15 DECEMBER 2020

CHEMRING GROUP PLC
("Chemring", "the Group" or "the Company")

RESULTS FOR THE YEAR ENDED 31 OCTOBER 2020

	As reported		At 2019 exchange rates		
	2020	*Change*	*2020*	*Change*	2019
Continuing operations					
Revenue (£m)	**402.5**	+ 20%	*406.4*	*+ 21%*	335.2
Underlying EBITDA* (£m) **	**74.6**	+ 22%	*75.9*	*+ 24%*	61.2
Underlying operating profit* (£m)	**54.7**	+ 24%	*55.7*	*+ 27%*	44.0
Underlying profit before tax* (£m)	**51.7**	+ 31%	*52.7*	*+ 34%*	39.4
Underlying basic earnings per share* (pence)	**15.1**	+ 35%	*15.4*	*+ 38%*	11.2
Statutory operating profit (£m)	**46.3**	+ 48%			31.3
Dividend per share (pence)	**3.9**	+ 8%			3.6
Net debt at 31 October 2020 (£m) **	**48.2**	- 36%			75.7

Key points

- 2020 performance was ahead of the Board's expectations with strong performance in both segments
- All businesses remained open and operational despite the challenges caused by COVID-19
- Safety remains a core value. Investment in the Group's manufacturing infrastructure is driving improvements in safety, efficiency and enhancing operational resilience
- Strong growth in orders and revenue for Roke including strategically important first Electronic Warfare order for Resolve into the US DoD
- Good progress made on securing new business in the UK, the US and Australia for the supply of global countermeasures, including the receipt by Chemring Australia of a definitised contract of $107m in support of the F-35
- Continued progress on the US Programs of Record. Further orders received in the year for the next phase of HMDS delivery, with the IDIQ increased by $200m, and customer approval and contract awarded for Low Rate Initial Production for the EMBD programme
- Significant reduction in net debt from strong operational cash generation, partially offset by scheduled capital expenditure and the adoption of IFRS16
- Board's expectations for 2021 are unchanged. Approximately 78% of expected 2021 revenue is covered by the order book

Michael Ord, Group Chief Executive, commented:

"Our focus in recent years has been on putting in place the foundations on which to build a stronger, higher quality business. The resilience of the Group in response to the coronavirus pandemic is a consequence of the dedication and commitment of all our people and clearly demonstrates the significant progress that we have made. We set ourselves demanding goals and our teams across the Group have risen to those challenges, delivering a financial performance that was ahead of the Board's expectations.

"Trading since the start of the current financial year has been in line with expectations. With 78% of 2021 expected revenue covered by the order book, the Board's expectations for 2021 performance remain unchanged. Chemring is well placed, with a robust strategy, market-leading positions across different geographies and sectors, and with products and services that are critical to our government and blue-chip customers. Chemring's long-term prospects remain strong."

Notes:
* All profit and earnings per share figures in this news release relate to underlying business performance (as defined below) unless otherwise stated.

**The 2020 net debt balance reflects the initial recognition of a £6.5m finance lease liability and £1.8m of the increase in underlying EBITDA is as a result of applying IFRS 16 *Leases* (effective 1 November 2019). The 2019 net debt balance and underlying EBITDA have not been restated, in line with the modified retrospective approach taken.

The principal Alternative Performance Measures ("APMs") presented are the underlying measures of earnings which exclude discontinued operations, exceptional items, gain or loss on the movement on the fair value of derivative financial instruments, the amortisation of acquired intangibles and the associated tax impact on these items. The Directors believe that these APMs improve the comparability of information between reporting periods as well as reflect the key performance indicators used within the business to measure performance. The term underlying is not defined under IFRS and may not be comparable with similarly titled measures used by other companies.

