Board. As a consequence, Peter Hickson has 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 Nominations Committee using the services of an outside executive search consultancy, is under way and the Group expects a number of candidates to be considered for the position.

On the non-executive side, the Group is also seeking new Directors. The Group has 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, the Group has 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 from the Board 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. The Board would like to thank Ian for his very significant contribution to the Chemring Board over his many years of service and wish him well in 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.

9. Intentions of the Directors

The Directors, who hold in aggregate 408,680 Existing Shares, representing 0.21 per cent. of Chemring's existing issued ordinary share capital as at 20 January 2016 (being the last practicable date prior to the publication of this document), each intend to take up their rights in full or in part in respect of the New Shares to which they are entitled or, where their Shares are held in trust or with nominees, such Chemring Directors intend to recommend that such rights be taken up in full or in part.

10. Dividends and dividend policy

In view of the proposed Rights Issue, the Board is not recommending a final dividend in respect of the year ended 31 October 2015. The total dividend in respect of the 2015 financial year will therefore be the interim dividend of 2.4p (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 the 2016 financial year, assuming it is prudent to do so, and to continue paying final dividends thereafter.

11. Waiver and amendments to the Existing Finance Agreements

11.1 Introduction

On 12 January 2016, Chemring reached an agreement with its Lenders and its US Noteholders to amend and/or waive application of the financial covenants Chemring is subject to under the respective agreements for the 12 month calculation periods existing at 31 October 2015 and 31 January 2016.

11.2 UK Club Facility Documents

The changes made to the financial covenants under the UK Club Facility Documents were, in summary:

- Changing its interest cover ratio from 4.00x to 3.50x; and
- Changing its net debt leverage covenant from 3.00x to 3.90x,

for the test dates as at 31 October 2015 and 31 January 2016 only.

These amendments are conditional on the Company raising gross proceeds of at least £75,000,000 through the Rights Issue, receiving at least such amount no later than 31 March 2016.

The Lenders have also agreed to unconditionally (whether or not the Rights Issue proceeds) change the net debt leverage ratio from 3.00x to 3.50x for the test date of 31 January 2016 only.

In addition, the Company's Lenders also waived any default that may have arisen under the Company's UK Club Facility Documents occasioned by a material adverse change being revealed by the matters set out in the trading announcement issued on 27 October 2015 or which might have triggered as a cross-default to the extent the US Note Purchase Agreements may otherwise be in default due to a breach of the financial covenants applicable under such agreements as at 31 October 2015.

The agreement reached with the Lenders also states that it will be an event of default if one of the following occurs:

- the Rights Issue does not proceed and Chemring is in breach of:
 - the interest cover ratio of 4.00x as at 31 October 2015;
 - the net debt leverage covenant of 3.00x as at 31 October 2015;
 - the interest cover ratio of 4.00x as at 31 January 2016; or
 - the net debt leverage ratio cover ratio of 3.50x as at 31 January 2016; or
- the Rights Issue does proceed and Chemring is in breach of:
 - the interest cover ratio of 3.50x as at 31 October 2015;
 - the net debt leverage covenant of 3.90x as at 31 October 2015;
 - the interest cover ratio of 3.50x as at 31 January 2016; or
 - the net debt leverage ratio cover ratio of 3.90x as at 31 January 2016.

11.3 US Note Purchase Agreements

The changes made to the financial covenants under the US Note Purchase Agreements were, in summary, changing its total debt leverage cover ratio from 3.75x to 4.00x for the test dates as at 31 October 2015 and 31 January 2016 only and waiving the adjusted debt covenant for 31 October 2015.

These amendments (save as noted below) are conditional on the Company raising gross proceeds of at least £75,000,000 through the Rights Issue, receiving at least such amount no later than 31 March 2016 and at least 60.0 per cent. of the gross proceeds of the Rights Issue being applied in prepayment of amounts outstanding under the US Note Purchase Agreements by no later than 29 April 2016.

The US Noteholders have also agreed to unconditionally (whether or not the Rights Issue proceeds) change the adjusted debt leverage ratio from 3.00x to 4.00x for the test date of 31 January 2016 only, subject to a payment by the Company of an additional waiver and variation fee of 60bps (approximately £1.0 million) of the outstanding amounts should the Rights Issue not proceed.

A process whereby the Company may run a tender process to offer the whole or part proceeds of the Rights Issue in prepayment to the US Noteholders has also been agreed.

12. Admission of the New Shares

The New Shares will be issued credited as fully paid on completion of the Rights Issue and will rank *pari passu* in all respects with the Existing Shares. Chemring will apply for admission of the New Shares to the premium listing segment of the Official List of the UK Listing Authority and to listing on the London Stock Exchange's main market for listed securities ("Admission"). It is expected that Admission of the Nil Paid Rights will take place on 9 February 2016.

The Existing Shares are already admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities and to CREST. It is expected that all of the New Shares, when issued and fully paid, will be capable of being held and transferred by means of CREST. The New Shares will trade under ISIN GB00B45C9X44 and the SEDOL number of the New Shares is B45C9X4. The ISIN for the Nil Paid Rights is GB00BYVXM652 and the ISIN for the Fully Paid Rights is GB00BYVXM769.

13. General meeting

You will find set out at the end of this document a notice convening a general meeting of Chemring to be held at the offices of Freshfields Bruckhaus Deringer LLP, 65 Fleet Street, London, EC4Y 1HS at 9.30 a.m. on 8 February 2016. This general meeting is being held for the purpose of considering and, if thought fit, passing the Resolutions. A summary and explanation of the Resolutions is set out below, but please note that this does not contain the full text of the Resolutions and you should read this section in conjunction with the Resolutions in the Notice of General Meeting at the end of this document.

14. Resolutions

The resolution to provide the Chemring Directors with the necessary authority and power to allot sufficient ordinary shares to undertake the Rights Issue, to apply until the conclusion of the Chemring annual general meeting to be held in 2016, is to be proposed at the General Meeting as an ordinary resolution. This resolution will pass if more than 50.0 per cent. of the votes cast (either in person or by proxy) are in favour.

The resolution to provide the Chemring Directors with the necessary power and authority to allot sufficient ordinary shares to undertake the Rights Issue as if Section 561 of the UK Companies Act 2006 (“Companies Act”) did not apply to such allotment, to apply until the conclusion of the Chemring annual general meeting to be held in 2016, is to be proposed at the General Meeting as a special resolution. This resolution will pass, subject to the first resolution being passed, if more than 75.0 per cent. of the votes cast (either in person or by proxy) are in favour.

15. Overseas Shareholders

The attention of Qualifying Shareholders who have registered addresses outside the United Kingdom, or who are citizens or residents of countries other than the United Kingdom, or who are holding Shares for the benefit of such persons (including, without limitation, custodians, nominees, trustees and agents) or who have a contractual or other legal obligation to forward this document, a Provisional Allotment Letter and any other document in relation to the Rights Issue to such persons, is drawn to the information which appears in section 2.5 of Part III “Terms and Conditions of the Rights Issue” of this document.

New Shares will be provisionally allotted (nil paid) to all Qualifying Shareholders, including Overseas Shareholders. However, subject to certain exceptions, Provisional Allotment Letters will not be sent to Qualifying non-CREST Shareholders with registered addresses, or who are resident or located, in the United States, nor will the CREST stock account of Qualifying CREST Shareholders with registered addresses, or who are resident or located, in the United States be credited with Nil Paid Rights. Any person with a registered address, or who is resident or located, in the United States who obtains a copy of this document or a Provisional Allotment Letter is required to disregard them, except with the consent of the Company.

Notwithstanding any other provision of this document or the Provisional Allotment Letter, the Company reserves the right to permit any Qualifying Shareholder to take up his rights if the Company in its sole and absolute discretion is satisfied that the transaction in question will not violate applicable laws.

In addition, persons who have registered addresses in or who are resident in, or who are citizens of, countries other than the United Kingdom should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their entitlements to the Rights Issue.

16. Taxation

Your attention is drawn to Part VIII “Taxation” of this document. If you are in any doubt as to your tax position, you should consult your own professional adviser without delay.

17. Actions to be taken

Shareholders will find enclosed with this document a Form of Proxy for use at the General Meeting. You are requested to complete and sign the Form of Proxy whether or not you propose to attend the General Meeting in person in accordance with the instructions printed on it so as to be received by the Registrar, Computershare, at the return address on the enclosed Form of Proxy, as soon as possible, and in any event no later than 9.30 a.m. on 6 February 2016.

If you hold Existing Shares in CREST, you may appoint a proxy by completing and transmitting a CREST Proxy Instruction in accordance with the procedures set out in the notice convening the General Meeting at the end of this document on page 178. The completion and return of a Form of

Proxy (or the electronic appointment of a proxy) will not preclude you from attending and voting in person at the General Meeting or any adjournment thereof, if you wish to do so and are so entitled.

If you are a Qualifying Non-CREST Shareholder other than a Shareholder with a registered address, or who is resident or located (as applicable), in one of the Excluded Territories or, subject to certain exceptions, the United States, you will be sent a Provisional Allotment Letter giving you details of your Nil Paid Rights by post on or about 8 February 2016. If you are a Qualifying CREST Shareholder, you will not be sent a Provisional Allotment Letter. Instead, you will receive a credit to your appropriate stock accounts in CREST in respect of Nil Paid Rights, which it is expected will take place as soon as practicable after 8.00 a.m. on 9 February 2016. Such crediting does not in itself constitute an offer of New Shares.

If you sell or have sold or otherwise transferred all of your Shares held (other than ex-rights) in certificated form before 9 February 2016, please forward this document and any Provisional Allotment Letter, if and when received, at once to the purchaser or transferee or the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee, except that such documents should not be sent to any jurisdiction where to do so might constitute a violation of local securities laws or regulations, including, but not limited to, the United States and the Excluded Territories.

If you sell or have sold or otherwise transferred all or some of your Shares (other than ex-rights) held in uncertificated form before the Ex-Rights Date, a claim transaction will automatically be generated by Euroclear which, on settlement, will transfer the appropriate number of Nil Paid Rights to the purchaser or transferee.

If you sell or have sold or otherwise transferred only part of your holding of Existing Shares (other than ex-rights) held in certificated form before the Ex-Rights Date, you should refer to the instruction regarding split applications in Part III of this document and in the Provisional Allotment Letter.

The latest time and date for acceptance and payment in full in respect of the Rights Issue is expected to be 11.00 a.m. on 23 February 2016, unless otherwise announced by the Company. The procedure for acceptance and payment is set out in Part III “Terms and Conditions of the Rights Issue” of this document and, if applicable, in the Provisional Allotment Letter.

For Qualifying Non-CREST Shareholders who take up their rights other than Shareholders with a registered address, or located or resident in, one of the Excluded Territories or, subject to certain exceptions, the United States, the New Shares will be issued in certificated form and will be represented by definitive share certificates, which are expected to be despatched by no later than 8 March 2016 to the registered address of the person(s) entitled to them.

For Qualifying CREST Shareholders who take up their rights, the Registrar will instruct CREST to credit the stock accounts of the Qualifying CREST Shareholders with their entitlements to New Shares. It is expected that this will take place by 8.00 a.m. on 24 February 2016.

Qualifying CREST Shareholders who are CREST sponsored members should refer to their CREST sponsor regarding the action to be taken in connection with this document and the Rights Issue.

If you are in any doubt as to the action you should take, you should immediately seek your own financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the FSMA or, if you are outside the United Kingdom, by another appropriately authorised independent financial adviser.

18. Further information

Your attention is drawn to the further information set out in Part II to Part XI (inclusive) of this document. Shareholders should read the whole of this document and not rely solely on the information set out in this letter. In addition, you should consider the risk factors on pages 17 to 32 of this document.

19. Importance of your vote

Your attention is again drawn to the fact that the Rights Issue and, consequently, certain of the amendments and waivers to the Existing Finance Agreements are conditional and dependent upon, amongst other things, the Resolutions being passed at the General Meeting.

Shareholders are asked to vote in favour of the Resolutions at the General Meeting in order for the Rights Issue to proceed. The Directors believe that the Rights Issue will significantly strengthen the Group's balance sheet and that this will enable the Group to reduce its net debt, which is important to the future success of the Group.

However, if either of the Resolutions is not passed, the Rights Issue will not proceed and certain of the amendments to the Existing Finance Agreements do not become effective and the Group will be subject to the unmodified covenants under the Existing Finance Agreements. While the Group is, as at the most recent test date (31 October 2015), in compliance with the unmodified financial covenants in its Existing Finance Agreements, and has agreed an unconditional waiver and variation of certain maximum leverage ratios under its Existing Finance Agreements for the 31 January 2016 test date (subject to a payment by the Company of an additional waiver and variation fee of 60bps (approximately £1.0 million) of the outstanding amounts by 1 April 2016 should the Rights Issue not proceed), there is minimal headroom under a reasonable worst case scenario with no Rights Issue proceeds and therefore a risk 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. Any breach of these covenants would entitle the Group's lenders and US Noteholders to demand accelerated payment in full of the relevant amounts (principal and other items) outstanding (£238.5 million as at 31 December 2015) following the issuance of a compliance certificate from the Group notifying the breach (which would be required, should a breach occur, to be delivered no later than 14 June 2016 in respect of the UK Club Facility Documents and 21 May 2016 in respect of the US Note Purchase Agreements, being the deadlines for the Group's certification of covenant compliance for the 30 April 2016 test date). Following any such demand, the Group does not expect to have the funds available to repay such amounts at that time. In such circumstances, in the absence of being able to successfully agree or implement any of the alternatives discussed below, the Group would be unable to continue as a going concern.

As a result, if the Rights Issue does not proceed, the Group would first seek to renegotiate the terms of the Existing Finance Agreements with the Lenders and Noteholders to secure further waivers of the financial covenants in order to avoid any such breach. However, the Group may be unable to obtain such waivers and amendments from the Lenders and/or US Noteholders either at all or without significant cost to the Group in the form of additional fees payable to the Lenders, increased coupon payments or additional restrictions on corporate actions (e.g., acquisitions and disposals), which could adversely affect or delay implementation of the Group's strategies. Without the proceeds of the Rights Issue, any amendments to the Existing Finance Agreements would only serve as a short-term solution that would not fundamentally address the Group's balance sheet and capitalisation concerns in the longer term.

If the Lenders and/or US Noteholders do not agree to commercially acceptable amendments of the Group's financial covenants under the Existing Finance Agreements, the Group may seek alternative long-term committed debt facilities to replace the Facility Agreement and/or refinance amounts outstanding under the US Notes and enable the repayment of its indebtedness, including any make-whole premiums. The terms of any such new facilities, if available at all, would likely be more expensive and onerous than those which currently apply under the Existing Finance Agreements, and which would apply under the amendments if the Rights Issue proceeds to completion. If alternative committed debt facilities could not be secured on commercially acceptable terms, or at all, then the Group could try to secure other forms of funding, such as through a new equity restructuring, which may result in a dilution of Existing Shareholders' equity interests in the Company. The Group could take action to effect disposals of assets, such as the disposal of one or more of the Group's businesses to facilitate a reduction of the Group's outstanding indebtedness. However, the Existing Finance Agreements restricts the Group's ability to make any such disposals and the Group would need to receive the approval of the Lenders and/or the US Noteholders to further amend the Existing Finance Agreements, which could be withheld.

As any of these alternatives to the Rights Issue would require the participation, agreement or approval of external parties, the Directors are not confident that any such alternative courses of action could be achieved in the limited time available, or that they ultimately would be successful.

As a result, if the Rights Issue does not proceed to completion and the Group is unable to secure amendments to its financial covenants under the Existing Finance Agreements, and is unable to avoid a breach of such financial covenants or refinance the Group's indebtedness through the successful implementation of one or more of the alternatives discussed above, then the Lenders and US Noteholders may demand the accelerated repayment in full of any amounts outstanding under the Existing Finance Agreements, in which case Shareholders could lose all or part of the value of their investment in the Company. Accordingly, the Directors believe that the successful completion of the Rights Issue represents the best option available to the Group.

20. Recommendation and voting intentions

The Board believes the Rights Issue and the Resolutions to be in the best interest of Chemring and the Shareholders as a whole. Accordingly, the Directors unanimously recommend that the Shareholders vote in favour of the Resolutions to be proposed at the General Meeting to approve the Rights Issue, as the Directors each intend to do in respect of their own legal and beneficial holdings, amounting to 408,680 Existing Shares (representing approximately 0.21 per cent. of Chemring's existing issued ordinary share capital as at 20 January 2016 (being the last practicable date prior to the publication of this document)).

Yours faithfully,
for and on behalf of Chemring Group PLC

Peter Hickson
Chairman

PART II – SOME QUESTIONS AND ANSWERS ABOUT THE RIGHTS ISSUE

The questions and answers set out in this Part II are intended to be in general terms only and, as such, you should read Part III “Terms and Conditions of the Rights Issue” of this document for full details of what action you should take. If you are in any doubt as to what action you should take, you are recommended to seek immediately your own financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser, duly authorised under the FSMA if you are resident in the UK or, if not, from another appropriately authorised independent financial adviser.

This Part II deals with general questions relating to the Rights Issue and more specific questions relating to Shares held by persons resident in the UK who hold their Shares in certificated form only. If you are an Overseas Shareholder, you should read paragraph 2.5 of Part III “Terms and Conditions of the Rights Issue” of this document and you should take professional advice as to whether you are eligible and/or you need to observe any formalities to enable you to take up your rights. If you hold your Shares in uncertificated form (that is, through CREST) you should read Part III “Terms and Conditions of the Rights Issue” of this document for full details of what action you should take. If you are a CREST sponsored member, you should also consult your CREST sponsor. If you do not know whether your Shares are in certificated or uncertificated form, please call the Shareholder Helpline on 0370 889 3289 (from within the UK) or on +44 (0)370 889 3289 (if calling from outside the UK). Lines are open from 8.30 a.m. to 5.30 p.m. (London time) Monday to Friday (except UK public holidays). Calls may be recorded and randomly monitored for security and training purposes. Please note that the Shareholder Helpline operators cannot provide advice on the merits of the Rights Issue nor give financial, tax, investment or legal advice.

1. What is a rights issue?

A rights issue is a way for companies to raise money. Companies do this by giving their existing shareholders a right to buy further shares in proportion to their existing shareholdings.

The offer under this Rights Issue is at a price of 94 pence per New Share. If you hold Shares on the Record Date, other than those Shareholders with a registered address in, or located or resident in, the Excluded Territories or, subject to certain exceptions, in the United States, you will be entitled to buy New Shares under the Rights Issue. If you hold your Existing Shares in certificated form, your entitlement will be set out in your Provisional Allotment Letter.

New Shares are being offered to Qualifying Shareholders in the Rights Issue at a discount to the share price on the last dealing day before the details of the Rights Issue were announced on 21 January 2016. The Issue Price of 94 pence per New Share represents a 58.2 pence discount to the theoretical ex-rights price based on the closing middle-market price quotation as derived from the London Stock Exchange’s Daily Official List of 178 pence per Share on 20 January 2016, the last business day prior to the date of announcement of the terms of the Rights Issue. As a result of this discount and while the market value of the Existing Shares exceeds the Issue Price, the right to buy the New Shares is potentially valuable.

The Rights Issue is on the basis of 4 New Shares for every 9 Existing Shares held by Qualifying Shareholders on the Record Date.

If you are a Qualifying Shareholder other than a Shareholder with a registered address, or who is located or resident, in one of the Excluded Territories or, subject to certain exceptions, the United States and you do not want to buy the New Shares to which you are entitled, you can instead sell or transfer your rights (called Nil Paid Rights) to those New Shares and receive the net proceeds, if any, of the sale or transfer in cash. This is referred to as “dealing nil paid”.

2. What happens next?

The Company has called a General Meeting to be held at the offices of Freshfields Bruckhaus Deringer LLP, 65 Fleet Street, London, EC4Y 1HS at 9.30 a.m. on 8 February 2016. Please see the notice of the General Meeting at the end of this document. As you will see from the contents of the notice of the General Meeting, the Directors are seeking shareholder approval for the allotment of the New Shares.

You will find enclosed with this document a Form of Proxy for use in relation to the General Meeting. If the Resolutions are approved at the General Meeting, the Rights Issue will proceed (subject to certain conditions). The Provisional Allotment Letters are due to be despatched on 8 February 2016 to Qualifying non-CREST Shareholders and the Nil Paid Rights are due to be credited to the CREST stock accounts of Qualifying CREST Shareholders as soon as practicable after 8.00 a.m. on 9 February 2016.

3. Can I sell some rights and use the proceeds to take up my other rights?

This is known as a cashless take-up or tail-swallowing. You should contact your stockbroker who may be able to help if you wish to do this. Please note that your ability to sell your rights is dependent on demand for such rights and that the price for Nil Paid Rights may fluctuate. Please ensure that you allow enough time so as to enable the person acquiring your rights to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 23 February 2016.

4. I hold my Existing Shares in certificated form. How do I know if I am able to acquire New Shares under the Rights Issue?

If you receive a Provisional Allotment Letter and are not a holder with a registered address in the Excluded Territories, or subject to certain exceptions, in the United States, then you should be eligible to acquire New Shares under the Rights Issue (as long as you have not sold all of your Existing Shares before 8.00 a.m. on 9 February 2016 (the time when the Existing Shares are expected to be marked “ex-rights” by the London Stock Exchange) in which case you will need to follow the instructions on the front page of this document).

5. I hold my Existing Shares in certificated form. How will I be informed of how many New Shares I am entitled to buy?

Subject to Shareholders approving the Resolutions at the General Meeting to be held on 8 February 2016, if you hold your Existing Shares in certificated form and do not have a registered address in the United States or one of the Excluded Territories, you will be sent a Provisional Allotment Letter that shows:

- how many Existing Shares you held at the close of business on 5 February 2016 (the Record Date for the Rights Issue);
- how many New Shares you are entitled to buy; and
- how much you need to pay if you want to take up your right to buy all the New Shares provisionally allotted to you in full.

If you have a registered address in one of the Excluded Territories or, subject to certain exceptions, in the United States, you will not receive a Provisional Allotment Letter.

6. I am a Qualifying Shareholder with a registered address in the UK and I hold my Existing Shares in certificated form. What are my choices and what should I do with the Provisional Allotment Letter?

(a) If you want to take up all of your rights

If you want to take up all of your rights to acquire the New Shares to which you are entitled, all you need to do is send the Provisional Allotment Letter, together with your cheque or banker’s draft for the full amount, payable to “Computershare re Chemring Group PLC” and crossed “A/C payee only”, by post to Computershare, Corporate Actions Projects, Bristol, BS99 6AH, or by hand (during normal business hours) to Computershare, The Pavilions, Bridgwater Road, Bristol, BS13 8AE, to arrive by no later than 11.00 a.m. on 23 February 2016. Within the UK only, you can use the reply-paid envelope which will be enclosed with the Provisional Allotment Letter. Full instructions are set out in Part III “Terms and Conditions of the Rights Issue” of this document and will be set out in the Provisional Allotment Letter.

Please note third party cheques will not be accepted other than building society cheques or banker's drafts.

If payment is made by building society cheque (not being drawn on an account of the applicant) or a banker's draft, the building society or bank must endorse on the cheque or draft the applicant's name and the number of an account held in the applicant's name at the building society or bank, such endorsement being validated by a stamp and an authorised signature.

A definitive share certificate will then be sent to you for the New Shares that you take up. Your definitive share certificate for New Shares is expected to be despatched to you by no later than 8 March 2016. You will need your Provisional Allotment Letter to be returned to you if you want to deal in your Fully Paid Rights. Your Provisional Allotment Letter will not be returned to you unless you tick the appropriate box on the Provisional Allotment Letter.

(b) If you do not want to take up your rights at all

If you do not want to take up your rights, you do not need to do anything. If you do not return your Provisional Allotment Letter subscribing for the New Shares to which you are entitled by 11.00 a.m. on 23 February 2016, the Group has made arrangements under which the Underwriters will try to find investors to take up your rights and the rights of others who have not taken up their rights. If the Underwriters do find investors who agree to pay a premium above the Issue Price and the related expenses of procuring those investors (including any applicable brokerage and commissions and amounts in respect of value added tax), you will be sent a cheque for your share of the amount of that premium provided that this is £5.00 or more. Cheques are expected to be despatched by no later than 8 March 2016 and will be sent to your existing address appearing on the Company's register of members (or to the first-named holder if you hold your Existing Shares jointly). If the Underwriters cannot find investors who agree to pay a premium over the Issue Price and related expenses so that your entitlement would be £5.00 or more, you will not receive any payment, and any amounts of less than £5.00 will be aggregated and will be for the account of the Company. Alternatively, if you do not want to take up your rights, you can sell or transfer your Nil Paid Rights (see paragraph 4(d) below).

(c) If you want to take up some but not all of your rights

If you want to take up some but not all of your rights and wish to sell some or all of those you do not want to take up, you should first apply to have your Provisional Allotment Letter split by completing Form X on the Provisional Allotment Letter, and returning it by post to Computershare, Corporate Actions Projects, Bristol, BS99 6AH, or by hand (during normal business hours) to Computershare, The Pavilions, Bridgwater Road, Bristol, BS13 8AE, to be received by 3.00 p.m. on 19 February 2016, together with a covering letter stating the number of split Provisional Allotment Letters required and the number of Nil Paid Rights to be comprised in each split Provisional Allotment Letter. You should then deliver the split Provisional Allotment Letter representing the New Shares that you wish to accept together with your cheque or banker's draft to Computershare at either of the addresses detailed above to be received by 11.00 a.m. on 23 February 2016.

Shareholders who wish to effect a cashless take-up of their Nil Paid Rights (which may be achieved through the sale of such portion of their Nil Paid Rights as will raise sufficient funds to allow the relevant Shareholder to take up their remaining Nil Paid Rights) should contact their broker, who may be able to assist with such arrangements. Please note that your ability to sell your rights is dependent on demand for such rights and that the price for Nil Paid Rights may fluctuate. Please ensure that you allow enough time so as to enable the person acquiring your rights to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 23 February 2016.

Alternatively, if you only want to take up some of your rights (but not sell some or all of the rest), you should complete Form X on the Provisional Allotment Letter and return it with a cheque or banker's draft together with an accompanying letter indicating the number of Nil Paid Rights that you wish to take up, in accordance with the provisions set out in the Provisional Allotment Letter.

Further details are set out in Part III "Terms and Conditions of the Rights Issue" and will be set out in the Provisional Allotment Letter.

(d) If you want to sell all of your rights

If you want to sell all of your rights, you should complete and sign Form X on the Provisional Allotment Letter (if it is not already marked “Original Duly Renounced”) and pass the entire letter to your stockbroker, bank manager or other appropriate financial adviser or to the transferee (provided they are not in the United States or any of the Excluded Territories).

Please ensure that you allow enough time so as to enable the person acquiring your rights to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 23 February 2016.

7. I acquired my Existing Shares prior to the Record Date and hold my Existing Shares in certificated form. What if I do not receive a Provisional Allotment Letter?

If Shareholders approve the Resolutions at the General Meeting to be held on 8 February 2016, and you do not receive a Provisional Allotment Letter but hold your Existing Shares in certificated form, this probably means that you are not able to acquire New Shares under the Rights Issue. Some Non-CREST Shareholders, however, will not receive a Provisional Allotment Letter but may still be eligible to acquire New Shares under the Rights Issue, namely:

- Qualifying CREST Shareholders who held their Existing Shares in uncertificated form on 5 February 2016 and who have converted them to certificated form;
- Shareholders who bought Existing Shares before 5 February 2016 and who hold such Shares in certificated form but were not registered as the holders of those Shares at the close of business on 5 February 2016; and
- certain Overseas Shareholders.

If you do not receive a Provisional Allotment Letter but think that you should have received one, please call the Shareholder Helpline on 0370 889 3289 (from within the UK) or on +44 (0)370 889 3289 (if calling from outside the UK). Lines are open from 8.30 a.m. to 5.30 p.m. (London time) Monday to Friday (except UK public holidays). Calls may be recorded and randomly monitored for security and training purposes. Please note that the Shareholder Helpline operators cannot provide advice on the merits of the Rights Issue nor give financial, tax, investment or legal advice.

8. If I buy Shares after the Record Date will I be eligible to participate in the Rights Issue?

If you bought Shares after the Record Date but prior to 8.00 a.m. on 9 February 2016 (the time when the Existing Shares are expected to start trading ex-rights on the London Stock Exchange), you may be eligible to participate in the Rights Issue.

If you are in any doubt, please consult your stockbroker, bank or other appropriate financial adviser, or whoever arranged your share purchase, to ensure you claim your entitlement.

If you buy Shares at or after 8.00 a.m. on 9 February 2016, you will not be eligible to participate in the Rights Issue in respect of those Shares.

9. I hold my Existing Shares in certificated form. If I take up my rights, when will I receive the certificate representing my New Shares?

If you take up your rights under the Rights Issue, share certificates for the New Shares are expected to be posted by no later than 8 March 2016.

10. What if the number of New Shares to which I am entitled is not a whole number? Am I entitled to fractions of New Shares?

Your entitlement to New Shares will be calculated at the Record Date (other than in the case of those who bought shares after the Record Date but prior to 8.00 a.m. on 9 February 2016 who may be eligible to participate in the Rights Issue). If the result is not a whole number, you will not be provisionally allotted a New Share in respect of the fraction of a New Share and your entitlement will be rounded down to the nearest whole number. The New Shares representing the aggregated fractions that would

otherwise be allotted to Shareholders will be issued in the market nil paid for the benefit of the Company.

11. Will I be taxed if I take up or sell my rights or if my rights are sold on my behalf?

If you are resident (and, if you are an individual, domiciled) in the UK for tax purposes, you should not have to pay UK tax when you take up your rights, although the Rights Issue will affect the amount of UK tax you may pay when you subsequently sell your Shares.

However, assuming that you hold your Shares as an investment, rather than for the purposes of a trade, you may (subject to any available exemption or relief) be subject to UK tax on chargeable gains on any proceeds that you receive from the sale of your rights. Similarly, assuming that you hold your Shares as an investment, if you allow, or are deemed to allow, your rights to lapse and receive a cash payment in respect of them you may (subject to any available exemption or relief) be subject to UK tax on chargeable gains on any proceeds.

However if the proceeds are ‘small’ as compared to the value of the Existing Shares in respect of which the rights arose (broadly, the proceeds do not exceed £3,000 or 5.0 per cent. of the value of the Existing Shares), a capital gains tax charge should not generally arise at that time. Rather, the proceeds will be deducted from the base cost of the holding of the Existing Shares for the purposes of computing a chargeable gain or allowable loss on a subsequent disposal. This treatment will not apply if the proceeds are greater than the base cost of the holding of Existing Shares.

Further information for Qualifying Shareholders who are resident (and, in the case of individuals, domiciled) in the UK for tax purposes is contained in Part VIII of this document. This information is intended as a general guide to the current tax position in the UK and Qualifying Shareholders should consult their own tax advisers regarding the tax treatment of the Rights Issue in light of their own circumstances. Qualifying Shareholders who are in any doubt as to their tax position, or who are subject to tax in any other jurisdiction, should consult an appropriate professional adviser as soon as possible. Please note that the Shareholder Helpline will not be able to assist you with taxation issues.

If you are a US citizen or otherwise resident in the US for US federal tax purposes, you should not have to pay US federal income tax on the take up of your rights, but the proceeds, if any, from a sale of your rights (or from a sale of rights on your behalf) generally will be subject to US federal income tax. Further information for persons subject to US federal income tax is also included in Part VIII “Taxation” of this document.

12. I understand that there is a period when there is trading in the Nil Paid Rights. What does this mean?

If you do not want to buy the New Shares being offered to you under the Rights Issue, you can instead sell or transfer your rights (called “Nil Paid Rights”) to those New Shares and receive the net proceeds of the sale or transfer in cash. This is referred to as “dealing nil paid”. This means that, during the Rights Issue offer period (being between 9 February 2016 and 11.00 a.m. on 23 February 2016) you can either purchase Shares (which will not carry any entitlement to participate in the Rights Issue) or you can trade in the Nil Paid Rights.

13. I hold my Existing Shares in certificated form. What if I want to sell the New Shares for which I have paid?

Provided the New Shares have been paid for and you have requested the return of the receipted Provisional Allotment Letter, you can transfer the Fully Paid Rights by completing Form X (the form of renunciation) on the receipted Provisional Allotment Letter in accordance with the instructions set out in the Provisional Allotment Letter until 11.00 a.m. on 23 February 2016. After that time, you will be able to sell your New Shares in the normal way. The share certificate relating to your New Shares is expected to be despatched to you by no later than 8 March 2016. Pending despatch of the share certificate, instruments of transfer will be certified by the Registrar against the register.

Further details are set out in Part III “Terms and Conditions of the Rights Issue” of this document.

14. What should I do if I live outside the UK?

Your ability to take up or sell rights to New Shares may be affected by the laws of the country in which you live and you should take professional advice as to whether you require any governmental or other consents or need to observe any other formalities to enable you to take up your rights. Shareholders with registered addresses in, or located or resident in, the Excluded Territories or the United States are, subject to certain exceptions, not able to acquire New Shares under the Rights Issue. Your attention is drawn to the information in paragraph 2.5 of Part III “Terms and Conditions of the Rights Issue” of this document.

The Company has made arrangements under which the Underwriters will try to find investors to take up your rights and those of other Shareholders who have not taken up their rights. If the Underwriters do find investors who agree to pay a premium above the Issue Price and the related expenses of procuring those investors (including any applicable brokerage and commissions and amounts in respect of value added tax), you will be sent a cheque for your share of the amount of that premium provided that this is £5.00 or more. Cheques are expected to be despatched by no later than 8 March 2016 and will be sent to your address appearing on the Company’s register of members (or to the first-named holder if you hold your Shares jointly). If the Underwriters cannot find investors who agree to pay a premium over the Issue Price and related expenses so that your entitlement would be £5.00 or more, you will not receive any payment.

15. Will the Rights Issue affect the future dividends the Company pays?

Following completion of the Rights Issue, future dividend payments will be adjusted for the Rights Issue to reflect the higher number of Shares in issue.

16. How do I transfer my rights into the CREST system?

If you are a Qualifying Non-CREST Shareholder, but are a CREST member and want your New Shares to be in uncertificated form, you should complete Form X and the CREST Deposit Form (both on the Provisional Allotment Letter), and ensure they are delivered to CCSS to be received by 3.00 p.m. on 18 February 2016 at the latest. CREST sponsored members should arrange for their CREST sponsors to do this.

If you have transferred your rights into the CREST system, you should refer to paragraph 2.2 of Part III “Terms and Conditions of the Rights Issue” for details on how to pay for the New Shares.

17. What should I do if I think my holding of Shares is incorrect?

If you have recently bought or sold Shares, your transaction may not be entered on the register of members in time to appear on the register at the Record Date. If you are concerned about the figure in the Provisional Allotment Letter or otherwise concerned that your holding of Shares is incorrect, please call the Shareholder Helpline on 0370 889 3289 (from within the UK) or on +44 (0)370 889 3289 (if calling from outside the UK). Lines are open from 8.30 a.m. to 5.30 p.m. (London time) Monday to Friday (except UK public holidays). Calls may be recorded and randomly monitored for security and training purposes. Please note that the Shareholder Helpline operators cannot provide advice on the merits of the Rights Issue nor give financial, tax, investment or legal advice.

PART III – TERMS AND CONDITIONS OF THE RIGHTS ISSUE

1. Introduction

The Company is proposing to raise proceeds of approximately £75.2 (net of expenses) by way of a rights issue of 85,915,828 New Shares. Subject to the fulfilment of the conditions of the Underwriting Agreement, the New Shares will be offered under the Rights Issue by way of rights at 94 pence per New Share. This offer will be on the basis of:

4 New Shares for every 9 Existing Shares

held on the Record Date (and so in proportion for any other number of Existing Shares then held) and otherwise on the terms and conditions as set out in this document and, in the case of Qualifying Non-CREST Shareholders other than Shareholders with a registered address, or located, in one of the Excluded Territories or, subject to certain exceptions, the United States, the Provisional Allotment Letters.

Times and dates referred to in this Part III “Terms and Conditions of the Rights Issue” have been included on the basis of the expected timetable for the Rights Issue set out on page 43.

The Issue Price of 94 pence per New Share represents a 38.2 per cent. discount to the theoretical ex-rights price based on the closing middle-market price of an Existing Share as derived from the London Stock Exchange Daily Official List of 178 pence per Existing Share on 20 January 2016, the last business day prior to the date of announcement of the terms of the Rights Issue.

Qualifying Shareholders who do not take up their entitlements to New Shares will have their proportionate shareholdings in the Company diluted by approximately 30.8 per cent. Those Qualifying Shareholders who take up the New Shares provisionally allotted to them in full will, subject to the rounding down and sale of any fractions, retain the same proportionate voting and distribution rights as held by them at the close of business on the Record Date.

The Nil Paid Rights (also described as New Shares, nil paid) are entitlements to acquire the New Shares subject to payment of the Issue Price. The Fully Paid Rights are entitlements to receive the New Shares, for which a subscription and payment has already been made.

Holdings of Existing Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating entitlements under the Rights Issue. Entitlements to New Shares will be rounded down to the next lowest whole number (or to zero in the case of shareholders holding fewer than 9 Existing Shares at the close of business on the Record Date) and fractions of New Shares will not be allotted to Qualifying Shareholders. Such fractions will be aggregated and, if possible, placed as soon as practicable after the commencement of dealings in the New Shares, nil paid. The net proceeds of such placings (after deduction of expenses) will be aggregated and will ultimately accrue for the benefit of the Company.

Overseas Shareholders or any person (including, without limitation, custodians, nominees and trustees) who has a contractual or other legal obligation to forward this document into a jurisdiction other than the UK should consider paragraph 2.5 below. The offer of New Shares under the Rights Issue will not be made into certain territories. Subject to the provisions of paragraph 2.5 below, Shareholders with a registered address in the United States or an Excluded Territory are not being sent this document and will not be sent Provisional Allotment Letters.

Applications will be made to the UK Listing Authority and to the London Stock Exchange for the New Shares (nil paid and fully paid) to be admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange’s main market for listed securities, respectively. It is expected that Admission will become effective on 9 February 2016 and that dealings in the New Shares, nil paid, will commence on the London Stock Exchange by 8.00 a.m. on that date. The New Shares and the Existing Shares are in registered form and can be held in certificated or uncertificated form via CREST.

The Existing Shares are already admitted to CREST. No further application for admission to CREST is required for the New Shares and all of the New Shares when issued and fully paid may be held and transferred by means of CREST.

Applications will be made for the Nil Paid Rights and the Fully Paid Rights to be admitted to CREST. Euroclear requires the Company to confirm to it that certain conditions (imposed by the CREST Manual) have been satisfied before Euroclear will admit any security to CREST. It is expected that these conditions will be satisfied, in respect of the Nil Paid Rights and the Fully Paid Rights, on Admission. As soon as practicable after satisfaction of the conditions, the Company will confirm this to Euroclear.

The ISIN for the New Shares will be the same as that of the Existing Shares, being GB00B45C9X44. The ISIN for the Nil Paid Rights will be GB00BYVXM652 and for the Fully Paid Rights will be GB00BYVXM769.

None of the New Shares are being offered to the public other than pursuant to the Rights Issue.

The Rights Issue has been fully underwritten by the Underwriters and is conditional, *inter alia*, upon:

- (i) the Underwriting Agreement having become unconditional in all respects (save for the condition relating to Admission) and not having been terminated in accordance with its terms;
- (ii) Admission becoming effective by not later than 8.00 a.m. on 9 February 2016 (or such later date as the parties to the Underwriting Agreement may agree); and
- (iii) the passing, without amendment, of the Resolutions.

The Underwriting Agreement is conditional upon certain matters being satisfied or not breached prior to the General Meeting and may be terminated by the Joint Sponsors prior to Admission upon the occurrence of certain specified events, in which case the Rights Issue will not proceed. The Underwriting Agreement is not capable of termination following Admission. The Joint Global Coordinators may arrange sub-underwriting for some, all or none of the New Shares. A summary of certain terms and conditions of the Underwriting Agreement is contained in paragraph 16.1 of Part IX “Additional Information” of this document.

The Underwriters and any of their respective affiliates may engage in trading activity in connection with their roles under the Underwriting Agreement and, in that capacity, may retain, purchase, sell, offer to sell or otherwise deal for their own account in securities of the Company and related or other securities and instruments (including Shares, Nil Paid Rights and Fully Paid Rights) for the purpose of hedging their underwriting exposure or otherwise. Accordingly, references in this document to Nil Paid Rights, Fully Paid Rights or New Shares being issued, offered, subscribed, acquired, placed or otherwise dealt in should be read as including any issue or offer to, or subscription, acquisition, placing or dealing by, the Underwriters and any of their affiliates acting as investors for their own account. Except as required by applicable law or regulation, none of the Underwriters propose to make any public disclosure in relation to such transactions. In addition certain of the Underwriters or their affiliates may enter into financing arrangements (including swaps or contracts for differences) with investors in connection with which such Underwriters (or their affiliates) may from time to time acquire, hold or dispose of Shares.

In addition, the Company reserves the right to decide not to proceed with the Rights Issue if the Underwriting Agreement is terminated at any time prior to Admission and commencement of dealings in the New Shares (nil paid).

Subject, *inter alia*, to the conditions referred to above being satisfied (other than the condition relating to Admission) and save as provided in paragraph 2.5 below, it is intended that:

- (i) Provisional Allotment Letters in respect of Nil Paid Rights will be despatched to Qualifying Non-CREST Shareholders, other than to Shareholders with a registered address, or resident or located, in one of the Excluded Territories or, subject to certain exceptions, the United States on 8 February 2016;
- (ii) the Receiving Agent will instruct Euroclear to credit the appropriate stock accounts of Qualifying CREST Shareholders with such Shareholders’ entitlements to Nil Paid Rights with effect from 8.00 a.m. on 9 February 2016;
- (iii) the Nil Paid Rights and the Fully Paid Rights will be enabled for settlement by Euroclear as soon as practicable after the Company has confirmed to Euroclear that all the conditions for admission

of such rights to CREST have been satisfied, which is expected to be by 8.00 a.m. on 9 February 2016;

- (iv) New Shares will be credited to the appropriate stock accounts of the relevant Qualifying CREST Shareholders and/or purchasers of Nil Paid Rights (or their renounees) who validly take up their rights, and the purchasers of Fully Paid Rights, as soon as practicable after 8.00 a.m. on 24 February 2016; and
- (v) share certificates for the New Shares will be despatched to relevant Qualifying Non-CREST Shareholders or their renounees by no later than 8 March 2016.