A reconciliation of underlying measures to statutory measures is provided below:

Group – continuing operations:	**Underlying**	**Non-underlying**	**Statutory**
EBITDA (£m)	74.6	0.5	75.1
Operating profit (£m)	54.7	(8.4)	46.3
Profit before tax (£m)	51.7	(8.4)	43.3
Tax charge (£m)	(9.1)	0.5	(8.6)
Profit after tax (£m)	42.6	(7.9)	34.7
Basic earnings per share (pence)	15.1		12.3
Diluted earnings per share (pence)	14.8		12.0
Group – discontinued operations:			
(Loss)/profit after tax (£m)	(0.1)	0.1	-
Segments – continuing operations:			
Sensors & Information EBITDA (£m)	30.7	-	30.7
Sensors & Information operating profit (£m)	27.4	(6.4)	21.0
Countermeasures & Energetics EBITDA (£m)	56.5	-	56.5
Countermeasures & Energetics operating profit (£m)	39.9	(2.5)	37.4

The adjustments to continuing operations comprise:

- amortisation of acquired intangibles of £8.9m (2019: £12.1m)
- gain on the movement in the fair value of derivative financial instruments of £0.5m (2019: £0.6m loss)

The discontinued operations loss after tax primarily relates to the businesses which were "held for sale" at 31 October 2018, which have subsequently been divested from the Group or closed during the last two years:

- operating loss of £0.1m (2019: £3.5m loss)
- exceptional items of £0.1m profit (2019: £3.8m loss)
- tax credit on the above of £nil (2019: £6.1m credit)

Further details are provided in notes 3 and 4.

EBITDA is defined as profit before interest, tax, depreciation and amortisation. Reference to constant currency relates to the re-translation of 2020 financial information at the 2019 exchange rates to reflect the movement excluding the impact of foreign exchange. The exchange rates applied are disclosed in note 11.

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Cautionary statement

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

Notes to editors

- Chemring is a FTSE-250 global business that specialises in the manufacture of high technology products and the provision of services to the aerospace, defence and security markets
- Employing approximately 2,300 people worldwide, and with production facilities in four countries, Chemring meets the needs of customers in more than fifty countries
- Chemring is organised under two strategic product sectors: Sensors & Information and Countermeasures & Energetics
- Chemring has 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, Chemring has the agility to rapidly react to urgent customer needs

www.chemring.co.uk

Presentation
A video presentation and accompanying slides will be available at the Chemring Group results centre www.chemring.co.uk/investors/results-centre at 07.00 (UK time) on Tuesday 15 December 2020.

Photography
Original high resolution photography is available to the media by contacting Catherine Chapman, MHP Communications: catherine.chapman@mhpc.com / tel: +44 (0) 20 3128 8339.

COVID-19 UPDATE

The result of our focus on "Building a Stronger Business" over the past two years has been demonstrated by the resilience of the Group during the last nine months as the COVID-19 ("CV-19") pandemic developed across the globe.

People

Our first priority throughout this crisis has been the health, safety and wellbeing of our people, their families, our customers and the communities in which we operate. From the outset we adopted an agile approach which balanced risk mitigation with business continuity and which was based on the latest government recommendations in each of our home markets.

We have continued to monitor the situation closely, responding to the crisis as it has evolved, providing our people with timely guidance and support to maintain their wellbeing and ensuring that we take appropriate action as required. The response of our people has been outstanding. They have risen to the challenge, adapting their behaviour and working practices in order to minimise the spread of the virus, whilst continuing to focus on the needs of our customers.

Operations

In the US, the UK and Norway, Chemring's operations were designated as critical to the defence and national security industrial base, and in Australia the risk of business interruption was considered to be low. All our businesses have therefore remained open throughout the pandemic. We continue to make every effort to maintain delivery of essential services and manufacturing production in support of our customers.

Customers

We have actively worked with our customer base to ensure the delivery of timely testing and acceptance of products. At times this has required innovative solutions including virtual product inspections. In turn we are grateful to our customers for their flexibility and support and the designation of our operations as critical to the defence and national security industrial base.

The Group has a strong order book with order cover for 2021 of 78%. In 2020, order intake was £436m which was 6% up on last year leaving the Group with an order book of £476m.