The offer will be made to Qualifying Non-CREST Shareholders other than to Shareholders with a registered address, or resident or located, in one of the Excluded Territories or, subject to certain exceptions, the United States by way of the Provisional Allotment Letter (as described in step (i) above) and to Qualifying CREST Shareholders other than to Shareholders with a registered address, or resident, in one of the Excluded Territories or, subject to certain exceptions, the United States by way of the enablement of the Nil Paid Rights and the Fully Paid Rights (as described in step (iii) above) (such Shareholders' stock accounts having been credited as described in step (ii) above).

The New Shares will, when issued and fully paid, rank *pari passu* in all respects with the Existing Shares, including the right to receive all dividends or other distributions made, paid or declared after the date of issue of the New Shares. There will be no restrictions on the free transferability of the New Shares save as provided in the Articles. The rights attaching to the New Shares are governed by the Articles, a summary of which is set out in paragraph 4 of Part IX "Additional Information" of this document.

All documents, including Provisional Allotment Letters (which constitute temporary documents of title) and cheques and certificates posted to, by or from Qualifying Shareholders and/or their transferees or renounees (or their agents, as appropriate) will be posted at their own risk.

Shareholders taking up their rights by completing a Provisional Allotment Letter or by sending a Many-To-Many ("MTM") instruction to Euroclear will be deemed to have given the representations and warranties set out in paragraph 2.6 of this Part III "Terms and Conditions of the Rights Issue", unless the requirement is waived by the Company.

2. Action to be taken

The action to be taken in respect of the New Shares depends on whether, at the relevant time, the Nil Paid Rights or the Fully Paid Rights in respect of which action is to be taken are in certificated form (that is, are represented by Provisional Allotment Letters) or are in uncertificated form (that is, are in CREST).

If you are a Qualifying Non-CREST Shareholder other than a Shareholder with a registered address, or who is resident or located, in one of the Excluded Territories or, subject to certain exceptions, the United States, please refer to paragraph 2.1 and paragraphs 2.3 to 2.9 below.

If you are a Qualifying CREST Shareholder other than a Shareholder with a registered address, or who is resident or located, in one of the Excluded Territories or, subject to certain exceptions, the United States, please refer to paragraphs 2.2 to 2.9 below and to the CREST Manual for further information on the CREST procedures referred to below.

If you are a Qualifying CREST Shareholder or a Qualifying Non-CREST Shareholder, either (i) with a registered address in an Excluded Territory or the United States, or (ii) holding Shares on behalf of, or for the account or benefit of any person on a non-discretionary basis who is in the United States or any state of the United States, please refer to paragraph 2.5 below.

If you are a Qualifying CREST Shareholder or a Qualifying Non-CREST Shareholder, either (i) with a registered address in Canada, or (ii) located or resident in Canada, or (iii) holding shares on behalf of, or for the account or benefit of, any person on a non-discretionary basis who is located or resident in Canada, please refer to paragraph 2.5 below and, in particular, paragraph 2.5.3.

CREST sponsored members should refer to their CREST sponsors, as only their CREST sponsors will be able to take the necessary actions specified below to take up the entitlements or otherwise to deal with the Nil Paid Rights or Fully Paid Rights of CREST sponsored members.

All enquiries in relation to the Provisional Allotment Letters should be addressed to the Shareholder Helpline on 0370 889 3289 (from within the UK) or on +44 (0)370 889 3289 (if calling from outside the UK). Lines are open from 8.30 a.m. to 5.30 p.m. (London time) Monday to Friday (except UK public holidays). Calls may be recorded and randomly monitored for security and training purposes. Please note that the Shareholder Helpline operators cannot provide advice on the merits of the Rights Issue nor give financial, tax, investment or legal advice.

2.1 *Action to be taken by Qualifying Non-CREST Shareholders in relation to the Nil Paid Rights represented by Provisional Allotment Letters*

2.1.1 *General*

Provisional Allotment Letters are expected to be despatched to Qualifying Non-CREST Shareholders on 8 February 2016. Each Provisional Allotment Letter will set out:

- (i) the holding at the close of business on the Record Date of Existing Shares in certificated form on which a Qualifying Non-CREST Shareholder's entitlement to New Shares has been based;
- (ii) the aggregate number of New Shares which have been provisionally allotted to that Qualifying Non-CREST Shareholder with respect to the Existing Shares referred to in (i);
- (iii) the amount payable by a Qualifying Non-CREST Shareholder at the Issue Price to take up his entitlement in full;
- (iv) the procedures to be followed if a Qualifying Non-CREST Shareholder wishes to dispose of all or part of his entitlement or to convert all or part of his entitlement into uncertificated form; and
- (v) instructions regarding acceptance and payment, consolidation, splitting and registration of renunciation (where applicable).

On the basis that Provisional Allotment Letters are posted on 8 February 2016, and that dealings in Nil Paid Rights commence on 9 February 2016, **the latest time and date for acceptance and payment in full will be 11.00 a.m. on 23 February 2016.**

If the Rights Issue is delayed so that Provisional Allotment Letters cannot be despatched on 8 February 2016 or if the timetable for the Rights Issue is otherwise amended, the expected timetable, as set out at the front of this document, will be adjusted accordingly and the revised dates will be set out in the Provisional Allotment Letters and announced through a Regulatory Information Service. All references to times and/or dates in this Part III "Terms and Conditions of the Rights Issue" should be read as being subject to such adjustment.

2.1.2 *Procedure for acceptance and payment*

(i) *Qualifying Non-CREST Shareholders who wish to take up their entitlement in full*

Holders of Provisional Allotment Letters who wish to take up all of their entitlement must complete and return the Provisional Allotment Letter, together with a cheque or banker's draft in sterling, made payable to "Computershare re Chemring Group PLC" and crossed "A/C payee only", for the full amount payable on acceptance, in accordance with the instructions printed on the Provisional Allotment Letter, by post to Computershare, Corporate Actions Projects, Bristol, BS99 6AH, or by hand (during normal business hours) to Computershare, The Pavilions, Bridgwater Road, Bristol, BS13 8AE, so as to arrive as soon as possible and in any event so as to be received by not later than 11.00 a.m. on 23 February 2016. A reply-paid envelope will be enclosed with the Provisional Allotment Letter for this purpose and for use in the UK only. If you post your Provisional Allotment Letter within the UK by first-class post, it is recommended that you allow at least four days for delivery.

(ii) *Qualifying Non-CREST Shareholders who wish to take up some (but not all) of their entitlement*

Holders of Provisional Allotment Letters who wish to take up some but not all of their Nil Paid Rights and wish to sell some or all of those rights which they do not want to take up should first apply for split Provisional Allotment Letters by completing Form X on the Provisional Allotment Letter and returning it, together with a covering letter stating the number of split Provisional Allotment Letters

required and the number of Nil Paid Rights or Fully Paid Rights (if appropriate) to be comprised in each split Provisional Allotment Letter, by post to Computershare, Corporate Actions Projects, Bristol, BS99 6AH, or by hand (during normal business hours) to Computershare, The Pavilions, Bridgwater Road, Bristol, BS13 8AE by 3.00 p.m. on 19 February 2016, the last date and time for splitting Provisional Allotment Letters. The Provisional Allotment Letter will then be cancelled and exchanged for the split Provisional Allotment Letters required. Such holders of Provisional Allotment Letters should then deliver the split Provisional Allotment Letter representing the rights they wish to take up together with a cheque or banker's draft in sterling for this number of rights, payable to "Computershare re Chemring Group PLC" and crossed "A/C payee only" by 11.00 a.m. on 23 February 2016, the last date and time for acceptance. The further split Provisional Allotment Letters (representing the New Shares the Shareholder does not wish to take up) will be required in order to sell those rights not being taken up.

Shareholders who wish to effect a cashless take-up of their Nil Paid Rights (which may be achieved through the sale of such portion of their Nil Paid Rights as will raise sufficient funds to allow the relevant Shareholder to take up their remaining Nil Paid Rights) should contact their broker, who may be able to assist with such arrangements. Please note that your ability to sell your rights is dependent on demand for such rights and that the price for Nil Paid Rights may fluctuate. Please ensure that you allow enough time so as to enable the person acquiring your rights to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 23 February 2016.

Alternatively, Qualifying Non-CREST Shareholders who wish to take up some of their rights, without selling or transferring the remainder, should complete Form X on the original Provisional Allotment Letter and return it, together with a covering letter confirming the number of rights to be taken up and a cheque or banker's draft in sterling to pay for this number of Shares, by post to Computershare, Corporate Actions Projects, Bristol, BS99 6AH, or by hand (during normal business hours) to Computershare, The Pavilions, Bridgwater Road, Bristol, BS13 8AE. In this case, the Provisional Allotment Letter and payment must be received by 11.00 a.m. on 23 February 2016, the last date and time for acceptance.

(iii) Company's discretion as to validity of acceptances

If payment is not received in full by 11.00 a.m. on 23 February 2016, the provisional allotment will (unless the Company has exercised its right to treat as valid an acceptance, as set out below) be deemed to have been declined and will lapse. The Company may elect, with the agreement of the Joint Global Coordinators, but shall not be obliged, to treat as valid Provisional Allotment Letters and accompanying remittances for the full amount due which are received prior to 5.00 p.m. on 23 February 2016.

The Company may elect, but shall not be obliged, to treat as a valid acceptance the receipt of appropriate remittance by 5.00 p.m. on 23 February 2016, from an authorised person (as defined in the FSMA) specifying the number of New Shares to be acquired and containing an undertaking by that person to lodge the relevant Provisional Allotment Letters, duly completed, in due course.

The Company may also (in its sole discretion) treat a Provisional Allotment Letter as valid and binding on the person(s) by whom or on whose behalf it is lodged even if it is not completed in accordance with the relevant instructions or is not accompanied by a valid power of attorney where required.

The Company reserves the right to treat as invalid any acceptance or purported acceptance of the New Shares that appears to the Company to have been executed in, despatched from or that provided an address for delivery of definitive share certificates for New Shares in the United States or an Excluded Territory unless the Company is satisfied that such action would not result in the contravention of any registration or other legal requirement in any jurisdiction.

The provisions of this paragraph 2.1.2(iii) and any other terms of the Rights Issue relating to Qualifying Non-CREST Shareholders may be waived, varied or modified as regards specific Qualifying Non-CREST Shareholder(s) or on a general basis by the Company, with the agreement of the Underwriters.

A Qualifying Non-CREST Shareholder who makes a valid acceptance and payment in accordance with this paragraph 2.1.2 is deemed to request that the New Shares to which they will become entitled be issued to them on the terms and conditions set out in this document and subject to the Articles.

(iv) Payments

All payments must be in sterling and made by cheque or banker's draft made payable to "Computershare re Chemring Group PLC" and crossed "A/C payee only". Cheques or banker's drafts must be drawn on a bank or building society or branch of a bank or building society in the UK or Channel Islands which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by any of those companies or committees and must bear the appropriate sort code in the top right-hand corner. Cheques must be drawn on the personal account to which the Qualifying Non-CREST Shareholder (or their nominee) has sole or joint title to the funds. Third party cheques will not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has confirmed the name of the account holder by stamping or endorsing the cheque or draft to such effect. The account name should be the same as that shown on the application. Post-dated cheques will not be accepted. Cheques or banker's drafts will be presented for payment upon receipt. The Company reserves the right to instruct the Registrar to seek special clearance of cheques and banker's drafts to allow the Company to obtain value for remittances at the earliest opportunity. No interest will be paid on payments made before they are due. It is a term of the Rights Issue that cheques shall be honoured on first presentation and the Company may elect to treat as invalid acceptances in respect of which cheques are not so honoured. Return of a completed Provisional Allotment Letter will constitute a warranty that the cheque will be honoured on first presentation. All documents, cheques and banker's drafts sent through the post will be sent at the risk of the sender. Payments via CHAPS, BACS or electronic transfer will not be accepted.

If the New Shares have already been allotted to a Qualifying Non-CREST Shareholder prior to any payment not being so honoured upon first presentation or such acceptances being treated as invalid, the Company may (in its absolute discretion as to manner, timing and terms) make arrangements for the sale of such New Shares on behalf of such Qualifying Non-CREST Shareholder and hold the proceeds of sale (net of the Company's reasonable estimate of any loss it has suffered as a result of the same and of the expenses of the sale, including, without limitation, any stamp duty or SDRT payable on the transfer of such New Shares, and of all amounts payable by such Qualifying Non-CREST Shareholder pursuant to the terms of the Rights Issue in respect of the acquisition of such New Shares) on behalf of such Qualifying Non-CREST Shareholder. Neither the Company nor the Underwriters nor any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by such Qualifying Non-CREST Shareholder as a result.

(v) Holders of Provisional Allotment letters who wish to take up any of their entitlements must make the representations and warranties set out in paragraph 2.6 below.

2.1.3 Money Laundering Regulations

It is a term of the Rights Issue that, to ensure compliance with the Money Laundering Regulations, the Registrar, Computershare Investor Services PLC, may require verification of the identity of the person by whom or on whose behalf a Provisional Allotment Letter is lodged with payment (which requirements are referred to below as the "verification of identity requirements"). If an application is made by a UK regulated broker or intermediary acting as agent and which is itself subject to the Money Laundering Regulations, any verification of identity requirements is the responsibility of such broker or intermediary and not of the Registrar. In such case, the lodging agent's stamp should be inserted on the Provisional Allotment Letter. The person(s) (the "acceptor") who, by lodging a Provisional Allotment Letter with payment, and in accordance with the other terms as described above, accept(s) directly or indirectly, the allotment of the New Shares (the "relevant shares") comprised in such Provisional Allotment Letter (being the provisional allottee or, in the case of renunciation, the person named in such Provisional Allotment Letter) shall thereby be deemed to agree to provide the Registrar and/or the Company with such information and other evidence as they or either of them may require to satisfy the verification of identity requirements and agree for the Registrar to make a search using a credit reference agency for the purpose of confirming such identity where deemed necessary. A record of the search will be retained.

If the Registrar determines that the verification of identity requirements apply to an acceptance of an allotment and the verification of identity requirements have not been satisfied (which the Registrar shall in its absolute discretion determine) by 11.00 a.m. on 23 February 2016, the Company may, in its absolute discretion, and without prejudice to any other rights of the Company, treat the acceptance as invalid, in which event the application monies will be returned (at the applicant's risk) without interest to the account of the bank or building society on which the relevant cheque or banker's draft was drawn, or may confirm the allotment of the relevant shares to the acceptor but (notwithstanding any other term of the Rights Issue) such shares will not be issued to him or registered in his name until the verification of identity requirements have been satisfied (which the Registrar shall in its absolute discretion determine). If the acceptance is not treated as invalid and the verification of identity requirements are not satisfied within such period, being not less than seven days after a request for evidence of identity is despatched to the acceptor, as the Company may in its absolute discretion allow, the Company will be entitled to make arrangements (in its absolute discretion as to manner, timing and terms) to sell the relevant shares (and for that purpose the Company will be expressly authorised to act as agent of the acceptor). Any proceeds of sale (net of expenses) of the relevant shares which shall be issued to and registered in the name of the purchaser(s) or an amount equivalent to the original payment, whichever is the lower, will be held by the Company on trust for the acceptor, subject to the requirements of the Money Laundering Regulations. The Registrar is entitled in its absolute discretion to determine whether the identity verification requirements apply to any acceptor and whether such requirements have been satisfied. Neither the Company, the Underwriters, Rothschild nor the Registrar will be liable to any person for any loss suffered or incurred as a result of the exercise of any such discretion or as a result of any sale of relevant shares.

Return of a Provisional Allotment Letter with the appropriate remittance will constitute a warranty from the acceptor that the Money Laundering Regulations will not be breached by acceptance of such remittance and an undertaking to provide promptly to the Registrar such information as may be specified by the Registrar as being required for the purpose of the Money Laundering Regulations. If the verification of identity requirements apply, failure to provide the necessary evidence of identity may result in your acceptance being treated as invalid or in delays in the despatch of a receipted fully paid Provisional Allotment Letter, share certificate or other documents relating to the Rights Issue (as applicable).

The verification of identity requirements will not usually apply:

- (i) if the acceptor is an organisation required to comply with the Money Laundering Directive 2005/60/EC of the European Parliament and of the EC Council of 26 October 2005 on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing; or
- (ii) if the acceptor is a regulated UK broker or intermediary acting as agent and is itself subject to the Money Laundering Regulations; or
- (iii) if the acceptor (not being an acceptor who delivers his acceptance in person) makes payment by way of a cheque drawn on an account in the name of such acceptor; or
- (iv) if the aggregate subscription price for the relevant shares is less than €15,000 (approximately £12,500).

Where the verification of identity requirements apply, please note the following as this will assist in satisfying the requirements. Satisfaction of the verification of identity requirements may be facilitated in the following ways:

- (a) if payment is made by cheque or banker's draft in sterling drawn on a branch in the UK of a bank or building society and bears a UK bank sort code number in the top right-hand corner, the following applies. Cheques or banker's drafts should be made payable to "Computershare re Chemring Group PLC" and crossed "A/C payee only". Third party cheques will not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has confirmed the name of the account holder by stamping or endorsing the building society cheque/banker's draft to such effect. The account name should be the same as that shown on the application;
- (b) if the Provisional Allotment Letter is lodged with payment by an agent which is an organisation of the kind referred to in (a) above or which is subject to anti money-laundering regulation in a country which is a member of the Financial Action Task Force (the non-European Union

members of which are Argentina, Australia, Brazil, Canada, Hong Kong, Iceland, Japan, Mexico, New Zealand, Norway, the Russian Federation, Singapore, South Africa, Switzerland, Turkey, the United States of America and, by virtue of their membership of the Gulf Co-operation Council, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the UAE), the agent should provide written confirmation with the Provisional Allotment Letter that it has that status and a written assurance that it has obtained and recorded evidence of the identity of the persons for whom it acts and that it will on demand make such evidence available to the Registrar or the relevant authority; or

- (c) if a Provisional Allotment Letter is lodged by hand by the acceptor in person, he should ensure that he has with him evidence of identity bearing his photograph (for example, his passport) and evidence of his address (for example, a recent bank statement).

In order to confirm the acceptability of any written assurance referred to in (b) above or any other case, the acceptor should contact the Registrar. The Shareholder Helpline is available on 0370 889 3289 (from within the UK) or on +44 (0)370 889 3289 (if calling from outside the UK). Lines are open from 8.30 a.m. to 5.30 p.m. (London time) Monday to Friday (except UK public holidays). Calls may be recorded and randomly monitored for security and training purposes. Please note that the Shareholder Helpline operators cannot provide advice on the merits of the Rights Issue nor give financial, tax, investment or legal advice.

2.1.4 Dealings in Nil Paid Rights

Assuming the Rights Issue becomes unconditional, dealings on the London Stock Exchange in the Nil Paid Rights are expected to commence at 8.00 a.m. on 9 February 2016. A transfer of Nil Paid Rights can be made by renunciation of the Provisional Allotment Letter in accordance with the instructions printed on it and delivery of the letter to the transferee or to a stockbroker, bank or other appropriate financial adviser. The latest time and date for registration of renunciation of Provisional Allotment Letters, nil paid, is expected to be 11.00 a.m. on 23 February 2016.

2.1.5 Dealings in Fully Paid Rights

After acceptance of the provisional allotment and payment in full in accordance with the provisions set out in this document and the Provisional Allotment Letter, the Fully Paid Rights may be transferred by renunciation of the relevant Provisional Allotment Letter and delivering it, by post to Computershare, Corporate Actions Projects, Bristol, BS99 6AH, or by hand (during normal business hours) to Computershare, The Pavilions, Bridgwater Road, Bristol, BS13 8AE, by not later than 11.00 a.m. on 23 February 2016. To do this, Qualifying Non-CREST Shareholders will need to have their fully paid Provisional Allotment Letters returned to them after acceptance has been effected by the Registrar. However, fully paid Provisional Allotment Letters will not be returned to Qualifying Non-CREST Shareholders unless their return is requested by ticking the appropriate box on the Provisional Allotment Letter. After 24 February 2016, the New Shares will be in registered form and transferable in the usual way (see paragraph 2.1.10 below).

2.1.6 Renunciation and splitting of Provisional Allotment Letters

Qualifying Non-CREST Shareholders who wish to transfer all of their Nil Paid Rights or, after acceptance of the provisional allotment and payment in full, Fully Paid Rights comprised in a Provisional Allotment Letter may (save as required by the laws of certain overseas jurisdictions) renounce such allotment by completing and signing Form X on the Provisional Allotment Letter (if it is not already marked "Original Duly Renounced") and passing the entire Provisional Allotment Letter to their stockbroker or bank or other appropriate financial adviser or to the transferee. Once a Provisional Allotment Letter has been renounced, the letter will become a negotiable instrument in bearer form and the Nil Paid Rights or Fully Paid Rights (as appropriate) comprised in the Provisional Allotment Letter may be transferred by delivery of the Provisional Allotment Letter to the transferee. The latest time and date for registration of renunciation of Provisional Allotment Letters, fully paid, is 11.00 a.m. on 23 February 2016.

If a holder of a Provisional Allotment Letter wishes to have only some of the New Shares registered in his name and to transfer the remainder, or wishes to transfer all the Nil Paid Rights or (if appropriate) Fully Paid Rights but to different persons, he may have the Provisional Allotment Letter split, for which purpose he or his agent must complete and sign Form X on the Provisional Allotment Letter. The Provisional Allotment Letter must then be delivered by post to Computershare, Corporate Actions Projects, Bristol, BS99 6AH, or by hand (during normal business hours) to Computershare,

The Pavilions, Bridgwater Road, Bristol, BS13 8AE, by not later than 3.00 p.m. on 19 February 2016, to be cancelled and exchanged for the number of split Provisional Allotment Letters required. The number of split Provisional Allotment Letters required and the number of Nil Paid Rights or (if appropriate) Fully Paid Rights to be comprised in each split letter should be stated in an accompanying letter. Form X on split Provisional Allotment Letters will be marked "Original Duly Renounced" before issue. The aggregate number of Nil Paid Rights or (as appropriate) Fully Paid Rights comprised in the split Provisional Allotment Letters must equal the number of New Shares set out in the original Provisional Allotment Letter (less the number of New Shares representing rights that the holder wishes to take up if taking up his entitlement in part). The split Provisional Allotment Letter(s) (representing the New Shares the Shareholder does not wish to take up) will be required in order to sell those rights not being taken up.

The Company reserves the right to refuse to register any renunciation in favour of any person in respect of which the Company believes such renunciation may violate applicable legal or regulatory requirements, including (without limitation) any renunciation in the name of any person with an address outside the UK.

Alternatively, Qualifying Non-CREST Shareholders who wish to take up some of their rights, without transferring the remainder, should complete Form X on the original Provisional Allotment Letter and return it, together with a covering letter confirming the number of rights to be taken up and a cheque or banker's draft in sterling to pay for this number of New Shares, by post to Computershare, Corporate Actions Projects, Bristol, BS99 6AH, or by hand (during normal business hours) to Computershare, The Pavilions, Bridgwater Road, Bristol, BS13 8AE. In this case, the Provisional Allotment Letter and payment must be received by the Receiving Agent by 11.00 a.m. 23 February 2016.

2.1.7 Registration in names of Qualifying Shareholders

A Qualifying Shareholder who wishes to have all the New Shares to which he is entitled registered in his name must accept and make payment for such allotment in accordance with the provisions set out in this document and the Provisional Allotment Letter but need take no further action. A share certificate in respect of the New Shares subscribed for is expected to be sent to such Qualifying Shareholders by no later than 8 March 2016.

2.1.8 Registration in names of persons other than Qualifying Shareholders originally entitled

In order to register Fully Paid Rights in certificated form in the name of someone other than the Qualifying Shareholders(s) originally entitled, the renounee or his agent(s) must complete Form Y on the Provisional Allotment Letter (unless the renounee is a CREST member who wishes to hold such New Shares in uncertificated form, in which case Form X and the CREST Deposit Form must be completed (see paragraph 2.2 below)) and deliver the entire Provisional Allotment Letter, when fully paid, by post to Computershare, Corporate Actions Projects, Bristol, BS99 6AH, or by hand (during normal business hours) to Computershare, The Pavilions, Bridgwater Road, Bristol, BS13 8AE, by not later than the latest time for registration of renunciations, which is expected to be 11.00 a.m. on 23 February 2016. Registration cannot be effected unless and until the New Shares comprised in a Provisional Allotment Letter are fully paid.

The New Shares comprised in several renounced Provisional Allotment Letters may be registered in the name of one holder (or joint holders) if Form Y on the Provisional Allotment Letter is completed on one Provisional Allotment Letter (the "Principal Letter") and all the Provisional Allotment Letters are delivered in one batch. Details of each Provisional Allotment Letter (including the Principal Letter) should be listed in a separate letter.

2.1.9 Deposit of Nil Paid Rights or Fully Paid Rights into CREST

The Nil Paid Rights or Fully Paid Rights represented by the Provisional Allotment Letter may be converted into uncertificated form, that is, deposited into CREST (whether such conversion arises as a result of a renunciation of those rights or otherwise). Similarly, Nil Paid Rights or Fully Paid Rights held in CREST may be converted into certificated form, that is, withdrawn from CREST. Subject as provided in the next following paragraph or in the Provisional Allotment Letter, normal CREST procedures and timings apply in relation to any such conversion. You are recommended to refer to the CREST Manual for details of such procedures.

The procedure for depositing the Nil Paid Rights represented by the Provisional Allotment Letter into CREST, whether such rights are to be converted into uncertificated form in the name(s) of the person(s) whose name(s) and address appear on page 1 of the Provisional Allotment Letter or in the name of a person or persons to whom the Provisional Allotment Letter has been renounced, is as follows: Form X and the CREST Deposit Form (both on the Provisional Allotment Letter) will need to be completed and the Provisional Allotment Letter deposited with the CREST Courier and Sorting Service (“CCSS”). In addition, the normal CREST Stock Deposit procedures will need to be carried out, except that (a) it will not be necessary to complete and lodge a separate CREST Transfer Form (prescribed under the Stock Transfer Act 1963) with the CCSS and (b) only the whole of the Nil Paid Rights or the Fully Paid Rights represented by the Provisional Allotment Letter may be deposited into CREST. If you wish to deposit some only of the Nil Paid Rights or the Fully Paid Rights represented by the Provisional Allotment Letter into CREST, you must first apply for split Provisional Allotment Letters by following the instructions in paragraph 2.1.2 above. If the rights represented by more than one Provisional Allotment Letter are to be deposited, the CREST Deposit Form on each Provisional Allotment Letter must be completed and deposited. The Consolidation Listing Form (as defined in the CREST Regulations) must not be used.

A holder of the Nil Paid Rights (or, if appropriate, the Fully Paid Rights) represented by a Provisional Allotment Letter who is proposing to convert those rights into uncertificated form (whether following a renunciation of such rights or otherwise) is recommended to ensure that the conversion procedures are implemented in sufficient time to enable the person holding or acquiring the Nil Paid Rights (or, if appropriate, the Fully Paid Rights) in CREST following the conversion to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 23 February 2016. **In particular, having regard to processing times in CREST and on the part of the Receiving Agent, the latest recommended time for depositing a renounced Provisional Allotment Letter (with Form X and the CREST Deposit Form on the Provisional Allotment Letter duly completed) with the CCSS (to enable the person acquiring the Nil Paid Rights (or, if appropriate, the Fully Paid Rights) in CREST as a result of the conversion to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 23 February 2016) is 3.00 p.m. on 18 February 2016.**

When Form X and the CREST Deposit Form (on the Provisional Allotment Letter) have been completed, the title to the Nil Paid Rights or the Fully Paid Rights represented by the Provisional Allotment Letters will cease to be renounceable or transferable by delivery, and, for the avoidance of doubt, any entries in Form Y will not subsequently be recognised or acted upon by the Registrar. All renunciations or transfers of Nil Paid Rights or Fully Paid Rights must be effected through the CREST system once such Nil Paid Rights or Fully Paid Rights have been deposited into CREST.

CREST sponsored members should contact their CREST sponsor as only their CREST sponsor will be able to take the necessary action to take up the entitlement or otherwise to deal with the Nil Paid Rights or Fully Paid Rights of the CREST sponsored member.

2.1.10 Issue of New Shares in definitive form

Definitive share certificates in respect of the New Shares to be held in certificated form are expected to be despatched by post by no later than 8 March 2016 at the risk of the persons entitled thereto to Qualifying Non-CREST Shareholders (or their transferees who hold Fully Paid Rights in certificated form), or in the case of joint holdings, to the first-named Shareholders, at their registered address (unless lodging agent details have been completed on the Provisional Allotment Letter). After despatch of the definitive share certificates, Provisional Allotment Letters will cease to be valid for any purpose whatsoever. Pending despatch of definitive share certificates, instruments of transfer of the New Shares will be certified by the Receiving Agent against the register.

2.2 Action to be taken by Qualifying CREST Shareholders in relation to Nil Paid Rights and Fully Paid Rights in CREST

2.2.1 General

It is expected that each Qualifying CREST Shareholder will receive a credit to his stock account in CREST of his entitlement to Nil Paid Rights on 9 February 2016. It is expected that such rights will be enabled by 8.00 a.m. on 9 February 2016. The CREST stock account to be credited will be an account under the participant ID and member account ID that apply to the Existing Shares in

uncertificated form held at the close of business on the Record Date by the Qualifying CREST Shareholder in respect of which the Nil Paid Rights are provisionally allotted.

The maximum number of New Shares that a Qualifying CREST Shareholder may take up is that which has been provisionally allotted to that Qualifying CREST Shareholder and for which he receives a credit of entitlement into his stock account in CREST. The minimum number of New Shares a Qualifying CREST Shareholder may take up is one.

The Nil Paid Rights will constitute a separate security for the purposes of CREST and can accordingly be transferred, in whole or in part, by means of CREST in the same manner as any other security that is admitted to CREST.

If, for any reason, it is impracticable to credit the stock accounts of Qualifying CREST Shareholders, or to enable the Nil Paid Rights by 8.00 a.m. on 9 February 2016, Provisional Allotment Letters shall, unless the Company determines otherwise, be sent out in substitution for the Nil Paid Rights which have not been so credited or enabled and the expected timetable as set out in this document will be adjusted as appropriate. **References to dates and times in this document should be read as subject to any such adjustment.** The Company will make an appropriate announcement to a Regulatory Information Service giving details of any revised dates **but Qualifying CREST Shareholders may not receive any further written communication.**

CREST members who wish to take up their entitlements in respect of or otherwise to transfer Nil Paid Rights or Fully Paid Rights held by them in CREST (including CREST members who wish to effect a cashless take-up of their Nil Paid Rights) should refer to the CREST Manual for further information on the CREST procedures referred to below. If you are a CREST sponsored member, you should consult your CREST sponsor if you wish to take up your entitlement as only your CREST sponsor will be able to take the necessary action to take up your entitlements or otherwise to deal with your Nil Paid Rights or Fully Paid Rights (including effecting a cashless take-up of Nil Paid Rights).

2.2.2 Procedure for acceptance and payment

(i) MTM instructions

CREST members who wish to take up all or some of their entitlement in respect of Nil Paid Rights in CREST must send (or, if they are CREST sponsored members, procure that their CREST sponsor sends) an MTM instruction to Euroclear that, on its settlement, will have the following effect:

- (a) the crediting of a stock account of the Receiving Agent under the participant ID and member account ID specified below, with the number of Nil Paid Rights to be taken up;
- (b) the creation of a settlement bank payment obligation (as this term is defined in the CREST Manual), in accordance with the RTGS payment mechanism (as this term is defined in the CREST Manual), in favour of the RTGS settlement bank (as this term is defined in the CREST Manual) of the Receiving Agent in sterling in respect of the full amount payable on acceptance in respect of the Nil Paid Rights referred to in paragraph 2.2.2(i)(a) above; and
- (c) the crediting of a stock account of the accepting CREST member (being an account under the same participant ID and member account ID as the account from which the Nil Paid Rights are to be debited on settlement of the MTM instruction) of the corresponding number of Fully Paid Rights to which the CREST member is entitled on taking up his Nil Paid Rights referred to in paragraph 2.2.2(i)(a) above.

(ii) Contents of MTM instructions

The MTM instruction must be properly authenticated in accordance with Euroclear's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- (a) the number of Nil Paid Rights to which the acceptance relates;
- (b) the participant ID of the accepting CREST member;
- (c) the member account ID of the accepting CREST member from which the Nil Paid Rights are to be debited;

- (d) the participant ID of the Receiving Agent, in its capacity as a CREST receiving agent. This is 3RA54;
- (e) the member account ID of the Receiving Agent, in its capacity as a CREST receiving agent. This is CHEMRING;
- (f) the number of Fully Paid Rights that the CREST member is expecting to receive on settlement of the MTM instruction. This must be the same as the number of Nil Paid Rights to which the acceptance relates;
- (g) the amount payable by means of the CREST assured payment arrangements on settlement of the MTM instruction. This must be the full amount payable on acceptance in respect of the number of Nil Paid Rights referred to in paragraph 2.2.2(ii)(a) above;
- (h) the intended settlement date. This must be on or before 11.00 a.m. on 23 February 2016;
- (i) the Nil Paid Rights ISIN number, which is GB00BYVXM652;
- (j) the Fully Paid Rights ISIN number, which is GB00BYVXM769;
- (k) the Corporate Action Number for the Rights Issue. This will be available by viewing the relevant corporate action details in CREST; and
- (l) a contact name and telephone number in the shared note field.

(iii) Valid acceptance

An MTM instruction complying with each of the requirements as to authentication and contents set out in paragraph 2.2.2(ii) above will constitute a valid acceptance where either:

- (a) the MTM instruction settles by not later than 11.00 a.m. on 23 February 2016; or
- (b) at the discretion of the Company:
 - (I) the MTM instruction is received by Euroclear by not later than 11.00 a.m. on 23 February 2016; and
 - (II) a number of Nil Paid Rights at least equal to the number of Nil Paid Rights inserted in the MTM instruction is credited to the CREST stock member account of the accepting CREST member specified in the MTM instruction at 11.00 a.m. on 23 February 2016; and
 - (III) the relevant MTM instruction settles by 11.00 a.m. on 23 February 2016 (or such later time and/or date as the Company may determine).

An MTM instruction will be treated as having been received by Euroclear for these purposes at the time at which the instruction is processed by the Network Providers' Communications Host (as this term is defined in the CREST Manual) at Euroclear of the network provider used by the CREST member (or by the CREST sponsored member's CREST sponsor). This will be conclusively determined by the input time stamp applied to the MTM UK instruction by the Network Providers' Communications Host.

The provisions of this paragraph 2.2.2(iii) and any other terms of the Rights Issue relating to Qualifying CREST Shareholders may be waived, varied or modified as regards specific Qualifying CREST Shareholder(s) or on a general basis by the Company.

(iv) Representations, warranties and undertakings of CREST members

A CREST member or CREST sponsored member who makes a valid acceptance in accordance with this paragraph 2.2.2 represents, warrants and undertakes to the Company and the Underwriters that he has taken (or procured to be taken), and will take (or will procure to be taken), whatever action is required to be taken by him or by his CREST sponsor (as appropriate) to ensure that the MTM instruction concerned is capable of settlement at 11.00 a.m. on 23 February 2016. In particular, the CREST member or CREST sponsored member represents, warrants and undertakes that, at 11.00 a.m. on 23 February 2016 (or until such later time and date as the Company may determine), there will be sufficient Headroom within the Cap (as those terms are defined in the CREST Manual) in respect of the cash memorandum account to be debited with the amount payable on acceptance to permit the MTM instruction to settle. CREST sponsored members should contact their CREST sponsor if they are in any doubt. Such CREST member or CREST sponsored member taking up entitlements must make the representations and warranties set out in paragraph 2.6 below.

If there is insufficient Headroom within the Cap (as those terms are defined in the CREST Manual) in respect of the cash memorandum account of a CREST member or CREST sponsored member for such amount to be debited or the CREST member's or CREST sponsored member's acceptance is otherwise treated as invalid and New Shares have already been allotted to such CREST member or CREST sponsored member, the Company may (in its absolute discretion as to the manner, timing and terms) make arrangements for the sale of such New Shares on behalf of that CREST member or CREST sponsored member and hold the proceeds of sale (net of the Company's reasonable estimate of any loss that it has suffered as a result of the acceptance being treated as invalid and of the expenses of sale, including, without limitation, any stamp duty or SDRT payable on the transfer of such New Shares, and of all amounts payable by the CREST member or CREST sponsored member pursuant to the Rights Issue in respect of the acquisition of such New Shares) on behalf of such CREST member or CREST sponsored member. Neither the Company nor any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by such CREST member or CREST sponsored member as a result.

(v) CREST procedures and timings

CREST members and CREST sponsors (on behalf of CREST sponsored members) should note that Euroclear does not make available special procedures in CREST for any particular corporate action. Normal system timings and limitations will therefore apply in relation to the input of an MTM instruction and its settlement in connection with the Rights Issue. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST sponsored member, to procure that its CREST sponsor takes) the action necessary to ensure that a valid acceptance is received as stated above by 11.00 a.m. on 23 February 2016. In connection with this, CREST members and (where applicable) CREST sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(vi) CREST member's undertaking to pay

A CREST member or CREST sponsored member who makes a valid acceptance in accordance with the procedures set out in this paragraph 2.2.2 undertakes to pay to the Receiving Agent, or procure the payment to the Receiving Agent of, the amount payable in sterling on acceptance in accordance with the above procedures or in such other manner as the Receiving Agent may require (it being acknowledged that, where payment is made by means of the RTGS payment mechanism (as defined in the CREST manual), the creation of a RTGS payment obligation in sterling in favour of the Receiving Agent's RTGS settlement bank (as defined in the CREST Manual) in accordance with the RTGS payment mechanism shall, to the extent of the obligation so created, (a) discharge in full the obligation of the CREST member (or CREST sponsored member) to pay the amount payable on acceptance) and (b) requests that the Fully Paid Rights and/or New Shares to which he will become entitled be issued to him on the terms set out in this document and subject to the Articles of Association of the Company.

If the payment obligations of the relevant CREST member or CREST sponsored member in relation to such New Shares are not discharged in full and such New Shares have already been allotted to the CREST member or CREST sponsored member, the Company may (in its absolute discretion as to manner, timing and terms) make arrangements for the sale of such Shares on behalf of the CREST member or CREST sponsored member and hold the proceeds of sale (net of the Company's reasonable estimate of any loss it has suffered as a result of the same and of the expenses of the sale, including, without limitation, any stamp duty or SDRT payable on the transfer of such Shares, and of all amounts payable by such CREST member or CREST sponsored member pursuant to the terms of the Rights Issue in respect of the acquisition of such Shares) or an amount equal to the original payment of the CREST member or CREST sponsored member. Neither the Company nor the Underwriters nor any other person shall be responsible for, or have any liability for, any loss, expense or damage suffered by the CREST member or CREST sponsored member as a result.

(vii) Company's discretion as to rejection and validity of acceptances

The Company may agree in its absolute sole discretion to:

- (a) reject any acceptance constituted by an MTM instruction, which is otherwise valid, in the event of breach of any of the representations, warranties and undertakings set out or referred to in this paragraph 2.2.2. Where an acceptance is made as described in this paragraph 2.2.2, which is otherwise valid, and the MTM instruction concerned fails to settle by 11.00 a.m. on 23 February

2016 (or by such later time and date as the Company has determined), the Company shall be entitled to assume, for the purposes of its right to reject an acceptance contained in this paragraph 2.2.2, that there has been a breach of the representations, warranties and undertakings set out or referred to in this paragraph 2.2.2 unless the Company is aware of any reason outside the control of the CREST member or CREST sponsor (as appropriate) for the failure to settle;

- (b) treat as valid (and binding on the CREST member or CREST sponsored member concerned) an acceptance which does not comply in all respects with the requirements as to validity set out or referred to in this paragraph 2.2.2;
- (c) accept an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable) a CREST sponsor as constituting a valid acceptance in substitution for, or in addition to, an MTM instruction and subject to such further terms and conditions as the Company and the Underwriters may determine;
- (d) treat a properly authenticated dematerialised instruction in this paragraph 2.2.2(vii)(d) (the “first instruction”) as not constituting a valid acceptance if, at the time at which the Receiving Agent receives a properly authenticated dematerialised instruction giving details of the first instruction, either the Company or the Receiving Agent has received actual notice from Euroclear of any of the matters specified in Regulation 35(5)(a) of the CREST Regulations in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and
- (e) accept an alternative instruction or notification from a CREST member or CREST sponsored member or (where applicable) a CREST sponsor, or extend the time for acceptance and/or settlement of an MTM instruction or any alternative instruction or notification, if, for reasons or due to circumstances outside the control of any CREST member or CREST sponsored member or (where applicable) CREST sponsor, the CREST member or CREST sponsored member is unable validly to take up all or part of his Nil Paid Rights by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of facilities and/or systems operated by the Receiving Agent in connection with CREST.

2.2.3 Money Laundering Regulations

If you hold your Nil Paid Rights in CREST and apply to take up all or part of your entitlement as agent for one or more persons and you are not a UK or EU regulated person or institution (e.g. a UK financial institution), then, irrespective of the value of the application, the Registrar is entitled to take reasonable measures to establish the identity of the person or persons (or the ultimate controller of such person or persons) on whose behalf you are making the application and any submission of a MTM instruction constitutes agreement for the Registrar to make a search via a credit reference agency where deemed necessary. A record of search results will be retained. You must therefore contact the Registrar before sending any MTM instruction or other instruction so that appropriate measures may be taken.