Liquidity

In addition to cash in hand of £14.7m, the Group has total available undrawn facilities of £86.4m providing £101.1m of immediately available liquidity. Year-end net debt of £48.2m, which represents a Net debt: EBITDA ratio of 0.65x, leaves the Group's balance sheet robust and supports its ongoing development.

Group overview

2020 performance was ahead of the Board's expectations with strong performance in both segments. The Group's revenue was up 20% to £402.5m (2019: £335.2m). Underlying operating profit was up 24% to £54.7m (2019: £44.0m). Underlying earnings per share was up 35% to 15.1p (2019: 11.2p).

In Countermeasures & Energetics, our Australian site demonstrated its ability to manufacture F-35 countermeasures at rate and secured a two-year order with the US Department of Defence ("US DoD") for $107m. Our Salisbury site achieved its revenue goals in the year and became progressively more efficient. Demand for our niche energetic devices continued to be strong with our Chicago site's products supporting the manned US space missions. The significant multi-year investment in our Tennessee site progressed as planned, with commissioning due in the summer of 2021 and first incremental revenues expected in 2022.

In Sensors & Information, the execution of the Husky Mounted Detection System ("HMDS") Program of Record continued as planned with a further $200m Indefinite Delivery Indefinite Quantity ("IDIQ") contract received. The Chem-Bio Programs of Record continued to progress with Enhanced Maritime Biological Detector ("EMBD") moving into Low Rate Initial Production ("LRIP") slightly ahead of expectation and Joint Biological Tactical Detection System ("JBTDS") and Aerosol and Vapor Chemical Agent Detector ("AVCAD") continuing through the Engineering and Manufacturing Development ("EMD") and customer testing phases. Our Roke business enjoyed another year of double-digit revenue growth, which included the strategically important first electronic warfare ("EW") product sale into the US.

Net debt was £48.2m at the end of the year (2019: £75.7m), the decrease since 31 October 2019 being largely attributable to strong operating cash generation offset by the investment in capital projects in the year, in particular the capacity expansion programme in Tennessee. Continuing underlying operating cash inflow of £82.4m (2018: £63.9m) represented 110% (2019: 104%) of EBITDA.

The Group's order book at 31 October 2020 was £476m (2019: £449m), of which approximately £326m is scheduled for delivery during 2021, representing cover of approximately 78% (2019: 76%) of expected 2021 revenue. The increase since 31 October 2019 is primarily attributable to contracts awarded in the countermeasures businesses.

Health and safety

Safety is our core value, with the health, safety and wellbeing of our colleagues, their families, our customers and the communities in which we operate being our priority. This has been particularly relevant this year. Our goal remains zero harm, which will be achieved through establishing and embedding a proactive safety culture which focuses on the control and interaction of people, plant and process.

2020 has been an unprecedented year due to the CV-19 pandemic. Whilst this created a need for special focus we have still maintained progress in line with our HSE strategy, with an emphasis on embedding the standards and processes we implemented last year across the areas of control of major accident hazards, injury reduction and HSE risk management. Despite the challenges of CV-19, 2020 has proven that we have developed and continue to build a stronger safety culture.

In 2020 our lost time injury rate was 0.24 compared to 0.40 in 2019. This represents five injuries and reflects a 40% decrease in lost time injuries and we are pleased to report there were no fatalities or life-changing injuries. Our total recordable injury frequency ("TRIF") rate was 0.85. The 2020 TRIF rate matches our 2019 performance.

Governance and ethics

During the last two years we have taken significant steps to ensure that we have in place the necessary policies and procedures across the business to operate with integrity, transparency and to the highest ethical standards. This has been coupled with a focus on creating an inclusive culture across the Group where everyone does the right thing and takes responsibility for their actions.

The bedrock of our governance is the Operational Framework and the Code of Conduct, both of which bind our values, behaviour, policies and our procedures, and provide the necessary governance to enable us to operate in a safe, consistent and accountable way.