Submission of an MTM instruction which constitutes, or which may on its settlement constitute, a valid acceptance as described above constitutes a warranty and undertaking by the applicant to provide promptly to the Receiving Agent any information the Receiving Agent may specify as being required for the purposes of the verification of the identity requirements in the Money Laundering Regulations or the FSMA. Pending the provision of such information and other evidence as the Registrar may require to satisfy the verification of identity requirements, the Receiving Agent, having consulted with the Company, may take, or omit to take, such action as it may determine to prevent or delay settlement of the MTM instruction. If such information and other evidence of identity has not been provided within a reasonable time, then the Receiving Agent will not permit the MTM instruction concerned to proceed to settlement but without prejudice to the right of the Company and/or the Underwriters to take proceedings to recover any loss suffered by any of them as a result of failure by the applicant to provide such information and other evidence.

2.2.4 Dealings in Nil Paid Rights in CREST

Assuming the Rights Issue becomes unconditional, dealings in the Nil Paid Rights on the London Stock Exchange are expected to commence as soon as practicable after 8.00 a.m. on 9 February 2016. A transfer (in whole or in part) of Nil Paid Rights can be made by means of CREST in the same

manner as any other security that is admitted to CREST. The Nil Paid Rights are expected to be disabled in CREST after the close of CREST business on 23 February 2016.

2.2.5 Dealings in Fully Paid Rights in CREST

After acceptance of the provisional allotment and payment in full in accordance with the provisions set out in this document, the Fully Paid Rights may be transferred by means of CREST in the same manner as any other security that is admitted to CREST. The last time for settlement of any transfer of Fully Paid Rights in CREST is expected to be 11.00 a.m. on 23 February 2016. The Fully Paid Rights are expected to be disabled in CREST after the close of CREST business on 23 February 2016. From 24 February 2016, the New Shares will be registered in the name(s) of the person(s) entitled to them in the Company's register of members and will be transferable in the usual way (see paragraph 2.2.7 of this Part III below).

2.2.6 Withdrawal of Nil Paid Rights or Fully Paid Rights from CREST

Nil Paid Rights or Fully Paid Rights held in CREST may be converted into certificated form, that is, withdrawn from CREST. Normal CREST procedures (including timings) apply in relation to any such conversion.

The recommended latest time for receipt by Euroclear of a properly authenticated dematerialised instruction requesting withdrawal of Nil Paid Rights or, if appropriate, Fully Paid Rights from CREST is 4.30 p.m. on 17 February 2016, so as to enable the person acquiring or (as appropriate) holding the Nil Paid Rights or, if appropriate, Fully Paid Rights following the conversion to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 23 February 2016. You are recommended to refer to the CREST Manual for details of such procedures.

2.2.7 Issue of New Shares in CREST

Fully Paid Rights in CREST are expected to be disabled in CREST after the close of CREST business on 23 February 2016 (the latest date for settlement of transfers of Fully Paid Rights in CREST). New Shares (in definitive form) will be issued in uncertificated form to those persons registered as holding Fully Paid Rights in CREST no later than the close of business on the business day after the date on which the Fully Paid Rights are disabled. The Receiving Agent will instruct Euroclear to credit the appropriate stock accounts of those persons (under the same participant ID and member account ID that applied to the Fully Paid Rights held by those persons) with their entitlements to New Shares with effect as soon as practicable after 8.00 a.m. on 24 February 2016).

2.2.8 Right to allot/issue in certificated form

Despite any other provision of this document, the Company reserves the right to allot and/or issue any Nil Paid Rights, Fully Paid Rights or New Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of an interruption, failure or breakdown of CREST (or of any part of CREST) or on the part of the facilities and/or systems operated by the Receiving Agent in connection with CREST.

2.3 Procedure in respect of rights not taken up (whether certificated or in CREST) and withdrawal

2.3.1 Procedure in respect of New Shares not taken up

If an entitlement to New Shares is not validly taken up by 11.00 a.m. on 23 February 2016, in accordance with the procedure laid down for acceptance and payment, then the relevant Provisional Allotment Letter or Nil Paid Rights in uncertificated form (as applicable) will be deemed to have been declined and will lapse. The Underwriters will endeavour to procure, by not later than 5.00 p.m. on the second dealing day after the last date for acceptance under the Rights Issue, subscribers for all (or as many as possible) of those New Shares not taken up at a price per New Share which is at least equal to the aggregate of the Issue Price and the expenses of procuring such subscribers (including any applicable brokerage and commissions and amounts in respect of value added tax).

Notwithstanding the above, the Underwriters may cease to endeavour to procure any such subscribers if, in their opinion, it is unlikely that any such subscribers can be procured at such a price and by such a time. If and to the extent that subscribers for New Shares cannot be procured on the basis outlined above, the relevant New Shares will be subscribed for by the Underwriters or sub-underwriters (if any) at the Issue Price pursuant to the terms of the Underwriting Agreement.

Any premium over the aggregate of the Issue Price and the expenses of procuring subscribers (including any applicable brokerage and commissions and amounts in respect of value added tax) shall be paid (subject as provided in this paragraph 2.3):

- (i) where the Nil Paid Rights were, at the time they were not taken up, represented by a Provisional Allotment Letter, to the person whose name and address appeared on the Provisional Allotment Letter;
- (ii) where the Nil Paid Rights were, at the time they were not taken up, in uncertificated form, to the person registered as the holder of those Nil Paid Rights at the time of their disablement in CREST; and
- (iii) where an entitlement to New Shares was not taken up by an Overseas Shareholder, to that Overseas Shareholder.

New Shares for which subscribers are procured on this basis will be reallocated to the subscribers and the aggregate of any premiums (being the amount paid by the subscribers after deducting the Issue Price and the expenses of procuring the subscribers, including any applicable brokerage and commissions and amounts in respect of value added tax), if any, will be paid (without interest) to those persons entitled (as referred to above) pro rata to the relevant provisional allotments not taken up, save that amounts of less than £5.00 per holding will not be so paid but will be aggregated and will be for the account of the Company. Cheques for the amounts due will be sent by post, at the risk of the person(s) entitled, to their registered addresses (the registered address of the first-named holder in the case of joint holders), provided that, where any entitlement concerned was held in CREST, the amount due will, unless the Company (in its absolute discretion) otherwise determines, be satisfied by the creation of an assured payment obligation in favour of the relevant CREST member's (or CREST sponsored member's) CREST settlement bank in respect of the cash amount concerned in accordance with the CREST payment mechanism.

Any transactions undertaken pursuant to this paragraph 2.3 or paragraph 2.5.1 below shall be deemed to have been undertaken at the request of the persons entitled to the rights not taken up or other entitlements and neither the Company nor the Underwriters nor any other person procuring subscribers shall be responsible for any loss, expense or damage (whether actual or alleged) arising from the terms or timing of any such acquisition, any decision not to endeavour to procure subscribers or the failure to procure subscribers on the basis so described. The Underwriters will be entitled to retain any brokerage fees, commissions or other benefits received in connection with these arrangements.

It is a term of the Rights Issue that all New Shares validly taken up by subscribers under the Rights Issue may be allotted to such subscribers in the event that not all of the New Shares offered for subscription under the Rights Issue are taken up.

2.3.2 Withdrawal rights

Persons who have the right to withdraw their acceptances under Section 87Q(4) of the FSMA after a supplementary prospectus (if any) has been published and who wish to exercise such right of withdrawal must do so by lodging a written notice of withdrawal (which shall not include a notice sent by facsimile or any other form of electronic communication), which must include the full name and address of the person wishing to exercise such statutory withdrawal rights and, if such person is a CREST member, the participant ID and the member account ID of such CREST member, by post to Computershare, Corporate Actions Projects, Bristol, BS99 6AH, or by hand (during normal business hours) to Computershare, The Pavilions, Bridgwater Road, Bristol, BS13 8AE, so as to be received no later than two business days after the date on which the supplementary prospectus was published, withdrawal being effective as at posting of the written notice of withdrawal. Notice of withdrawal given by any other means or which is deposited with or received by Computershare after the expiry of such period will not constitute a valid withdrawal. Furthermore, based on advice received by the Company as to the effect of statutory withdrawal rights where the allotment contract is fully performed, the Company will not permit the exercise of withdrawal rights after payment by the relevant Shareholder of its subscription amount in full and the allotment of the New Shares to such Shareholder becoming unconditional. In such circumstances, Shareholders are advised to consult their professional advisers including their legal advisers as this may be a matter of law.

Provisional allotments of entitlements to New Shares which are the subject of a valid withdrawal notice will be deemed to be declined. Such entitlements to New Shares will be subject to the provisions of paragraph 2.3.1 above as if the entitlement had not been validly taken up.

2.4 *Taxation*

The information contained in Part VIII “Taxation” of this document is intended only as a general guide to the current tax position in the UK and the United States and Qualifying Shareholders should consult their own tax advisers regarding the tax treatment of the Rights Issue in light of their own circumstances.

2.5 *Overseas Shareholders*

2.5.1 *General*

This document has been approved by the FCA, being the competent authority in the UK. The making or acceptance of the proposed offer of Nil Paid Rights, Fully Paid Rights and/or New Shares to persons who have registered addresses outside the UK, or who are resident in, or citizens of, countries other than the UK may be affected by the laws of the relevant jurisdiction. Those persons should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their rights.

It is also the responsibility of any person (including, without limitation, custodians, nominees and trustees) outside the UK wishing to take up rights under or otherwise participate in the Rights Issue to satisfy himself as to the full observance of the laws of any relevant territory in connection therewith, including the obtaining of any governmental or other consents which may be required, the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such territories. The comments set out in this paragraph 2.5 are intended as a general guide only and any Overseas Shareholder who is in doubt as to his position should consult his professional adviser without delay.

Having considered the circumstances, the Directors have formed the view that it is necessary or expedient to restrict the ability of persons in the Excluded Territories to take up rights to New Shares or otherwise participate in the Rights Issue due to the time and costs involved in the registration of this Prospectus and/or compliance with the relevant local legal or regulatory requirements in those jurisdictions.

Receipt of this document and/or a Provisional Allotment Letter or the crediting of Nil Paid Rights to a stock account in CREST will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this document and/or a Provisional Allotment Letter must be treated as sent for information only and should not be copied or redistributed.

New Shares will be provisionally allotted (nil paid) to all Shareholders on the register at the close of business on the Record Date, including Overseas Shareholders. However, Provisional Allotment Letters will not be sent to, and Nil Paid Rights will not be credited to CREST accounts of, Shareholders with registered addresses in the United States or the Excluded Territories or their agent or intermediary, except where the Company is satisfied that such action would not result in the contravention of any registration or other legal requirement in any jurisdiction and, in the case of Canada, pursuant to and in compliance with such procedures as the Company may approve.

Although Nil Paid Rights will be credited to the CREST accounts of all Qualifying CREST Shareholders, such crediting of Nil Paid Rights does not constitute an offer to Shareholders and, specifically, no offer is being made to Shareholders (i) with a registered address, or resident or located, in any of the Excluded Territories or (ii) in any other jurisdiction in which it is unlawful to make or accept an offer to acquire the Shares. CREST Shareholders will be entitled to take up rights in the Rights Issue only if such action would not result in the contravention of any registration or other legal requirement in any jurisdiction and, in the case of Canada, only pursuant to and in compliance with such procedures as the Company may approve.

No person receiving a copy of this document and/or a Provisional Allotment Letter and/or receiving a credit of Nil Paid Rights to a stock account in CREST in any territory other than the UK may treat the same as constituting an invitation or offer to him nor should he in any event use the Provisional Allotment Letter or deal in Nil Paid Rights or Fully Paid Rights in CREST unless, in the relevant

territory, such an invitation or offer could lawfully be made to him in respect of the Nil Paid Rights and Fully Paid Rights. In such circumstances, this document and the Provisional Allotment Letter are to be treated as sent for information only and should not be copied or redistributed.

Persons (including, without limitation, custodians, nominees and trustees) receiving a copy of this document and/or a Provisional Allotment Letter or whose stock account is credited with Nil Paid Rights or Fully Paid Rights should not, in connection with the Rights Issue, distribute or send the same or transfer Nil Paid Rights or Fully Paid Rights in or into any jurisdiction where to do so would or might contravene local security laws or regulations. If a Provisional Allotment Letter or a credit of Nil Paid Rights or Fully Paid Rights is received by any person in any such territory, or by his agent or nominee, he must not seek to take up the rights referred to in the Provisional Allotment Letter or in this document or renounce the Provisional Allotment Letter or transfer the Nil Paid Rights or Fully Paid Rights unless the Company determines that such actions would not violate applicable legal or regulatory requirements. Any person (including, without limitation, custodians, nominees and trustees) who does forward this document or a Provisional Allotment Letter or transfer Nil Paid Rights or Fully Paid Rights into any such territories (whether pursuant to a contractual or legal obligation or otherwise) should draw the recipient's attention to the contents of this paragraph 2.5.

Subject to paragraphs 2.5.2 to 2.5.6 below, any person (including, without limitation, agents, nominees and trustees) outside the UK wishing to take up his rights under the Rights Issue must satisfy himself as to full observance of the applicable laws of any relevant territory, including obtaining any requisite governmental or other consents, observing any other requisite formalities and paying any issue, transfer or other taxes due in such territories. The comments set out in this paragraph 2.5 are intended as a general guide only and any Overseas Shareholders who are in any doubt as to their position should consult their professional advisers without delay.

The Company reserves the right to treat as invalid and will not be bound to allot or issue any New Shares in respect of any acceptance or purported acceptance of the offer of New Shares which:

- (i) appears to the Company or its agents to have been executed, effected or despatched from the United States or an Excluded Territory unless the Company is satisfied that such action would not result in the contravention of any registration or other legal requirement; or
- (ii) in the case of a Provisional Allotment Letter, provides an address for delivery of the share certificates or other statements of entitlement or advice in an Excluded Territory or any other jurisdiction outside the UK in which it would be unlawful to deliver such certificates, statements or advice or if the Company or its agents believe that the same may violate applicable legal or regulatory requirements; or
- (iii) in the case of a credit of New Shares in CREST, to a CREST member or CREST sponsored member whose registered address would be in the United States or an Excluded Territory or any other jurisdiction outside the UK in which it would be unlawful to make such a credit or if the Company or its agents believe that the same may violate applicable legal or regulatory requirements.

The attention of Overseas Shareholders with registered addresses in the United States or any of the Excluded Territories is drawn to paragraphs 2.5.2 to 2.5.5 below.

The provisions of paragraph 2.3.1 above will apply to Overseas Shareholders who do not take up New Shares provisionally allotted to them or are unable to take up New Shares provisionally allotted to them because such action would result in a contravention of applicable law or regulatory requirements. Accordingly, such Shareholders will be treated as Shareholders that have not taken up their entitlement for the purposes of paragraph 2.3.1 above and the Underwriters will use reasonable endeavours to procure subscribers for the relevant New Shares. The net proceeds of such sales (after deduction of expenses) will be paid to the relevant Shareholders pro rata to their holdings of Existing Shares at the close of business on the Record Date as soon as practicable after receipt, except that (i) individual amounts of less than £5.00 per holding will not be distributed but will be aggregated and will be for the account of the Company and (ii) amounts in respect of fractions will not be distributed but will be retained for the benefit of the Company. None of the Company, the Underwriters or any other person shall be responsible or have any liability whatsoever for any loss or damage (actual or alleged) arising from the terms or the timing of the acquisition or the procuring of it or any failure to procure subscribers.

Notwithstanding any other provision of this document or the Provisional Allotment Letter, the Company reserves the right to permit any Shareholder to participate in the Rights Issue on the terms and conditions set out in this document as if it were a Qualifying Shareholder if the Company in its sole and absolute discretion is satisfied that the transaction in question is exempt from or not subject to the legislation or regulations giving rise to the restrictions in question. If the Company is so satisfied, the Company will arrange for the relevant Shareholder to be sent a Provisional Allotment Letter if he is a Qualifying Non-CREST Shareholder or, if he is a Qualifying CREST Shareholder, arrange for Nil Paid Rights to be credited to the relevant CREST stock account.

Those Shareholders who wish, and are permitted, to take up their entitlement should note that payments must be made as described in paragraphs 2.1.2 (Qualifying Non-CREST Shareholders) and 2.2.2 (Qualifying CREST Shareholders) above.

Overseas Shareholders should note that all subscription monies must be paid in sterling by cheque or banker's draft and should be drawn on a bank in the UK, made payable to "Computershare re Chemring Group PLC" and crossed "A/C payee only".

2.5.2 United States of America

The Nil Paid Rights, the Fully Paid Rights, the New Shares and the Provisional Allotment Letters have not been and will not be registered under the Securities Act or under any securities laws of any state or other jurisdiction of the United States and may not be offered, sold, taken up, exercised, resold, renounced, transferred or delivered, directly or indirectly, within the United States except pursuant to an applicable exemption from the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction of the United States.

Prospective investors are hereby notified that sellers of the Nil Paid Rights, the Fully Paid Rights or the New Shares may be relying on the exemption from registration provisions under Section 5 of the Securities Act provided by Rule 144A thereunder.

Accordingly, the Company is not extending the offer under the Rights Issue into the United States unless an exemption from the registration requirements of the Securities Act is available and, subject to certain exceptions, none of this document and the Provisional Allotment Letter constitutes or will constitute an offer or an invitation to apply for or an offer or an invitation to acquire any Nil Paid Rights, Fully Paid Rights or New Shares in the United States. Subject to certain exceptions, neither this document nor a Provisional Allotment Letter will be sent to any Shareholder with a registered address in the United States. Subject to certain exceptions, Provisional Allotment Letters or renunciations thereof sent from or post-marked in the United States will be deemed to be invalid and all persons acquiring New Shares and wishing to hold such Shares in registered form must provide an address for registration of the New Shares issued upon exercise thereof outside the United States.

Subject to certain exceptions, any person who acquires New Shares, Nil Paid Rights or Fully Paid Rights will be deemed to have declared, warranted and agreed, by accepting delivery of this document or the Provisional Allotment Letter taking up their entitlement or accepting delivery of the New Shares, the Nil Paid Rights or the Fully Paid Rights, that they are not, and that at the time of acquiring the New Shares, the Nil Paid Rights or the Fully Paid Rights they will not be, in the United States or acting on behalf of, or for the account or benefit of a person on a non-discretionary basis in the United States or any state of the United States.

The Company reserves the right to treat as invalid any Provisional Allotment Letter (or renunciation thereof) that appears to the Company or its agents to have been executed in or despatched from the United States, or that provides an address in the United States for the acceptance or renunciation of the Rights Issue, or which does not make the warranty set out in the Provisional Allotment Letter to the effect that the person accepting and/or renouncing the Provisional Allotment Letter does not have a registered address and is not otherwise located in the United States and is not acquiring the Nil Paid Rights, the Fully Paid Rights or the New Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Nil Paid Rights, Fully Paid Rights or New Shares in the United States or where the Company believes acceptance of such Provisional Allotment Letter may infringe applicable legal or regulatory requirements. The Company will not be bound to allot (on a non-provisional basis) or issue any New Shares, Nil Paid Rights, or Fully Paid Rights to any person with an address in, or who is otherwise located in, the United States in whose favour a Provisional

Allotment Letter or any Nil Paid Rights, Fully Paid Rights or New Shares may be transferred or renounced. In addition, the Company and the Underwriters reserve the right to reject any MTM instruction sent by or on behalf of any CREST member with a registered address in the United States in respect of the Nil Paid Rights.

In addition, until 40 days after the commencement of the Rights Issue, an offer, sale or transfer of the New Shares, the Nil Paid Rights, the Fully Paid Rights or the Provisional Allotment Letters within the United States by a dealer (whether or not participating in the Rights Issue) may violate the registration requirements of the Securities Act.

The provisions of paragraph 2.3 above will apply to any rights not taken up. Accordingly, Shareholders with a registered address in the United States who are not eligible to take up their rights will be treated as unexercising holders and the Underwriters will endeavour to procure on behalf of such unexercising holders subscribers for the New Shares.

2.5.3 Australia, Canada, Japan and South Africa

Due to restrictions under the securities laws of Australia, Canada, Japan and South Africa, and subject to certain exceptions, no Provisional Allotment Letters in relation to the New Shares will be sent to Shareholders, and no Nil Paid Rights or Fully Paid Rights will be credited to a stock account in CREST of, persons with registered addresses in Australia, Canada, Japan or South Africa and the Nil Paid Rights to which they are entitled will be sold if possible in accordance with the provisions of paragraph 2.3.1 above. Although Nil Paid Rights will be credited to the CREST accounts of all Qualifying CREST Shareholders (including Shareholders with registered addresses in Australia, Canada, Japan or South Africa), such crediting of Nil Paid Rights does not constitute an offer to such Shareholders or the distribution of any Nil Paid Rights to any Shareholder with a registered address in Canada or located or resident in Canada and any such Qualifying CREST Shareholders will not be entitled to take up rights in the Rights Issue unless such action would not result in the contravention of any registration or other legal requirement in any jurisdiction and, in the case of Canada, unless such action is taken pursuant to and in compliance with such procedures as the Company may approve. Subject to certain exceptions, the Provisional Allotment Letters, the Nil Paid Rights, the Fully Paid Rights and the New Shares may not be transferred or sold to, or renounced or delivered in, Australia, Canada, Japan or South Africa. No offer of New Shares is being made by virtue of this document or the Provisional Allotment Letters into Australia, Canada, Japan or South Africa.

Supplemental Information Relating to Canada

The Nil Paid Rights, Fully Paid Rights and New Shares have not been and will not be qualified for distribution by prospectus under the securities laws of any province or territory of Canada. Subject to certain exemptions, none of the Provisional Allotment Letter, Nil Paid Rights, Fully Paid Rights or New Shares will be directly or indirectly offered for subscription or purchase, taken up, sold, delivered, renounced or transferred in or into Canada. Therefore, subject to certain exemptions, the Rights Issue will not be made within Canada and Provisional Allotment Letters not be sent to, nor will any Nil Paid Rights be credited to a stock account in CREST on behalf of, any Shareholder with a registered address in Canada.

Notwithstanding any other provision of this document, the Company may, in its sole discretion, adopt procedures to permit Shareholders with a registered address in Canada, or who are located or resident in Canada, to receive and exercise Nil Paid Rights provided that such Shareholder has identified itself to the Company, and provided to the Company all such information, certifications and other documentation as the Company may, in its sole discretion, require in order to establish that such Shareholder is eligible to receive the Nil Paid Rights pursuant to an exemption from the prospectus requirements of applicable Canadian securities laws, in order to apply with any and all conditions of that exemption, and in order to comply with the Company's obligations to report the distribution of the Nil Paid Rights to the applicable Canadian securities regulatory authorities.

For greater certainty, a discretionary account manager located outside of Canada is not subject to the restrictions described herein applicable to Shareholders located or resident in Canada solely as a result of the beneficial owner of the managed account being located or resident in Canada, provided that no investment decision or any other act in furtherance of the trade in Nil Paid Rights, Fully Paid Rights or New Shares is taking place in Canada.

Also notwithstanding any other provision of this document, the Underwriters may procure subscribers in Canada for New Shares not taken up in the Rights Issue, pursuant to exemptions from the prospectus requirements of Canadian securities law and otherwise in compliance with all applicable requirements of those securities laws. Prospective Canadian purchasers of New Shares not taken up in the Rights Issue are hereby notified that:

- (i) the New Shares may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations;
- (ii) any resale of the New Shares must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable Canadian securities laws;
- (iii) securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor; and
- (iv) pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the Underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

2.5.4 Overseas territories other than the United States, Canada, Australia, Japan and South Africa

Provisional Allotment Letters will be posted to Qualifying Non-CREST Shareholders other than to Shareholders with a registered address, or located or resident, in one of the Excluded Territories or, subject to certain exceptions, the United States and Nil Paid Rights will be credited to the CREST stock accounts of Qualifying CREST Shareholders. Such Qualifying Shareholders may, subject to the laws of the relevant jurisdictions, participate in the Rights Issue in accordance with the instructions set out in this document and, if relevant, the Provisional Allotment Letter. In cases where Overseas Shareholders do not take up Nil Paid Rights, their entitlements will be sold if possible in accordance with the provisions of paragraph 2.3.1 above.

Qualifying Shareholders who have registered addresses in or who are resident in, or who are citizens of, all countries other than the UK should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to take up their rights.

(i) Member States of the European Economic Area (other than the United Kingdom)

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (as defined below) (except the UK) (each, a "Relevant Member State"), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, none of the New Shares, the Nil Paid Rights or the Fully Paid Rights may be offered or sold to the public in that Relevant Member State prior to the publication of this Prospectus in relation to the New Shares, the Nil Paid Rights and the Fully Paid Rights, which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, other than the offers contemplated in this Prospectus in a Relevant Member State after the date of such publication or notification, and except that an offer of such Nil Paid Rights, Fully Paid Rights or New Shares may be made to the public in that Relevant Member State:

- (i) to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (ii) to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the Joint Global Coordinators for any such offer; or
- (iii) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of New Shares, the Nil Paid Rights or the Fully Paid Rights shall require the Company to publish a prospectus pursuant to Article 3 of the Prospectus Directive or any measure implementing the Prospectus Directive in a Relevant Member State and each person who initially acquires any New Shares, Nil Paid Rights or Fully Paid Rights or to whom any offer is made under the Rights Issue will be deemed to have represented, acknowledged, and agreed that it is a “qualified investor” within the meaning of Article 2(1)(e) of the Prospectus Directive.

For the purposes of this selling restriction, the expression an “offer of New Shares, the Nil Paid Rights or the Fully Paid Rights to the public” in relation to any New Shares, the Nil Paid Rights or the Fully Paid Rights in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the New Shares, the Nil Paid Rights or the Fully Paid Rights to be offered so as to enable an investor to decide to acquire the New Shares, the Nil Paid Rights or the Fully Paid Rights, as the same may be varied in that Relevant Member State, and the expression “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression “2010 PD Amending Directive” means Directive 2010/73/EU.

In the case of the New Shares, the Nil Paid Rights or the Fully Paid Rights being offered to a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the New Shares, the Nil Paid Rights or the Fully Paid Rights acquired by it have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any New Shares, Nil Paid Rights or Fully Paid Rights to the public other than their offer or resale in a Relevant Member State to “qualified investors” within the meaning of Article 2(1)(e) of the Prospectus Directive. The Company, the Underwriters and their respective affiliates will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement.

2.5.5 Waiver

The provisions of this paragraph 2.5 and of any other terms of the Rights Issue relating to Overseas Shareholders may be waived, varied or modified as regards specific Shareholders or on a general basis by the Company in its absolute discretion. Subject to this, the provisions of this paragraph 2.5 supersede any terms of the Rights Issue inconsistent herewith. References in this paragraph 2.5 to Shareholders shall include references to the person or persons executing a Provisional Allotment Letter and, in the event of more than one person executing a Provisional Allotment Letter, the provisions of this paragraph 2.5 shall apply to them jointly and to each of them.

2.6 Representations and warranties relating to Shareholders

(i) Qualifying Non-CREST Shareholders

Any person accepting and/or renouncing a Provisional Allotment Letter or requesting registration of the New Shares comprised therein represents and warrants to the Company and the Underwriters that, except where proof has been provided to the Company’s satisfaction that such person’s use of the Provisional Allotment Letter will not result in the contravention of any applicable regulatory or legal requirement in any jurisdiction, (a) such person is not accepting and/or renouncing the Provisional Allotment Letter, or requesting registration of the relevant New Shares, from within the United States or the Excluded Territories; (b) such person is not in any territory in which it is unlawful to make or accept an offer to subscribe for New Shares or to use the Provisional Allotment Letter in any manner in which such person has used or will use it; (c) such person is not acting on a non-discretionary basis on behalf of, or for the account or benefit of, a person located within the United States or any Excluded Territory or any territory referred to in (b) above at the time the instruction to accept or renounce was given; and (d) such person is not acquiring Nil Paid Rights, Fully Paid Rights or New Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Nil Paid Rights, Fully Paid Rights or New Shares into the United States or any Excluded Territory or any territory referred to in (b) above. The Company may treat as invalid any acceptance or purported acceptance of the allotment of New Shares comprised in, or renunciation or purported renunciation of, a Provisional Allotment Letter if it (a) appears to the Company to have been executed in or despatched from the United States or any Excluded Territory or otherwise in a manner which may involve a breach of the laws of any jurisdiction or if it believes the same may violate any applicable

legal or regulatory requirement; (b) provides an address in the United States or any Excluded Territory (or any jurisdiction outside the UK in which it would be unlawful to deliver share certificates or sales advice); or (c) purports to exclude the warranty required by this paragraph 2.6.

(ii) Qualifying CREST Shareholders

A CREST member or CREST sponsored member who makes a valid acceptance in accordance with the procedures set out in this Part III represents and warrants to the Company and the Underwriters that, except where proof has been provided to the Company's satisfaction that such person's acceptance will not result in the contravention of any applicable regulatory or legal requirement in any jurisdiction, (a) he is not within the United States or any of the Excluded Territories; (b) he is not in any territory in which it is unlawful to make or accept an offer to subscribe for New Shares; (c) he is not accepting on a non-discretionary basis for, on behalf of, or for the account or benefit of, a person located within the United States or any Excluded Territory or any territory referred to in (b) above at the time the instruction to accept was given; and (d) he is not acquiring Nil Paid Rights, Fully Paid Rights or New Shares with a view to the offer, sale, resale, transfer, delivery or distribution, directly or indirectly, of any such Nil Paid Rights, Fully Paid Rights or New Shares into the United States or any Excluded Territory or any territory referred to in (b) above.

2.7 Times and dates

The Company shall, in its discretion and after consultation with its financial and legal advisers, be entitled to amend the dates that Provisional Allotment Letters are despatched or dealings in Nil Paid Rights commence or amend or extend the latest time and date for acceptance under the Rights Issue and all related times and dates set out in this document and in such circumstances shall notify the UK Listing Authority, and make an announcement via a Regulatory Information Service approved by the UK Listing Authority. **In the event such an announcement is made, Qualifying Shareholders may not receive any further written communication in respect of such amendment or extension of the dates included in this document.**

If a supplementary prospectus is issued by the Company two or fewer business days prior to the latest time and date for acceptance and payment in full under the Rights Issue specified in this document (or such later date as may be agreed between the Company and the Underwriters), the latest date for acceptance under the Rights Issue shall be extended to the date that is three business days after the date of issue of the supplementary prospectus (and the dates and times of principal events due to take place following such date shall be extended accordingly).

2.8 Governing law

The terms and conditions of the Rights Issue as set out in this document and the Provisional Allotment Letter and any non-contractual obligations arising out of or in relation to the Rights Issue shall be governed by, and construed in accordance with, English law.

2.9 Jurisdiction

The courts of England and Wales are to have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Rights Issue, this document or the Provisional Allotment Letter and any non-contractual obligations arising out of or in connection with them. By accepting rights under the Rights Issue in accordance with the instructions set out in this document and, in the case of Qualifying Non-CREST Shareholders, other than those with a registered address, or resident in, one of the Excluded Territories or, subject to certain exceptions, the United States, Qualifying Shareholders irrevocably submit to the jurisdiction of the courts of England and Wales and waive any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

PART IV – BUSINESS OVERVIEW OF THE GROUP

Group overview

The Group 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. Employing approximately 3,000 people at fifteen facilities in the United States, the United Kingdom, Australia and Norway, the Group meets demanding customer requirements in defence and security markets in more than 50 countries worldwide.

The Group operates in three strategic product segments:

- *Countermeasures*, which is engaged in the development and manufacture of expendable countermeasures to protect ships and aircraft against guided missile threats;
- *Sensors & Electronics*, which is engaged in the development and manufacture of equipment to detect explosive, chemical and biological threats, neutralise IEDs, and prosecute land-based electronic warfare; and
- *Energetic Systems*, which is engaged in the development and manufacture of high-reliability energetic components for aircraft, missiles, and satellite deployment, and ammunition and military pyrotechnics.

For the year ended 31 October 2015, the Group had revenues from continuing operations of £377.3 million and underlying operating profit from continuing operations of £34.4 million. For the year ended 31 October 2014, the Group had revenues from continuing operations of £403.1 million, with underlying operating profit from continuing operations of £46.7 million. As at 31 October 2015 and 31 October 2014, the Group had an order book of £569.6 million and £486.8 million, respectively.

Group history

The British Foreign & Colonial Automatic Light Controlling Company Limited – the forebear of the Group – was founded in 1905 as a company manufacturing timers for gas street lighting. In the 1950s and 1960s, the Group entered the defence supply sector after the discovery that its silver-coated nylon filaments, originally used on meteorological balloons, had an alternative use as chaff as a radar decoy, which came to the attention of the MoD and the Royal Swedish Air Board.

In 1974, the Company was first listed on the London Stock Exchange.

During the Falklands War in 1982, the Group began producing aluminium glass chaff decoys for the UK Navy as a countermeasure against sea-skimming missiles. In 1986, the Company expanded its countermeasures manufacturing capabilities and acquired a pyrotechnics business to enable its entry into that segment. The Group subsequently provided countermeasures for use in the First Gulf War.

By the early 2000s, the company was the largest provider of decoys to both the MoD and the DoD. Between 2000 and 2011, the company acquired countermeasures, pyrotechnics, munitions and sensors & electronics businesses in the United Kingdom, the United States and Europe. In 2014, the Group completed a strategic review resulting in the divestment of its European munitions businesses, Chemring Defence Germany and Chemring Energetic Devices' Clear Lake business, in order to focus on its core competencies. In the same year, the Group acquired 3d-Radar AS to bolster its development of commercial ground-penetrating radar technology.

Strengths and strategies

Strengths

Long-standing customer relationships and market know-how

The Group delivers protection solutions in a world facing rapidly-evolving threats from both organised militaries and the growing base of insurgents. Tracking and identifying threats and understanding their implications are critical for detecting and countering these threats. With over 50 years of experience in the defence industry, the Group has accumulated significant know-how in the sectors in which it

operates, and has established itself as a trusted supplier to key government agencies, contractors and businesses. From these customer relationships, the Group has obtained critical insight into customers' threats and requirements for protection and detection solutions.

The Group's main markets in the United States, United Kingdom and Australia provide a base of sophisticated and influential users who provide demanding requirements for new technologies and products. The Group also has a network of relationships in the rest of the world, which provide routes to market for its products.

In addition to manufacturing products, the Group exploits its knowledge by undertaking contract research and development for clients, where this provides an opportunity to extend the Group's knowledge base, understand new opportunities and operational scenarios or build new customer relationships.

This insight into customers' needs has allowed the Group to become a trusted, leading player in its Countermeasures, Sensors & Electronics and Energetic Systems segments.

Advanced technology and research and development capacity

The Group continually invests in research and development to provide technologically-advanced solutions to its customers.

Leveraging its customer relationships and market knowledge, the Group is able to identify requirements, and then develop or source new technologies to meet those requirements. The Group works closely with users and government research centres to develop, test and qualify its solutions, including new decoys to counter new missile threats, new detection systems for explosive, chemical and biological threats, or new energetic systems for protecting military and non-military personnel.

The Group's commitment to research and development has established its position in expendable countermeasures, IED detection and land electronic warfare and has allowed the Group to continue to advance its product offering to counter increasingly sophisticated threats.

Efficient and consistent product delivery

The Group manufactures a diverse range of products, from specialist niche electronic sensors, to very high volumes of air countermeasures. Its manufacturing operations are matched to the requirements of its different products and customer demand, with batch operations in electronics assembly and test, or high volume automated manufacturing for aircraft flares. It continues to improve its manufacturing performance through the rigorous application of modern techniques such as "Lean" and "Six-Sigma" and also reviews its factory foot-print to meet expected demand. Energetic material products, including countermeasures, place a unique set of challenges on the Group because the inherently hazardous nature of these materials limit quantities of material in any single building, and also because any functional test of the product inevitably destroys it. These characteristics have driven a move to automated manufacture to improve operator safety by reducing their exposure to any energetic hazard, and to improve product quality by ensuring absolutely consistent processes. For these reasons, Chemring's countermeasures businesses in the United States, United Kingdom and Australia involve the use of automated systems for specific aspects of the manufacturing process.

Strategies

Maintain a leading position in expendable countermeasures

The Group intends to maintain its leading position in the market for conventional and advanced countermeasures through continuous operational improvement and targeted investment in technology. Its new automated manufacturing facilities in the UK and Australia are operational, and Chemring has a strong focus on improving the operational performance in all facilities. The Group also intends to maintain its technological lead in air countermeasures through targeted R&D investment meeting evolving needs and to sustain its sole source positions on the key US and NATO next-generation platforms – the Typhoon, F-22 and F-35. As part of its targeted investment in technology, the Group reached an agreement with Esterline to purchase patents related to air countermeasures. In the naval countermeasures segment, it intends to complete the development of the CENTURION fully-trainable naval decoy launcher in close collaboration with a launch customer, and will continue to evolve naval

decoy technology by working closely with lead users, particularly the UK MoD. Additionally, the Group plans to grow its market share through in-country relationships and technology transfer in emerging markets.

Build a world-leading technology base in Sensors & Electronics

The Group intends to grow its Sensors & Electronics business by developing and exploiting technologies for its niche markets in IED defeat, chemical and biological threat detection, and land-based electronic warfare. To do so, the Group aims to exploit its international footprint to continue to develop advanced technologies and win key, identified programmes such as the HMDS Program of Record, the NGCD, the JBTDS, and several next generation electronic warfare programmes. It also intends to maintain and grow its specialist contract R&D business to sustain its technology base and benefit from the customer insights this provides.

Optimise leading niche positions in Energetic Systems

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

Improve Group operations

The Group has made substantial progress in eliminating corporate and divisional overheads through restructuring. It intends to keep tight control over corporate costs, and is now also focusing on the operational performance within the businesses. It has three main areas to achieve this. First, the Group plans to 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 Torrance site which is expected to further reduce costs. Similarly, the separation of the Roke contract R&D 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 different type of business.

Second, the Group intends to 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 as re-laying production processes, systematic root-cause analysis of failures and targeted investment in specific processes, including automated manufacturing, where appropriate.

Third, the Group intends to 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.

In addition, during 2016 the Group expects to revise its 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 SSA under which certain of the Group's businesses operate.

Manage the Group's portfolio

The Group made important progress in the year ended 31 October 2014, by refocusing its operations and strengthening its balance sheet to create greater strategic flexibility. The Group divested elements of its business which had little scope to become world leaders in their respective markets and limited synergies with the rest of the Group. The disposal of the European munitions businesses was a key milestone for the Group in achieving the goals of its strategic review. The disposal reduced the Group's net debt levels and strengthened its financial position. At 31 October 2014, net debt was £135.6 million, which constituted a significant improvement compared to £248.7 million as at 31 October 2013.

In addition, the Group recognised a compelling opportunity for synergies in an area of the market it understands well, and acquired 3d-Radar in May 2014 to diversify its expertise in ground-penetrating radar and open up sales channels into both non-NATO and commercial markets. The Group has also reached an agreement with Esterline to buy patents, equipment, stock and selected contracts relating to Esterline's UK-based subsidiary, Wallop Defence Systems Limited. These assets relate to air countermeasures and pyrotechnic products, which, pending approval by the MoD and CMA, will be manufactured at Chemring's existing UK operations, further building on the Group's product offerings in Countermeasures. The Group aims to take advantage of similar opportunities to purchase businesses, assets or technologies, particularly where they offer significant scope for operational synergies and cost reduction.

The Group believes it now has the core technologies, products and market positioning to take it forward and achieve sustainable improvements in margins and revenue.

Target growth markets

The Group's technology strategy focuses on developing advanced products to meet customer needs in its "home" markets in the United States, 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 non-NATO countries with growing defence budgets, with a focus on growing sales to customers based in the Middle East and Asia-Pacific. The proportion of the Group's revenue deriving from non-NATO countries has increased from 15.1 per cent. in the year ended 31 October 2014 to 29.3 per cent. in the year ended 31 October 2015, with growth delivered in all three of the Group's operating segments and further growth anticipated in the 2016 financial year.

Group operating segments

Countermeasures

Overview

The Group is the leading global manufacturer of expendable decoys to protect aircraft and ships from infra-red and radar-guided missiles, with customers in 35 countries.

The Group's air countermeasures product offering includes conventional and advanced flares, special material decoys and chaff. The Group supplies conventional magnesium Teflon™ Viton® flares and advanced flares for most NATO fighters, transport aircraft and helicopters and is the sole supplier for flares for the Typhoon, F-22 and F-35. To defeat latest-generation guided missiles, which can discriminate between conventional flares and target aircraft, the Group has advanced countermeasures to better emulate the flight and spectral characteristics of aircraft. The Group also produces special material decoys, which use pyrophoric materials to create an infra-red signature to provide reactive and pre-emptive protection against infra-red guided missile threats.

In addition to countermeasures for air platforms, the Group is a leading provider of naval countermeasures for protecting warships against radar and infra-red guided missile threats. In the naval sector, it is also developing the CENTURION naval decoy launcher, a twelve-barrelled, fully-trainable launcher designed to optimise the placement of naval decoys, minimising the need for ship manoeuvring and increasing survivability.

Operating companies

The operating companies within the Group's Countermeasures segment are as follows:

- *Chemring Countermeasures (USA)* consists of Alloy Surfaces, based in Chester Township, Pennsylvania, and Kilgore Flares, based in Toone, Tennessee.

Alloy Surfaces is a leading developer of special material decoys for the US Navy, 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 the flares for the F-22 and F-35. Its main customers are the US Air Force, Army and Navy.

- *Chemring Countermeasures (UK)*, based in Salisbury, has more than 40 years of experience in the design, development and manufacture of advanced expendable countermeasures for air and sea platforms. Chemring Countermeasures UK's aircraft products include conventional and advanced flares, chaff, and decoys specifically for civilian platforms. Its products for naval platforms include infra-red and radio frequency decoys and the CENTURION trainable launcher. Chemring Countermeasures (UK)'s primary customers are the MoD and NATO and Middle Eastern air forces.
- *Chemring Australia*, based in Lara, Victoria, develops and manufactures aircraft countermeasures, pyrotechnics, and counter-IED and electronic warfare solutions. Chemring Australia's primary customer is the Australian Department of Defence.

Results and developments

In the year ended 31 October 2015 and the year ended 31 October 2014, the Countermeasures segment achieved revenues of £125.8 million and £96.1 million, respectively, and underlying operating profit of £17.5 million and £9.7 million, respectively. As at 31 October 2015, the Countermeasures segment had an order book of £184.1 million.

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 the 2015 financial year, 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 in the 2017 financial year. 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 the 2018 financial year.

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 the 2015 financial year, although work remains to be done to ensure greater consistency of countermeasure output. Kilgore's order book is progressively being worked through and order wins in the 2016 financial year are important in ensuring an efficient level of production activity for future years, given the high fixed cost base at the Kilgore facility.

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 the 2015 financial year. 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 are expected to be generated from this investment over the coming years, as the range of products manufactured in the complex is broadened.

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.

For the 2016 financial year, Countermeasures is expected to achieve limited growth based on existing orders for new products from Alloy Surfaces. The overall focus will be on cost reduction targeting site consolidation and improving production efficiency. Additionally, increased activity is expected on Typhoon and the F-35, including qualification of Chemring Australia as a second source for the F-35.

Sensors & Electronics

Overview

In Sensors & Electronics, Chemring serves niche requirements to detect explosive, chemical and biological threats, neutralise IEDs and prosecute land-based electronic warfare (detecting, intercepting and jamming electronic communications). The Group also provides research and development services to UK government agencies, including cyber-security consulting services, and is developing network security solutions for civilian use.

Several of the Group's sensors and electronic systems were originally developed and deployed to address urgent operational needs in Iraq and Afghanistan, and were sold to the United States, United Kingdom and other coalition forces operating in those theatres. Following withdrawal of NATO and coalition forces from Iraq and Afghanistan, Chemring is focused on developing international sales for its equipment, whilst engaging with its US and UK customers in the development of the next-generation solutions, which are expected to become a sustained element of their national military capability. Additionally, Chemring's Sensors & Electronics' emphasis has been on securing long-term development contracts for the US Army's Programs of Record and developing the international market.

Operating companies

The operating companies within the Group's Sensors & Electronics segment are as follows:

- *Chemring Sensors & Electronic Systems (USA)* comprises NIITEK in Dulles, Virginia, 3d-Radar in Trondheim, Norway and Chemring Detection Systems in Charlotte, North Carolina. It designs, develops and manufactures ground-penetrating radar IED detection systems, and chemical and biological threat detection systems.

NIITEK manufactures vehicle-mounted, robot-mounted and hand-held ground penetrating radar-based detection systems for the US Army, with exports to Canada, Australia, Spain, Turkey and Italy.

3d-Radar is a development centre for vehicle-mounted civil and military ground-penetrating radar systems.

Chemring Detection Systems is the incumbent supplier for two major US military vehicle-mounted detection programmes: the Joint Biological Point Detection System ("JBPDS") and the Joint Service Lightweight Stand-off Chemical Agent Detector ("JSLSCAD"). Though these programmes are in their run-off stages, the Charlotte, North Carolina operation is also engaged in the engineering, manufacturing and development ("EMD") phase of the two key successor programmes, the JBTDS and the NGCD.

Chemring Sensors & Electronic Systems' operation in Norway comprises the R&D capability of the former 3d-Radar business, developing military and civilian variants of its GeoScope vehicle-mounted ground penetrating radar system.

- *Chemring Technology Solutions (UK)*, based in Romsey and Poole, is the Group's centre of excellence in land electronic warfare, and also develops and manufactures IED detection and neutralisation systems, including vehicle-mounted and hand-held sensors, disruptors and initiation systems.
- *Roke (UK)* is a science and technology company that provides electronics research, development and engineering services, and cyber-security solutions for UK government agencies and prime contractors.

Results and developments

In the year ended 31 October 2015 and the year ended 31 October 2014, the Sensors & Electronics segment achieved revenues of £99.1 million and £154.4 million, respectively, and underlying operating profit of £9.3 million and £31.9 million respectively. As at 31 October 2015, the Sensors & Electronics segment had an order book of £75.7 million.

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 the Group continues 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 from a customer in the Middle East in the 2014 financial year, further order intake and contract activity in the Middle East is expected in the 2016 financial year, as the Group continues to promote the HMDS solution and the Group’s 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 System (“JBTD”) development programme, which is expected to lead to production contracts from 2018.

The Group expects Sensors & Electronics’ DoD Programs of Record related to counter-IED, chemical and biological detection to continue in the R&D phase during the 2016 financial year. Additionally, during the 2016 financial year, Middle East HMDS and 3d-Radar production orders are expected to progress, and the Group expects improved market position and profitability in Sensors & Electronics following its UK restructuring.

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 Sensors & Electronics’ 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, Sensors & Electronics’ products and technologies are targeted at detecting and mitigating new, growing threats such as IEDs and cyber-attacks. The Group believes these capabilities will form a growing proportion of future defence budgets.

Energetic Systems

Overview

The Group’s Energetic Systems operating segment offers products in two categories: energetic sub-systems and military pyrotechnics.

Energetic sub-systems

Energetic sub-systems are safety-critical components of aircraft, missiles, and space launch systems. The Group is a supplier of rocket motors and energetic components for aircraft ejection seats and safety systems. It produces low-shock satellite separation products and NASA Standard Initiators, and is a supplier to large contractors such as aerospace and defence original equipment manufacturers (“OEMs”) as well as end users such as the US Air Force and Navy. The Group’s actuators and thrusters are used on a number of NASA and European Space Agency programmes, including the Atlas, Delta and Titan family of launch vehicles, space exploration vehicles and satellites, including over 200 high-reliability products which contributed to the successful landing of NASA’s Curiosity rover on Mars.

The Group’s energetic sub-systems include missile actuators, retention mechanisms, safe and arm units, rocket motors and weapon release cartridges, initiators, satellite separation sub-systems, thrusters,

actuators and cartridge-actuated devices, The Group also manufactures energetic materials including propellants, high explosives and energetic plasticisers.

Military pyrotechnics

Military pyrotechnics include 40mm ammunition, demolition and breaching systems, signalling rockets, flares and smoke grenades. The Group manufactures a range of pyrotechnic products which are used by military and security forces, and is a supplier to the DoD and MoD.

Operating companies

The operating companies within the Group's Energetic Systems segment are as follows:

- *Chemring Energetics UK*, based in Stevenston and Corsham, provides explosives and propellant materials, as well as pyromechanisms – actuators using small quantities of energetic materials to provide the motive force. Chemring Energetics UK's products include rocket motors, canopy cutting charges, linear explosives, propellant-actuated devices, fuse and safe/arm units, flight termination systems, actuators, warheads, charges, primers and initiators. Chemring Energetic UK's primary customers are aerospace and defence OEMs.
- *Chemring Energetic Devices (USA)*, based in Downers Grove, Illinois and Torrance, California, produces energetic systems products for the aerospace and defence markets. Chemring Energetic Devices products include propellant-actuated devices, initiators, gas generators, time delays, arm/fire devices, stage separation sub-systems, retention devices, pyrotechnic valves, cutting devices, thrusters, actuators, detonating cartridges, pin pullers and pushers, exploding foil initiators and acoustic firing devices.

Chemring Energetic Devices' main customers are the US Air Force and Navy, NASA and aerospace and defence OEMs.

- *Chemring Nobel (Norway)*, based in Saetre, manufactures explosives, and other niche energetic materials for explosive and propellant applications. Chemring Nobel's primary customers in the defence market are aerospace and defence OEMs, and it also supplies specialist materials for civil applications in oil, gas and mining.
- *Chemring Ordnance (USA)*, based in Perry, Florida, produces the Anti-Personnel Obstacle Breaching System for the US Army, 40mm ammunition, and a number of signalling and training products including pyrotechnic grenade fuses.
- *Chemring Military Products (USA)*, based in Perry, Florida, operates a procurement service to supply bundles of non-NATO standard equipment, for which its largest customer is the DoD.
- *Chemring Defence UK*, based in Draycott, designs, develops and manufactures pyrotechnics for military, and security customers. Chemring Defence's products include smokes, flares, distraction and screening grenades, smoke payloads, battlefield simulation products, detonators, charges, minefield clearance systems and demolition stores. Chemring Defence UK's customers are the MoD and European and Middle Eastern defence and security departments.
- *Chemring Prime Contracts (UK)*, based in Draycott, provides a procurement service for customers in the Middle East who choose to procure a range of different products from a single source which, in turn, manages complex manufacturing supply chains.

Results and developments

Chemring Energetic Devices had a strong year, addressing capacity constraints at the California facility and delivering another year of profit improvement. Customers are supporting the business in its efforts to qualify its Illinois operation to manufacture products and the Torrance facility is expected to close in 2018 once this qualification process is complete. Once complete, this site rationalisation is expected to yield significantly improved operational performance, as well as significant recurring cost savings.

Chemring Energetic Devices has successfully started to diversify its business, with international sales of test equipment used for aircrew life-support systems, and sales of explosive separation bolts for a new high-reliability application.

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 the Group’s customer. The 40mm contract is expected to provide a significant contribution to FY16.

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

Additionally, 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.

In the year ended 31 October 2015 and the year ended 31 October 2014, the Energetic Systems segment achieved revenues of £152.4 million and £152.6 million, respectively, and underlying operating profit of £15.1 million and £15.0 million, respectively. As at 31 October 2015, the Energetic Systems segment had an order book of £309.7 million, which stands at a record level, underpinning Energetic Systems’ future prospects.

During the 2016 financial year, Energetic Systems results are expected to benefit from the fulfilment of the 40mm ammunition contract in the Middle East. The market outlook for Energetic Systems is anticipated to be subdued for the 2016 financial year, though recovery in NATO demand is expected in the 2017 financial year. Middle East markets remain a target for growth for Energetic Systems.

Customers

The Group’s customers are governments and government agencies, defence contractors and commercial enterprises around the world. The Group’s single largest customer is the DoD, which contributed 29.3 per cent. of the Group’s revenue in the year ended 31 October 2015.

In the year ended 31 October 2015, 70.7 per cent. of the Group’s revenue was derived from customers in NATO countries, whereas 29.3 per cent. was derived from customers in non-NATO countries. As at 31 October 2015, 72.6 per cent. and 27.4 per cent. of the Group’s order book was from NATO and non-NATO countries, respectively. Additionally, non-defence activity contributed 17.2 per cent. of the Group’s revenue for the year ended 31 October 2015 (2014: 9.5 per cent.).

The following table sets out the Group's revenue for the year ended 31 October 2015 by geography:

	<i>Percentage of Group revenue</i>
United States	45.4%
United Kingdom	16.9%
Europe (excluding UK)	10.0%
Middle East	14.3%
Asia Pacific	13.0%
Rest of world	0.3%
Total	100%

The table below sets out the breakdown of the Group's regional and total revenues for the year ended 31 October 2015 by segment:

	<i>Counter- measures</i>	<i>Segment Sensors & Electronics</i>	<i>Energetic Systems</i>
United States	12.8%	10.7%	21.9%
United Kingdom	2.1%	9.2%	5.6%
Europe (excluding UK)	4.5%	1.8%	3.7%
Middle East	4.1%	2.3%	7.8%
Asia Pacific	9.7%	2.2%	1.1%
Rest of world	0.0%	0.1%	0.2%
Total	33.3%	26.3%	40.4%

Additionally, from time to time, the Group sells through distributors to known end-user customers.

Industry and competition

As a result of prevailing economic conditions, fewer large-scale military operations worldwide and large budget deficits in many NATO countries, the Group expects defence budgets to remain generally flat. The Group has experienced reductions and delays in the placement of orders by NATO customers as a result of budgetary constraints, and anticipates that such delays are likely to continue in the short to medium term. However, the declines in defence spending that have occurred in recent years appear to have begun to stabilise and the global defence market is expected to be broadly flat through 2016, before slowly recovering.

The United States remains the dominant player in global defence spending. Recent declines in DoD budgets have reflected austerity measures and the ongoing withdrawal of operations from Afghanistan, although these reductions appear to be partially reversing.

In other NATO countries, defence spending remains constrained. The UK's commitment to maintain defence spending at 2.0 per cent. of GDP is positive, but major programmes such as the Queen Elizabeth carrier and F-35 jets are still likely to squeeze other programmes, particularly in the land domain. European defence funding is also constrained and is generally less than 2.0 per cent. of GDP.

The Middle East defence market remains robust, with growth in demand continuing to be fuelled by regional tensions. While there are promising opportunities in this market, there are some signs of spending constraints as a result of the low oil price and the timing of order placement remains difficult to predict.

Defence spending in Asia is growing. Asian spending growth is largely due to Japan and China becoming increasingly more outward looking, the US's commitment to the Asia-Pacific region and continuing and increasing regional tensions.

The Group faces different competitors across each of its different segments.

In Countermeasures, the main competitor is Esterline in the United States, which manufactures flares and chaff. In Europe, Lacroix is the main competitor in the air countermeasures business, and Rheinmetall AG in naval launchers and decoys. Market shares are relatively stable, with product qualification providing a significant barrier to both new entrants and switching between suppliers.

Sensors & Electronics covers a set of several niche markets, with different competitors in each. In IED detection and defeat, Cobham plc is a significant player in ground penetrating radar technology. In the global market for chemical and biological detection, Smiths Group plc and Bruker Corp. are major suppliers. Finally, in land-based electronic warfare, L-3 Communications Holdings, Inc. is a key competitor. Many Sensors & Electronics systems are procured in major, multi-year programmes, and competitors' market shares tend to change according to their success or failure to win a presence on these programmes.

Competitors in the Energetic Systems segment divide between energetic sub-systems and military pyrotechnics. In energetic sub-systems, where the product is a very small proportion of a much larger system, qualification costs provide a major barrier to entry, and long-standing competitors include Pacific Scientific Energetic Materials Company in the US and Eurenco in Europe. In military pyrotechnics, qualification is less of a barrier to customer switching, and competitors tend to be mature businesses, including Amtec Defense Products Co., Safariland, LLC and NonLethal Technologies, Inc. in the US, and Rheinmetall AG in Europe.

Corporate and Social Responsibility

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 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 intends that the Group's corporate responsibility approach will be fully embedded within its businesses, and the senior management bonus plan incorporates specific objectives in these areas.

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

Policy and practices

The Board recognises that the highest levels of safety are required in order to protect the Group's employees, product end-users and the general public. The Board believes that all incidents and injuries are preventable, and that all employees have the right to return home safely at the end of every working day. The long-term strategies adopted by the Group are designed to ensure that the Group continually improves its performance and reduces risk.

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, monitor progress by regular measurement, audit and review, and take additional action where necessary. Each business unit 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 plans. Managers 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 Group 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 all of the Group's companies. Accidents, incidents and near misses are investigated, along 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.

Culture and behaviour

The Group has made substantial investments in its manufacturing facilities to reduce levels of risk, and the Group continues to focus on ensuring that its buildings, processes and products are as safe as reasonably practicable for its employees and product-users, by driving improvements in process safety management systems, investing in automation, remote operations and infrastructure, and improving risk control systems and asset integrity. The Group continues to invest in processes that remove individuals from exposure to hazardous materials including: i) automated flare pellet manufacturing at Chemring Countermeasures UK; ii) automated block explosives manufacturing at Chemring Energetics; iii) implementing the automation of device assembly at Chemring Energetics; and iv) implementing the automation of slurry dip activities at Kilgore. Additionally, the Group continues to build on recent improvements via its "Culture Change" and "Process Safety Management" programmes.

In 2013, the Group developed a new culture and behaviour improvement programme based on industry best practice. This "Safety Leadership Programme" has been delivered to all senior leaders, and they are challenged to develop individual business improvement programmes. The Group's Safety Leadership Programme continues to address the cultural aspects of safety, and during the 2015 financial year, the Group experienced a 40.0 per cent. increase in near miss reporting, which is an encouraging leading indicator, providing evidence that the Group's employees are embracing the principles of the programme. The Group believes that its leaders foster the culture by setting expectations, building structure, teaching others and stewarding results.

Performance

Energetic events

While the Group takes all incidents seriously, it pays particular attention to those where employees sustain injury due to an energetic event. The Group experienced one energetic incident that resulted in lost time in the year ended 31 October 2015, when an operator received minor burns at Chemring Australia's Lara facility. The employee has fully recovered and is back at work. The Group's lost-time incident rate for the year ended 31 October 2015 was 0.57.

Other lost time events

The Group collects and reports lost time incident rates using the US Occupational Safety and Health Administration ("OSHA") rules. The Group's lost time incidents remain at a low level, though it experienced a slight reduction in performance from a rate of 11 lost time incidents in the year ended 31 October 2014 to 15 in the year ended 31 October 2015.

The Group's most common lost time injury types are slips, trips and falls, strains and sprains.

Employee support and development

The Board recognises the valuable contribution that the Group's employees make to its success, and aims to provide a working environment that reflects and rewards this. As at 31 October 2015, the Group had approximately 3,000 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.

The Board currently has one female member and is committed to a minimum of 25.0 per cent. female representation on the Board. The Group also recognises the importance of promoting diversity across the Group.

Development and training

The Group continues to address training and development requirements for employees at all levels within the organisation. All of the Group's 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 three-year strategic plan. The Board also reviews future management requirements and succession plans on an ongoing basis.

Roke (UK) continues to operate successful undergraduate placement and graduate development programmes which have received external recognition.

Benefits

The Group aims to provide all of its employees with an attractive and competitive benefits package. US employees receive healthcare, and the Group is continuing to monitor proposed legislative changes to ensure compliance with any revised obligations which may be imposed.

The Board is keen to encourage employees to join share schemes so 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 companies 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 distributed to all employees.

Environmental protection

Policy and practices

All of the Group's businesses are certified to the environmental management system ISO14001, which requires the setting of environmental goals and objectives focused on local aspects and impacts. In addition, the Group sets expectations and monitors performance across its businesses.

Land quality

The Chemring Energetic Devices (USA) facility in Downers Grove, Illinois is located on a site which has "superfund" status under the United States Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended. The Group continues to work with external consultants and the regulatory authorities to ensure that the legal obligations of the business in relation to this matter are fully satisfied.

Incidents

The Group experienced no significant environmental incidents in the year ended 31 October 2015.

Ethical business conduct

Policy on the Sale of Goods and Services

The Board has issued 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.

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

Following the implementation of the Bribery Act, the Group adopted a “Bribery Act Compliance Manual”, which incorporates all of the Group’s anti-corruption policies and procedures. The Group’s anti-bribery programme now incorporates 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 also adopted an ethical compliance programme to satisfy US government requirements for the 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 FCPA and Bribery Act.

Community involvement

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. At a Group level, charitable donations are considered on a monthly basis by the Executive Committee. The Group continues to sponsor the Manchester United Football Club.

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 donate their time and services on a wide range of projects.

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 addresses this through its environmental strategy.

Regulatory environment and licences

The Group's operations are subject to a wide range of regulatory requirements, given the nature of the products which are manufactured and sold across the world, and the potential hazards associated with handling and processing chemicals and energetic materials.

The Group requires numerous licences and permits including:

- Export licences and US ITAR (International Traffic in Arms Regulations) approvals
- Explosive handling licences
- Health and safety approvals
- Environmental permits
- US Alcohol, Tobacco, Firearms and Explosives licences
- REACH approvals in relation to materials and chemical processes

As a supplier of defence equipment to the international market, the Group complies with strict export licensing requirements in each of the countries where it has operations. Licenses to export defence products are strictly enforced by the Department of Trade in the UK and the State Department in the US, taking into account the nature of the products in question and the political and military stance of the destination country. US technology is also subject to ITAR, which can impact both US and non-US businesses which incorporate specified US-originated technologies in their products or solutions.

In addition to the general licensing requirements for any defence company, much of the Group's business involves energetic or explosive materials which are subject to additional layers of regulation covering safety, environmental and security requirements in handling, storing and disposing of potentially hazardous or toxic materials. Safety and environmental regulations are generally administered by workplace health and safety organisations such as the Health and Safety Executive in the UK and Occupational Safety and Health Administration in the US. Security requirements are administered by the police, and in the US, the Bureau of Alcohol, Tobacco, Firearms and Explosives.

This complex regime of multiple licenses poses a barrier to businesses entering the business, but for the Group, as an incumbent supplier maintaining its licences, it is part of its day-to-day operation. The Group constantly monitors the regulations which impact its business, and maintains a constructive dialogue with key regulators to ensure that it is able to anticipate and comply with changes.

Intellectual property and research development

The Group continually invests in research and development to provide technologically advanced solutions to its customers.

The Group strategically invests in research and development to secure critical intellectual property underpinning potential solutions. Once the required intellectual property is secured, 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 are sought to develop specific solutions. For example, the Group's countermeasures products require significant investment in flight qualification, and the Group works closely with key customers in the US and Europe to test the product. Where qualification costs are less prohibitive and their 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

by funding the development of its sensor and electronic products to ensure the Group can fully exploit the international market for these solutions.

Employees

The table below sets out the number of employees employed by the Group as at the dates indicated divided by geography:

	<i>As at 31 October</i>		
	<i>2015</i>	<i>2014</i>	<i>2013</i>
United Kingdom	1,279	1,358	1,248
Norway	109	104	92
United States	1,377	1,306	1,581
Australia	84	80	88
Total	<u>2,849</u>	<u>2,848</u>	<u>3,009</u>

The table below sets out the number of employees employed by the Group as at the dates indicated divided by segment:

	<i>As at 31 October</i>		
	<i>2015</i>	<i>2014</i>	<i>2013</i>
Countermeasures	1,148	943	988
Sensors & Electronics	599	677	780
Energetic Systems	1,065	1,179	1,193
Head office	37	49	48
Total	<u>2,849</u>	<u>2,848</u>	<u>3,009</u>

PART V – OPERATING AND FINANCIAL REVIEW

The financial information below for the years ended 31 October 2015 and 2014 is extracted without material amendment from the Annual Report and Accounts of the Group for each of the years ended 31 October 2015 and, 2014. The financial information below for the years ended 31 October 2013 is extracted without material amendment from the comparative financial information contained in the Blue Annual Report and Accounts for 2014 due to the retrospective restatement of the 2013 financial information for the adoption of IAS 19 (Revised) Employee Benefits and for the representation of the income statement for the discontinuing operations.

Each of the Group's Annual Report and Accounts (including the independent auditors' reports in the Company's audited historical financial information) are incorporated by reference in this document as described in Part X "Documentation Incorporated by Reference".

You should read the information below in conjunction with the Group's audited historical financial information and the independent auditors' reports contained in the Company's Annual Report and Accounts alongside the detailed information included in this document in Part IV "Business Overview of the Blue Group" and the other information incorporated by reference into this document and you should not rely solely on key and summarised information. Deloitte LLP have issued unqualified audit opinions in respect of the financial statements for the Company for each of the years ended 31 October 2015, 2014 and 2013.

Some of the information in the review set forth below and elsewhere in this document and in the information incorporated by reference into this document includes forward looking statements that involve risks and uncertainties. The Group's actual results may differ materially from those discussed in these forward looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this document, including under "Risk Factors" and "Cautionary Note Regarding Forward Looking Statements".

Overview

The Group 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. Employing approximately 3,000 people at fifteen facilities in the United States, the United Kingdom, Australia and Norway, the Group meets demanding customer requirements in defence and security markets in more than 50 countries worldwide.

The Group operates in three strategic product segments:

- *Countermeasures*, which is engaged in the development and manufacture of expendable countermeasures to protect ships and aircraft against guided missile threats;
- *Sensors & Electronics*, which is engaged in the development and manufacture of equipment to detect explosive, chemical and biological threats, neutralise IEDs, and prosecute land-based electronic warfare; and
- *Energetic Systems*, which is engaged in the development and manufacture of high-reliability energetic components for aircraft, missiles, and satellite deployment, and ammunition and military pyrotechnics.

For the year ended 31 October 2015, the Group had revenues from continuing operations of £377.3 million and underlying operating profit from continuing operations of £34.4 million. For the year ended 31 October 2014, the Group had revenues from continuing operations of £403.1 million, with underlying operating profit from continuing operations of £46.7 million. As at 31 October 2015 and 31 October 2014, the Group had an order book of £569.6 million and £486.8 million, respectively.

Key factors affecting the Company's financial results

In addition to the principal drivers affecting the Group's financial results described below, the Group's results may also be affected by a number of more general factors, many of which are beyond its control. Please see the section entitled "Risk Factors".

The Group's results have been affected, and are expected to be affected in the future, by a variety of factors, including the following:

Defence spending

The Group's profits and cash flows are dependent, to a significant extent, on the timing and value of defence contracts that are awarded to the Group. Historically, most of the Group's revenues have been derived from contracts entered into directly or indirectly with governmental agencies in NATO member countries, in particular with the DoD and MoD, and certain non-NATO countries. As a result, the Group's revenues are driven by the contracts awarded by these entities, which in turn is heavily influenced by the defence budgets of these countries for a given year.

As a result of prevailing economic conditions, fewer large-scale military operations worldwide and large budget deficits in many NATO countries, the Group expects defence budgets to remain generally flat. The Group has experienced reductions and delays in the placement of orders by NATO customers as a result of budgetary constraints, and anticipates that such delays may continue in the short to medium term. However, the declines in defence spending that have occurred in recent years appear to have begun to stabilise and the global defence market is expected to commence a slow recovery in 2016.

The United States remains the dominant player in global defence spending. Recent declines in DoD budgets have reflected austerity measures and the ongoing drawdown of operations in Afghanistan, although these reductions appear to be partially reversing.

In other NATO countries, defence spending remains constrained. The UK's commitment to maintain defence spending at 2.0 per cent. of GDP is positive, but major programmes such as the Queen Elizabeth carrier and F-35 jets are still likely to squeeze other programmes, particularly in the land domain. The Group believes that short-term cuts to MoD spending will not materially impact the Group due to its reduced dependence on MoD contracts.

The Middle East defence market remains robust, with growth in demand continuing to be fuelled by regional tensions. While there are promising opportunities in this market, there are some signs of spending constraints as a result of the low oil price and the timing of order placement remains difficult to predict.

Order intake

The Group generates revenue primarily from contracts for delivery of products and services, whereby customers pay upon completion of a contract, or according to contractual schedules or milestones. Once the Group enters into a binding contract with a customer, it considers the value of that contract as order intake. Order intake is an operational measure and refers to the revenue on a specified date expected to be earned under contracts held by the Group. The Group's revenue stream is thus derived from processing its order intake. Whereas the Group's revenue is dependent on having orders on hand, many of the Group's costs, such as employee payroll, facility maintenance and debt obligations, are fixed. As a result, the Group's profitability is to a large extent dependent on maintaining a consistent order intake of orders to fulfil. As at 31 October 2015, the Group's order intake was £456.8 million (2014: £408.0 million).

The amount of revenue that is recognised in a given period depends on manufacturing, delivery and customer acceptance of products. The conversion of the Group's order intake into revenue is largely under its control, but there are risks associated with customer acceptance of products, which may depend on flight trials and availability of firing ranges, test equipment and even aircraft to conduct flight trials.

Because of order cancellations or changes in the scope and schedule of orders, the Group cannot predict with certainty when or if the order intake will be performed. If any contract is terminated, the

order intake would be reduced by the expected value of the remaining terms of such contracts. Reductions in the Group's order intake due to cancellation or modification by a customer or for other reasons reduce the revenues that the Group receives, whereas its fixed costs remain unchanged. In addition, even where an order proceeds as scheduled, contracted parties could default and fail to pay amounts owed to the Group. Delays, suspensions, cancellations, payment defaults and changes in scope of the order could materially reduce or eliminate the revenues and profits that the Group actually realises from the orders in its order intake. As a result, the Group's order intake over a given period may not necessarily be indicative of the revenue or profit it will realise for that period. For example, the order of \$159.1 million for 40mm ammunition received in August 2015 has encountered delays due to the timing of receipt of permits and export licenses.

Furthermore, the Group extends credit terms to its customers for up to 90 days. Such extended payment terms may impose a burden on the Group's cash flow if customers fail to promptly settle the amounts due to the Group for completed contracts. See "Risk Factors—The Group may not be paid for the fulfilment of its contracts in a timely manner, or at all".

Acquisitions and disposals

The Group has selectively pursued acquisitions and undertaken disposals in the past as part of its growth strategy, and may do so in the future if an attractive opportunity arises. The Group strategically disposed of its European munitions businesses in May 2014, and may make further disposals in the future. Such disposals typically decrease the Group's overall costs and revenues, and alter the composition of the Group's balance sheet. In the case of the Group's European munitions businesses, these are shown as results of discontinued operations in the Group's Annual Report and Accounts for the years ended 31 October 2015 and 2014. Any business that the Group disposes of may include associated debt obligations and liabilities.

In May 2014, the Group acquired 3d-Radar AS to augment its Sensors & Electronics segment. Additionally, in November 2015, the Group reached agreement with Esterline to buy patents, equipment, stock and selected contracts relating to Esterline's UK-based subsidiary, Wallop Defence Systems Limited. The assets to be purchased relate to air countermeasures and pyrotechnic products, which, pending approval by the MoD and CMA, will be manufactured at Chemring's existing UK operations and further expand the Group's product offerings in Countermeasures. Although the Group's revenue and costs typically increase as a new acquisition is incorporated into the Group, overall performance will depend in part on the extent to which any acquired businesses are effectively integrated with the Group's other operations such that synergies and cost efficiencies can be realised.

Exchange rate fluctuations

The Group's reporting currency is sterling. However, the revenue and costs of various Group entities may be denominated in sterling, US dollars, Australian dollars, Norwegian kroner or other currencies. Therefore, the Group is exposed to significant fluctuations in exchange rates when converting non-sterling amounts into sterling for reporting purposes. A fluctuation in the value of a relevant foreign currency against sterling will affect the value of the Group's revenues and costs in a given reporting period, regardless of the operational performance of the Group or its margins for that period.

This effect does not apply where the operating costs incurred in sterling correspond to revenues from sales to customers in the United Kingdom, which are also denominated in sterling. However, if the Group incurs costs associated with these revenues that are not denominated in sterling, then the ultimate margin realised on those revenues will be impacted by the exchange rate between sterling and the currency in which those costs are denominated. However, the Group has implemented practices and procedures for exchange rate hedging to mitigate foreign currency translation effects.

Factors affecting comparability of results

Realignment of segments

Following the disposals that occurred in the year ended 31 October 2014, in particular the sale of the European munitions businesses in May 2014, the Group realigned its business segments. Businesses from the former "Pyrotechnics and Munitions" segment that had not been disposed of were combined with the businesses of the former "Energetic Sub-Systems" segment to form the current Energetic

Systems segment for the purposes of financial reporting for the year ended 31 October 2014 and going forward. As a result of this realignment, segmental data for years ended prior to 31 October 2014 were restated to divide the data from the former “Pyrotechnics and Munitions” segment into the current Energetic Systems segment and discontinued operations, and data from the former “Energetic Sub-Systems” segment were included in the current Energetic Systems segment.

Financial data for the year ended 31 October 2013 relating to the operations that were disposed of in the year ended 31 October 2014 were restated in the 2014 Annual Report and Accounts according to the realigned segments for the purposes of comparability. As a result, the results of these operations as stated in the 2013 Annual Report and Accounts differ from those in the 2014 Annual Report and Accounts.

Application of IAS19 (Revised): Employee Benefits

For the year ended 31 October 2014, the Group adopted IAS 19 (Revised): Employee Benefits, which superseded the previous iteration of IAS 19. IAS 19 (Revised) replaces the interest cost and expected return on defined benefit pension schemes assets used in the previous version of IAS 19 with a ‘net interest’ amount, which is calculated by applying a discount rate to the net defined benefit liability or asset. IAS 19 (Revised) also introduced more extensive disclosures in the presentation of the defined benefit cost, including the separate disclosure of the schemes’ administrative expenses.

For the purposes of comparability, the consolidated financial information for the year ended 31 October 2013 was restated in the 2014 Annual Report and Accounts as if IAS 19 (Revised) had applied during the year ended 31 October 2013.

For the year ended 31 October 2013, the effect of applying IAS 19 (Revised) was a decrease in the expected return on pension scheme assets of £0.8 million, with a corresponding increase in the actuarial gain. The impact on profit for the year was an increase in finance expense of £0.8 million and an increase in loss after tax of £0.8 million. The impact on the consolidated statement of comprehensive income was an increase in the loss after tax attributable to equity holders of the parent of £0.8 million and an increase in the actuarial gains on defined benefit pension schemes of £0.8 million. The total comprehensive expense attributable to equity holders of the parent and the balance sheet were unaffected. The effect on basic and underlying earnings per share was a decrease of 0.4p. There was no effect on net cash flow from operations as a result of the change in accounting policy. As a result of the Group’s application of IAS 19 (Revised), the financial information mentioned above as stated in the 2013 Annual Report and Accounts differs from that in the 2014 Annual Report and Accounts.

Key performance indicators

The Group tracks a number of key performance indicators in managing its business. These key performance indicators include non-IFRS measures. Accordingly, they should be viewed as supplemental to, but not as a substitute for, measures presented in the Group’s Annual Reports and Accounts, which are prepared in accordance with IFRS as adopted by the EU. The Group believes that these key performance indicators are useful indicators of the Group’s performance. However, they may not be comparable to similarly-titled measures reported by other companies due to differences in the way they are calculated.

Orders

The Group uses order intake and order book as key performance indicators to estimate the forecast revenue for a given period by calculating the revenue to be collected for orders on hand. Order intake represents the value of contracts entered into during a given period, net of any cancellations of contracts previously recognised. Order book represents the value of the Group’s total order book as at a given date.

The table below sets out the Group's order intake by segment for the periods indicated:

	<i>Year ended 31 October</i>		
	<i>2015</i>	<i>2014</i>	<i>2013</i>
	<i>(£ million)</i>		
Countermeasures	119.1	132.4	80.7
Sensors & Electronics	95.3	125.6	212.3
Energetic Systems ⁽¹⁾	242.8	150.0	159.1
Total continuing operations	457.2	408.0	452.1
Discontinued operations	–	82.6	82.4
Total	457.2	490.6	534.5

Note:

- (1) Following the disposals that occurred in the year ended 31 October 2014, in particular the sale of the European munitions businesses in May 2014, the Group realigned its segments. Businesses from the former "Pyrotechnics and Munitions" segment that had not been disposed of were combined with the businesses of the former "Energetic Sub-Systems" segment to form the current Energetic Systems segment for the purposes of financial reporting for the year ended 31 October 2014 and going forward. As a result of this realignment, segmental data for years ended prior to 31 October 2014 were restated to divide the data from the former "Pyrotechnics and Munitions" segment into the current Energetic Systems segment and discontinued operations, and data from the former "Energetic Sub-Systems" segment were included in the current Energetic Systems segment.

The table below sets out the Group's order book by segment as at the dates indicated:

	<i>As at 31 October</i>		
	<i>2015</i>	<i>2014</i>	<i>2013</i>
	<i>(£ million)</i>		
Countermeasures	184.1	193.3	160.8
Sensors & Electronics	75.7	77.5	106.2
Energetic Systems ⁽¹⁾	309.7	216.1	227.9
Total continuing operations	569.6	486.8	494.9
Discontinued operations	–	–	180.6
Total	569.6	486.8	675.5

Note:

- (1) Following the disposals that occurred in the year ended 31 October 2014, in particular the sale of the European munitions businesses in May 2014, the Group realigned its segments. Businesses from the former "Pyrotechnics and Munitions" segment that had not been disposed of were combined with the businesses of the former "Energetic Sub-Systems" segment to form the current Energetic Systems segment for the purposes of financial reporting for the year ended 31 October 2014 and going forward. As a result of this realignment, segmental data for years ended prior to 31 October 2014 were restated to divide the data from the former "Pyrotechnics and Munitions" segment into the current Energetic Systems segment and discontinued operations, and data from the former "Energetic Sub-Systems" segment were included in the current Energetic Systems segment.

The Group's order book for continuing operations increased by £82.8 million, or 17.0 per cent., from £486.8 million as at 31 October 2014 to £569.6 million as at 31 October 2015, primarily as a result of Energetic Systems winning a large order for 40mm ammunition from a customer in the Middle East. During 2015, Sensors & Electronics secured contracts with Middle East customers from the UK, made progress on Middle East opportunities for HMDS and 3d-Radar and experienced robust UK demand for Roke contract R&D services. As at 31 October 2015, of the order book of £569.6 million, £345.0 million was for delivery in the year ending 31 October 2016.

The Group's order book for continuing operations decreased by £8.1 million, or 1.6 per cent., from £494.4 million as at 31 October 2013 to £486.8 million as at 31 October 2014, reflecting the budget constraints affecting the Group's principal NATO markets and the deferral of order placement decisions in a number of non-NATO markets. As at 31 October 2014, of the order book of £486.8 million, £296.6 million was for delivery in the year ending 31 October 2015.

Revenue

Revenue provides a measure of the Group's business activity and growth, enabling management to identify and act upon customer behaviour trends. In the case of segments that have historically experienced operational and production setbacks, revenue levels indicate those segments' ability to deliver throughput and fulfil customer orders.

See “—Operating Results for the years ended 31 October 2015 and 2014—Revenue” and “—Operating results for the years ended 31 October 2014 and 2013—Revenue” below.

Segmental underlying operating profit/(loss)

Segmental underlying operating profit/(loss) represents the operating profit/(loss) before charges for unallocated corporate costs and non-underlying items, which comprise business restructuring and incident costs/(credit), acquisition and disposal costs, impairment of goodwill, impairment of acquired intangibles, impairment of assets held for sale, profit on disposal of business, claim-related costs, intangible amortisation arising from business combinations and gain/(loss) on the movement in the fair value of derivative financial instruments. Segmental underlying operating profit/(loss) 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, and it does not include unallocated corporate costs associated with operating a public company.

See “—Segmental results for the years ended 31 October 2015 and 2014—Operating profit/(loss)” and “—Segmental results for the years ended 31 October 2014 and 2013—Operating profit/(loss)” below.

Segmental underlying operating margin

Underlying operating margin represents the ratio of segmental underlying operating profit over revenue. This metric provides an assessment of the profitability of the Group's business. This allows the Group to monitor the impact of changes in revenue and cost base, which enables comparisons of management performance and trading effectiveness.

The table below sets out the Group's underlying operating margin by segment for the periods indicated:

	<i>Year ended 31 October</i>		
	<i>2015</i>	<i>2014</i> <i>(audited)</i>	<i>2013</i>
Countermeasures	13.9%	10.1%	10.6%
Sensors & Electronics	9.4%	20.7%	21.2%
Energetic Systems ⁽¹⁾	9.9%	9.8%	6.3%
Total continuing operations	9.1%	11.6%	11.9%
Discontinued operations	—	3.2%	10.4%
Total	9.1%	10.3%	11.5%

Note:

- (1) Following the disposals that occurred in the year ended 31 October 2014, in particular the sale of the European munitions businesses in May 2014, the Group realigned its segments. Businesses from the former “Pyrotechnics and Munitions” segment that had not been disposed of were combined with the businesses of the former “Energetic Sub-Systems” segment to form the current Energetic Systems segment for the purposes of financial reporting for the year ended 31 October 2014 and going forward. As a result of this realignment, segmental data for years ended prior to 31 October 2014 were restated to divide the data from the former “Pyrotechnics and Munitions” segment into the current Energetic Systems segment and discontinued operations, and data from the former “Energetic Sub-Systems” segment were included in the current Energetic Systems segment.

The Group's underlying operating margin for its continuing segments decreased from 11.6 per cent. for the year ended 31 October 2014 to 9.1 per cent. for the year ended 31 October 2015, reflecting the US Sensors & Electronics business' temporary predominance of development contracts which are lower margin than historic production contracts. The Group's underlying operating margin for its continuing segments decreased from 11.9 per cent. for the year ended 31 October 2013 to 11.6 per cent. for the year

ended 31 October 2014, reflecting lower production volumes driven by generally weak market conditions, offset in part by certain performance improvement actions.

Working capital and inventory

Working capital is defined as the sum of inventories, trade and other receivables, contract receivables, trade and other payables, and provisions. Of these constituent parts, inventory is the largest. Optimum inventory levels drive both effective staff utilisation and cost efficiency. Excess inventory results in second order costs such as increased storage and inventory management costs, the write-off of ageing or obsolete inventory and disposal costs, which can be especially significant for energetic materials.

The table below sets out the Group's working capital by segment as at the dates indicated:

	2015	As at 31 October 2014 (audited) (£ million)	2013
Countermeasures	31.5	28.0	26.4
Sensors & Electronics	19.8	15.2	16.7
Energetic Systems ⁽¹⁾	40.9	41.9	35.3
Total continuing operations	92.2	85.1	78.4
Discontinued operations	–	–	64.3
Total	92.2	85.1	142.7

Note:

- (1) Following the disposals that occurred in the year ended 31 October 2014, in particular the sale of the European munitions businesses in May 2014, the Group realigned its segments. Businesses from the former "Pyrotechnics and Munitions" segment that had not been disposed of were combined with the businesses of the former "Energetic Sub-Systems" segment to form the current Energetic Systems segment for the purposes of financial reporting for the year ended 31 October 2014 and going forward. As a result of this realignment, segmental data for years ended prior to 31 October 2014 were restated to divide the data from the former "Pyrotechnics and Munitions" segment into the current Energetic Systems segment and discontinued operations, and data from the former "Energetic Sub-Systems" segment were included in the current Energetic Systems segment.

The table below sets out the Group's inventory by segment as at the dates indicated:

	2015	As at 31 October 2014 (audited) (£ million)	2013
Countermeasures	35.4	30.4	29.0
Sensors & Electronics	18.2	13.4	11.4
Energetic Systems ⁽¹⁾	42.6	34.3	32.7
Total continuing operations	96.2	78.1	73.1
Discontinued operations	–	–	40.6
Total	96.2	78.1	113.7

Note:

- (1) Following the disposals that occurred in the year ended 31 October 2014, in particular the sale of the European munitions businesses in May 2014, the Group realigned its segments. Businesses from the former "Pyrotechnics and Munitions" segment that had not been disposed of were combined with the businesses of the former "Energetic Sub-Systems" segment to form the current Energetic Systems segment for the purposes of financial reporting for the year ended 31 October 2014 and going forward. As a result of this realignment, segmental data for periods ended prior to 31 October 2014 were restated to divide the data from the former "Pyrotechnics and Munitions" segment into the current Energetic Systems segment and discontinued operations, and data from the former "Energetic Sub-Systems" segment were included in the current Energetic Systems segment.

The Group's total inventory increased by £18.1 million, or 23.2 per cent., from £78.1 million as at 31 October 2014 to £96.2 million as at 31 October 2015, partly as a result of a deliberate build-up for new product introductions in the Sensors & Electronics segment and a lot acceptance failure in the

Energetic Systems segment towards the end of the 2015 financial year which delayed customer acceptance and delivery.