We have maintained our focus in this area during 2020 and have implemented further processes through which to manage our exposure to potential risks. There were two notable developments during the year. The first was the formation of a new Ethics and Compliance Committee. This committee, which meets regularly throughout the year and is chaired by Chemring Group's Chairman, has responsibility for the oversight and monitoring of Chemring's ethical business conduct and compliance. The second was the appointment of a Security and Corporate Facility Security Officer in the US with responsibility for ensuring that at all times we operate in full compliance with our Special Security Agreement with the US Government.

Good governance and ethical behaviour underpin our evolving sustainability agenda, and ensures that we operate safely, responsibly and in compliance with current legislation in all our jurisdictions.

Group Chief Executive's review

Despite the challenging environment in which we have been operating throughout most of 2020, a great deal has been achieved this financial year. We set ourselves demanding goals and our teams across the Group have risen to those challenges.

The work that has been done in recent years to build a stronger, higher quality and more sustainable business, based on our shared values of safety, excellence and innovation, is delivering positive returns for all stakeholders.

This would not have been possible without our greatest asset – our people. I would like to thank all of my colleagues across Chemring for their commitment, innovation and hard work in exceptional circumstances.

The resilience that the business has shown as we have adapted to the coronavirus pandemic, the solid demand and increased visibility that we continue to see for our products and services, and the innovation and dedication of our people, enables me to look to the future with confidence.

Purpose and strategy

Chemring's purpose is innovating to protect people, platforms, missions and information from constantly changing threats.

We achieve this through innovation, using our extensive science and advanced engineering expertise to design, develop and manufacture critical solutions that protect and safeguard in an uncertain world.

The Group's strategy is to deliver profitable growth by operating in markets where we have differentiators such as intellectual property, niche technology, high barriers to entry and deep long-term customer relationships.

On 7 May 2020 Chemring announced that we had completed the sale of Chemring Ordnance, Inc. for $17m in cash and with it our strategic exit from the commoditised energetics market. This has reduced the

Group's exposure to significant reputational and operational risk, and enables greater focus on our growing and differentiated positions in Sensors & Information and Countermeasures & Energetics where we are already a market leader.

We will maintain and grow our positions in Countermeasures & Energetics, investing in modernisation and automation to improve operational effectiveness and reliability and increase capacity. In Sensors & Information our focus is on expanding the Group's product, service and capability offerings in the areas of tactical electronic warfare and cyber-security, and in building a technology-based strategy for growth beyond current US DoD Programs of Record.

We will continually review the portfolio, to ensure that we maintain sustainable niche positions where technical and qualification barriers to entry support our medium-term ambition of generating mid-to-high teen margins at a sector level. As a Board we remain open to acquisition opportunities but only if they meet a strict set of criteria, enhance shareholder value and fit in with our wider growth plans. To date, we have reviewed and declined to proceed with a number of possible transactions.

In recent years, significant focus has been placed on building a safe and resilient business that is able to deliver margin progression through continuous improvement in operational performance and execution. We shall continue to invest in both our people and our infrastructure in order to deliver sustainable growth into the future.

Environmental, Social and Governance

At Chemring we acknowledge our responsibility to contribute to a sustainable future. We have a strong and recognised obligation to ensure the responsible operation of our business and are fully committed to being a socially and environmentally responsible business.

Good progress has been made during 2020 as we manage our sustainability agenda, and in particular our environmental, social and governance ("ESG") related risks. During the year we concluded the exit from the Group's commoditised energetics businesses and in doing so we retired significant reputational risk and have improved the quality of the Group and its future earnings. Chemring is now a business with an evolving purpose of Innovating to Protect, and, with that we are focused on protecting our customers, people, platforms, missions and information.

The Group is actively seeking ways in which to reduce its environmental impact. An environmental sustainability committee was formed during the year and is currently finalizing our five-year environmental strategy. However, notable progress was made during the year with greenhouse gas emission intensity reducing by 11.5%, energy usage intensity reducing by 14% and water usage intensity reducing by 17%.

Culture

The realignment of the operating businesses under two sectors and the changes in leadership that were enacted in 2019 and 2020 has created a strong foundation from which we are able to build a culture and environment founded on inclusion, respect and diversity. We are committed to implementing transparent policies and procedures, and to fostering an inclusive culture across the Group where everyone does the right thing and takes responsibility for their actions. We want all of our colleagues to be able to bring their whole self to work and then return home safely at the end of every day. In doing so we will build a sustainable company of which all our stakeholders can be proud, now and in the future.