The Group's total inventory for continuing operations increased by £5.0 million, or 6.8 per cent., from £73.1 million as at 31 October 2013 to £78.1 million as at 31 October 2014, reflecting production phasing.

Continuing underlying earnings per share

Continuing underlying earnings per share reflects the trading performance of the Group's continuing operations together with the impact of its funding structure and taxation.

The Group's continuing underlying earnings per share decreased by 3.5 pence per share from 11.6 pence per share for the year ended 31 October 2014 to 8.1 pence per share for the year ended 31 October 2015, reflecting lower revenue in the year ended 31 October 2015.

The Group's continuing underlying earnings per share decreased by 3.9 pence per share, or 25.2 per cent., from 15.5 pence per share for the year ended 31 October 2013 to 11.6 pence per share for the year ended 31 October 2014, reflecting the Group's decreased trading performance in difficult market conditions.

Debt to underlying EBITDA

The ratio of underlying EBITDA, defined as underlying earnings before interest, tax, depreciation and amortisation, to the Group's debt levels is a useful indicator of the Group's leverage at a given date. The ratio is a specified financial covenant within the Group's Facility Agreement and US Notes, and the ratios under each of the measurement bases required in these facilities form key performance indicators for the Group. The basis of calculation used in the Facility Agreement differs from that used in the US Notes, in that the Facility Agreement utilises net debt whereas the US Loan Notes use gross debt and adjusted debt measures, among other differences. The Group aims to reduce the ratio of net debt to underlying EBITDA to an average level of between 1.00x and 1.50x over the medium-term.

The table below sets out the Group's debt to underlying EBITDA ratios as at the dates indicated:

	2015	<i>As at 31 October</i> 2014 <i>(audited)</i>	2013
Facility agreement			
Actual ratio of net debt to underlying EBITDA	2.83x	1.93x	2.65x
Maximum allowed ratio of net debt to underlying EBITDA	3.00x	3.00x	3.25x
US notes			
Actual ratio of adjusted debt to underlying EBITDA	2.84x	2.25x	—
Maximum allowed ratio of adjusted debt to underlying EBITDA	3.00x	3.00x	—
Actual ratio of total debt to underlying EBITDA	2.92x	2.31x	2.78x
Maximum allowed ratio of total debt to underlying EBITDA	3.75x	3.75x	3.50x

Interest cover

Interest cover represents the ratio between underlying EBITDA and the finance costs incurred in servicing the Group's debt. Interest cover is a useful indicator of the Group's ability to service its debt obligations, and is a specified financial covenant under the Facility Agreement and US Notes. The bases of calculation of interest cover differ in certain respects under the Facility Agreement and the US Notes.

The table below sets out the Group's interest cover ratios as at the dates indicated:

	2015	As at 31 October 2014 (audited)	2013
Facility agreement			
Actual ratio of underlying EBITDA to finance costs	4.75x	4.28x	4.98x
Minimum allowed ratio of underlying EBITDA to finance costs	4.00x	4.00x	4.00x
US notes			
Actual ratio of underlying EBITDA to finance costs	4.67x	4.39x	5.61x
Minimum allowed ratio of underlying EBITDA to finance costs	3.50x	3.50x	3.50x

Underlying continuing operating cash flow

Underlying continuing operating cash flow provides a measure of the cash generated by the Group's continuing operations. It represents the cash that is generated to fund capital expenditure, interest payments, tax and dividends. The Group's manufacturing operations function on relatively short cycles and increases in production volumes lead to increased investment in working capital.

The Group's underlying continuing operating cash flow decreased by £10.5 million, or 22.9 per cent., from £45.9 million for the year ended 31 October 2014 to £35.4 million for the year ended 31 October 2015, reflecting the reduction in the Group's revenue and operating profit.

The Group's underlying continuing operating cash flow decreased by £34.6 million, or 43.0 per cent., from £80.5 million for the year ended 31 October 2013 to £45.9 million for the year ended 31 October 2014, reflecting the Group's reduced operating profit, increased working capital and increased pension deficit recovery payments.

Safety

Many of the Group's manufacturing activities involve the use of hazardous substances and energetic materials. As a result, safety metrics are important key performance indicators for the Group that assist the Group in managing risk and improving the health and safety of employees. 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 monitors near misses reported and actioned as a leading indicator. The active reporting of near misses is encouraged by employees in order to highlight potential risks to be considered and addressed on a timely basis.

The table below sets out the Group's safety metrics for the periods indicated:

	2015	As at 31 October 2014 (unaudited)	2013
Lagging indicators			
Fatalities	–	1	–
Lost time incidents	15	11	33
Leading indicators			
Near misses reported and actioned	2,801	1,995	2,168

The Group experienced one energetic incident in the year ended 31 October 2015 that resulted in lost time when an operator received minor burns at Chemring Australia's Lara facility. The employee has fully recovered and is back at work. The Group's lost-time incident rate for the year ended 31 October 2015 was 0.57.

In the year ended 31 October 2014, the most significant safety incident was an employee fatality at the Kilgore Flares manufacturing facility in Toone, Tennessee, United States on 22 February 2014. All

production at the Kilgore facility was suspended following the incident while an investigation was undertaken. Since the incident, the Group has implemented improved process controls and site management.

In the year ended 31 October 2013, the Group had no significant process safety incidents. However, the Group's occupational safety performance remained unchanged.

Operating results

Description of income statement line items

The following disclosure provides a description of the composition of certain of the Company's consolidated income statement line items for the periods under review.

Revenue

Substantially 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.

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.

Operating profit/(loss)

Operating profit/(loss) is equivalent to revenue less costs.

Finance income

Finance income consists of bank interest income for continuing operations.

Finance expense

Finance expense consists of bank overdraft and loan interest, loan notes interest, finance lease interest, amortisation of debt finance costs and interest costs for retirement benefit obligations.

Tax (charge)/credit on profit/(loss)

For each of the years ended 31 October 2015, 2014 and 2013, the Group's income tax in the UK was calculated at 20.4 per cent., 21.8 per cent. and 23.4 per cent. of the taxable profit for the year, respectively. Tax for other jurisdictions was calculated at the rates prevailing in those jurisdictions.

For each of the years ended 31 October 2015, 2014 and 2013, the effective rate of tax on the loss before tax of the Group was 90.5 per cent., 6.8 per cent. and 15.9 per cent., respectively and the effective rate of tax on the underlying profit before tax of the Group was 20.7 per cent., 21.1 per cent. and 20.5 per cent., respectively. The increase (decrease in 2014 and 2013) in the statutory effective rate is primarily as a result of the tax treatment of non-underlying items and goodwill amortisation.

As at 31 October 2015, the Group had unrecognised tax losses of £26.3 million potentially available for offset against future profits in certain circumstances. No deferred tax asset has been recognised in respect of this amount because of the unpredictability of future taxable qualifying profit streams.

Profit/(loss) after tax

Profit/(loss) after tax is equivalent to the sum of operating profit/(loss), finance income, finance expense and tax (charge)/credit on profit/(loss).

Operating results for the years ended 31 October 2015 and 2014

The table below sets out the Group's income statement for the periods indicated:

	Year ended 31 October 2015			Year ended 31 October 2014		
	Underlying performance ⁽¹⁾	Non-underlying items ⁽¹⁾	Total performance ⁽¹⁾ (audited) (£ million)	Underlying performance ⁽¹⁾	Non-underlying items ⁽¹⁾	Total
Continuing operations						
Revenue	377.3	–	377.3	403.1	–	403.1
Operating profit/(loss)	34.4	(28.9)	5.5	46.7	(21.3)	25.4
Finance income	–	–	–	0.1	–	0.1
Finance expense	(14.6)	–	(14.6)	(18.7)	(12.0)	(30.7)
Profit/(loss) before tax	19.8	(28.8)	(9.1)	28.1	(33.3)	(5.2)
Tax (charge)/credit on profit/(loss)	(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	–	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)

Note:

- (1) 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 to the Group's consolidated audited financial statements included in the Group's Annual Report and Accounts for the years ended 31 October 2015 and 2014, which are incorporated by reference in this document as described in Part X "Documentation Incorporated by Reference".

Revenue. The Group's revenue decreased by £25.8 million, or 6.4 per cent., from £403.1 million in the year ended 31 October 2014 to £377.3 million in the year ended 31 October 2015. This decrease was primarily due to delays in securing and progressing international orders for US Sensors & Electronics products, partially offset by growth in the Countermeasures segment.

Operating profit/(loss). The Group's operating profit decreased by £19.9 million, or 78.3 per cent. from a profit of £25.4 million in the year ended 31 October 2014 to a profit of £5.5 million in the year ended 31 October 2015. Underlying operating profit decreased by £12.3 million, or 26.3 per cent., from £46.7 million in the year ended 31 October 2014 to £34.4 million in the year ended 31 October 2015. This decrease was due to delays in winning international orders and increase in lower margin R&D work in the US Sensors & Electronics businesses, partially offset by growth in the Countermeasures segment.

Finance income. The Group's finance income decreased by £0.1 million, from £0.1 million in the year ended 31 October 2014 to nil in the year ended 31 October 2015.

Finance expense. The Group's finance expense decreased by £16.1 million, or 52.4 per cent., from £30.7 million in the year ended 31 October 2014 to £14.6 million in the year ended 31 October 2015. This decrease was due to a reduction in interest costs following repayment of £101.7 million of loan notes following the sale of the European munitions businesses in 2014.

Tax (charge)/credit on profit/(loss). The Group's tax credit remained stable at £3.8 million for the year ended 31 October 2014 and the year ended 31 October 2015.

Profit/(loss) after tax from discontinued operations. As at 31 October 2014, the European munitions businesses, Mecar, based in Belgium, and Simmel, located in Italy, and Chemring Defence Germany were treated as discontinued operations and the assets and liabilities associated with these businesses were classified as held for sale. The Group had a loss after tax from discontinued operations of £53.5 million in the year ended 31 October 2014 as compared to a profit after tax from discontinued operations of £4.9 million in the year ended 31 October 2015, resulting from the release of certain provisions established on the disposal of businesses in prior years which were no longer required.

Profit/(loss) after tax. As a result of the factors discussed above, the Group's loss for the financial period, including discontinued operations, decreased by £54.5 million from a loss of £54.9 million in the year ended 31 October 2014 to a loss of £0.4 million in the year ended 31 October 2015. The Group's underlying profit for the period decreased from a profit of £23.9 million for the year ended 31 October 2014 to a profit of £15.7 million for the year ended 31 October 2015.

Operating results for the years ended 31 October 2014 and 2013

The table below sets out the Group's consolidated income statement for the periods indicated:

	Year ended 31 October 2014			Year ended 31 October 2013		
	Underlying performance ⁽¹⁾	Non-underlying items ⁽¹⁾ (audited)	Total	Underlying performance ⁽¹⁾ (as restated) ⁽²⁾	Non-underlying items ⁽¹⁾ (as restated) ⁽²⁾ (unaudited)	Total (as restated) ⁽²⁾
	(£ million)					
Continuing operations						
Revenue	403.1	–	403.1	472.3	–	472.3
Operating profit/(loss)	46.7	(21.3)	25.4	56.3	(103.0)	(46.7)
Finance income	0.1	–	0.1	0.2	–	0.2
Finance expense	(18.7)	(12.0)	(30.7)	(20.0)	–	(20.0)
Profit/(loss) before tax	28.1	(33.3)	(5.2)	36.5	(103.0)	(66.5)
Tax (charge)/credit on profit/(loss)	(5.7)	9.5	3.8	(6.5)	17.4	10.9
Profit/(loss) after tax	22.4	(23.8)	(1.4)	30.0	(85.6)	(55.6)
Discontinued operations						
Profit/(loss) after tax from discontinued operations	1.5	(55.0)	(53.5)	11.0	(3.7)	7.3
Profit/(loss) after tax	<u>23.9</u>	<u>(78.8)</u>	<u>(54.9)</u>	<u>41.0</u>	<u>(89.3)</u>	<u>(48.3)</u>

Notes:

- (1) Further information about non-underlying items is set out in notes 5 to the Group's consolidated audited financial statements included in the Group's Annual Report and Accounts for the years ended 31 October 2015, 2014 and 2013, which is incorporated by reference in this document as described in Part X "Documentation Incorporated by Reference".
- (2) The restatement of the Group's consolidated income state for the year ended 31 October 2013 relates to the prior period expense as a result of the adoption of IAS19 (Revised) Employee Benefits. See note 2 to the Group's consolidated audited financial statements included in the Group's Annual Report and Accounts for the year ended 31 October 2014 for further details.

Revenue. The Group's revenue decreased by £69.2 million, or 14.7 per cent., from £472.3 million in the year ended 31 October 2013 to £403.1 million in the year ended 31 October 2014. This decrease was due to the reductions in demand in the Countermeasures and Sensors & Electronics segments.

Operating profit/(loss). The Group's operating profit/(loss) increased by £72.1 million from a loss of £46.7 million in the year ended 31 October 2013 to a profit of £25.4 million in the year ended 31 October 2014. However, underlying operating profit decreased by £9.6 million, or 17.1 per cent., from £56.3 million in the year ended 31 October 2013 to £46.7 million in the year ended 31 October 2014.

Finance income. The Group's finance income decreased by £0.1 million from £0.2 million in the year ended 31 October 2013 to £0.1 million in the year ended 31 October 2014.

Finance expense. The Group's finance expense increased by £10.7 million, from £20.0 million in the year ended 31 October 2013 to £30.7 million in the year ended 31 October 2014. This increase was due to non-underlying accelerated interest costs incurred on the repayment of loan note debt in the year ended 31 October 2014.

Tax (charge)/credit on profit/(loss). The Group's tax credit for the financial period decreased by £7.1 million from £10.9 million in the year ended 31 October 2013 to £3.8 million in the year ended 31 October 2014.

Profit/(loss) after tax from discontinued operations. Discontinued operations comprise the European munitions businesses and Chemring Defence Germany. All of these businesses were sold in May 2014. The Group's profit/(loss) from discontinued operations decreased by £60.8 million from a profit of £7.3 million in the year ended 31 October 2013 to a loss of £53.5 million in the year ended 31 October 2014. This was due to the release of certain provisions established on the disposal of businesses in prior years which were no longer required.

Profit/(loss) after tax. As a result of the factors discussed above, the Group's loss for the period increased by £6.6 million, from a loss of £48.3 million in the year ended 31 October 2013 to a loss of £54.9 million in the year ended 31 October 2014. The Group's underlying profit for the financial period decreased by £17.1 million, or 41.7 per cent., from £41.0 million in the year ended 31 October 2013 to £23.9 million in the year ended 31 October 2014.

Segmental reporting

The Group operates in three strategic product segments: Countermeasures, Sensors & Electronics and Energetic Systems. As noted in “—Factors Affecting Comparability or Results” above, prior to the disposal of the Group's European munitions businesses in May 2014, the Group's business was subdivided into four segments: Countermeasures, Sensors & Electronics, Pyrotechnics and Munitions and Energetic Sub-Systems. Following the disposal of the European munitions businesses, the Group's operating segments were revised to better reflect the Group's composition. Those businesses still owned from the former Pyrotechnics and Munitions segment were combined with the businesses in the Energetic Sub-Systems operating segment to form a new segment, Energetic Systems.

Countermeasures

The Group is a leading manufacturer of expendable decoys to protect aircraft and ships from guided missiles. The Group's flares have been used in peace-keeping and military operations in Iraq and Afghanistan. The Group's business units in the Countermeasures segment are: (i) Chemring Countermeasures USA, incorporating Alloy Surfaces, the leading manufacturer of covert multi-spectral special material decoys, and Kilgore Flares, manufacturer of infra-red (“IR”) aircraft countermeasures; (ii) Chemring Countermeasures UK, which designs, develops and manufactures advanced expendable countermeasures for air and sea platforms and is developing next generation launchers for deploying naval decoys; and (iii) Chemring Australia, which is Australia's only manufacturer of aircraft expendable countermeasures.

Sensors & Electronics

The Group's Sensors & Electronics products include systems for detecting IEDs, and chemical and biological agents, and core technologies for detecting, intercepting and jamming electronic communications. The Group's Sensors & Electronics segment comprises: (i) Chemring Sensors & Electronic Systems which incorporates NIITEK and Chemring Detection Systems and is a US-based manufacturer of vehicle-mounted ground penetrating radar mine detection systems and a leading developer and supplier of vehicle-mounted chemical and biological detection systems; (ii) Chemring Technology Solutions which manufactures electronic warfare systems and IED detection and neutralisation products; and (iii) Roke, which is a contract research and development business.

Energetic Systems

The Group's energetic sub-systems are safety-critical components of missiles, aircraft and space launch systems. The Group produces high reliability, single-use devices to perform key functions, including satellite deployment, aircrew egress and missile self-destruct. The Group manufactures a range of pyrotechnic products which are used by military and security forces around the world for screening, signalling and illumination. In addition, the Group produces a specialist range of high explosive products, including minefield clearance systems, demolition stores and 40mm ammunition. The business units within the Group's Energetic Systems segment are: (i) Chemring Energetics UK which manufactures explosives, propellants and pyromechanisms; (ii) Chemring Energetic Devices which is a US supplier of pyrotechnic and electro-mechanical systems for missiles, space and safety applications; (iii) Chemring Nobel in Norway which manufactures high explosive raw materials; (iv) Chemring Ordnance, a US manufacturer of mine-field clearance systems and 40mm ammunition; (v) Chemring Military Products which operates a procurement service to supply bundles of non-NATO standard military equipment; (vi) Chemring Defence UK which designs, develops and produces smoke and illumination pyrotechnics and payloads for military, OEM and safety customers; and (vii) Chemring Prime Contracts which provides a procurement service to Middle Eastern customers who prefer to buy bundles of products from a single contractor .

Segmental results for the years ended 31 October 2015 and 2014

The table below sets out the Group's segment results for the periods indicated:

	<i>Year ended 31 October 2015</i>			<i>Year ended 31 October 2014</i>		
	<i>Revenue</i>	<i>Underlying operating profit/(loss)</i>	<i>Underlying operating margin (audited)</i>	<i>Revenue</i>	<i>Underlying operating profit/(loss)</i>	<i>Underlying operating margin</i>
	<i>(£ million)</i>		<i>(%)</i>	<i>(£ million)</i>		<i>(%)</i>
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%
Unallocated corporate costs	–	(7.5)	–	–	(9.9)	–
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 for the Countermeasures segment increased by £29.7 million, or 30.9 per cent., from £96.1 million in the year ended 31 October 2014 to £125.8 million in the year ended 31 October 2015. Underlying operating profit for the Countermeasures segment increased by £7.8 million, or 80.4 per cent., from £9.7 million in the year ended 31 October 2014 to £17.5 million in the year ended 31 October 2015. This increase was due in part to the Kilgore facility being at full operational capacity in the year ended 31 October 2015 while all production had been suspended in February 2014 following an incident that resulted in an employee being fatally injured at the facility. In addition, Chemring Australia had strong order intake and revenue in the year ended 31 October 2015.

Sensors & Electronics. Revenue for the Sensors & Electronics segment decreased by £55.3 million, or 35.8 per cent., from £154.4 million for the year ended 31 October 2014 to £99.1 million for the year ended 31 October 2015. Underlying operating profit for the segment decreased by £22.6 million, or 70.8 per cent., from £31.9 million in the year ended 31 October 2014 to £9.3 million in the year ended 2015. This decrease was primarily due to delays in progressing production contracts with customers in the Middle East, which were expected to offset the current hiatus in manufacturing for the DoD. Sensors & Electronics also experienced a reduction in US production activity as its major programmes are currently in the R&D phase.

Energetic Systems. Revenue for the Energetic Systems segment was broadly flat at £152.4 million in the year ended 31 October 2015, compared with £152.6 million in the year ended 31 October 2014. Underlying operating profit for the segment increased by £0.1 million from £15.0 million in the year ended 31 October 2014 to £15.1 million in the year ended 31 October 2015. This was due to improved operational performance in the segment off-setting the impact of cancellations and delays in ammunition orders.

Segmental results for the years ended 31 October 2014 and 2013

The table below sets out the Group's segment results for the periods indicated:

	Year ended 31 October 2014			Year ended 31 October 2013		
	Revenue	Underlying operating profit/(loss)	Underlying operating margin (audited)	Revenue	Underlying operating profit/(loss)	Underlying operating margin
	(£ million)		(%)	(£ million)		(%)
Countermeasures	96.1	9.7	10.1%	125.0	13.2	10.6%
Sensors & Electronics	154.4	31.9	20.7%	211.3	44.7	21.2%
Energetic Systems ⁽¹⁾	152.6	15.0	9.8%	136.0	8.5	6.3%
Unallocated corporate costs	–	(9.9)	–	–	(10.1)	–
Discontinued operations ⁽²⁾	71.8	2.3	3.2%	152.6	15.8	10.4%
Including discontinued operations	474.9	49.0	10.3%	624.9	72.1	11.5%

Notes:

- (1) Following the disposals that occurred in the year ended 31 October 2014, in particular the sale of the European munitions businesses in May 2014, the Group realigned its segments. Businesses from the former "Pyrotechnics and Munitions" segment that had not been disposed of were combined with the businesses of the former "Energetic Sub-Systems" segment to form the current Energetic Systems segment for the purposes of financial reporting for the year ended 31 October 2014 and going forward. As a result of this realignment, segmental data for years ended prior to 31 October 2014 were restated to divide the data from the former "Pyrotechnics and Munitions" segment into the current Energetic Systems segment and discontinued operations, and data from the former "Energetic Sub-Systems" segment were included in the current Energetic Systems segment.
- (2) Discontinued operations comprise 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.

Countermeasures. Revenue for the Countermeasures segment decreased by £28.9 million, or 23.1 per cent., from £125.0 million in the year ended 31 October 2013 to £96.1 million in the year ended 31 October 2014. Underlying operating profit for the Countermeasures segment decreased by £3.5 million, or 26.5 per cent., from £13.2 million in the year ended 31 October 2013 to £9.7 million in the year ended 31 October 2014. This decrease was due to reductions in demand from the US and the UK as well as the impact of the incident at Kilgore in February 2014 which resulted in temporary suspension of production at the facility.

Sensors & Electronics. Revenue for the Sensors & Electronics segment decreased by £56.9 million, or 26.9 per cent., from £211.3 million for the year ended 31 October 2013 to £154.4 million for the year ended 31 October 2014. Underlying operating profit for the segment decreased by £12.8 million, or 28.6 per cent., from £44.7 million in the year ended 31 October 2013 to £31.9 million in the year ended 31 October 2014. This decrease was due to the conclusion of a major multi-year contract with the DoD, and the transition of activity from urgent operational requirements to customer-funded research and development contracts.

Energetic Systems. Revenue for the Energetic Systems segment increased by £16.6 million, or 12.2 per cent., from £136.0 million in the year ended 31 October 2013 to £152.6 million in the year ended 31 October 2014. Underlying operating profit for the segment increased by £6.5 million, from £8.5 million in the year ended 31 October 2013 to £15.0 million in the year ended 31 October 2014. This increase

was a result of the focus on resolving production issues and integrating manufacturing sites, resulting in improvement in operational performance and production.

Liquidity and capital resources

Cash flows for the years ended 31 October 2015 and 2014

The following table sets out the Company's consolidated cash flows for the periods indicated:

	<i>Year ended 31 October</i>	
	<i>2015</i>	<i>2014</i>
	<i>(audited)</i>	
	<i>(£ million)</i>	
Net cash inflow from operating activities	25.7	46.2
Net cash inflow/(outflow) from investing activities	(17.1)	113.3
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	7.6	21.8

Net cash inflow from operating activities. Net cash inflow from operating activities decreased by £20.5 million, or 44.4 per cent., from £46.2 million in the year ended 31 October 2014 to £25.7 million in the year ended 31 October 2015. This decrease was primarily due to lower cash generated from underlying operations in the year ended 31 October 2015 as compared to the year ended 31 October 2014, as cash generated from underlying operations in the year ended 31 October 2014 included £17.6 million of cash generated from discontinued underlying operations.

Net cash inflow/(outflow) from investing activities. Net cash inflow/(outflow) from investing activities decreased by £130.4 million from an inflow of £113.3 million in the year ended 31 October 2014 to an outflow of £17.1 million in the year ended 31 October 2015. This decrease was primarily due to net cash inflow from investing activities in the year ended 31 October 2014 including the sale of the European munitions businesses.

Net cash outflow from financing activities. Net cash outflow from financing activities decreased by £128.6 million, or 85.0 per cent., from £151.3 million in the year ended 31 October 2014 to £22.7 million in the year ended 31 October 2015. This decrease was primarily due to the large outflow in 2014 arising from the repayment of borrowings in the year ended 31 October 2014.

Cash flows for the years ended 31 October 2014 and 2013

The following table sets out the Company's consolidated cash flows for the periods indicated:

	<i>Year ended 31 October</i>	
	<i>2014</i>	<i>2013</i>
	<i>(audited)</i>	
	<i>(£ million)</i>	
Net cash inflow from operating activities	46.2	55.4
Net cash inflow/(outflow) from investing activities	113.3	(19.5)
Net cash outflow from financing activities	(151.3)	(117.8)
Increase/(decrease) in cash and cash equivalents	8.2	(81.9)
Cash and cash equivalents at beginning of year	14.2	96.0
Effect of foreign exchange rate changes	(0.6)	0.1
Cash and cash equivalents at end of year	21.8	14.2

Net cash inflow from operating activities. Net cash inflow from operating activities decreased by £9.2 million, or 16.6 per cent., from £55.4 million in the year ended 31 October 2013 to £46.2 million in the year ended 31 October 2014. This decrease was primarily due to the reduced operating profit, increase in working capital and increased pension deficit recovery payments in the year ended 31 October 2014 as compared to the year ended 31 October 2013.

Net cash inflow/(outflow) from investing activities. Net cash inflow/(outflow) from investing activities increased by £132.8 million, from outflows of £19.5 million in the year ended 31 October 2013 to inflows of £113.3 million in the year ended 31 October 2014. This increase was due to receipt from sales of businesses, net of cash transferred, of £137.1 million received in the year ended 31 October 2014. No such receipts were received in the year ended 31 October 2013.

Net cash outflow from financing activities. Net cash outflow from financing activities increased by £33.5 million, or 28.4 per cent., from £117.8 million in the year ended 31 October 2013 to £151.3 million in the year ended 31 October 2014. This increase was primarily due to higher finance expense paid and higher repayments of borrowings in the year ended 31 October 2014 as compared to the year ended 31 October 2013.

Liquidity

The Group's primary source of liquidity for its operations is cash provided by its operating activities and drawdowns under the Group's Revolving Facilities.

At 31 December 2015, net debt was £195.6 million. The Group expects to utilise organic cash generation in addition to the net proceeds of the Rights Issue to reduce net debt in the 2016 financial year.

Financial instruments

As at 31 October 2015, the Group had committed undrawn bank lines of £70.0 million. The Group's total available cash on hand (excluding cash required for regulatory purposes) was £7.5 million. As at 31 October 2015, the Group's ratio of net debt to underlying EBITDA was 2.83x times (the maximum allowed ratio of net debt to underlying EBITDA was 3.00x). As described in paragraph 11.2 of Part I "Letter from the Chairman of Chemring Group PLC", the Group has also agreed to amendments to the financial covenants with the Lenders for the 31 October 2015 and 31 January 2016 test dates.

Bank facilities

For a description of the Group's banking facilities, see paragraph 13 of Part IX "Additional Information".

Loan notes

For a description of the Group's loan note agreements, see paragraph 17.1.5 of Part IX "Additional Information".

Commitments and contingent liabilities

Commitments

The Company has various contractual obligations and commercial commitments to make future payments, including bank loans, long term debt instruments, overdrafts, operating lease and international off-set obligations.

The following table summarises the Company's future obligations (including interest up until 31 October 2015) under these contracts due by the periods indicated as of 31 October 2015:

	<i>Less than a year</i>	<i>Between one and five years (unaudited) (£ million)</i>	<i>More than five years</i>	<i>Total</i>
Contractual obligations				
Borrowings	0.5	161.3	0.1	161.9
Operating Leases	3.0	6.0	0.2	9.2
Total	<u>3.5</u>	<u>167.3</u>	<u>0.3</u>	<u>171.1</u>

Capital expenditure

The following table sets forth the Group's capital expenditure for the periods indicated:

	<i>Year ended 31 October</i>		
	<i>2015</i>	<i>2014</i>	<i>2013</i>
		<i>(audited)</i>	
		<i>(£ million)</i>	
Capitalised research and development costs	8.9	11.9	7.4
Expensed research and development costs	9.2	11.6	11.5
Customer-funded research and development costs	38.2	28.5	27.1
Total	<u>56.3</u>	<u>52.0</u>	<u>46.0</u>

Capitalisation and indebtedness

As at 31 October 2015, the total shareholders' funds (consisting of total ordinary share capital, retained earnings and losses and other reserves) of the Group in accordance with IFRS as adopted by the EU was £290.6 million.

The following tables show the capitalisation and the indebtedness and cash of the Group as at 31 October 2015. The figures for the capitalisation and the indebtedness and cash of the Group have been extracted without material adjustment from the Company's Annual Report and Accounts for the year ended 31 October 2015:

	<i>As at 31 October 2015 (unaudited) (£ million)</i>
Shareholders' equity	
Share capital	2.0
Share premium account	230.7
Retained earnings	85.7
Own shares	(9.6)
Other reserves	(18.2)
Capital and reserves	<u>290.6</u>

There has been no material change in the capitalisation of the Group, as set out in the table above, since 31 October 2015.

	<i>As at 31 October 2015 (unaudited) (£ million)</i>
Total current debt	
Guaranteed	0.5
Secured	—
Total current indebtedness	<u>0.5</u>
Total non-current debt	
Guaranteed	161.3
Unguaranteed/unsecured	0.1
Total non-current indebtedness	<u>161.4</u>
Total indebtedness	<u><u>161.9</u></u>

	<i>As at 31 October 2015 (unaudited) (£ million)</i>
Net financial indebtedness analysis	
Cash and cash equivalents	7.6
Current debt	—
Non-current debt	(161.3)
Finance leases	(0.5)
Preference share	(0.1)
Total	<u><u>(154.3)</u></u>

Dividend policy

In view of the proposed Rights Issue, the Board is not recommending a final dividend in respect of the year ended 31 October 2015. The total dividend in respect of the 2015 financial year will therefore be the interim dividend of 2.4p (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 the 2016 financial year, assuming it is prudent to do so, and to continue paying dividends thereafter.

Qualitative and quantitative disclosures about market risk

Descriptions of the Group's qualitative and quantitative disclosures about market risk are incorporated by reference from the Group's 2015 Annual Report and Accounts, which is incorporated by reference in this document as described in Part X "Documentation Incorporated by Reference".

Critical accounting policies

Critical accounting policies are those policies that require the application of the Group's management's most challenging, subjective or complex judgements, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgements and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. A detailed description of certain of the main accounting policies used in preparing the Company's historical financial information is set forth in note 3 to the Group's consolidated audited financial statements included in the Group's 2015 Annual Report and Accounts, which is incorporated by reference in this document as described in Part X "Documentation Incorporated by Reference".

PART VI – FINANCIAL INFORMATION OF THE CHEMRING GROUP

PART A – HISTORICAL FINANCIAL INFORMATION OF THE CHEMRING GROUP

Financial information relating to Chemring as at and for each of the years ended 31 October 2015, 2014 and 2013 is incorporated into this document by reference to the Annual Report and Accounts for 2015, 2014 and 2013, as described in Part X “Documentation Incorporated by Reference” of this document.

PART VII – UNAUDITED PRO FORMA FINANCIAL INFORMATION

SECTION A – PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma statement of net assets (the “pro forma financial information”) has been prepared to show the effect on the Group’s consolidated net assets of the Rights Issue and the repayment of debt under Facilities Agreement and the US Notes as if they had occurred on 31 October 2015.

The unaudited pro forma financial information has been prepared on a voluntary basis and for illustrative purposes only and in accordance with Annex II of the PD Regulation, and should be read in conjunction with the notes set out below. Due to its nature, the pro forma financial information addresses a hypothetical situation and, therefore, does not represent the Group’s actual financial position or results.

The unaudited pro forma net assets statement does not constitute financial statements within the meaning of section 434 of the Companies Act 2006. The unaudited pro forma financial information has been prepared under IFRS and on the basis set out in the notes below and in accordance with Annex II to the PD Regulation. The unaudited pro forma financial information is stated on the basis of the accounting policies of Chemring. Shareholders should read the whole of this document and not rely solely on the summarised financial information contained in this Part VII “Unaudited Pro Forma Financial Information”. Deloitte LLP’s report on the unaudited pro forma net asset statement is set out in Section B of this Part VII “Unaudited Pro Forma Financial Information”.

The unaudited pro forma statement of net assets does not reflect any changes in the trading position of the Group or any other changes arising from other transactions, other than those outlined in the notes to the statement below, since 31 October 2015.

	<i>As at 31 October 2015⁽¹⁾</i>	<i>Adjustments</i>		<i>Total</i>
		<i>Rights Issue⁽²⁾</i>	<i>US Notes⁽³⁾ Paydown⁽⁴⁾</i>	
		<i>£ million</i>		
Non-current assets				
Goodwill	121.2	–	–	121.2
Development costs	36.1	–	–	36.1
Intangible assets	74.2	–	–	74.2
Property, plant and equipment	168.0	–	–	168.0
Investment in associates	0.0	–	–	0.0
Deferred tax asset	47.5	–	–	47.5
Total non-current assets	447.0	–	–	447.0
Current assets				
Inventories	96.2	–	–	96.2
Trade and contract receivables	81.3	–	–	81.3
Prepayments and accrued income	6.8	–	–	6.8
Other receivables	5.0	–	–	5.0
Cash and cash equivalents	7.6	75.2	(54.9)	27.9
Derivative financial instruments	0.5	–	–	0.5
Total current assets	197.4	75.2	(54.9)	217.7
Total assets	644.4	75.2	(54.9)	664.7
Current liabilities				
Borrowings	0.0	–	–	0.0
Obligations under finance leases	(0.5)	–	–	(0.5)
Trade and other payables	(80.2)	–	–	(80.2)
Advance payments	(11.5)	–	–	(11.5)
Long-term Provisions	(9.6)	–	–	(9.6)
Corporation tax	(7.9)	–	–	(7.9)
Derivative financial instruments	(1.6)	–	–	(1.6)
Total current liabilities	(111.3)	–	–	(111.3)
Non-current liabilities				
Loans	(161.3)	–	50.1	(111.2)
Obligations under finance leases	–	–	–	–
Other payables	(1.7)	–	–	(1.7)
Provisions	(16.3)	–	–	(16.3)
Deferred tax liabilities	(45.1)	–	–	(45.1)
Preference shares	(0.1)	–	–	(0.1)
Retirement benefit obligations	(17.7)	–	–	(17.7)
Derivative financial instruments	(0.3)	–	–	(0.3)
Total non-current liabilities	(242.5)	–	50.1	192.4
Total liabilities	(353.8)	–	50.1	303.7
Net assets	290.6	75.2	(4.8)	361.0
Facility Agreement leverage ^(5, 6)	2.83	–	–	1.63
Facility Agreement interest cover	4.75	–	–	4.75
US Notes adjusted leverage	2.84	–	–	2.01
US Notes gross leverage	2.92	–	–	2.09
US Notes interest cover	4.67	–	–	4.67

Notes:

- (1) The net assets of the Group as at 31 October 2015 have been extracted without adjustment from the Group's Annual Report and Accounts for 2015, as incorporated by reference in Part X of this document.
- (2) Adjustments to reflect the net proceeds of the Rights Issue receivable by the Company of approximately £75.2 million (being gross proceeds of £80.8 million less estimated fees relating to the Rights Issue of approximately £5.6 million, excluding VAT).
- (3) The "US Notes" are comprised of the following:
 - (a) the Group's \$125 million 6.28 per cent. notes due 12 November 2017 and £12.5 million 6.81 per cent. notes due 12 November 2017, both as amended and supplemented by amendment agreements (together, the "2007 Notes"); and
 - (b) the Group's \$80 million 5.26 per cent. notes due 19 November 2016, \$140 million 5.68 per cent. notes due 19 November 2019, and \$60 million 5.68 per cent. notes due 19 November 2019, each as amended and supplemented by amendment agreements (collectively, the "2009 Notes").
- (4) Adjustments to reflect:
 - (a) part utilisation of the net proceeds of the Rights Issue for the repayment of the Group's Facility Agreement (£nil drawn as at 31 October 2015) and repayment of a proportion of the US Notes (£48.5 million); and
 - (b) approximately £6.5 million of fees and expenses in connection with the repayment of the US Notes and the amendments to the Existing Finance Agreements.
- (5) Based on the consolidated total net borrowings (as defined in the applicable covenants).
- (6) Based on the 2015 reported Consolidated EBITDA (as defined in the applicable covenants).

**SECTION B – ACCOUNTANTS’ REPORT
ON THE PRO FORMA FINANCIAL INFORMATION**



**Deloitte LLP
Abbots House
Abbey Street
Reading
RG1 3BD**

The Board of Directors
On behalf of Chemring Group PLC
Roke Manor
Old Salisbury Lane
Romsey
Hampshire
SO51 0ZN

Investec Bank plc
2 Gresham Street
London
EC2V 7QP

JP Morgan Securities plc
25 Bank Street
London
E14 5JP

21 January 2016

Dear Sirs,

Chemring Group PLC (the “Company”)

We report on the pro forma net asset statement (the “Pro forma financial information”) set out in Part VII of the prospectus dated 21 January 2016 (the “Investment Circular”), which has been prepared on the basis described, for illustrative purposes only, to provide information about how the rights issue might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 31 October 2015. This report is required by the Commission Regulation (EC) No 809/2004 (the “Prospectus Directive Regulation”) and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the “Directors”) to prepare the Pro forma financial information in accordance with Annex II items 1 to 6 of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, as to the proper compilation of the Pro forma financial information and to report that opinion to you in accordance with Annex II item 7 of the Prospectus Directive Regulation.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

Opinion

In our opinion:

- (a) the Pro forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

Deloitte LLP
Chartered Accountants

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu Limited (“DTTL”), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

PART VIII – TAXATION

1. UK Taxation

The following statements are intended only as a general guide to certain UK tax considerations and do not purport to be a complete analysis of all potential UK tax consequences of acquiring, holding or disposing of New Shares, Nil Paid Rights or Fully Paid Rights. Prospective acquirers of New Shares, Nil Paid Rights or Fully Paid Rights are advised to consult their own professional advisers concerning the tax consequences of the acquisition, ownership and disposition of such shares or rights. The following statements are based on current UK tax legislation and the current published practice of HM Revenue & Customs as at the date of this document, both of which are subject to change at any time, possibly with retroactive effect. They apply only to Shareholders who are resident, and in the case of individuals domiciled, for tax purposes in (and only in) the UK (except in so far as express reference is made to the treatment of non-UK residents), who hold their Shares as an investment (other than in an individual savings account or a self-invested personal pension), and who are the absolute beneficial owners of both their Shares and any dividends paid on them. The tax position of certain categories of Shareholders who are subject to special rules (such as persons acquiring their New Shares in connection with employment, dealers in securities, insurance companies and collective investment schemes) is not considered.

Prospective acquirers of New Shares, Nil Paid Rights or Fully Paid Rights who are in any doubt about their tax position or who may be subject to tax in a jurisdiction other than or in addition to the United Kingdom are strongly recommended to consult their own professional advisers.

1.1 *Taxation of Chargeable Gains*

1.1.1 *UK tax resident Shareholders*

(a) New Shares acquired pursuant to the Rights Issue

For the purposes of UK taxation of chargeable gains (“CGT”), the issue of New Shares to existing Shareholders who take up their rights should be regarded as a reorganisation of the share capital of the Company. Accordingly, to the extent that an existing Shareholder takes up all or part of his entitlement under the Rights Issue, he should not be treated as making a disposal of all or part of his holding of Existing Shares and no liability to CGT should arise. Instead, the New Shares acquired and the Existing Shares in respect of which they are issued will, for CGT purposes, be treated as the same asset and as having been acquired at the same time as the Existing Shares. The amount paid for the New Shares will be added to the base cost of the Existing Shares when computing any gain or loss on any subsequent disposal but, for the purposes of calculating the indexation allowance (in the case of corporate shareholders) on a subsequent disposal of Shares, the amount paid will generally be taken into account only from the time that the payment was made. In the case of non-corporate Shareholders, indexation allowance is not available.

(b) Disposals

If a Shareholder sells or otherwise disposes or is deemed to dispose of all or some of the New Shares allotted to him, or of his rights to subscribe for New Shares, or if he allows or is deemed to have allowed his rights to lapse and receives a cash payment in respect of them, he may, depending on his circumstances and subject to any available exemption or relief, incur a liability to CGT.

If a Shareholder disposes of all or part of his Nil Paid Rights, or allows or is deemed to allow them to lapse and receives a cash payment, then if the proceeds are “small” as compared to the value of the Existing Shares in respect of which the rights arose, the Shareholder should not generally be treated as making a disposal for CGT purposes. Instead, the proceeds will be deducted from the base cost of his holding of Existing Shares for the purpose of computing any chargeable gain or allowable loss on a subsequent disposal. HM Revenue & Customs currently regards a receipt as “small” if its amount or value does not exceed 5.0 per cent. of the value of the Existing Shares or is £3,000 or less, whether or not it would also fall within the 5.0 per cent. test. This treatment will not apply where such proceeds are greater than the base cost of the holding of Existing Shares for CGT purposes.

1.1.2 *Non-UK tax resident Shareholders*

A Shareholder who is not resident for tax purposes in the UK will not generally be subject to CGT on the disposal or deemed disposal of New Shares unless the Shareholder is carrying on a trade, profession or vocation in the UK through a branch or agency (or, in the case of a corporate Shareholder, a permanent establishment) in connection with which the New Shares are used, held or acquired. Non-UK tax resident Shareholders may be subject to non-UK taxation on any gain under local law.