Particular areas of focus in 2020 have been around people development, communication and wellbeing. Each of these are key to developing the capability of all our colleagues and ensuring that they are engaged with Chemring, enabling us to continue to build a stronger business.

Chemring is its people and this means understanding how we can make the Chemring community feel even more inclusive so that anyone who lives our values and supports our purpose feels they can bring their whole self to work without fear of judgement or discrimination. Through the culture review undertaken in 2019, and the ongoing engagement throughout 2020, we are determined to ensure that all colleagues have a voice and are able to share their thoughts regularly and know that the leadership team is listening.

Innovation requires diversity of thought, education, background, experience and personality type. We will continue to focus throughout 2021 on developing an inclusive and dynamic work environment for all our colleagues in support of our business goals and to ensure that we continue to invest in our people.

Markets

The market outlook is positive with solid demand across our home markets – the US, the UK, Europe, and Australia.

The US

The US is the world's largest defence market and our US businesses are well positioned to benefit from this strong defence budget.

The FY21 National Defense Authorization Act was passed in July 2020 with a base budget for FY21 of $636bn. The President's FY21 Budget Request also projected the US DoD five-year programme to settle at a base budget level of $758bn in FY25, providing growth to sustain personnel increases in all four services, major equipment programmes such as the F-35 and investments in technology innovation in electronic warfare, the increased use of unmanned systems and cyber capabilities, as well as renewed emphasis on space-based surveillance systems and warfighting options.

Since the beginning of the CV-19 global pandemic, the US passed the Coronavirus Aid, Relief and Economic Security ("CARES") Act, in March 2020, which provided $10.5bn of stimulus spending for the US DoD. In July 2020, the US Senate also introduced the Coronavirus Response Additional Supplemental Appropriations Act, which is expected to provide additional short-term stimulus funding to the US DoD, of which a large amount will be allocated to a "Defense Industrial Base Resiliency Fund" to support the US defence industry.

With 78% of 2021 expected revenue covered by the order book the Group is safeguarded against any near-term disruption caused by the US presidential transition.

The UK

Following the announcement by the UK Government in November 2020 that an extra £16.5bn will be spent on Defence over the next four years, the UK will remain a leading European defence market. UK Defence spending is expected to grow from around £41.5bn per annum in 2020 through to over £50bn per annum by 2025. As the sole source supplier of countermeasures to the UK's F-35 and Typhoon fleets, and through its Roke business, Chemring is well positioned to benefit from this increase, selling directly to the MoD and security agencies, as well as to prime contractors.

New funding for defence comes on top of the Conservative party's existing pledge to spend an additional 0.5% above inflation on defence every year, and marks a welcome change to the slower growth experienced since 2015. Over the past decade, budgets have been squeezed by major programme commitments in armoured vehicles and ships, but also the continued acquisition of new platforms including the F-35 and the P-8 maritime patrol aircraft. These commitments now provide a clearer funding path for the next generation of UK military capability.

We still await the publication of the Integrated Defence Spending Review, now expected in Q1 2021, which will lay out the key priorities for defence over the next five years and beyond. Whilst significant portions of the new funding may be required to plug the pre-existing affordability gap, we may yet see legacy capabilities and platforms retired in favour of investment in the next generation. However, major committed programmes are now likely to be protected, with investment focused on cyber, space, combat air and naval platforms, as well as a significant boost to defence R&D.

For Chemring, the UK MOD accounts for less than 5% of Group revenues; however, it is an important partner for developing and qualifying new products, a role that may gain increased significance as the UK seeks to invest in innovation and modernisation.

Europe
Europe combines modern, well-equipped forces with budget-constrained NATO members on its Eastern borders. European defence spending is returning to growth. In an attempt to minimise the impact of the CV-19 global pandemic, equipment procurement has been pulled forward into 2020 and 2021 to support industry in most Western European and Nordic members, with Germany in particular having agreed up to €10bn in stimulus to support its defence industry through 2023/2024.