An individual Shareholder who has ceased to be resident for tax purposes in the UK or is treated as resident outside the UK for the purposes of a double tax treaty (“Treaty non-resident”) for a period of five years or less (or, for departures before 6 April 2013, ceases to be resident or ordinarily resident or becomes Treaty non-resident for a period of less than five tax years) and who disposes of all or part of his New Shares during that period may be liable to CGT on his return to the UK, subject to any available exemptions or reliefs.

1.2 *Taxation of Dividends*

1.2.1 *Withholding tax on dividends*

The Company is not required to withhold tax at source when paying a dividend in respect of New or Existing Shares.

1.2.2 *Direct tax on dividends paid to individuals – current rules*

In the Summer Budget of July 2015, the UK government announced its intention to introduce significant changes to the income tax treatment of dividends with effect from 6 April 2016. Paragraph 1.2.3 of this Part sets out the Company’s expectation, based on draft legislation published on 9 December 2015, as to the operation of the new rules. The remainder of this paragraph deals with the current rules.

An individual Shareholder who is resident for tax purposes in the UK and who receives a dividend from the Company will generally be entitled to a tax credit equal (the “tax credit”) to one-ninth of the amount of the cash amount received (the “cash dividend”), which is equivalent to 10.0 per cent. of the aggregate of the dividend received and the tax credit (the “gross dividend”), and will be subject to income tax on the gross dividend. An individual UK resident Shareholder who is subject to income tax at a rate or rates not exceeding the basic rate will be liable to tax on the gross dividend at the rate of 10.0 per cent., so that the tax credit will satisfy the income tax liability of such a Shareholder in full. Where the tax credit exceeds the Shareholder’s tax liability the Shareholder cannot claim repayment of the tax credit from HM Revenue & Customs.

To the extent that the gross dividend, when treated as the top slice of a Shareholder’s income, exceeds the threshold for higher rate or additional rate income tax, that Shareholder will be liable to income tax at the rate of 32.5 per cent. or 37.5 per cent respectively. As such:

- (i) assuming the entire amount of the gross dividend exceeds the higher rate threshold and is below the additional rate threshold, after taking into account the 10.0 per cent. tax credit, a Shareholder will be liable to additional income tax of 22.5 per cent. of the gross dividend, equal to 25.0 per cent. of the cash dividend; and
- (ii) assuming the entire amount of the gross dividend exceeds the additional rate threshold, after taking into account the 10.0 per cent. tax credit, a Shareholder will be liable to additional income tax of 27.5 per cent. of the gross dividend, equal to approximately 30.6 per cent. of the cash dividend.

1.2.3 *Direct tax on dividends paid to individuals – new rules*

As noted above, the UK government announced in the Summer Budget of July 2015 that it intends to introduce significant changes to the income tax treatment of dividends with effect from 6 April 2016. Draft legislation was published on 9 December 2015.

The remainder of this paragraph 1.2.3 assumes that legislation providing for these changes will be enacted in the form published in draft on 9 December 2015. It is, however, not certain that any such legislation will actually be enacted or, if it is, that it will be enacted in the same form.

The changes will:

- (i) abolish the tax credit; and

- (ii) introduce new rates of tax on dividends, being 0 per cent. for the first £5,000 of taxable dividend income (the “nil rate band”) and, otherwise, 7.5 per cent. for dividend income within the basic rate band, 32.5 per cent. for dividend income within the higher rate band and 38.1 per cent. for dividend income within the additional rate band.

Under the new rules, to the extent a dividend falls within the nil rate band, there will be no liability to tax for any Shareholder who is an individual. Dividends within the nil rate band will nevertheless use up a portion of the relevant person’s basic and/or higher rate band, as applicable, and may therefore still affect the rate of tax payable on dividend income exceeding the nil rate band. To the extent that (taking account of any other dividends received by the Shareholder in the same tax year) a dividend is not within the nil rate band, it will be subject to income tax at the following rates:

- (i) to the extent it is within the basic rate band, 7.5 per cent.;
- (ii) for a higher rate taxpayer (and assuming the entire amount of the dividend exceeds the higher rate threshold and is below the additional rate threshold), 32.5 per cent.; and
- (iii) for an additional rate taxpayer (and assuming the entire amount of the dividend exceeds the additional rate threshold), 38.1 per cent.

1.2.4 *Direct tax on dividends paid to companies*

UK corporation tax is charged on dividends at the rate applicable to the corporate Shareholder. A UK resident corporate Shareholder (within the charge to UK corporation tax) which is a ‘small company’ for the purposes of the UK taxation of dividends legislation will not generally be subject to UK corporation tax on dividends from the Company.

It is likely that most dividends paid on the Shares to a UK resident corporate Shareholder which is not a ‘small company’ for the purposes of the UK taxation of dividends legislation would fall within one or more of the classes of dividend qualifying for exemption from corporation tax. However, it should be noted that the exemptions are not comprehensive and are also subject to anti-avoidance rules. Shareholders within the charge to corporation tax should consult their own professional advisers.

1.3 ***UK Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)***

1.3.1 *The Rights Issue*

No stamp duty or SDRT will be payable on the issue of New Shares pursuant to the Rights Issue, other than as explained in the paragraphs below.

No stamp duty or SDRT will generally be payable on the issue of Provisional Allotment Letters or the crediting of Nil Paid Rights to accounts in CREST. Where New Shares represented by such documents or rights are registered in the name of the Shareholder entitled to such shares, or New Shares are credited in uncertificated form to CREST accounts, no liability to stamp duty or SDRT will generally arise.

A purchaser of rights to New Shares represented by Provisional Allotment Letters (whether nil or fully paid) or of Nil Paid Rights or Fully Paid Rights held in CREST on or before the latest time for registration of renunciation will not generally be liable to pay stamp duty, but the purchaser will normally be liable to pay SDRT at the rate of 0.5 per cent. of the value or amount of the consideration given.

Where such a purchase is effected through a stockbroker or other financial intermediary, that person will normally account for the SDRT and should indicate that this has been done in any contract note issued to the purchaser. In other cases, the purchaser of the rights to the New Shares represented by the Provisional Allotment Letter or Nil Paid Rights or Fully Paid Rights held in CREST is liable to pay the SDRT and must account for it to HM Revenue & Customs. In the case of transfers within CREST, any SDRT due should be collected through CREST in accordance with the CREST rules.

No stamp duty or SDRT will be payable on the registration of Provisional Allotment Letters or Nil Paid Rights or Fully Paid Rights, whether by the original holders or their renounees.

1.3.2 *Subsequent transfers*

Stamp duty at the rate of 0.5 per cent. (rounded up to the next multiple of £5) of the amount or value of the consideration given is generally payable on an instrument transferring Shares. A charge to SDRT will also arise on an unconditional agreement to transfer Shares (at the rate of 0.5 per cent. of the amount

or value of the consideration payable). However, if within six years of the date of the agreement becoming unconditional an instrument of transfer is executed pursuant to the agreement, and stamp duty is paid on that instrument, any SDRT already paid will be refunded (generally, but not necessarily, with interest) provided that a claim for payment is made, and any outstanding liability to SDRT will be cancelled. The liability to pay stamp duty or SDRT is generally satisfied by the purchaser or transferee. An exemption from stamp duty is available on an instrument transferring Shares where the amount or value of the consideration is £1,000 or less, and it is certified on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions for which the aggregate consideration exceeds £1,000.

1.3.2.1 *Shares held through CREST*

Paperless transfers of Shares within CREST are generally liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration. CREST is obliged to collect SDRT on relevant transactions settled within the system. Under the CREST system, no stamp duty or SDRT will arise on a transfer of Shares into the system unless such a transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (usually at a rate of 0.5 per cent.) will arise.

1.3.2.2 *Shares held through Clearance Systems or Depositary Receipt Arrangements*

Special rules apply where Shares are issued or transferred to, or to a nominee or agent for, either a person whose business is or includes issuing depositary receipts within Section 67 or Section 93 of the Finance Act 1986 or a person providing a clearance service within Section 70 or Section 96 of the Finance Act 1986, under which SDRT or stamp duty may be charged at a rate of 1.5 per cent. Following litigation HM Revenue & Customs have confirmed that they will no longer seek to apply 1.5 per cent. SDRT on an issue of shares into a clearance service or depositary receipt arrangement on the basis that the charge is not compatible with EU law. HM Revenue & Customs' view is that the 1.5 per cent. SDRT or stamp duty charge will continue to apply to transfers of shares into a clearance service or depositary receipt arrangement unless they are an integral part of an issue of share capital. This view is currently being challenged in further litigation. **Accordingly, specific professional advice should be sought before incurring a 1.5 per cent. stamp duty or stamp duty reserve tax charge in any circumstances.**

The statements in this paragraph 1.3.2.2 apply to any holders of Shares irrespective of their residence, summarise the current position and are intended as a general guide only. Special rules apply to agreements made by, amongst others, intermediaries.

2. United States Federal Income Taxation

The following is a summary based on present law of certain US federal income tax considerations relevant to the receipt, exercise and disposition of Nil Paid Rights pursuant to the Rights Issue as well as the acquisition, ownership and disposition of Fully Paid Rights and New Shares acquired through exercise of Nil Paid Rights. It addresses only a US Holder that receives the Nil Paid Rights with respect to Existing Shares, will hold the Nil Paid Rights, Fully Paid Rights and New Shares acquired through exercise of Nil Paid Rights as capital assets and uses the US dollar as its functional currency. This discussion does not address the tax treatment of persons subject to special rules, such as financial institutions, regulated investment companies, real estate investment trusts, dealers, traders in securities that elect mark to market treatment, insurance companies, tax exempt entities, persons owning directly, indirectly or constructively 10.0 per cent. or more of the Company's share capital, US expatriates, investors liable for alternative minimum tax, persons holding Nil Paid Rights or New Shares as part of a hedge, straddle, conversion, constructive sale or other integrated financial transaction or persons holding Existing Shares, Nil Paid Rights or New Shares in connection with a permanent establishment or fixed base outside the United States. It also does not address US federal taxes other than income tax (e.g., estate and gift taxes), US state and local, or non-US tax considerations.

As used in this section, "US Holder" means a beneficial owner of Nil Paid Rights or New Shares that is, for US federal income tax purposes (i) a citizen or individual resident of the United States, (ii) a corporation or other business entity treated as a corporation created or organised under the laws of the United States or its political subdivisions, (iii) a trust subject to the control of one or more US persons and the primary supervision of a US court or (iv) an estate the income of which is subject to US federal income tax without regard to its source.

The US federal income tax treatment of a partner in an entity treated as a partnership for US federal income tax purposes that holds Nil Paid Rights or New Shares generally will depend on the status of the partner and the activities of the partnership. Partnerships that hold Nil Paid Rights or New Shares should consult their own tax advisers regarding the specific US federal income tax consequences to their partners from the acquisition, ownership and disposition of Nil Paid Rights or New Shares.

US Holders should note that the discussion above entitled “UK Taxation” is also relevant. See in particular the discussions of stamp duty tax in section 1.3 of PART VIII “UK Taxation—UK Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)”.

The Company believes, and the following discussion assumes, that the Company is not and will not become a passive foreign investment company for US federal income tax purposes.

2.1 *Receipt and exercise, disposition or lapse of Nil Paid Rights*

2.1.1 *Receipt*

The Company believe that a US Holder should treat the receipt of Nil Paid Rights pursuant to the Rights Issue as a non-taxable distribution with respect to such holder’s Existing Shares for US federal income tax purposes, and the remainder of this discussion assumes that such receipt will not be treated as a taxable distribution. The US Holder’s holding period in the Nil Paid Rights will include its holding period in the Existing Shares with respect to which the Nil Paid Rights were distributed. However, except as discussed below under paragraph 2.3, a US Holder’s holding period in Fully Paid Rights will not include the holding period in the Existing Shares with respect to which the Rights were distributed.

If the fair market value of Nil Paid Rights when distributed is less than 15.0 per cent. of the fair market value of the Existing Shares with respect to which Nil Paid Rights are distributed, the Nil Paid Rights will have a nil tax basis unless the US Holder affirmatively elects to allocate its adjusted tax basis in its Existing Shares to the Nil Paid Rights in proportion to the relative fair market values of the Existing Shares and the Nil Paid Rights distributed (determined on the date Nil Paid Rights are distributed). A US Holder must make this election in a statement attached to its tax return for the taxable year in which the Nil Paid Rights are received, in respect of all Rights received by the US Holder, and, except as discussed below under paragraph 2.1.4, the election is irrevocable.

If the fair market value of Nil Paid Rights when distributed is 15.0 per cent. or greater than the fair market value of the Existing Shares with respect to which Nil Paid Rights are received, then, except as discussed below under paragraph 2.1.4, a US Holder’s adjusted tax basis in its Existing Shares must be allocated between the Existing Shares and the Nil Paid Rights in proportion to their relative fair market values determined on the date Nil Paid Rights are distributed.

2.1.2 *Exercise and Subscription of New Shares*

A US Holder will not recognise taxable income when it receives Fully Paid Rights or New Shares by exercising Nil Paid Rights. A US Holder will have a tax basis in such Fully Paid Rights or New Shares equal to such US Holder’s tax basis, if any, in the Nil Paid Rights exercised plus the US dollar value of the sterling exercise price of the Nil Paid Rights on the exercise date (or, in the case of cash basis and electing accrual basis taxpayers, the settlement date). A US Holder that holds Fully Paid Rights as a result of the exercise of Nil Paid Rights will be treated as the owner of the New Shares allocated to the Fully Paid Rights.

A US Holder’s holding period in Fully Paid Rights or New Shares generally will begin on the date the Nil Paid Rights are exercised. If a US Holder uses previously acquired sterling to pay the subscription price for the New Shares, any foreign currency gain or loss that it recognises on the exchange of the sterling for New Shares will be US source ordinary income or loss.

2.1.3 *Dispositions*

A US Holder will recognise capital gain or loss on the sale or other disposition of Nil Paid Rights in an amount equal to the difference between such holder’s tax basis, if any, in the Nil Paid Rights and the US dollar value of the amount realised from the sale or other disposition. Any gain or loss generally will be treated as arising from a US source and will be long-term capital gain or loss if the US Holder’s holding period in the Nil Paid Rights exceeds one year. A US Holder’s holding period in the Nil Paid

Rights will include its holding period in the Existing Shares with respect to which the Nil Paid Rights were distributed.

A US Holder that receives a currency other than US dollars on the disposition of Nil Paid Rights will realise an amount equal to the US dollar value of the currency received at the spot rate on the date of sale or other disposition. A US Holder generally will recognise foreign currency gain or loss equal to the difference between the US dollar value of the amount received based on the spot exchange rates in effect on the date of sale or other disposition and the settlement date. A US Holder will have a tax basis in the currency received equal to the US dollar value of the currency received at the spot rate on the settlement date. Any gain or loss on a subsequent disposition or conversion of the currency into US dollars will be US source ordinary income or loss.

2.1.4 Expiration or lapse

If a US Holder allows Nil Paid Rights to expire without selling or exercising them, and does not receive any proceeds from the sale by the Underwriters of Nil Paid Rights at a premium over the Issue Price on such US Holder's behalf, the Nil Paid Rights should be deemed to have a nil tax basis and, therefore, such US Holder should not recognise any loss upon the expiration of the Nil Paid Rights and any tax basis from Existing Shares that was allocated to the Nil Paid Rights will be reallocated back to such Existing Shares.

The US federal income tax treatment of a US Holder that receives proceeds as a result of the sale on its behalf by the Underwriters of Nil Paid Rights at a premium over the Issue Price is not free from doubt. Generally, such a US Holder will be treated either as having sold the Nil Paid Rights (as described above) or as having exercised the Nil Paid Rights and sold the New Shares. A US Holder that is treated as having exercised the Nil Paid Rights and sold the New Shares will recognise a short-term capital gain or loss as described below in paragraph 2.2.2. US Holders that receive amounts in respect of lapsed Nil Paid Rights should consult their own tax advisers regarding the US federal income tax treatment of such amounts.

2.2 New Shares

2.2.1 Dividends

Distributions on the New Shares should be included in a US Holder's gross income as ordinary dividend income from foreign sources upon receipt to the extent of the Company's current and accumulated earnings and profits. Distributions in excess of any current and accumulated earnings and profits will be treated first as a non-taxable return of capital, which reduces the tax basis in the New Shares to the extent thereof, and then as capital gain. Because the Company will not maintain books and records that account for its earnings and profits under United States federal income tax principles, US Holders should treat all distributions from the Company as dividends.

Dividends will not be eligible for the dividends-received deduction generally available to US corporations. For any year in which the Shares are regularly traded on the London Stock Exchange, dividends on the New Shares will qualify for the reduced rates applicable to qualified dividend income of certain eligible non-corporate US Holders that satisfy a minimum holding period and other generally applicable requirements.

Dividends paid in a currency other than US dollars will be includable in income in a US dollar amount based on the exchange rate in effect on the date of receipt whether or not the currency is converted into US dollars at that time. A US holder's tax basis in the non-US currency will equal the US dollar amount included in income. Any gain or loss on a subsequent conversion of the non-US currency into US dollars for a different amount generally will be US source ordinary income or loss.

2.2.2 Dispositions

A US Holder will recognise capital gain or loss on the sale or other disposition of New Shares in an amount equal to the difference between the US Holder's adjusted tax basis in the New Shares and the US dollar value of the amount realised from the disposition. A US Holder's adjusted tax basis in the New Shares generally will be determined as described above in paragraph 2.1.2. Any gain or loss generally will be treated as arising from US sources and treated as long-term capital gain or loss if the holder has held the New Shares for more than one year. Deductions for capital loss are subject to limitations. A loss may nonetheless be a long-term capital loss regardless of a US Holder's actual holding

period to the extent the US Holder receives qualified dividends prior to a sale or other disposition of its New Shares in excess of 10.0 per cent. of its basis in (or, in certain cases, the fair market value of) the New Shares.

A US Holder that receives a currency other than US dollars on the disposition of New Shares will realise an amount equal to the US dollar value of the currency received at the spot rate on the date of sale or other disposition (or, in the case of cash basis and electing accrual basis US Holders, the settlement date). An accrual basis US Holder that does not elect to determine the amount realised using the spot rate on the settlement date generally will recognise foreign currency gain or loss equal to the difference between the US dollar value of the amount received based on the spot exchange rates in effect on the date of sale or other disposition and the settlement date. A US Holder will have a tax basis in the currency received equal to the US dollar value of the currency received at the spot rate on the settlement date. Any gain or loss on a subsequent disposition or conversion of the currency into US dollars will be US source ordinary income or loss.

2.3 *Medicare Tax on Net Investment Income*

Certain non-corporate US Holders whose income exceeds certain thresholds generally will be subject to a 3.8 per cent. surtax on their “net investment income” (which generally includes, among other things, dividends on, and capital gain from the sale or other taxable disposition of New Shares and from the sale or other taxable disposition of Nil Paid Rights). Non-corporate US Holders should consult their own tax advisers regarding the possible effect of such tax on their ownership and disposition of New Shares and Nil Paid Rights.

2.4 *Backup Withholding and Information Reporting*

A US Holder’s dividends paid in respect of the New Shares and proceeds from the sale or exchange of Nil Paid Rights and New Shares may be reported to the IRS unless the US Holder is a corporation or otherwise establishes a basis for exemption. Backup withholding at the applicable statutory rate may apply to reportable payments unless the US Holder makes the required certification, including providing its taxpayer identification number or otherwise establishes a basis for exemption. Any amount withheld may be credited against a US Holder’s US federal income tax liability or refunded to the extent it exceeds the holder’s liability, provided the required information is timely furnished to the IRS.

Certain US Holders are required to report information with respect to Nil Paid Rights and New Shares not held through an account with a financial institution to the IRS. Investors who fail to report required information could become subject to substantial penalties. Potential investors are encouraged to consult with their own tax advisers about these and any other reporting obligations arising from their Nil Paid Rights and New Shares.

2.5 Nil Paid Rights and the Shares held by non-corporate US Holders may be subject to information reporting unless such Nil Paid Rights or Shares are held in an account at a US financial institution. US Holders should consult their tax advisers regarding the application of this legislation.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT ITS OWN TAX ADVISER ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN THE NOTES IN LIGHT OF THE INVESTOR’S OWN CIRCUMSTANCES.

PART IX – ADDITIONAL INFORMATION

1. Responsibility

The Company and the Directors, whose names appear in Paragraph 5 of this Part IX, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

2. Incorporation and Registered Office

The Company was incorporated and registered in England and Wales on 30 November 1905 as a private limited company under the Companies Acts 1862 to 1900, with the name British Foreign & Colonial Automatic Light Controlling Company Limited and with registered number 86662. On 24 July 1958, the Company changed its name to Automatic Light Controlling Company Limited. On 1 October 1974, the Company changed its name to Chemring Limited. On 1 October 1981, it re-registered as a public limited company under the name of Chemring PLC. On 5 February 1986, the Company changed its name to Chemring Group PLC.

The Company's registered and head office is at Roke Manor, Old Salisbury Lane, Romsey, Hampshire SO51 0ZN and its telephone number is +44 (0) 1794 833901.

The principal legislation under which the Company operates is the UK Companies Act 2006.

3. Share Capital

3.1 Immediately prior to the publication of this document, the share capital of Chemring was £1,933,106.14, comprised of 193,310,614 Existing Shares of 1 pence each, excluding the 2,198,814 Shares held in treasury and 62,500 Preference Shares of £1 each, all of which were fully paid or credited as fully paid. The Existing Shares in the share capital of the Company have a nominal value of 1 pence each and are listed on the premium listing segment of the Official List and admitted to trading on the London Stock Exchange's main market for listed securities. The Preference Shares have a nominal value of £1 each and are listed on the standard listing segment of the Official List and admitted to trading on the London Stock Exchange's main market for listed securities.

3.2 The following table shows the changes in the share capital of Chemring which occurred from 31 October 2012 to 20 January 2016 (being the latest practicable date prior to the date of this document):

	<i>Number of Existing Shares⁽¹⁾</i>	<i>Number of Preference Shares</i>
At 31 October 2012	195,491,341	62,500
Issued pursuant to the Share Schemes	14,907	0
At 31 October 2013	195,493,918	62,500
Issued pursuant to the Share Schemes	2,577	0
At 31 October 2014	195,495,925	62,500
Issued pursuant to the Share Schemes	8,166	0
At 31 October 2015	195,504,091	62,500
Issued pursuant to the Share Schemes	5,337	0
At 20 January 2016 (being the latest practicable date prior to the date of this document)	195,509,428	62,500

Notes:

- (1) Including the 2,198,814 Shares held in treasury.
- (2) The Share Schemes consist of the Chemring Group 2008 UK Sharesave Plan, the Chemring Group 2008 US Stock Purchase Plan, the Chemring Group Performance Share Plan and the Chemring Group Restricted Share Plan. For further information on the Share Schemes, see paragraph 10 of this Part IX.

- 3.3 As at 20 January 2016 (being the latest practicable date prior to the date of this document), the issued and fully paid ordinary share capital of the Company, excluding the 2,198,814 Shares held in treasury, was as follows:

	<i>Shares prior to the Rights Issue</i>	
	<i>Number of</i>	<i>Amount of</i>
	<i>Existing Shares⁽¹⁾</i>	<i>share capital (£)</i>
Issued	193,310,614	1,933,106.14

Note:

- (1) Excluding the 2,198,814 Shares held in treasury.

The issued and fully paid ordinary share capital of the Company immediately following completion of the Rights Issue, excluding the 2,198,814 Shares held in treasury, is expected to be as follows:

	<i>Shares following the Rights Issue⁽¹⁾</i>	
	<i>Number of</i>	<i>Amount of</i>
	<i>Existing Shares</i>	<i>share capital (£)</i>
Issued	279,226,442	2,792,264.42

Note:

- (1) Assuming that the maximum number of New Shares is issued.

The Company remains subject to the continuing obligations of the Listing Rules with regard to the issue of securities for cash and the provisions of section 561 of the Companies Act (which confers on Shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash) apply to the issues of Shares by the Company which is not the subject of the disapplication approved by the Shareholders in a general meeting of the Company.

- 3.4 Save as disclosed above, since 20 January 2016 there has been no issue of share capital of the Company, fully or partly paid, either in cash or for other consideration, and (other than in connection with the Rights Issue and the exercise of options or vesting of awards under the Share Schemes) no such issues are proposed. As at the date of this document, the Company held 2,198,814 Shares in treasury, representing 1.12 per cent. of the issued share capital.
- 3.5 Subject to Admission, pursuant to the Rights Issue, 85,915,828 New Shares will be issued at a price of 94 pence per New Share. This will result in the issued ordinary share capital of the Company increasing by approximately 44.4 per cent. Qualifying Shareholders who take up their pro rata entitlement in full will suffer no dilution to their interests in the Company. Qualifying Shareholders who do not take up any of their rights to subscribe for the New Shares will be diluted by 30.8 per cent. following the New Share Issue (assuming no options granted under the Share Schemes are exercised between 20 January 2016 (being the latest practicable date prior to the publication of this document) and the New Share Issue).
- 3.6 As described in paragraph 14 of Part I “Letter from the Chairman” of this document, at the General Meeting, Shareholders will be asked to consider and vote on the Resolutions. The Resolutions are: (i) an ordinary resolution authorising the Board to allot up to 85,915,828 Shares, representing 44.4 per cent. of the Company’s current issued share capital as at 20 January 2016 (being the latest practicable date prior to the publication of this document); and (ii) a special resolution authorising the disapplication of pre-emption rights in connection with such allotments. These authorities will be limited to the allotment of New Shares in connection with the Rights Issue (on the terms and conditions set out in this document) and, if granted, will enable the Company to allot sufficient New Shares to undertake the Rights Issue. These authorities will expire at the conclusion of the Company’s next AGM expected to be held on 21 March 2016 (or adjournment thereof). The authorities granted under the Resolutions are in addition to the authority to allot Shares which was granted to the Board at the Company’s last AGM in 2015, which the Board has no present intention of exercising and which will expire at the conclusion of the Company’s next AGM expected to be held on 21 March 2016. Accordingly, the New Shares

to be issued in connection with the Rights Issue will be created, allotted and issued pursuant to the authorities to be granted under the Resolutions proposed at the General Meeting.

- 3.7 The New Shares which are the subject of the Rights Issue will be provisionally allotted (nil paid) to all Qualifying Shareholders by a resolution of a committee of the Board and created in accordance with the laws of England.
- 3.8 The New Shares will have the same rights in all respects as the Existing Shares (including the right to receive all dividends or other distributions declared after the date of issue of the New Shares).
- 3.9 The ISIN for the New Shares will be the same as that of the Existing Shares, being GB00B45C9X44. The ISIN for the Nil Paid Rights is GB00BYVXM652. The ISIN for the Fully Paid Rights is GB00BYVXM769.

4. Articles of Association and Mandatory Takeover Bids, Squeeze Out and Sell Out Rules

The Articles of Association of the Company (the “Articles”) are also available for inspection and include provisions to the following effect:

4.1 *Share rights*

Subject to the provisions of the Acts, and without prejudice to any rights attached to any existing shares or class of shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, subject to and in default of such determination, as the Board shall determine.

The Board may issue shares which are to be redeemed or are liable to be redeemed at the option of the Company or the holder. Subject to the Articles and to the Acts, the unissued share capital of the Company (whether forming part of the original or any increased capital) is at the disposal of the Board.

4.2 *Voting rights*

Subject to any rights or restrictions attached to any shares, on a show of hands every member who is present in person or represented by proxy shall have one vote and on a poll every member present in person or by proxy shall have one vote for every share of which he is the holder.

No member shall be entitled to vote at any general meeting unless all moneys presently payable by him in respect of shares in the Company have been fully paid.

The Preference Shares do not entitle the respective holders to receive notice of or attend or vote at any general meeting as a result of holding Preference Shares unless either: (a) at the date of the notice convening the meeting the dividend on the Preference Shares is six months in arrears; or (b) the business of the meeting includes the consideration of a resolution for reducing the capital of the Company, for winding up the Company or for the sale of its undertaking, or for the alteration of the objects of the Company or any resolution varying or abrogating any of the special rights attached to the Preference Shares.

If at any time the Board is satisfied that any member, or any other person appearing to be interested in shares held by such member, has been duly served with a notice under section 793 of the Companies Act 2006 and is in default for the prescribed period in supplying to the Company the information thereby required, then (unless the Board determines otherwise) in respect of the shares in relation to which the default occurred the member shall not be entitled to attend or vote either personally or by proxy at a general meeting or at a separate meeting of the holders of that class of shares or on a poll.

4.3 *Dividends and other distributions*

Subject to the provisions of the Acts, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the Board. Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up on the shares on which the

dividend is paid, but no amount paid on a share in advance of calls shall be treated for these purposes as paid on the share.

Subject to the provisions of the Acts, the Board may pay interim dividends if it appears to the Board that they are justified by the profits of the Company available for distribution

The Preference Shares carry an entitlement to a preferential dividend at the rate of 7 pence per Preference Share per annum, payable in equal instalments on 30 April and 31 October each year. The Preference Shares rank in regard to payment of dividends in priority to the holders of Shares. Dividends may be paid on the Preference Shares if, in the opinion of the Board, the Company has sufficient distributable profits to justify such payment on 30 April and 31 October each year.

The Board may also pay, at intervals determined by it, any dividend at a fixed rate if it appears to the board that the profits available for distribution justify the payment. If the Board acts in good faith it shall not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on any shares having deferred or non-preferred rights.

No dividend or other moneys payable in respect of a share shall bear interest against the Company unless otherwise provided by the rights attached to the share.

The Board may withhold payment from a person of all or any part of any dividend or other moneys payable in respect of shares in the Company if those shares represent at least a 0.25 per cent. interest in the Company's shares or any class thereof and if, in respect of those shares, such person has been served with a restriction notice after failure (whether by such person or by another) to provide the Company with information concerning interests in those shares required to be provided under the Acts.

Except as otherwise provided by the rights and restrictions attached to any class of shares, all dividends will be declared and paid according to the amounts paid up on the shares during any portion of the period in respect of which the dividend is paid.

The Board may, if authorised by an ordinary resolution of the Company, offer any holder of shares the right to elect to receive shares by way of scrip dividend instead of cash in respect of the whole (or some part, to be determined by the Board) of any dividend.

The Company may by ordinary resolution direct that any dividend recommended by the Board and declared at a general meeting, shall be satisfied wholly or partly by the distribution of assets, including, without limitation, paid up shares or debentures of another body corporate.

Any dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the Board so resolves, be forfeited and cease to remain owing by the Company.

Except as provided by the rights and restrictions attached to any class of shares, the holders of the Company's shares will under general law be entitled to participate in any surplus assets in a winding up in proportion to their shareholdings. A liquidator may, with the sanction of a special resolution and any other sanction required by the Insolvency Act 1986, divide among the members in specie the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members.

On a return of assets on liquidation or otherwise, holders of the Preference Shares have the right, in priority to any other classes of shares, to the higher of the following amounts together with any arrears of dividends (whether earned or declared or not): (i) an amount equal to the amount paid up on each Preference Share, together with a premium of five pence per Preference Share; or (ii) a sum equal to the average of the middle market prices for a Preference Share from the daily nominal quotations on the London Stock Exchange during the six months prior to the relevant date.

On a return of assets on liquidation or otherwise, the assets available to shareholders shall be applied, in priority to any payment to Shareholders, in payment to the holders of Preference Shares.

4.4 *Variation of rights*

Rights attached to any class of shares may be varied or abrogated with the written consent of the holders of three-quarters in nominal value of the issued shares of the class, or the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class.

4.5 *Lien and forfeiture*

The Company shall have a first and paramount lien on every share (not being a fully paid share) for all moneys payable to the Company (whether presently or not) in respect of that share. The Company may sell any share on which the Company has a lien if a sum in respect of which the lien exists is presently payable and is not paid within 14 clear days after notice has been sent to the holder of the share demanding payment and stating that if the notice is not complied with the share may be sold.

The Board may from time to time make calls on the members in respect of any moneys unpaid on their shares. Each member shall (subject to receiving at least 14 clear days' notice) pay to the Company the amount called on his shares. If a call or any instalment of a call remains unpaid in whole or in part after it has become due and payable, the board may give the person from whom it is due not less than 14 clear days' notice requiring payment of the amount unpaid together with any interest which may have accrued and any costs, charges and expenses incurred by the Company by reason of such non-payment. The notice shall name the place where payment is to be made and shall state that if the notice is not complied with the shares in respect of which the call was made will be liable to be forfeited.

4.6 *Transfer of shares*

A member may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any other form which the Board may, from time to time, approve. An instrument of transfer shall be signed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee. An instrument of transfer need not be under seal.

The Board may, in its absolute discretion, refuse to register the transfer of a certificated share which is not a fully paid share, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register the transfer of a certificated share unless the instrument of transfer:

- (a) is lodged, duly stamped (if stampable), at the office or at another place appointed by the Board accompanied by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer
- (b) is in respect of one class of share only; and
- (c) is in favour of not more than four persons.

The Board may refuse to register a transfer of shares in the Company by a person if those shares represent at least a 0.25 per cent. interest in the Company's shares or any class thereof and if, in respect of those shares, such person has been served with a restriction notice after failure (whether by such person or by another) to provide the Company with information concerning interests in those shares required to be provided under section 793 of the Companies Act 2006, unless (i) the member is not himself in default as regards supplying the information requested or (ii) the member proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares being the subject of the transfer.

If the Board refuses to register a transfer of a share in certificated form, it shall send the transferee notice of its refusal within two months after the date on which the instrument of transfer was lodged with the Company.

No fee shall be charged for the registration of any instrument of transfer or other document relating to or affecting the title to a share.

Subject to the provisions of the Uncertificated Securities Regulations 2001 (the "Regulations"), the Board may permit the holding of shares in any class of shares in uncertificated form and the transfer of title to shares in that class by means of a relevant system and may determine that any class of shares shall cease to be a participating security.

4.7 *Alteration of share capital*

Subject to the provisions of the Acts, the Company may by ordinary resolution increase, consolidate or sub-divide its share capital.

4.8 *Purchase of own shares*

Subject to the Acts and without prejudice to any relevant special rights attached to any class of shares, the Company may purchase any of its own shares of any class in any way and at any price (whether at par or above or below par).

4.9 *General meetings*

The Board shall convene and the Company shall hold general meetings as annual general meetings in accordance with the requirements of the Acts. The Board may call general meetings whenever and at such times and places as it shall determine.

4.10 *Mandatory takeover bids, squeeze-out and sell-out rules*

Other than as provided by the City Code on Takeovers and Mergers, there are no rules or provisions relating to mandatory bids and/or squeeze-out and/or sell-out rules in relation to the Shares.

4.11 *Directors*

4.11.1 *Appointment of Directors*

Unless otherwise determined by ordinary resolution, the number of Directors shall be not more than fourteen or less than three. Directors may be appointed by ordinary resolution of Shareholders or by the Board. A Director appointed by the Board holds office only until the next following annual general meeting and if not re appointed at such annual general meeting shall vacate office at its conclusion.

4.11.3 *No share qualification*

A Director shall not be required to hold any shares in the capital of the Company by way of qualification.

4.11.4 *Retirement of Directors by rotation*

Each Director shall retire from office at the third annual general meeting after the annual general meeting at which he was last elected.

4.11.5 *Removal of Directors*

Directors can be removed by ordinary resolution of the Shareholders.

4.11.6 *Remuneration of Director*

The emoluments of any Director holding executive office for his services provided to the Company as such shall be determined by the Board, and may be of any description.

The ordinary remuneration of the Directors who do not hold executive office (excluding amounts payable under any other provision of the articles) shall not exceed in aggregate £500,000 per annum or such higher amount as the Company may from time to time by ordinary resolution determine. Subject thereto, each such Director shall be paid a fee (which shall be deemed to accrue from day-to-day) at such rate as may from time to time be determined by the Board. In addition, any Director who does not hold executive office but who performs services outside the scope of the ordinary duties of a Director may be paid such extra remuneration as the Board may determine.

In addition to any remuneration to which the Directors are entitled under the Articles, they may be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of the Board or committees of the Board, general meetings or

separate meetings of the holders of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties.

The Board may provide benefits, whether by the payment of gratuities or pensions or by insurance or otherwise, for any past or present Director or employee of the Company or any of its subsidiary undertakings or any body corporate associated with, or any business acquired by, any of them, and for any member of his family or any person who is or was dependent on him.

4.11.6 *Permitted interests of Directors*

Subject to the provisions of the Acts, and provided that such Director has disclosed to the Board the nature and extent of his interest (unless the circumstances referred to in section 177(5) or section 177(6) of the Companies Act 2006 apply in which case, no such disclosure is required), a Director notwithstanding his office:

- (a) may be a party to, or otherwise interested in, any transaction or arrangement with the Company in which the Company is otherwise (directly or indirectly) interested;
- (b) may act by himself or his firm in a professional capacity for the Company (otherwise than as auditor), and he or his firm shall be entitled to remuneration for professional services as if he were not a Director;
- (c) may be a director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate:
 - (i) in which the Company is (directly or indirectly) interested as a shareholder or otherwise; or
 - (ii) with which he has such a relationship at the request or direction of the Company; and
- (d) shall not, by reason of office, be accountable to the Company for any remuneration or other benefit which he derives from any such office or employment or from any transaction or arrangement or from any interest in any body corporate:
 - (i) the acceptance, entry into or existence of which has been approved by the Board (subject, in any case, to any limits or conditions to which such approval was subject); or
 - (ii) which such Director is permitted to hold or enter into by virtue of paragraphs (a), (b) or (c) above;

nor shall the receipt of any such remuneration or other benefit constitute a breach of his or her duty under section 176 of the Companies Act 2006.

4.11.7 *Restrictions on voting*

Unless the Shareholders resolve by ordinary resolution otherwise, a Director shall not vote on any resolution of the Board, or any committee of the Board, concerning a matter in which such Director has an interest, but these prohibitions shall not apply to:

- (a) the giving of a guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of, or for the benefit of, the Company or any of its subsidiary undertakings;
- (b) the giving of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which the Director has assumed responsibility (in whole or part and whether alone or jointly with others) under a guarantee or indemnity or by the giving of security;
- (c) a contract, arrangement, transaction or proposal concerning an offer of shares, debentures or other securities of the Company or any of its subsidiary undertakings for subscription or purchase, in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub underwriting of which he is to participate;
- (d) a contract, arrangement, transaction or proposal concerning any other body corporate in which he or any person connected with him is interested, directly or indirectly, and whether as an officer, Shareholder, creditor or otherwise, if he and any persons connected with him

do not to his knowledge hold an interest representing 1.0 per cent. or more of either any class of the equity share capital of such body corporate (or any other body corporate through which his interest is derived) or of the voting rights available to members of the relevant body corporate (any such interest being deemed for the purpose of the Articles to be a material interest in all circumstances);

- (e) a contract, arrangement, transaction or proposal for the benefit of employees of the Company or of any of its subsidiary undertakings which does not award him any privilege or benefit not generally accorded to the employees to whom the arrangement relates; and
- (f) a contract, arrangement, transaction or proposal concerning any insurance which the Company is empowered to purchase or maintain for, or for the benefit of, any Directors or for persons who include Directors.

4.11.8 *Borrowing powers*

Save as provided otherwise in the articles, the Board may exercise all the powers of the Company to borrow money, to guarantee, to indemnify, to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital, and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

4.11.9 *Indemnity of officers*

Subject to the provisions of the Acts but without prejudice to any indemnity to which a Director may otherwise be entitled, every Director or other officer of the Company shall be indemnified out of the assets of the Company against any liability incurred by him in defending any proceedings, whether civil or criminal, in which judgment is given in his favour (or the proceedings are otherwise disposed of without any finding or admission of any material breach of duty on his part) or in which he is acquitted or in connection with any application in which relief is granted to him by the court from liability for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company.

5. **Directors and Senior Managers**

5.1 *Directors*

The Directors of the Company are listed below.

<i>Name</i>	<i>Age</i>	<i>Position</i>
Peter Hickson	70	Chairman
Michael Flowers	54	Group Chief Executive
Steve Bowers	42	Group Finance Director
Sarah Ellard	45	Group Legal Director
Ian Much	71	Senior Independent Director
Nigel Young	62	Non-Executive Director
Andy Hamment	61	Non-Executive Director

The business address of each of the Directors is Roke Manor, Old Salisbury Lane, Romsey, Hampshire SO51 0ZN.

Summary biographical details of each of the Directors are described on pages 44 to 45 of Chemring's Annual Report and Accounts for 2015, as described in Part X "Documentation Incorporated by Reference" of this document.

Set out below are the directorships and partnerships held by the Directors (other than, where applicable, directorships held in subsidiaries of the Company), in the five years prior to the date of this document:

<i>Name</i>	<i>Current directorships/partnerships</i>	<i>Past directorships/partnerships</i>
Peter Hickson	Communis plc Harworth Group plc Orbis Charitable Trust	Orbis International TW Associates (Financial Consultants) Ltd
Michael Flowers	–	–
Steve Bowers	–	Umeco PLC (and subsidiaries)
Sarah Ellard	–	–
Ian Much	BTG plc Bradshott Holdings Ltd The Royal School Haslemere	Senior plc
Nigel Young	Orbis Charitable Trust Orbis Africa NPC P2i Ltd NRY Associates Ltd	–
Andy Hamment	Senior plc	Ultra Electronics Holdings plc (and subsidiaries) Hamment Consulting Ltd

5.2 *Senior Managers*

In addition to the Executive Directors described above, the Company's Senior Managers and members of the executive committee, and the business and administrative departments they are responsible for, are indicated below.

<i>Name</i>	<i>Age</i>	<i>Position</i>
Rik Armitage	50	Group Director – Strategy and Technology
Terry Bridgewater	59	Group Director of Safety
Stuart Cameron	64	Managing Director – Chemring Energetics UK Limited & Chemring Defence UK Limited Executive Committee member representing the Energetic Systems business segment
Simon Darling	52	Managing Director – Chemring Countermeasures UK Limited Executive Committee member representing the Countermeasures business segment
Juan Navarro	58	President – Chemring North America Executive Committee member representing the Sensors & Electronics business segment
Rupert Pittman	44	Group Director of Corporate Affairs

The business address of each member of the Senior Managers is Roke Manor, Old Salisbury Lane, Romsey, Hampshire SO51 0ZN.

The experience and principal business activities of each of the Senior Managers are as follows:

Rik Armitage (Group Director – Strategy and Technology)

Rik Armitage joined Chemring Group PLC in January 2006, with responsibility for the co-ordination of the Group's strategic planning, market analysis and product development, as well as the search for new business opportunities, such as acquisitions. He spent a number of years as a consultant, advising companies and venture capital investors on growth strategies and technology exploitation, and prior to that, developing new businesses as a high tech VC investor, and as a project manager in the aerospace industry.

Rik holds a BA and MEng in Manufacturing Engineering from Cambridge University, and a MBA from Cranfield School of Management.

Terry Bridgewater (Group Director of Safety)

Terry Bridgewater joined Chemring Group PLC in October 2008 from Smiths Group where he was Director of Environment, Health and Safety. Prior to Smiths, he worked for Goodrich as Director of Environment, Health and Safety Programmes based in Charlotte, North Carolina. He started his career as a Mechanical Engineer with Lucas Aerospace and after various middle management positions, Terry spent several years leading major change projects including site relocations, IT system implementation, business process redesign and lean manufacturing.

Terry has a Masters degree from the University of Nottingham, is a Fellow of the Royal Aeronautical Society, Six Sigma Green Belt and Lean Practitioner.

Stuart Cameron (Managing Director – Chemring Energetics)

Stuart Cameron joined the Chemring Group in February 2009 as Managing Director of Chemring Energetics UK Limited. He is now also Managing Director of Chemring Defence UK Limited and Chairman of Chemring Nobel AS. Stuart represents the Energetic Systems businesses on the Executive Committee. Prior to joining the Group, he was Director and General Manager of VT Aerospace, a member of the Board of VT Support Services, and Chairman of the Board and Executive Director of Airwork Limited. He was the Senior Programme Manager in the Engineering Directorate of the Atomic Weapons Establishment and served in the Army in the rank of Colonel.

Stuart is a Chartered Engineer and has specialist knowledge of personnel management, technical training, aircraft engineering management, organisational development and manufacturing operations in a highly regulated environment.

Simon Darling (Managing Director – Chemring Countermeasures UK)

Simon Darling was appointed Managing Director of Chemring Countermeasures Ltd (UK) in November 2007. He joined Chemring Group in November 2003 as Finance Director of Chemring Countermeasures Ltd from Allweiler AG, where he was European Finance Director. Prior to his time at Allweiler AG, Simon was Finance Director and Deputy Managing Director for a building products subsidiary of CRH plc. Following qualification as a Chartered Accountant with BDO Stoy Hayward, he moved into finance roles at the corporate head offices of UK quoted companies, followed by senior finance roles in operating subsidiaries. Throughout his career Simon has led a broad range of business-changing projects including downsizing, site relocation, business expansion through acquisition and organic growth, IT system implementation, and business process redesign.

Simon has a Bachelor of Laws degree from London University, and is a member of the Institute of Chartered Accountants of England and Wales.

Juan Navarro (President, Chemring North America)

Juan Navarro was appointed the President of Chemring North America in November 2013, and is responsible for the management of the majority of Chemring's US-based companies. He has been with Chemring Group since 2008, coming on board as part of the NIITEK acquisition.

Juan has spent 34 years in high technology businesses and has held various senior leadership positions, including CEO and COO of SER Solutions and NIITEK (prior to its acquisition by the Group). He also held senior management positions at the Xerox Corporation. He holds a Bachelor of Science degree in Computer Science from the University of Maryland.

Rupert Pittman (Group Director of Corporate Affairs)

Prior to joining Chemring Group PLC in September 2011, Rupert was Managing Director of the Corporate and Financial Communications Consultancy, Cardew Group. He has advised international companies, both public and private, across the spectrum of corporate communication including M&A, flotations, rights issues and crisis management. Prior to this, he was an officer in the British Army.

Rupert was an adviser to Chemring from 2001 and oversaw the development of the Group's corporate profile and reputation during that time.

He is a Trustee of the Sherborne School Foundation.

Set out below are the directorships and partnerships held by the Senior Managers (other than, where applicable, directorships held in subsidiaries of the Company), in the five years prior to the date of this document:

<i>Name</i>	<i>Current directorships/partnerships</i>	<i>Past directorships/partnerships</i>
Rik Armitage	–	–
Terry Bridgewater	–	–
Stuart Cameron	–	–
Simon Darling	–	–
Juan Navarro	–	MicroLog Inc.
Rupert Pittman	Middle Barn Farm Limited 29 Sussex Management Company Limited	Cardew Group Limited

There is no family relationship between any of the Company's Directors or Senior Managers.

5.3 As at the date of this document, none of the Directors and the Senior Managers has at any time within the past five years:

- (a) save as disclosed in paragraphs 5.1 and 5.2 above, been a director or partner of any companies or partnerships; or
- (b) had any convictions in relation to fraudulent offences (whether spent or unspent); or
- (c) been adjudged bankrupt or has entered into any individual voluntary arrangements; or
- (d) been a director of any company at the time of or within a 12 month period preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with such company's creditors generally or with any class of creditors of such company; or
- (e) has been partner of any partnership at the time of or within a 12 month period preceding any compulsory liquidation, administration or partnership voluntary arrangement of such partnership; or
- (f) had his assets for the subject of any receivership; or
- (g) been partner of any partnership at the time of or within a 12 month period preceding any assets thereof being the subject of a receivership; or
- (h) been subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including any designated professional body); or
- (i) ever been disqualified by a court from acting as a director or other officer of any company or from acting in the management or conduct of the affairs of any company.

5.4 Save for their capacities as persons legally and beneficially interested in Shares, there are:

- (a) no potential conflicts of interest between any duties to the Company of the Directors and the Senior Managers and their private interests and/or other duties; and
- (b) no arrangements or understandings with major Shareholders, members, suppliers or others, pursuant to which any Director or the Senior Managers was selected.

5.5 *Corporate Governance Code*

The Company recognises the importance of, and is committed to, high standards of corporate governance. The following sections explain how the Company has applied the main and supporting principles set out in the Corporate Governance Code issued by the Financial Reporting Council. Chemring's compliance with the UK Corporate Governance Code is described on page 50 of

Chemring's Annual Report and Accounts for 2015, as described in Part X "Documentation Incorporated by Reference" of this document.

5.6 Board Structure

The Company is headed by a Board of Directors, comprising the Chairman, three Executive Directors and three Non-Executive Directors, all of whom are determined by the Board to be independent.

The offices of Chairman and Chief Executive are held separately, and both officers have clearly defined roles and responsibilities. A summary of the key responsibilities of the Chairman and Chief Executive is contained on page 52 of Chemring's Annual Report and Accounts for 2015, as described in Part X "Documentation Incorporated by Reference" of this document. The Senior Independent Director is currently Ian Much.

The Board of the Company is responsible for setting the Group's objectives and policies and for the stewardship of the Group's resources. The Board is responsible to the Shareholders for the overall management of the Group.

The Board considers that its independent Non-Executive Directors bring strong judgment and considerable knowledge and experience to the Board's deliberations. The Chairman, Senior Independent Director and Chairman of the Remuneration Committee are available to meet major shareholders, as required.

The Corporate Governance Code requires a company to state its reasons if it determines that a director is independent in certain circumstances, including where a director indirectly has a material business relationship with the Company as a director of a body that has such a relationship with the Company, or has had in the last three years, and where a director has served on the Board for more than nine years. A summary of Chemring's reasons in respect of the Company's Non-Executive Directors being considered independent is contained on page 51 of Chemring's Annual Report and Accounts for 2015, as described in Part X "Documentation Incorporated by Reference" of this document.

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. The appointment and removal of the Company Secretary are matters for the Board as a whole. Any Director, wishing to do so in furtherance of his duties, may take independent advice at the Company's expense.

The Company maintains an appropriate level of directors' and officers' insurance in respect of legal action against the Directors.

The Group's governance structure is designed to ensure that all decisions are made by the most appropriate people, in such a way that the decision making process itself does not unnecessarily delay progress. As envisaged by the Corporate Governance Code, the Board has delegated specific responsibilities to the Nomination, Remuneration and Audit Committees, as described below. Each committee has terms of reference that the whole Board has approved. Board and committee papers are circulated in advance of each meeting so that all Directors are fully briefed. Papers are supplemented by reports and presentations to ensure that the Board members are supplied in a timely manner with the information they need.

5.7 Nomination Committee

The Nomination Committee leads the process for Board appointments by making recommendations to the Board about filling Board vacancies and appointing additional persons to the Board. The Nomination Committee evaluates the balance of skills, knowledge and experience on the Board and, in the light of this evaluation, prepares a description of the roles and capabilities required for a particular appointment.

The Nomination Committee's members are Peter Hickson, Ian Much and Nigel Young, all of whom are Non-Executive Directors. The Nomination Committee has terms of reference, approved by the Board. Further details of the Nomination Committee's remit and activities are contained in the corporate governance report on pages 50 to 57 of Chemring's Annual Report and Accounts for 2015, as described in Part X "Documentation Incorporated by Reference" of this document.

5.8 Remuneration Committee

Responsibility for reviewing Group remuneration strategy and policy, recommending any changes and approving individual remuneration packages for the Chairman, executive directors and other members of the executive management rests with the Remuneration Committee. The Remuneration Committee consists exclusively of Non-Executive Directors and meets on at least two occasions each year. The Remuneration Committee's members are Andy Hamment, Peter Hickson, Ian Much and Nigel Young, all of whom are Non-Executive Directors.

The Remuneration Committee has terms of reference, approved by the Board. Further details of the Remuneration Committee's remit and activities are contained in the remuneration report on pages 50 to 57 of Chemring's Annual Report and Accounts for 2015, as described in Part X "Documentation Incorporated by Reference" of this document.

5.9 Audit Committee

The Committee meets at least three times a year to review the Company's accounting and financial reporting practices, the work of the internal and external auditor, and compliance with policies, procedures and applicable legislation. The Audit Committee also reviews the half year and annual financial statements before submission to the Board and periodically reviews the scope, remit and effectiveness of the internal audit function and the effectiveness of the Group's internal control systems.

The Audit Committee's members are Andy Hamment, Ian Much and Nigel Young, all of whom are independent Non-Executive Directors. The Audit Committee has terms of reference, approved by the Board. Further details of the Audit Committee's remit and activities are contained in the audit committee report on pages 50 to 57 of Chemring's Annual Report and Accounts for 2015, as described in Part X "Documentation Incorporated by Reference" of this document.

6. Directors' and Senior Managers' Interests

6.1 The interests of the Directors and Senior Managers, and their immediate families, in the share capital of the Company (all of which, unless otherwise stated, are beneficial) on the date of this document and as they are expected to be immediately following the New Share Issue including as a percentage of the Enlarged Share Capital (based on the Company's understanding of the relevant Director's or Senior Manager's intentions, and in the case of partial take-up, a theoretical ex-rights price of 152.2 pence, full or partial take up by the Directors and Senior Managers of their entitlements under the Rights Issue and assuming no options granted under the Share Schemes between 20 January 2016 (being the latest practicable date prior to the publication of this document) and the New Share Issue), are as follows:

Name	Shares beneficially held at the date of this document		Shares beneficially held immediately following the New Share Issue	
	No.	% (to nearest 0.1%)	No.	%
Directors				
Peter Hickson	210,000	0.11	303,332	0.11
Michael Flowers	90,680	0.05	130,980	0.05
Steve Bowers	–	–	–	–
Sarah Ellard	33,500	0.03	40,940	0.02
Ian Much ⁽¹⁾	26,500	0.01	28,659	0.01
Nigel Young	–	–	–	–
Andy Hamment	50,000	0.03	58,488	0.02
Senior Managers				
Rik Armitage	58,007	0.03	67,854	0.02
Terry Bridgewater	13,874	0.01	20,038	0.01
Stuart Cameron	2,264	0.00	3,268	0.00
Simon Darling	41,717	0.02	48,799	0.02
Juan Navarro	40,447	0.02	58,423	0.02
Rupert Pittman	23,493	0.01	27,481	0.01

Note:

(1) Ian Much's shareholdings include the Shares held by his adult children living with him.

The Directors and the Senior Managers have the same voting rights as all other Shareholders.

6.2 Details of the Directors' and Senior Managers' non beneficial interests in the Shares subject to options and awards under the UK Sharesave Plan as at 20 January 2016 are set out below:

<i>Name</i>	<i>Number of Shares over which options granted</i>	<i>Exercise price</i>	<i>Grant date</i>	<i>Exercise between</i>
Directors				
Peter Hickson	–	–	–	–
Michael Flowers	11,042	163p	30 July 2014	1 October 2017 – 31 March 2018
Steve Bowers	9,202	163p	30 July 2014	1 October 2019 – 31 March 2020
Sarah Ellard	–	–	–	–
Ian Much	–	–	–	–
Nigel Young	–	–	–	–
Andy Hamment	–	–	–	–
Senior Managers				
Rik Armitage	–	–	–	–
Terry Bridgewater	11,042	163p	30 July 2014	1 October 2017 – 31 March 2018
Stuart Cameron	8,620	174p	30 July 2015	1 October 2020 – 31 March 2021
Simon Darling	5,521	163p	30 July 2014	1 October 2017 – 31 March 2018
	2,068	174p	30 July 2015	1 October 2018 – 31 March 2019
Juan Navarro ⁽¹⁾	–	–	–	–
Rupert Pittman	1,614	223p	30 July 2012	1 October 2015 – 31 March 2016
	2,259	239p	30 July 2013	1 October 2016 – 31 March 2017
	12,068	174p	30 July 2015	1 October 2020 – 31 March 2021

Note:

- (1) Juan Navarro has 4,056 Shares granted under the US Stock Purchase Plan which were granted on 1 August 2014 at an exercise price of 174p and an exercise period of 1 August 2016 to 31 October 2016.

6.3 Details of the Directors' and Senior Managers' non beneficial interests in the Shares subject to options and awards under the remaining Share Schemes as at 20 January 2016 are set out below:

<i>Name</i>	<i>Number of Shares subject to conditional awards</i>	<i>Exercise price</i>	<i>Grant date</i>	<i>Vesting date</i>
Directors				
Peter Hickson	–	–	–	–
Michael Flowers	14,066	nil	27 January 2015	27 January 2018
	79,796	nil	27 June 2013	27 June 2016
Steve Bowers	94,827	nil	28 April 2014	28 April 2017
	186,046	nil	8 July 2014	8 July 2017
	261,935	nil	26 January 2015	26 January 2018
	19,097	nil	28 April 2014	23 January 2017
	29,727	nil	27 January 2015	27 January 2018
	149,564	nil	31 January 2013	31 January 2016
Sarah Ellard	193,965	nil	28 April 2014	28 April 2017
	199,354	nil	26 January 2015	26 January 2018
	12,600	nil	28 April 2014	23 January 2017
	18,973	nil	27 January 2015	27 January 2018
	114,213	nil	31 January 2013	31 January 2016
Ian Much	139,978	nil	28 April 2014	28 April 2017
	143,867	nil	26 January 2015	26 January 2018
	–	–	–	–
Nigel Young	–	–	–	–
Andy Hamment	–	–	–	–
Senior Managers				
Rik Armitage	50,761	nil	31 January 2013	31 January 2016
	61,551	nil	28 April 2014	28 April 2017
	64,490	nil	26 January 2015	26 January 2018
Terry Bridgewater	42,929	nil	31 January 2013	31 January 2016
	51,034	nil	28 April 2014	28 April 2017
	53,470	nil	26 January 2015	26 January 2018
Stuart Cameron	24,292	nil	31 January 2013	31 January 2016
	46,206	nil	28 April 2014	28 April 2017
	53,023	nil	26 January 2015	26 January 2018
Simon Darling	25,924	nil	31 January 2013	31 January 2016
	49,310	Nil	28 April 2014	28 April 2017
	50,680	nil	26 January 2015	26 January 2018
Juan Navarro	72,543	nil	31 January 2013	31 January 2016
	106,994	nil	28 April 2014	28 April 2017
	119,365	nil	26 January 2015	26 January 2018
	130,000	nil	28 April 2014	31 December 2015
Rupert Pittman	49,311	nil	31 January 2013	31 January 2016
	59,793	nil	28 April 2014	28 April 2017
	62,647	nil	26 January 2015	26 January 2018

6.4 Other than as disclosed in this paragraph and paragraph 10 (“Share Schemes”), there are no other persons to whom any capital of any member of the Group is under option, or agreed conditionally or unconditionally to be put under option.

6.5 No Director has or has had any interest in any transactions which are or were unusual in their nature or conditions or are or were significant to the business of the Group or any of its subsidiary undertakings and which were effected by the Group or any of its subsidiaries during the current or immediately preceding financial year or during an earlier financial year and which remain in any respect outstanding or unperformed.

- 6.6 There are no outstanding loans or guarantees granted or provided by any member of the Group to or for the benefit of any of the Directors.
- 6.7 Save as set out in this Part IX, it is not expected that any Director will have any interest in the share or loan capital of the Company following the New Share Issue and there is no person to whom any capital of any member of the Group is under option or agreed unconditionally to be put under option.

7. Interests of Major Shareholders

Insofar as is known to the Company, the name of each person who, directly or indirectly, has an interest in 3.0 per cent. or more of the Company's issued share capital, and the amount of such person's interest, as at 20 January 2016 (being the latest practicable date prior to the publication of this document) are as follows:

<i>Name</i>	<i>Shares</i>	
	<i>No.</i>	<i>%</i>
Schroders plc	19,807,251	10.25
Investco Ltd	15,662,550	8.10
UBS Global Asset Management	10,646,898	5.51
Jupiter Asset Management Ltd	10,432,858	5.40
Neptune Investment Management	9,711,698	5.02
Thameside MBC re Greater Manchester Pension Fund	9,668,177	5.00
Majedie Asset Management Ltd	9,665,995	5.00
Ameriprise	9,459,203	4.89
Investec Asset Management Ltd	9,352,078	4.84
Cantillon Capital Management LLC	7,032,280	3.64

Insofar as is known to the Company, the Company is not directly or indirectly owned or controlled by another corporation, any foreign government, or any other natural or legal person, severally or jointly.

None of the major Shareholders referred to above has different voting rights from other Shareholders.

Insofar as is known to the Company, immediately following the New Share Issue, the interests of those persons set out above with an interest in 3.0 per cent. or more of the Company's issued share capital, and the amount of such persons' interests, including as a percentage of the Enlarged Share Capital (assuming full take up by such persons of their entitlements under the Rights Issue and no options granted under the Share Schemes are exercised between 20 January 2016 (being the latest practicable date prior to the publication of this document) and the New Share Issue), will be as follows:

<i>Name</i>	<i>Shares</i>	
	<i>No.</i>	<i>%</i>
Schroders plc	28,610,471	10.25
Investco Ltd	22,623,682	8.10
UBS Global Asset Management	15,378,850	5.51
Jupiter Asset Management Ltd	15,069,682	5.40
Neptune Investment Management	14,028,006	5.02
Thameside MBC re Greater Manchester Pension Fund	13,965,141	5.00
Majedie Asset Management Ltd	13,961,991	5.00
Ameriprise	13,663,291	4.89
Investec Asset Management Ltd	13,508,554	4.84
Cantillon Capital Management LLC	10,157,736	3.64

8. Directors' service agreements and letters of appointment

Michael Flowers

- 8.1 Michael Flowers entered into a service agreement with the Company on 23 June 2014 and was appointed with effect from 24 June 2014. The service agreement may be terminated by Mr Flowers or the Company by either party giving not less than 12 months' notice. Alternatively, the Company may terminate the contract by payment in lieu of notice of a sum equal to 12 months' salary plus the fair value of any contractual benefits, paid in a lump sum or in instalments over the notice

period. In these circumstances, Mr Flowers is required to mitigate his loss. Mr Flowers' annual salary with effect from 1 January 2015 is £406,000.

- 8.2 Mr Flowers receives benefits in kind, principally cash allowance in place of a company car, typical life assurance/permanent health insurance benefits and private medical insurance. In addition, Mr. Flowers is eligible to participate in the Company's executive bonus plan and the Chemring Group Performance Share Plan and the Chemring 2008 UK Sharesave Plan, both of which are described in paragraph 10 below. Mr Flowers is entitled to receive a cash allowance in lieu of pension with a value of 20.0 per cent. of base salary. Since 1 January 2014, like all UK employees, Mr Flowers has been subject to auto-enrolment into the Chemring Group's defined contribution stakeholder pension scheme, which has an employer contribution of 4.0 per cent. of base salary. Mr Flowers has not elected to opt out of this scheme, and his cash allowance is therefore currently reduced by 4.0 per cent.

Steve Bowers

- 8.3 Steve Bowers entered into a service agreement with the Company on 2 January 2013 and was appointed with effect from 7 January 2013. The service agreement may be terminated by Mr Bowers or the Company by either party giving not less than 12 months' notice. Alternatively, the Company may terminate the contract by payment in lieu of notice of a sum equal to 12 months' salary plus the fair value of any contractual benefits, paid in a lump sum or in instalments over the notice period. In these circumstances, Mr Bowers is required to mitigate his loss. Mr Bowers' annual salary with effect from 1 January 2015 is £309,000.

- 8.4 Mr Bowers receives benefits in kind, principally a cash allowance in place of a company car and typical life assurance/permanent health insurance benefits. He is also entitled to receive private medical insurance. In addition, Mr. Bowers is eligible to participate in the Company's executive bonus plan, and the Chemring Group Performance Share Plan and the Chemring 2008 UK Sharesave Plan, both of which are described in paragraph 10 below. Mr Bowers receives a cash allowance in lieu of pension with a value of 20.0 per cent. of base salary. Since 1 January 2014, like all UK employees, Mr Bowers has been subject to auto-enrolment into Chemring Group's defined contribution stakeholder pension scheme, which has an employer contribution of 4.0 per cent. of base salary. Mr Bowers has not elected to opt out of this scheme, and his cash allowance is therefore currently reduced by 4.0 per cent.

Sarah Ellard

- 8.5 Sarah Ellard entered into a service agreement with the Company on 2 November 2011 and was appointed with effect from 7 October 2011. The service agreement may be terminated by Mrs Ellard or the Company by either party giving not less than 12 months' notice. Alternatively, the Company may terminate the contract by payment in lieu of notice of a sum equal to 12 months' salary plus the fair value of any contractual benefits, paid in a lump sum or in instalments over the notice period. In these circumstances, Mrs Ellard is required to mitigate her loss. Mrs Ellard's annual salary with effect from 1 January 2015 was £222,995, reducing to £203,539 with effect from 7 September 2015 to reflect a change in contracted office-based working hours.
- 8.6 Mrs Ellard receives benefits in kind, principally a company car, typical life assurance/permanent health insurance benefits and private medical insurance. In addition, Mrs Ellard is eligible to participate in the Company's executive bonus plan, and the Chemring Group Performance Share Plan and the Chemring 2008 UK Sharesave Plan, both of which are described in paragraph 10 below. Mrs Ellard receives a cash allowance in lieu of pension with a value of 20.0 per cent. of base salary. Since 1 January 2014, like all UK employees, Mrs Ellard has been subject to auto-enrolment into the Chemring Group's defined contribution stakeholder pension scheme, with an employer contribution of 4.0 per cent. Mrs Ellard has currently elected to opt out of this scheme but if she does not opt out in the future, her cash allowance will be reduced by 4.0 per cent.

Non-Executive Directors

8.7 The terms of appointment of the Non Executive Directors are as follows:

Peter Hickson

8.7.1 Peter Hickson, the Chairman of the Company, entered into a letter of appointment with the Company on 23 June 2010 for an initial three year term commencing 1 July 2010 and was reappointed for a second term with effect from 1 July 2013. His current appointment is for a period of three years, until 30 June 2016, provided he is re-elected by shareholders, and is terminable on three months' notice. Mr Hickson receives an annual fee of £187,000 in his role as Chairman. Mr Hickson is not entitled to receive any compensation on termination of his appointment, and is not entitled to participate in the Company's Share Schemes, bonus or pension schemes.

Ian Much

8.7.2 Ian Much was appointed as a Non-Executive Director of the Company on 1 December 2004 and was reappointed for two successive three year terms on 1 December 2007 and 1 December 2010. Mr. Much will stand down from the Board at the forthcoming annual general meeting. Mr Much receives a fee of £55,000 in his role as a Non-Executive Director of the Company and a fee of £8,000 in his role as Chairman of the Company's Remuneration Committee. Mr Much also currently serves as the Senior Independent Director of the Company but he receives no additional fee for this role. Mr Much is not entitled to receive any compensation on termination of his appointment, and is not entitled to participate in the Company's Share Schemes, bonus or pension schemes.

Nigel Young

8.7.3 Nigel Young entered into a letter of appointment with the Company on 30 April 2013 and was appointed with effect from 1 May 2013. Mr Young's appointment continues until 30 April 2016, provided he is re-elected by shareholders, and is terminable on three months' notice. Mr Young receives a fee of £55,000 in his role as a Non-Executive Director of the Company and a fee of £8,000 in his role as Chairman of the Company's Audit Committee. Mr Young is not entitled to receive any compensation on termination of his appointment, and is not entitled to participate in the Company's Share Schemes, bonus or pension schemes.

Andy Hamment

8.7.4 Andy Hamment entered into a letter of appointment with the Company on 3 June 2013 and was appointed with effect from 1 July 2013. Mr Hamment's appointment continues until 30 June 2016, provided he is re-elected by shareholders, and is terminable on three months' notice. Mr Hamment receives a fee of £55,000 in his role as a Non-Executive Director of the Company. Mr Hamment is not entitled to receive any compensation on termination of his appointment, and is not entitled to participate in the Company's Share Schemes, bonus or pension schemes.

8.8 The aggregate remuneration, including bonuses and benefits in kind, granted by all members of the Group to the Directors in respect of the financial year ending 31 October 2015 was £1.6 million.

8.9 There is no arrangement under which any Director has waived or agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.

9. Directors' and Senior Managers' remuneration

9.1 In addition to the options and awards under the Share Schemes disclosed in paragraph 10 of this Part IX, the amount of remuneration paid (including any contingent or deferred compensation), and benefits in kind granted to Directors of the Company for services in all capacities to the Group (including subsidiaries where applicable) by any person for the financial year ended 31 October 2015 was as follows:

<i>Name</i>	<i>Position</i>	<i>Salary and fees</i>	<i>Taxable benefits⁽¹⁾</i>	<i>Bonus (cash and deferred shares)⁽²⁾</i>	<i>Share schemes</i>	<i>Pension benefits⁽³⁾</i>	<i>Total (£'000)</i>
Peter Hickson	Chairman	£187,000	£2,000	–	–	–	£189,000
Michael Flowers	Group Chief Executive	£405,000	£21,000	–	–	£81,000	£507,000
Steve Bowers	Group Finance Director	£309,000	£18,000	–	–	£60,000	£386,000
Sarah Ellard	Group Legal Director	£219,000	£19,000	–	–	£44,000	£282,000
Andy Hamment	Non-Executive Director	£55,000	–	–	–	–	£55,000
Ian Much	Non-Executive Director	£63,000	–	–	–	–	£63,000
Nigel Young	Non-Executive Director	£63,000	–	–	–	–	£63,000

Notes:

- (1) Taxable benefits comprise a fully-expensed company car for Sarah Ellard (annual lease cost £9,000) or cash allowance (£20,000 per annum for each of Michael Flowers, and £18,000 per annum for Steve Bowers), plus private medical insurance.
- (2) 40.0 per cent. of any bonus is delivered as an award of deferred shares.
- (3) The executive directors receive a cash supplement of 20.0 per cent. of salary in lieu of occupational pension scheme membership (reducing to 16.0 per cent. where the director has not elected to opt out of the Company's pension scheme, as described above).
- (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.
- (5) 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.

9.2 In addition to the options and awards under the Share Schemes disclosed in paragraph 10 of this Part IX, the aggregate remuneration (including any contingent or deferred compensation) and benefits in kind paid or granted to the Senior Managers by the Company and its subsidiaries during the financial year ended 31 October 2015 for services in all capacities was £1.7 million. The Company is not required to, and does not otherwise, disclose publicly remuneration for the Senior Managers on an individual basis.

9.3 Save as disclosed in this Part IX, none of the members of the administrative, management, or supervisory bodies' service contracts with the Company or any of its subsidiaries provide for benefits upon termination of employment.

10. Share schemes

The Group currently operates the following employee share plans which provide for the grant of awards or options over Shares to employees of the Group. It is the Company's policy normally to grant awards under its Share Schemes annually shortly after release of its preliminary financial results in respect of the previous financial year. It is therefore expected that the Remuneration Committee will make awards under certain of its Share Schemes shortly after the date of this document and that this will include awards to be made in favour of the Executive Directors and Senior Managers. Details of any such awards to the Executive Directors will be announced via a RIS.

10.1 *The Chemring Group 2008 UK Sharesave Plan (the “UK Sharesave Plan”)*

Overview

The UK Sharesave Plan is an all-employee share plan, which enables UK employees to enter into a savings contract, in return for which they are granted an option to acquire Shares at a discount to the market value of the Shares at the grant date.

Eligibility

Any employee or executive director of the Group’s UK-based subsidiaries is eligible to participate in the UK Sharesave Plan at the invitation of the Board. The Board generally applies a requirement for completion of six months’ continuous service before an employee is eligible to participate.

Grant of options

Grants of options under the UK Sharesave Plan are normally made in July of each year (within the period of six weeks following the release of the Company’s half year results).

Individual limits

Individuals may currently save between £5 and £500 per month across all sharesave plans, and may enter into either a three year or five year savings contract. The savings limits are set periodically by HM Revenue & Customs.

Exercise of options

Options are normally exercisable three or five years after the grant date but may be exercisable early in specified circumstances such as redundancy, ill health or a change of control of the Company.

Variation of capital

In the event of any variation of the share capital of the Company, the Board may make such adjustments to the number or price of options granted as it deems appropriate. Such adjustment must be notified to HM Revenue & Customs and a declaration made that the UK Sharesave Plan complies with the applicable legislation.

Amendments

The approval of the Company’s shareholders is required for any alteration to the key features of the plan. Where an alteration is proposed which would be to the material disadvantage of participants, the alteration must also be approved by a majority of those participants affected. The Company must also self-certify the continuing compliance of the UK Sharesave Plan with the applicable legislation.

10.2 *The Chemring Group 2008 US Stock Purchase Plan (the “US Stock Purchase Plan”)*

Overview

The US Stock Purchase Plan is an all-employee share plan, which enables US employees to enter into a savings contract, in return for which they are granted an option to acquire Shares at a discount to the market value of the Shares at the grant date.

Eligibility

Any employee or executive director of any of the Group’s US-based subsidiaries is eligible to participate in the US Stock Purchase Plan at the invitation of the Board. The Board generally applies a requirement for completion of six months’ continuous service before an employee is eligible to participate.

Grant of options

Grants of options under the US Stock Purchase Plan are normally made in July of each year (within the period of six weeks following the release of the Company’s half year results). The last grant was made in July 2014, and no grants have been made since.

Individual limits

Individuals may currently save up to \$500 per month across all similar plans under a two year savings contract.

Exercise of options

Options are normally exercisable two years after the grant date but may be exercisable early in specified circumstances such as redundancy, ill health or a change of control of the Company.

Variation of capital

In the event of any variation of the share capital of the Company, the Board may make such adjustments to the number or price of options granted as it deems appropriate.

Amendments

The approval of the Company's shareholders is required for any alteration to the key features of the plan. Where an alteration is proposed which would be to the material disadvantage of participants, the alteration must also be approved by a majority of those participants affected.

10.3 *The Chemring Group Performance Share Plan 2006 (the "PSP")*

Overview

The PSP, which expires in March 2016, provides for the annual grant of conditional awards of Shares, which vest subject to the Group's performance over a three year period.

Eligibility

Any employee of a member of the Group is eligible to participate in the PSP. However, participation is limited to the Executive Directors and other members of the Group's senior management team at the discretion of the Remuneration Committee.

Grant of awards

Awards normally take the form of a conditional share award but may also take the form of an option. Awards are usually made within the period of six weeks following the announcement of the Company's annual results but may be made at other times if the Remuneration Committee determines that circumstances are sufficiently exceptional.

Individual limits

The Remuneration Committee will determine the maximum face value of the awards that can be granted to a participant in any calendar year. Other than in exceptional circumstances, the maximum total market value of Shares over which awards may be granted to any employee during any financial year of the Company is 150.0 per cent. of base salary, and in exceptional circumstances, such as on recruitment, the maximum market value of Shares is 200.0 per cent. of base salary.

Performance conditions

The extent to which an award will vest is dependent on satisfaction of performance conditions set on grant of the award. The performance conditions are set out in a schedule to the award certificate and measured over a period of three years.

If an event occurs which causes the Remuneration Committee reasonably to consider that it would be appropriate to amend a performance condition, the Remuneration Committee may alter the performance condition, acting fairly and reasonably, provided that the altered performance condition is not materially less difficult to satisfy than the original.

Vesting of awards

Awards will generally vest on the later of the date on which the Remuneration Committee determines whether or not any performance conditions and any other conditions imposed on the vesting of the awards have been satisfied (in whole or part) and the third anniversary of the grant date.

The Remuneration Committee may decide on or before the vesting of an award that a participant shall be entitled to cash and/or Shares (at the Remuneration Committee's discretion) equal in value to the dividends that would have been paid on the vested Shares in respect of dividend record dates occurring during the period between the grant date and the date of vesting.

Malus and clawback

The Remuneration Committee may reduce or cancel any unvested award held by a participant in the event of material misstatement of the financial results of the Chemring Group company which employs the relevant individual, if such misstatement resulted in that individual being granted an award over a higher number of Shares than would have been the case had the misstatement not been made or which resulted in any other award granted to the individual vesting to a greater degree than would otherwise have been the case.

The Remuneration Committee may also decide at any time within three years of the date on which a participant's award vests to apply clawback to that award if it takes the view that the relevant employer materially misstated its results for any reason and that misstatement resulted in that award vesting to a greater degree than would otherwise have been the case.

Cessation of employment

Unvested awards will normally lapse if a participant ceases to be employed by a member of the Group, subject to exceptions for specified circumstances such as redundancy, ill health or his employer ceasing to be a member of the Group. In such circumstances, the Remuneration Committee may decide instead that the award will vest, either in full or pro-rated appropriately, subject to satisfaction of the applicable performance conditions and any other conditions relevant at the time of vesting. In exceptional circumstances the Remuneration Committee may deem the performance conditions to be met, irrespective of performance.

Change of control

If a person obtains control of the Company as a result of making a takeover offer or as a result of a compromise or arrangement with shareholders then awards will normally vest. The proportion of an award which vests will be determined by the Remuneration Committee having regard to the performance conditions and the length of time the award has been held by a participant. In exceptional circumstances the Remuneration Committee may deem the performance conditions to be met, irrespective of performance. The Remuneration Committee may also decide to adjust the number of vested shares that would result from application of pro-rating.

Variation of capital

In the event of any variation of the share capital of the Company, the Remuneration Committee may make such adjustments to the number or Shares under award as it deems appropriate.

Amendments

The approval of the Company's shareholders is required for any alteration to the key features of the plan. Where an alteration is proposed which would be to the material disadvantage of participants, the alteration must also be approved by a majority of those participants affected.

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

Overview

The RSP, which was established in 2013, provides for the grant of deferred awards of Shares at nil cost. The RSP is intended to be used principally for incentive awards for recruitment or retention purposes.

Eligibility

Any employee of a member of the Group (with the exception of the Executive Directors) is eligible to participate in the RSP. However, participation is limited to nominated key employees at the discretion of the Remuneration Committee.

Grant of awards

Awards normally take the form of a conditional share award but may also take the form of an option. Awards may only be made within the period of six weeks following the announcement of the Company's results for any period or at any other time when the Remuneration Committee determines that circumstances are sufficiently exceptional to justify the grant.

Individual limits

The Remuneration Committee will determine the maximum face value of any award made to an individual. The maximum total market value of Shares over which awards may be granted to any employee during any financial year of the Company is 150.0 per cent. of base salary, unless the Remuneration Committee determines otherwise.

Performance conditions

The Remuneration Committee may specify conditions for the vesting of awards. Such conditions are usually limited to the continued employment of the participant by a member of the Group.

Vesting of awards

Awards will generally vest on the later of the date on which the Remuneration Committee determines whether or not any conditions imposed on the vesting of the awards have been satisfied (in whole or part) and the normal vesting date specified by the Remuneration Committee on the grant date.

The Remuneration Committee may decide on or before the vesting of an award that a participant shall be entitled to cash and/or Shares (at the Remuneration Committee's discretion) equal in value to the dividends that would have been paid on the vested Shares in respect of dividend record dates occurring during the period between the grant date and the date of vesting.

Cessation of employment

Unvested awards will normally lapse if a participant ceases to be employed by a member of the Group, subject to exceptions for specified circumstances such as redundancy, ill health or his employer ceasing to be a member of the Group. In such circumstances, the Remuneration Committee may decide instead that the award will vest, either in full or pro-rated appropriately, subject to satisfaction of any conditions relevant at the time of vesting. In exceptional circumstances the Remuneration Committee may deem the performance conditions to be met, irrespective of performance.

Change of control

If a person obtains control of the Company as a result of making a takeover offer or as a result of a compromise or arrangement with shareholders then awards will normally vest. The proportion of an award which vests will be determined by the Remuneration Committee having regard to any conditions associated with the vesting and the length of time the award has been held by a participant. In exceptional circumstances the Remuneration Committee may deem the performance conditions to be met, irrespective of performance. The Remuneration Committee may also decide to adjust the number of vested shares that would result from application of pro-rating.

Variation of capital

In the event of any variation of the share capital of the Company, the Remuneration Committee may make such adjustments to the number or Shares under award as it deems appropriate.

Amendments

The Remuneration Committee may at any time alter the plan or any award made under it, provided that if any proposed alteration would be to the material disadvantage of participants, the alteration will require the majority approval of those participants affected.

11. Subsidiaries and corporate structure

11.1 Corporate structure

Chemring was incorporated on 30 November 1905 and is the ultimate parent company of the Group, which comprises the Company and its subsidiary undertakings.

11.2 Significant subsidiary and associated undertakings

The significant subsidiary and associated undertakings of Chemring are described on pages 120 to 121 of Chemring's Annual Report and Accounts for 2015, as described in Part X "Documentation Incorporated by Reference" of this document. During the period from 31 October 2015 to 20 January 2016 (the latest practicable date prior to the publication of this document), there were no new significant subsidiary or subsidiary undertakings.

12. Pension schemes

In relation to the last full financial year, save as described above in paragraph 8 there are no amounts set aside or accrued by the Group to provide pension, retirement or similar benefits to current Directors and Senior Managers.

Details of the Group's pension schemes are included on pages 137 to 139 of Chemring's Annual Report and Accounts for 2015, as described in Part X "Documentation Incorporated by Reference" of this document.

13. Banking facilities

13.1 Chemring banking facilities

As at 31 October 2015, Chemring had committed undrawn bank lines of £70.0 million. The Group's total available cash on hand was £7.6 million. Chemring's Facility Agreement was entered into on 31 July 2014, is unsecured, multi-currency, available for general corporate purposes, and provided by a syndicate which comprises both UK and international banks. The facility is documented on terms which are customary for a company with a public listing and an investment grade credit rating.

In addition, Chemring has agreed bonding lines with Barclays and Santander UK plc (and associated group companies), which share with the Facility Agreement common terms set out in a common terms agreement dated with the same date as the Facility Agreement and in individual bi-lateral facilities with each of such lenders. These facilities currently provide bonding lines aggregating £58.6 million.

The facility documents for such facilities are referred to collectively as the "UK Club Facility Documents".

The borrower under the UK Club Facility Documents is Chemring Group PLC, with a mechanism to introduce additional borrowers (in which event the facilities would be guaranteed by Chemring Group PLC).

Chemring has other bi-lateral bonding lines available to it and a \$15.0 million uncommitted facility provided by Citizens Bank of Pennsylvania (the latter provided to CHG Group, Inc. and Chemring Energetic Devices, Inc. (with a guarantee from Chemring Group PLC) to fulfil US trade finance and working capital requirements.

13.2 Facility Agreement

On 31 July 2014, Chemring concluded the refinancing of its revolving credit facility with the signing of the Facility Agreement, comprising a new £70.0 million, four year unsecured, multi-currency, revolving facility agreement between Chemring and certain of its subsidiaries (the "Borrowers"), Barclays, Abbey National Treasury Services Plc and Mediobanca International (Luxembourg) S.A. (together the "Facility Agreement Lenders"). The Facility Agreement provided facilities to enable Chemring to refinance its previous revolving credit facilities, and is available to be used for the general corporate purposes of the Chemring Group (including, but not limited to, the financing of acquisitions permitted by the UK Club Facility Documents, and the issue of bonds and guarantees) (the "Revolving Facilities"). In May 2015,

the Group agreed amendments to the financial covenants of the Facility Agreement with the Facility Agreement Lenders. These amendments provided additional near-term headroom through short-term adjustments to the covenant tests for April and July 2015, which, after the July 2015 testing date, reverted back to the previously agreed financial covenants. As described in paragraph 11.2 of Part I “Letter from the Chairman of Chemring Group PLC”, the Group has also agreed to amendments to the financial covenants with the Lenders for the 31 October 2015 and 31 January 2016 test dates.

The interest rate payable on the Revolving Facilities for each interest period is LIBOR (or EURIBOR in relation to any loan in Euros, NIBOR in relation to any loan in Norwegian Krone, BBSW in relation to any loan in Australian dollars and CDOR in relation to any loan in Canadian dollars) plus a margin. The margin for the Revolving Facilities is subject to a margin ratchet calculated by reference to the ratio of consolidated net debt to consolidated EBITDA. Default interest is chargeable as is customary. Interest periods will be one, two, three or six months, unless a different period is otherwise agreed by the Borrower and the Facility Agreement Lenders. Interest will be payable in arrears at the end of each interest period or at the end of each six month period, where the agreed interest period is greater than six months. A commitment fee is payable quarterly in arrears on all undrawn, uncanceled amounts and is calculated as a fixed percentage of the applicable margin. The Company is also required to pay an agency fee to Barclays for its services as the facility agent.