European defence spending currently falls short of NATO's 2% GDP target, with only eight countries in Europe meeting this target in 2019. Major contributors to spend, such as Germany, have committed to reaching 1.5% of GDP by 2024, though recent GDP reductions caused by CV-19 have resulted in many countries achieving the goal in 2020.

The outlook for the market is potentially more positive, and there are some niche opportunities as new NATO members seek to upgrade their capabilities and begin positioning for next-generation development programmes.

Australia
Australia is Chemring's fourth home market and it aims to grow its defence spend to 2% of GDP by 2021. Australia has a well-equipped military, which draws on both US and UK products as well as highly capable local suppliers. Australia is in the midst of a large-scale equipment and capability refresh and, in 2020, the Australian Government announced its intention to grow the defence budget to AU$73.7bn by 2029-30, with total estimated funding of AU$575bn over the decade.

Group financial performance

Order intake for continuing operations for 2020 was up 6% to £436.6m (2019: £410.6m), driven by the release of further delivery orders on the HMDS IDIQ contract as well as orders awarded to the Australian and US countermeasures businesses.

Revenue from continuing operations for the year was up 20% to £402.5m (2019: £335.2m), as the countermeasures facilities in Salisbury and Australia were operational for the full year, as well as strong performance in the Sensors & Information segment.

The underlying operating profit from continuing operations of £54.7m (2019: £44.0m) resulted in an underlying operating margin of 13.6% (2019: 13.1%). The increase in margin reflects the improving operational execution in the Countermeasures & Energetics segment.

Insurance recoveries of £5.2m (2019: £15.0m) are included within the result for the year in relation to the incident in 2018 at the UK Countermeasures site. This largely offset the additional costs of the phased restart, which included some production inefficiencies as the site increased volumes.

Foreign exchange translation has provided a minor headwind on revenue and profit. While exchange rates have been volatile in the year, there has been a weakening of the US dollar against sterling compared to 2019 with the average rate moving from $1.26 to $1.28. On a continuing constant currency basis, restating the current year at the 2019 average exchange rate, revenue would have been £406.4m and underlying operating profit would have been £55.7m, being a headwind of £1.0m on 2020's underlying operating profit.

Total finance expense fell significantly to £3.0m (2019: £4.6m). This was driven by the repayment of the private placement loan notes in November 2019 and the continued focus on reducing intra-period working capital volatility, thus maintaining net debt stability.

This resulted in an underlying profit before tax from continuing operations of £51.7m (2019: £39.4m). The effective tax rate on the underlying profit before tax from continuing operations was 17.6% (2019: 20.1%). The underlying earnings from continuing operations per share was 15.1p (2019: 11.2p) and diluted underlying earnings from continuing operations per share was 14.8p (2019: 11.0p).

Statutory operating profit from continuing operations was £46.3m (2019: £31.3m) and after statutory finance expenses of £3.0m (2019: £4.6m), statutory profit before tax from continuing operations was £43.3m (2019: £26.7m), giving statutory earnings per share from continuing operations of 12.3p (2019: 8.2p). The statutory profit from discontinued operations was £nil (2019: £1.2m loss) giving a statutory profit of £34.7m (2019: £21.9m) from continuing and discontinued operations.

The non-underlying costs relate to the amortisation of acquired intangibles, gains on the movement in the fair value of derivative financial instruments and the tax credit associated with this.

Revenue from discontinued operations fell to £9.5m (2019: £43.4m) and underlying operating loss fell to £0.1m (2019: £3.5m) primarily as a result of the disposals made in the last two years.

Segmental review – Sensors & Information

Performance

Revenue for Sensors & Information increased by 4% to £137.2m (2019: £131.9m) and underlying operating profit increased by 4% to £27.4m (2019: £26.3m). Underlying operating margin improved to 20.0% (2019: 19.9%). The Sensors & Information business in the US has seen continued progress on the US Programs of Record and Roke's information security business has continued to grow.

On a constant currency basis revenue would have risen 4% to £137.6m and underlying operating profit would have been up 6% to £27.8m.

The statutory operating profit for the year was £21.0m (2019: £19.7m).

Key developments in the year on the major US Programs of Record are summarised below.

The US DoD's Explosive Hazard Detection HMDS program, which encompasses concurrent development, trialing and manufacturing, continues to progress as expected. Under the previously awarded IDIQ sole-source contract vehicle, further delivery orders of $62m were received in the year, providing visibility on this Program of Record well into 2021. The production phase is progressing as planned and customer deliveries were made on schedule throughout the year. Early into the second half of the year a contract modification was received which increased the existing IDIQ by a further $200m. This gives good visibility on the program out to 2024.

We expect this program to run for the next decade providing a recurring level of business as the US Army moves to its objective of producing and fielding a fleet of 369 HMDS. The new fleet will comprise both refurbished and new HMDS, and this activity will run alongside technology upgrade programs.

On the JBTDS program, following the Biological Point System Assessment in 2019/20, we are making some customer requested technical changes and enhancements and now expect a customer procurement decision in 2022.

The second biological program is the EMBD, where the customer is the US Navy. In May, we were pleased that the customer approved and awarded the contract modification for LRIP for the EMBD program. The program is expected to be worth up to $100m over 5-10 years once in Full Rate Production which is expected to commence in 2022.

Across the two biological programs, in 2020, revenue was $10m lower than 2019 due to the phase of the program being heavily weighted to customer testing, the funded development work having been completed in 2019.

The AVCAD program is progressing through the EMD phase as expected. The EMD and LRIP phases are expected to be worth approximately $18m in the period to 2022. Following this, the customer is expected to have a requirement of up to $800m. Chemring is currently one of two contractors selected for this competitive program. Throughout 2020 we have continued to deliver the 75 test and evaluation units that were ordered in October 2019. The next customer procurement decision point is expected to be at the conclusion of the EMD phase in 2021.

In the UK, the markets for electronic warfare, cyber-security and data science capabilities, in which Roke is a leading participant, have remained buoyant in the year. The increasing threat to information security, together with the proliferation of autonomous systems and artificial intelligence, is resulting in customer budgets for Roke's services continuing to improve. Continued investment in capability in this area is ongoing to optimise the opportunity for Chemring.

Roke delivered double digit growth in revenue and has maintained strong margins despite increased investment in people, infrastructure and product development. In addition, Roke secured an important first EW order for Resolve into the US DoD. This was a key strategic objective for 2020 and provides a platform from which to explore further opportunities to penetrate the EW market in the US.

Opportunities and outlook

The focus for Sensors & Information continues to be on expanding the Group's product, service and capability offerings in the areas of tactical electronic warfare and information-security, and securing positions on the US DoD Programs of Record.

In the US, HMDS program deliveries are on schedule with good medium-term visibility and the focus continues to be on ensuring that the Virginia and North Carolina facilities are mobilised and resourced to maximise Chemring's opportunity to convert current and potential chemical and biological detection Programs of Record. We will also invest in next generation product development and in modifying existing technologies to enable them to be deployed on a wider number of platforms including autonomous systems and UAV's.

In the UK, the National Security and Defence markets continue to grow with a focus on emerging technologies in connectivity, cyber, automation and data analytics. Roke will deliver research, design, engineering and advisory services using its high quality people and capabilities.

Roke will focus its efforts on continuing to grow across all its business areas in the UK, increasing in scale both organically and through potential bolt-on acquisitions, however any acquisition must meet a strict set of criteria, enhance shareholder value and fit in with our wider growth plans. To date, we have reviewed and declined to proceed with a number of possible transactions.

Roke is increasingly exploring partnering agreements with other leading organisations to access further market opportunities. An example of this is Charlie Charlie One ("CC1"), a Dismounted Situational Awareness system that Roke has developed in partnership with Samsung SDS Europe. This ongoing relationship focuses on product development, sales and marketing, management and joint customer engagement. Some initial sales of CC1 have now been made and successful demonstrations and trials conducted in 2020 with several European militaries may culminate in future orders in 2021.