Chemring must repay loans drawn under the Facility Agreement at the end of each interest period. All Revolving Facilities outstanding under the Facility Agreement must be repaid on 31 July 2018. Standard mandatory prepayment provisions are applicable to the Facility Agreement (including a mandatory prepayment event on a change of control of Chemring only). Voluntary prepayments and cancellations may be made upon five Business Days’ notice, in minimum amounts of £1.0 million, subject to break costs if the prepayment does not take place on the last day of an interest period.

Certain subsidiaries of Chemring together with each company which becomes a material subsidiary of Chemring (together the “Guarantors”) provide a continuing guarantee of punctual performance of each of the Borrowers’ obligations under the UK Club Facility Documents. Each Guarantor also undertakes to indemnify the Facility Agreement Lenders immediately on demand against any cost, loss or liability it incurs as a result of any Borrower’s non-performance under the UK Club Facility Documents. Chemring will ensure that the aggregate turnover, net assets and EBITDA of the Guarantors contributes 80.0 per cent. or more of the total turnover, net assets and EBITDA of the Chemring Group on an ongoing basis. The facilities provided under the UK Club Facility Documents are guaranteed in this way but otherwise unsecured.

A number of standard representations and warranties have been given in the UK Club Facility Documents, most of which are repeated on the date of each utilisation request and on the first day of each interest period. Customary materiality tests, carve outs and grace periods also apply. The UK Club Facility Documents require the Borrowers and the Guarantors to comply, and to ensure the compliance of the Chemring Group, with a number of customary undertakings (including financial covenants).

The events of default are usual for facilities and transactions of this type. Upon the occurrence of an event of default which is not remedied or waived, the Facility Agreement Lenders will not be obliged to fund further utilisations, the Facility Agreement Lenders may cancel the available facilities and may declare all outstanding payments (and full cash cover for each bond) to be immediately due and payable.

14. Property, plant and equipment

Details of the material properties of the Group are set out below:

<i>Location</i>	<i>Tenure</i>	<i>Rent</i>	<i>Rent review date</i>	<i>Term</i>	<i>Uses</i>
Chemring Energetics UK Ardeer Site, Stevenston, Scotland, UK	Freehold	N/A	N/A	N/A	Explosive manufacturing operations
Chemring Countermeasures UK High Post, Salisbury, UK	Freehold	N/A	N/A	N/A	Explosive manufacturing operations
Roke Roke Manor, Romsey, UK	Freehold	N/A	N/A	N/A	Office-based, research and development, and light manufacturing functions
Chemring Ordnance, Perry, Florida USA	Freehold	N/A	N/A	N/A	Explosive manufacturing operations
Kilgore Flares Toone, Tennessee USA	Freehold	N/A	N/A	N/A	Explosive manufacturing operations

15. Auditors

The independent auditors of Chemring for the period from 31 October 2012 to date have been Deloitte LLP, whose address is at Abbots House, Reading, RG1 3BD. Deloitte LLP have no material interest in the Company.

16. Underwriting arrangements

16.1 Underwriting agreement

On 21 January 2016, Chemring and the Underwriters entered into the Underwriting Agreement pursuant to which Chemring has appointed Investec and J.P. Morgan Cazenove as Joint Sponsors, Joint Global Coordinators, Joint Bookrunners and Underwriters and Barclays as Co-Bookrunner and Underwriter in connection with the Rights Issue and Admission.

Subject to the terms and conditions of the Underwriting Agreement, the Underwriters (as agents of Chemring) have agreed severally (in their due proportions) to use reasonable endeavours to procure subscribers for the New Shares which have not been taken up under the Rights Issue (or, at their discretion, for as many as can be so procured) as soon as reasonably practicable and in any event by no later than 5.00 p.m. on the second dealing day after the last date for acceptance under the Rights Issue, for an amount which is not less than the total of the Issue Price multiplied by the number of such New Shares for which subscribers are so procured plus the expenses of procurement (including any applicable commissions and VAT). If and to the extent that the Underwriters are unable to procure subscribers on the basis outlined above, the Underwriters have agreed to subscribe for, on a several basis (in their due proportions), any remaining New Shares.

The underwriting commission payable is equal to 2.25 per cent. of the Issue Price multiplied by the aggregate number of New Shares (plus any applicable VAT). Out of such commission payable to the Underwriters, the Underwriters shall pay or procure the payment of sub-underwriting commissions payable to such persons (if any) as the Underwriters may procure to acquire New Shares. All commissions and fees payable pursuant to the Underwriting Agreement are payable as soon as practicable following the acceptance date but not later than the fifth Business Day following the acceptance date.

Irrespective of whether Admission occurs, the Company shall bear all expenses of or incidental to the Rights Issue, Admission and the arrangements contemplated by the Underwriting Agreement, including the fees and expenses of its professional advisers, the fees and expenses of the Underwriters and their

professional advisers, the cost of preparation, advertising, printing and distribution of this document and all other documents connected with the Rights Issue, all roadshow expenses, including travel and accommodation, all bookbuilding expenses, the Registrar's fees, all filing fees and related and other expenses in connection with the qualification of the New Shares for offering and sale in any jurisdiction pursuant to the Rights Issue and, where applicable, VAT.

Chemring has given certain customary representations, warranties and undertakings to the Underwriters, and customary indemnities to the Underwriters and to certain persons connected with them, in relation to the Rights Issue. The obligations of the Underwriters under the Underwriting Agreement are subject to certain conditions customary in agreements of this type including, amongst others:

- (a) Admission occurring at or before 8.00 a.m. on 9 February 2016 (or such later time and/or date (being not later than 8.00 a.m. on 15 February 2016) as the Joint Bookrunners may agree).
- (b) the Company not being in breach of any of the terms of any of the Revolving Facilities or any of the US Notes or being reasonably likely to breach any of the terms of any of the Revolving Facilities or any of the US Notes (except in respect of the possibility of a breach of the unmodified maximum leverage ratios permitted under the terms of the Revolving Facilities or the US Notes as at 30 April 2016) at any time prior to Admission save for any breach which has been unconditionally or irrevocably waived pursuant to the waivers and the waivers not having been revoked and remaining in full force and effect or where each of the Joint Bookrunners, acting in good faith, considers such breach not to be material in the context of the Rights Issue, the underwriting of New Shares or the application for Admission;
- (c) the passing without amendment of the Resolutions, save as to any amendment which the Joint Bookrunners in good faith consider to be immaterial, at the General Meeting on 8 February 2016 (or such later date as the Joint Bookrunners may agree) and such Resolutions remaining in force;
- (d) none of the warranties being (in the good faith opinion of either of the Joint Bookrunners) untrue, inaccurate or misleading as at the date of the Underwriting Agreement or immediately prior to Admission (by reference to the facts and circumstances from time to time subsisting);
- (e) no matter referred to in Section 87G of FSMA arising in the period between the time of publication of this document and the time of Admission and no supplementary prospectus being required to be published by or on behalf of the Company before Admission which, in either case, in the good faith opinion of either of the Joint Bookrunners, makes it impractical or inadvisable to proceed with the Rights Issue and in the manner contemplated in the Underwriting Agreement; and
- (f) the Company having complied with and not being in breach, at any time prior to Admission, of any of its obligations under the Underwriting Agreement or under the terms of the Rights Issue which, in each case, fall to be performed or satisfied prior to Admission and the Company having complied with those of its obligations under the Listing Rules and the Prospectus Rules which fall to be performed or satisfied prior to Admission, save for any non-compliance or breach of which, each of the Joint Bookrunners, acting in good faith, considers not to be material in the context of the Rights Issue, the underwriting of New Shares or the application for Admission.

If any of the conditions in the Underwriting Agreement is not satisfied (or waived by the Joint Bookrunners), or becomes incapable of being satisfied, by the required time and date (or by such later time and/or date as the Joint Bookrunners may agree) then, save for certain exceptions, the obligations of the parties under the Underwriting Agreement shall cease and terminate without prejudice to any liability for any prior breach of the Underwriting Agreement.

In addition, the Joint Bookrunners (on behalf of the Underwriters) are entitled to terminate the Underwriting Agreement in certain circumstances, including for material adverse change and *force majeure*, but only prior to Admission.

Pursuant to the Underwriting Agreement, the parties have agreed that if a supplementary prospectus is issued by the Company two or fewer Business Days prior to the date specified as the latest date for acceptance and payment in full, such date shall be extended to the date which is three Business Days after the date of publication of the supplementary prospectus, and the dates and times of events due to take place following such date shall be extended accordingly.

The Company agrees that, between the date hereof and the date which falls 180 days after the commencement of dealing of the New Shares it will not, without the prior written consent of the Joint Bookrunners:

- (a) undertake any consolidation or subdivision of its share capital or any capitalisation issue;
- (b) directly or indirectly, issue, allot, offer, pledge, sell, contract to sell, lend, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, deposit into any depository receipt facility or otherwise transfer or dispose of any Shares or any securities convertible into or exercisable or exchangeable for Shares or file any registration statement under the Securities Act with respect to any of the foregoing (or publicly announce the same);
- (c) enter into any swap or other agreement, arrangement or transaction that transfers or confers in whole or in part, directly or indirectly, any of the economic consequences of the ownership of its Shares; or
- (d) carry out any capital increases or issue any convertible bonds, exchangeable bonds or other securities which are convertible, exchangeable, exercisable into, or otherwise give the right to subscribe for or acquire its ordinary shares, whether directly or indirectly,

(whether any such swap, agreement, arrangement or transaction described in (a) to (d) above is to be settled by delivery of ordinary shares, cash or otherwise), except in each case with the prior written consent of each of the Joint Bookrunners, provided that the restrictions above shall not apply in relation to (i) the issuance of the New Shares to be issued in the context of the Rights Issue, and (ii) the grant or award in the ordinary course of options or ordinary shares under, and allotments and issuances of ordinary shares of the Company pursuant to, the Company's executive or employee share schemes or incentive plans existing on the date hereof.

16.2 Standby Underwriting Letter

On 26 October 2015, Chemring entered into a standby underwriting letter (the "Standby Underwriting Letter") with the Joint Bookrunners pursuant to which the Joint Bookrunners agreed to underwrite severally (in their respective proportions) the proposed rights issue by Chemring to raise aggregate gross proceeds of up to £90 million, on the terms of an underwriting agreement to be agreed between Chemring and the Joint Bookrunners. The Standby Underwriting Letter automatically terminated in accordance with its terms upon the execution of the Underwriting Agreement described in paragraph 16.1 above.

17. Material Contracts

17.1 The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or another member of the Group within the two years immediately preceding the date of this document or, in the case of the Underwriting Agreement is expected to be entered into prior to Admission, and are, or may be, material or have been entered into at any time by the Company or any member of the Group and contain provisions under which the Company or any member of the Group has an obligation or entitlement which is, or may be, material to the Company or any member of the Group as at the date of this document:

17.1.1 Underwriting Agreement

For a description of the principal terms of the Underwriting Agreement, see paragraph 16.1 of this Part IX "Additional Information".

17.1.2 The Facility Agreement

For a description of the Group's revolving credit facility, see paragraph 13.2 of this Part IX "Additional Information".

17.1.3 Sale agreement relating to the disposal of Mecar S.A.

A summary of the principal terms of the share purchase agreement dated 24 April 2014 entered into between the Company, CHG Overseas Limited and Nexter Systems S.A. in connection with the disposal by the Company of Mecar S.A. is incorporated into this document by reference to the 2014 Class 1 Circular Relating to the European Munitions Business Disposal, as described in Part X "Documentation Incorporated by Reference" of this document.

17.1.4 *Sale agreement relating to the disposal of Simmel Difesa S.p.A.*

A summary of the principal terms of the share purchase agreement dated 24 April 2014 entered into between the Company, CHG Overseas Limited and Nexter Systems S.A. in connection with the disposal by the Company of Simmel Difesa S.p.A. is incorporated into this document by reference to the 2014 Class 1 Circular Relating to the European Munitions Business Disposal, as described in Part X “Documentation Incorporated by Reference” of this document.

17.1.5 *Loan note agreements*

A note purchase agreement was entered into on 12 November 2007 between Chemring and a number of third party investors (the “2007 Noteholders”), pursuant to which Chemring issued \$125 million 6.28 per cent. notes due 12 November 2017 and £12.5 million 6.81 per cent. notes due 12 November 2017 (collectively the “2007 Notes”), as amended and supplemented by amendment agreements, the most recent of which is dated as of May 2015 (as so amended and supplemented, the “2007 Note Purchase Agreement”).

A note purchase agreement was also entered into on 19 November 2009 between Chemring and a number of third party investors (the “2009 Noteholders”), pursuant to which Chemring issued \$80 million 5.26 per cent. notes due 19 November 2016, \$140 million 5.68 per cent. notes due 19 November 2019, and \$60 million 5.68 per cent. notes due 19 November 2019 (collectively the “2009 Notes”), as amended and supplemented by amendment agreements, the most recent of which is dated as of May 2015 (as so amended and supplemented, the “2009 Note Purchase Agreement”).

The 2007 Notes and the 2009 Notes are collectively referred to as the “US Notes”, the 2007 Noteholders and the 2009 Noteholders are collectively referred to as the “US Noteholders”, and the 2007 Note Purchase Agreement and the 2009 Note Purchase Agreement are collectively referred to as the “US Note Purchase Agreements”.

The US Note Purchase Agreements provided funds to enable Chemring to finance acquisitions permitted by the US Note Purchase Agreements, to refinance other existing indebtedness, and for the general corporate purposes of Chemring.

Interest is payable on the balance of the outstanding Notes on a half-yearly basis at the rate specified in each US Note. An increased interest charge is payable for any quarter ended 30 April, 31 July, 31 October or 31 January in any year during which the ratio of the Chemring Group’s consolidated total debt to consolidated EBITDA is greater than three times. An increased interest charge is also payable for any period in which Chemring’s credit rating is down-graded. Default interest is chargeable as is customary. As described in paragraph 11.2 of Part I “Letter from the Chairman of Chemring Group PLC”, the Group has agreed to amendments to the financial covenants with the US Noteholders for the 31 October 2015 and 31 January 2016 test dates.

The US Notes must be repaid on the dates specified in each US Note. Standard mandatory prepayment provisions are applicable to the US Note Purchase Agreements (including a mandatory prepayment event on a change of control of Chemring). Voluntary prepayments may be made upon not less than thirty days’ notice, in amounts of not less than 10.0 per cent. of the aggregate outstanding principal of the US Notes, subject to the payment of a make-whole amount.

Those subsidiaries of Chemring which have provided guarantees under the UK Club Facility Documents are also required to provide similar guarantees of the punctual performance of Chemring’s obligations under the US Notes. Each such guarantor undertakes to indemnify the US Noteholders immediately on demand against any cost, loss or liability they incur as a result of Chemring’s non-performance under the US Notes. The US Notes are unsecured, and rank *pari passu* to the facilities under the UK Club Facility Documents.

A number of standard representations and warranties have been given in the US Note Purchase Agreements. Customary materiality tests, carve outs and grace periods also apply. The US Note Purchase Agreements require the Chemring Group to comply with a number of customary undertakings (including financial covenants). The events of default are usual for notes and transactions of this type. Upon the occurrence of an event of default which is not remedied or

waived, the US Noteholders may require all outstanding US Notes to be repaid immediately, together with a make-whole amount.

17.1.6 *South Dakota build-to-print business sale agreement*

By an asset purchase agreement dated 19 December 2013, Chemring Energetic Devices, Inc. and Technical Ordnance Realty LLC, subsidiaries of Chemring, sold the business and assets of their South Dakota build-to-print operation to Amtec Corporation for a consideration of \$10 million. The asset purchase agreement contains customary warranties, representations, indemnities and covenants for a transaction of this nature.

17.1.7 *Purchase agreement for certain assets of Wallop Defence Systems Limited*

On 24 November 2015, the Group reached 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.

17.1.8 *Pension funding agreement*

On 5 July 2013, Chemring entered into a funding agreement with the trustees of the Chemring Group Staff Pension Scheme (the "Pension Scheme"), pursuant to which a plan was agreed for funding the deficit arising on the actuarial valuation of the Pension Scheme as at 6 April 2012 (the "2013 Scheme Funding Agreement"). The 2013 Scheme Funding Agreement replaced the previous funding agreement entered into between the trustees of the Pension Scheme and the Company, pursuant to which the Company would have been required to pay a cash contribution of up to £20 million to the Scheme in June 2014.

The 2013 Scheme Funding Agreement provides that:

- (a) the Company will make the following contributions to the Scheme – £1.5 million over the period from 1 July 2013 to 31 December 2013; £6 million over the period from 1 January 2014 to 30 June 2014; and £5 million per annum from 1 July 2014 to 30 June 2019;
- (b) the Company will provide letters of credit to the Pension Scheme in an aggregate sum of £20 million, which may be reduced as cash contributions are paid to the Scheme in accordance with (a) above; and
- (c) the Company will provide a bank guarantee to the Pension Scheme for £7.2 million for the period to 30 June 2019, which may be called upon by the Pension Scheme in the event of certain defaults by the Company or the insolvency of the Company.

18. Related party transactions

The related party transactions between Chemring and its subsidiaries that were entered into during each of the years ended 31 October 2015, 2014 and 2013 are incorporated into this document by reference to the Annual Reports and Accounts for 2015, 2014 and 2013, as described in Part X "Documentation Incorporated by Reference" of this document. During the period from 31 October 2015 to 20 January 2016 (the latest practicable date prior to the publication of this document), there were no new related party transactions.

19. Litigation and arbitration proceedings

The Group is currently engaged in pre-action correspondence with the Defense Contract Audit Agency of the DoD in relation to disputed pricing calculations on certain contracts fulfilled by Alloy Surfaces.

Additionally, Kilgore has reached agreement with the United States Department of Justice in respect of a potential claim relating to the origin of magnesium used in countermeasures that were supplied by Kilgore under two DoD contracts during 2005-2006. Kilgore and the United States have agreed in principle to a disposition whereby Kilgore will pay a total of \$6.01 million over approximately 5.5 years. Additionally, CHG Group, Inc. has agreed to sign a guaranty agreement to secure Kilgore's payment obligations. The actual wording of the written settlement agreement is still being negotiated.

In addition, pursuant to a settlement agreement reached in relation to the manufacture of certain components for the Next Generation Light Anti-Tank Weapon ("NLAW") combat weapon by Chemring Energetics UK, Chemring Energetics UK has paid a settlement of £4.5 million (after netting off an outstanding invoice). The cash payment associated with settlement of the NLAW claim occurred in November 2015.

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 exists to cover estimated legal costs for the Group with regards to pending and probable legal actions.

Save as described above, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company or the Group is aware) during the previous 12 months which may have, or have had in the recent past, significant effects on the Company or the Group's financial position or profitability.

20. Working capital

The Company is of the opinion that, taking into account the net proceeds of the Rights Issue and taking into account available headroom under the Group's UK Club Facility Documents, the Group has sufficient working capital for its present requirements, that is for at least 12 months from the date of publication of this document.

21. No significant change

Other than the increase in net debt to £195.6 million as at 31 December 2015, primarily as a result of the Group's seasonal increase in working capital, there has been no significant change in the financial or trading position of the Group since 31 October 2015, the date to which the latest audited year-end financial information in relation to the Group was prepared.

22. Consents

Deloitte LLP is a member firm of the Institute of Chartered Accountants in England and Wales and has given and has not withdrawn its written consent to the inclusion of its accountant's report set out in Part X "Unaudited Pro Forma Financial Information" and has authorised the contents of the part of this document which comprises its report for the purposes of Rule 5.5.3R(2)(f) of the Prospectus Rules. A written consent under the Prospectus Rules is different from a consent filed with the SEC under Section 7 of the Securities Act. As the Shares have not been, and will not be, registered under the Securities Act, Deloitte LLP has not filed a consent under Section 7 of the Securities Act.

23. Miscellaneous

23.1 The total costs and expenses payable by the Company in connection with the Rights Issue (including the listing fees of the FCA and the London Stock Exchange, professional fees and expenses and the costs of printing and distribution of documents) are estimated to amount to £5.6 million (including VAT).

23.2 Each New Share is expected to be issued at a premium of 93 pence to its nominal value of one pence.

24. Documents available for inspection

Copies of the following documents are available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) up to, and for a period of 12 months, following Admission at the offices of Freshfields Bruckhaus Deringer at 65 Fleet Street, London EC4Y 1HS, and will also be available for inspection at the General Meeting for at least 15 minutes prior to and during the meeting:

- (a) the articles of association of the Company;
- (b) the consent letter referred to in paragraph 22 of this Part IX above;
- (c) the report from Deloitte LLP which is set out in Part X “Unaudited Pro Forma Financial Information”;
- (d) the Provisional Allotment Letter;
- (e) the documents incorporated by reference into this document as described in the section of this document headed “Relevant Documentation and Incorporation by Reference”; and
- (f) this document.

Dated: 21 January 2016

PART X – DOCUMENTATION INCORPORATED BY REFERENCE

The following documentation, which was sent to Shareholders at the relevant time and/or is available as described below, contains information that is relevant to the Rights Issue:

1. The annual reports and accounts of Chemring for 2015, 2014 and 2013

These contain the audited historical financial information of the Company for each of the years ended 31 October 2015, 2014 and 2013, prepared in accordance with IFRS as adopted by the EU, together with audit reports in respect of each such year.

2. The 2014 Class 1 circular relating to the european munitions business disposal

This document was published by the Company on 24 April 2014 in connection with the European Munitions Business Disposal which constituted a Class 1 transaction for Chemring under the Listing Rules.

3. Other

The table below sets out the various sections of the documents referred to above which are incorporated by reference into this document, so as to provide the information required pursuant to Annex I and Annex III to the Prospectus Rules and to ensure that Shareholders and others are aware of all information which, according to the particular nature of the Company and of the New Shares, is necessary to enable Shareholders and others to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Company and of the rights attaching to the New Shares:

<i>Reference document</i>	<i>Information incorporated by reference</i>	<i>Page number in reference document</i>
2014 Class 1 Circular Relating to the European Munitions Business Disposal	Summary of the Principal Terms and Conditions of the Mecar Disposal and Simmel Disposal	23-28
Annual Report and Accounts 2015	Independent Auditors' Report	84-91
	Chemring's compliance with the UK Governance Code	50
	Consolidated income statement	92
	Consolidated statement of comprehensive income	93
	Consolidated statement of changes in equity	94
	Consolidated balance sheet	95
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	Details of the Audit Committee's remit and activities	50-57
	Details of the Group's pension schemes	137-139
	Details of the Nomination Committee's remit and activities	50-57
	Details of the Remuneration Committee's remit and activities	50-57
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	Significant subsidiary and associated undertakings of Chemring	120-121
	Summary biographical details of each of the Directors	44-45
	Summary of Chemring's reasons in respect of the Company's Non-Executive Directors being considered independent	51
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<i>Reference document</i>	<i>Information incorporated by reference</i>	<i>Page number in reference document</i>
Annual Report and Accounts 2014	Independent Auditors' Report	78
	Consolidated income statement	84
	Consolidated statement of comprehensive income	85
	Consolidated statement of changes in equity	86
	Consolidated balance sheet	87
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Annual Report and Accounts 2013	Independent Auditors' Report	88
	Consolidated income statement	94
	Consolidated statement of comprehensive income	95
	Consolidated statement of changes in equity	96
	Consolidated balance Sheet	97
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Where these documents make reference to other documents, such other documents are not incorporated into and do not form part of this document. Parts of the documents incorporated by reference which are not set out above are either not relevant or are covered elsewhere in this document.

PART XI – DEFINITIONS

“2007 Note Purchase Agreement”	note purchase agreement entered into on 12 November 2007 in relation to the 2007 Notes, as amended and supplemented
“2007 Noteholders”	third party investors in the 2007 Notes
“2007 Notes”	Chemring’s \$125 million 6.28 per cent. notes due 12 November 2017 and £12.5 million 6.81 per cent. notes due 12 November 2017, which were issued on 12 November 2007, as amended and supplemented by amendment agreements
“2009 Note Purchase Agreement”	note purchase agreement entered into on 19 November 2009 in relation to the 2009 Notes, as amended and supplemented
“2009 Noteholders”	third party investors in the 2009 Notes
“2009 Notes”	Chemring’s \$80 million 5.26 per cent. notes due 19 November 2016, \$140 million 5.68 per cent. notes due 19 November 2019, and \$60 million 5.68 per cent. notes due 19 November 2019, which were issued on 19 November 2009, as amended and supplemented by amendment agreements
“2010 PD Amending Directive”	Directive 2010/73/EU
“2013 Scheme Funding Agreement”	plan for funding the deficit arising on the actuarial valuation of the Scheme as at 6 April 2012
“Acts”	has the meaning given in section 2 of the United Kingdom Companies Act 2006
“Admission”	admission of the New Shares, nil paid, to (a) the Official List, and (b) trading on the London Stock Exchange’s main market for listed securities
“Annual Report and Accounts”	the annual report and accounts prepared by the Company for each of the years ended 31 October 2015, 2014 and 2013
“Articles”	the articles of association of the Company which are described in paragraph 4 of Part IX “Additional Information”
“Audit Committee”	the committee described in paragraph 5.9 of Part IX “Additional Information”
“Barclays”	Barclays Bank PLC
“Board”	the board of directors, from time to time, of the Company
“Borrowers”	certain of Chemring’s subsidiaries in relation to the Facility Agreement
“Bribery Act”	UK Bribery Act 2010
“Business Days”	a day (other than a Saturday or Sunday) on which banks are open for general business in London
“CAGR”	compound annual growth rate

“CCSS”	the CREST Courier and Sorting Service established by Euroclear to facilitate, amongst other things, the deposit and withdrawal of securities
“certificated” or “in certificated form”	a share or other security which is not in uncertificated form (that is, not in CREST)
“Chairman”	the chairman of the Company
“Circular to Shareholders”	the circular to shareholders in connection with the Resolutions and including the General Meeting Notice incorporated in this document
“Co-Bookrunner”	Barclays
“Companies Act”	UK Companies Act 2006
“Company” or “Chemring”	Chemring Group PLC, a public limited company incorporated under the laws of England and Wales
“Computershare”	Computershare Investor Services PLC
“Corporate Governance Code”	the UK Corporate Governance Code issued by the Financial Reporting Council, as amended from time to time
“CREST”	the relevant system (as defined in the CREST Regulations) for the paperless settlement of trades in listed securities in the United Kingdom, of which Euroclear Limited is the operator (as defined in the CREST Regulations)
“CREST Manual”	the rules governing the operation of CREST, consisting of the CREST Reference Manual, CREST International Manual, CREST Central Counterparty Service Manual, CREST Rules, Registrars Service Standards, Settlement Discipline Rules, CCSS Operations Manual, Daily Timetable, CREST Application Procedure, CREST Glossary of Terms and CREST Terms and Conditions (all as defined in the CREST Glossary of Terms promulgated by Euroclear on 15 July 1996 and as amended since)
“CREST member”	a person who has been admitted by Euroclear as a system member (as defined in the CREST Regulations)
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001/3755)
“CREST sponsor”	a CREST participant admitted to CREST as a CREST sponsor
“CREST sponsored member”	a CREST member admitted to CREST as a sponsored member
“Directors” or “Board”	the Executive Directors and Non Executive Directors of the Company as at the date of this document
“Disclosure and Transparency Rules”	the Disclosure Rules and Transparency Rules of the Financial Conduct Authority
“DoD”	US Department of Defense
“EBITDA”	earnings before interest, taxes, depreciation, and amortisation
“ESMA”	European Securities and Markets Authority
“EU”	European Union

“Euroclear”	Euroclear & Ireland Limited
“European Munitions Business Disposal”	the 2014 sale by Chemring of its European munitions business, as carried on by Mecar S.A. and Simmel Difesa S.p.A., through the sale of Mecar S.A. and Simmel Difesa S.p.A. to Nexter Systems S.A
“Exchange Act”	United States Securities Exchange Act of 1934, as amended
“Excluded Territories”	the Commonwealth of Australia, its territories and possessions, Canada, Japan and the Republic of South Africa
“Executive Directors”	the executive directors of the Company as at the date of this document
“Existing Finance Agreements”	UK Club Facility Documents and US Note Purchase Agreements
“Existing Shares”	the existing Shares in issue immediately preceding the issue of the New Shares
“Ex Rights Date”	9 February 2016
“Facility Agreement”	Chemring’s unsecured, multi-currency revolving credit facility entered into on 31 July 2014
“Facility Agreement Lenders”	Barclays Bank PLC, Abbey National Treasury Services Plc and Mediobanca International (Luxembourg) S.A.
“FCPA”	United States Foreign Corrupt Practices Act
“Financial Adviser”	Rothschild
“Financial Conduct Authority” or “FCA”	the Financial Conduct Authority acting in its capacity as the competent authority for the purposes of Part VI of the FSMA
“FSMA”	the Financial Services and Markets Act 2000, as amended
“Fully Paid Rights”	rights to acquire New Shares, fully paid
“General Meeting”	the general meeting of the Company to be held at 9.30 a.m. on 8 February 2016, notice of which is set out in the Circular to Shareholders
“General Meeting Notice”	the notice of General Meeting set out in the Circular to Shareholders
“Group” or the “Chemring Group”	the Company and its subsidiary undertakings and, where the context requires, its associated undertakings
“Guarantors”	certain subsidiaries of Chemring together with each company which becomes a material subsidiary of Chemring which provide a continuing guarantee of punctual performance of each of the Borrowers’ obligations under the UK Club Facility Documents
“IFRS”	International Financial Reporting Standards
“Investec”	Investec Bank plc
“IRS”	US Internal Revenue Service, as adopted by the EU
“ISIN”	International Securities Identification Number

“Issue Price”	94 pence
“J.P. Morgan Cazenove”	J.P. Morgan Securities plc (which conducts its UK investment banking services as J.P. Morgan Cazenove)
“Joint Bookrunners”	Investec and J.P. Morgan Cazenove
“Joint Global Coordinators”	Investec and J.P. Morgan Cazenove
“Joint Sponsors”	Investec and J.P. Morgan Cazenove
“Lenders”	main lenders under the Group’s UK Club Facility Documents
“Listing Rules”	the listing rules of the FCA
“London Stock Exchange”	London Stock Exchange plc
“MoD”	UK Ministry of Defence
“Money Laundering Regulations”	Money Laundering Regulations 2007 (SI 2007/2157)
“MTM”	many-to-many
“NATO”	North Atlantic Treaty Organization
“New Share Issue”	the issue of the New Shares in connection with the Rights Issue
“New Shares”	the 85,915,828 new Shares which the Company will allot and issue pursuant to the Rights Issue, including, where appropriate, the Provisional Allotment Letters, the Nil Paid Rights and the Fully Paid Rights
“Nil Paid Rights”	rights to acquire New Shares, nil paid
“Non Executive Directors”	the non executive directors of the Company as at the date of this document
“Official List”	the Official List of the FCA
“OSHA”	Occupational Safety and Health Administration
“Overseas Shareholders”	Qualifying Shareholders with registered addresses in, or who are citizens, residents or nationals of jurisdictions outside the United Kingdom
“PD Regulation”	Commission Regulation (EC) No 809/2004
“Pension Scheme”	the Chemring Group Staff Pension Scheme
“PRA”	Prudential Regulation Authority
“Preference Shares”	cumulative preference shares of £1 each in the capital of the Company having the rights set out in the Articles as described in paragraph 3 of Part IX “Additional Information”
“Prospectus” or “this document”	the prospectus and circular issued by the Company in respect of the Rights Issue, together with any supplements or amendments thereto

“Prospectus Directive”	Directive 2003/71/EC (as amended from time to time, including by Directive 2010/73/EU (the “PD Amending Directive”) to the extent implemented in the relevant EEA State) and includes any relevant implementing measures in each EEA State that has implemented Directive 2003/71/EC
“Prospectus Rules”	the Prospectus Rules of the FCA
“Provisional Allotment Letter”	the provisional allotment letter to be issued to Qualifying non CREST Shareholders (other than certain Overseas Shareholders)
“QIB”	“qualified institutional buyers” within the meaning of Rule 144A under the Securities Act
“Qualifying CREST Shareholders”	Qualifying Shareholders holding Shares in uncertificated form
“Qualifying non CREST Shareholders”	Qualifying Shareholders holding Shares in certificated form
“Qualifying Shareholders”	Shareholders on the register of members of the Company at close of business on the Record Date with the exclusion of persons with a registered address or located or resident in an Excluded Territory or, subject to certain exceptions, the United States
“Receiving Agent”	Computershare
“Record Date”	close of business on 5 February 2016
“Registrar”	Computershare
“Regulation S”	Regulation S under the Securities Act
“Resolutions”	the resolutions to be proposed at the General Meeting, notice of which is set out at the back of this document, to (amongst other matters) give the Directors authority to allot the New Shares
“Revolving Facilities”	facilities provided under the Facility Agreement
“Rights Issue”	the offer by way of rights to Qualifying Shareholders to subscribe for New Shares, on the terms and conditions set out in this document and, in the case of Qualifying non CREST Shareholders only, the Provisional Allotment Letter
“Rothschild”	N M Rothschild & Sons Limited
“Rule 144A”	Rule 144A under the Securities Act
“SDRT”	Stamp Duty Reserve Tax
“Securities Act”	the US Securities Act of 1933, as amended
“SEDOL”	Stock Exchange Daily Official List
“Senior Managers”	those individuals identified as such in paragraph 5.2 of Part IX “Additional Information”
“Shareholders”	holders of Shares

“Shares”	ordinary shares of 1 pence each in the capital of the Company having the rights set out in the Articles as described in paragraph 3 of Part IX “Additional Information”
“Share Schemes”	Schemes described in paragraph 10 of Part IX “Additional Information”
“SSA”	Special Security Agreement
“Standby Underwriting Agreement”	the standby underwriting arrangements described in paragraph 16.2 Part IX “Additional Information”
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“UK Club Facility Documents”	facility documents for the Facility Agreement and bonding lines with Barclays Bank PLC and Santander UK plc
“uncertificated” or “in uncertificated form”	recorded on the register of members as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
“Underwriters”	Investec, J.P. Morgan Cazenove and Barclays
“Underwriting Agreement”	the underwriting arrangements described in paragraph 16.0 of Part IX “Additional Information”
“United States” or “US”	the United States of America, its territories and possessions, any state of the United States and the District of Columbia
“US Note Purchase Agreements”	2007 Note Purchase Agreement and 2009 Note Purchase Agreement, collectively
“US Noteholders”	2007 Noteholders and 2009 Noteholders, collectively
“US Notes”	2007 Notes and 2009 Notes, collectively
“VAT”	(i) within the EU, any tax imposed by any member state in conformity with the directive of the council of the European Union on the common system of value added tax (2006/112/EC), and (ii) outside the EU, any tax corresponding to, or substantially similar to, the common system of value added tax referred to in paragraph (i) of this definition.

PART XII – GLOSSARY OF TECHNICAL TERMS

“EMD”	engineering, manufacturing and development
“GPR”	ground penetrating radar
“HMDS”	Husky Mounted Detection System
“IEDs”	improvised explosive device
“IR”	infra-red
“JBTDs”	Joint Biological Tactical Detection System
“JSLSCAD”	Joint Service Lightweight Stand-off Chemical Agent Detector
“NGCD”	Next Generation Chemical Detector
“NIITEK”	Non-Intrusive Inspection Technology
“NLAW”	Next Generation Light Anti-Tank Weapon
“OEMs”	original equipment manufacturer

NOTICE OF GENERAL MEETING

Chemring Group PLC

(registered in England and Wales with registered number 86662)

Notice is hereby given that a General Meeting of the Company will be held at the offices of Freshfields Bruckhaus Deringer LLP, 65 Fleet Street, London, EC4Y 1HS at 9.30 a.m. on 8 February 2016 to consider and, if thought fit, to pass the following resolutions. Resolution 1 will be proposed as an ordinary resolution and Resolution 2 will be proposed as a special resolution.

ORDINARY RESOLUTION

1. That, subject to and conditional upon admission to listing on the premium listing segment of the Official List of the UK Listing Authority and to trading on London Stock Exchange plc's main market for listed securities of the new ordinary shares of 1 pence each to be issued by the Company in connection with the issue by way of rights of up to 85,915,828 new ordinary shares at a price of 94 pence per new ordinary share to qualifying shareholders on the register of members of the Company at the close of business on 5 February 2016 (the "**Rights Issue**"), and in addition to all existing authorities, the directors of the Company be generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the "**Act**") to:
 - (i) allot shares in the Company, and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £85,158.28 pursuant to or in connection with the Rights Issue for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) at the end of the next annual general meeting of the Company after the date on which this resolution is passed; and
 - (ii) make an offer or agreement in connection with the Rights Issue which would or might require shares to be allotted, or rights to subscribe for or convert any security into shares to be granted, after expiry of this authority and the directors may allot shares and grant rights in pursuance of that offer or agreement as if this authority had not expired.

SPECIAL RESOLUTION

2. That, subject to the passing of Resolution 1 in the notice of meeting, and in addition to all existing powers, the directors of the Company be generally empowered pursuant to section 570 and section 573 of the Act to allot equity securities (as defined in the Act) for cash, pursuant to the authority conferred by Resolution 1 in the notice of meeting, as if section 561(1) of the Act did not apply to the allotment. This power:
 - (i) expires (unless previously renewed, varied or revoked by the Company in general meeting) at the end of the next annual general meeting of the Company after the date on which this resolution is passed, but the Company may make an offer or agreement which would or might require equity securities to be allotted after expiry of this power and the directors may allot equity securities in pursuance of that offer or agreement as if this power had not expired; and
 - (ii) shall be limited to the allotment of equity securities in connection with the Rights Issue and so that the directors may impose any limits or restrictions and make any arrangements which they consider necessary or appropriate to deal with treasury shares, fractional entitlements, record dates, legal, regulatory or practical problems in, or under the laws of, any territory or any other matter.

By order of the board of directors of the Company

Sarah Ellard
Group Legal Director and Company Secretary

21 January 2016

Registered office:

Roke Manor
Old Salisbury Lane
Romsey
Hampshire
SO51 OZN

Notes to the Notice of General Meeting

Right to attend and vote at the General Meeting

1. Only persons entered in the register of members of the Company at the close of business on 5 February 2016 or, in the event that the meeting is adjourned, the close of business on the date which is two working days prior to the reconvened meeting, shall be entitled to attend or vote at the meeting. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend and vote at the meeting or adjourned meeting.

Proxy appointment

2. A shareholder of the Company entitled to attend, speak and vote at the meeting is entitled to appoint one or more proxies (who need not be shareholders in the Company) to attend, speak and vote instead of him/her. A shareholder may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attaching to a different share or shares held by him/her. A proxy need not be a shareholder of the Company. A separate proxy form should be used for each proxy appointment. If you intend appointing additional proxies, please contact Computershare on +44(0)370 889 3289 to obtain (an) additional proxy form(s). Alternatively, you may photocopy the enclosed form. A shareholder appointing more than one proxy should indicate the number of shares for which each proxy is authorised to act on his/her behalf. Failure to specify the number of shares to which each proxy form relates or specifying a number which, when taken together with the number of shares set out in the other proxy appointments, is in excess of the number of shares held by the shareholder may result in the proxy appointment being invalid.
3. The appointment of a proxy will not preclude a shareholder from attending and voting in person at the meeting. A proxy form accompanies this Notice and in order to be valid should be completed and returned to the Company's registrar: Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZY by not later than 9.30 a.m. on 6 February 2016. Alternatively, you may register your vote electronically by accessing the registrar's website at www.investorcentre.co.uk/eproxy. In order to be valid, electronic votes must also be registered not later than 9.30 a.m. on 6 February 2016 or not later than forty-eight hours before the time appointed for any adjourned meeting.

CREST members

4. Shareholders who are users of the CREST system (including CREST Personal Members) may appoint one or more proxies or give an instruction to a proxy by having an appropriate CREST message transmitted. To appoint a proxy or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, the CREST message must be received by the Company's agent (ID number 3RA50) not later than forty-eight hours before the time appointed for holding the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which the Company's agent is able to retrieve the message. CREST Personal Members or other CREST sponsored members should contact their CREST sponsor for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and systems timings, please refer to the CREST Manual. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Availability of documents and other information

5. The following documents will be available for inspection at the registered office of the Company during usual business hours every business day from the date of this Notice until the meeting and will be available for inspection at the place of the meeting for one hour prior to and until the close of the meeting:
 - (a) copies of directors' service contracts and letters of appointment; and
 - (b) copies of the directors' deeds of indemnity entered into in connection with the indemnification of director provisions of the Company's Articles of Association.
6. In accordance with Section 311A of the Companies Act 2006, the contents of this Notice, details of the total number of shares in respect of which members are entitled to exercise voting rights at the meeting and, if applicable, members' statements, members' resolutions or members' matters of business received by the Company after the date of this Notice will be available on the Company's website at www.chemring.co.uk.
7. You may not use any electronic address provided either in this Notice or any related documents (including the Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.

Corporate Representative

8. A member of the Company which is a corporation may authorise a person or persons to act as its representative(s) at the meeting. In accordance with the provisions of the Companies Act 2006 (as amended by the Companies (Shareholders' Rights) Regulations 2009), each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual member of the Company, provided that they do not do so in relation to the same shares.

Total voting rights

9. As at 20 January 2016 (being the latest business day prior to publication of this Notice), the Company's issued share capital consisted of 193,310,614 ordinary shares, carrying one vote each, and 62,500 preference shares. Preference shareholders are not entitled to attend and vote at the meeting. The Company holds 2,198,814 ordinary shares in treasury, which leaves voting rights over 195,509,428 ordinary shares.

Nominated persons

10. A person to whom this Notice is sent who is a person nominated under Section 146 of the Companies Act 2006 to enjoy information rights (a "Nominated Person") may, under an agreement between him/her and the shareholder by who he/she

was nominated, have the right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may, under any such agreement, have a right to give instructions to the shareholder as to the exercise of voting rights.

11. The statements of the rights of shareholders in relation to the appointment of proxies in this Notice do not apply to Nominated Persons. The rights described in these paragraphs can only be exercised by registered shareholders of the Company.

Questions at the meeting

12. Under Section 319A of the Companies Act 2006 any member attending the meeting has the right to ask questions. The Company must answer any such question relating to the business being dealt with at the meeting but no such answer need be given if:
 - (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;
 - (b) the answer has already been given on a website in the form of an answer to a question; or
 - (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