We continue to focus on how we monetise our knowhow and intellectual property in the commercial market with initial successes in the transport and medical markets, although the impact of CV-19 is likely to put commercial customers' budgets under pressure in some areas, which may result in some short-term challenges in this small but growing niche.

The strategic focus and collaboration between Roke and our US Sensors business has secured our first EW order into the US DoD. We will continue to support the customer through product trials and evaluation with a view to securing further orders to meet their operational deployment requirements in this potentially significant market.

The order book for Sensors & Information at 31 October 2020 was £87.3m (2019: £80.0m), of which £76m is expected to be delivered in 2021, providing 53% cover of expected 2021 revenue. 2021 trading performance for Sensors & Information is expected to show a continuation of the levels of business seen in 2020 with medium-term growth opportunities driven by the chemical & biological programs of record moving into full rate production.

Segmental review – Countermeasures & Energetics

Performance

Order intake in the year increased to £287.8m (2019: £276.5m), driven by high levels of activity in the important US market. Chemring Countermeasures USA was awarded contracts totalling $136m during the year to supply expendable countermeasures to the US Air Force and US Navy including winning a competitive tender for MJU 32/38 flares worth $50m over five years. As the second qualified source of global F-35 countermeasures, our Australian subsidiary's undefinitised contract of $60m, announced in May 2019, was definitised at a value of $107m on the F-35 programme. With deliveries under these contracts being made in 2020 to 2022, these contracts give improved visibility and strengthen our leading position in the global countermeasures market.

In the UK, Chemring Countermeasures UK and Chemring Energetics UK both signed long-term framework agreements with the UK MOD covering the next five years, with a further two year option. Initial delivery orders valued at £32m were received with deliveries to be made during 2021 and 2022.

In the final month of the financial year, Chemring Countermeasures UK was awarded contracts worth £25.8m from the UK MOD to develop and supply naval countermeasures in support of the Royal Navy, and a further £5.5m contract from the UK MOD to manufacture air countermeasures in support of the UK armed forces. Deliveries under these contracts will be made in 2021 through to 2023.

Revenue for Countermeasures & Energetics increased significantly by 30% to £265.3m (2019: £203.3m), driven primarily by the Australian and Salisbury countermeasures facilities being operational after the F-35 fit-out and phased restart that took place during 2019. Our niche energetic devices businesses enjoyed another strong period driven by favourable market conditions.

Underlying operating profit increased by 45% to £39.9m (2019: £27.5m), as underlying operating margin improved to 15.0% (2019: 13.5%) driven by improved operational execution.

The statutory operating profit for the year was £37.4m (2019: £22.0m).

Our global Countermeasures business has continued to perform well throughout the year with delivery targets across all product lines being met. The Australian business made excellent progress in the delivery of countermeasures for the US F-35 program, further strengthening our reputation with the US DoD.

Following its phased re-start during 2019, the UK countermeasures business has successfully achieved its manufacturing volume objectives. As this business progresses on its modernisation programme, driving improved operational efficiency will be a key area of focus for 2021. The two US businesses continue to work through some CV-19 related challenges associated with the timely completion of customer acceptance tests and staffing levels, but to date these have not had a material impact on our ability to deliver and had no impact at year-end.

The Tennessee capacity expansion programme, designed to address the expected F-35 demand from the US Government, continues to progress on schedule. During the year £22m was spent on the facility, bringing the total spend to date to £37m. The expected total cost of the programme remains approximately £50m, with the first incremental revenues from this facility expected in 2022.

Our niche energetic devices and materials businesses have continued to perform well, with order intake and deliveries remaining robust. Our specialist devices business in Chicago has strengthened its position in the space market and saw its products play critical roles on both the SpaceX NASA Crew Dragon mission to the International Space Station and NASA's latest mission to Mars, where we have a number of mission critical devices on NASA's Atlas V Launch Vehicle and Perseverance Rover.

Opportunities and outlook

The segment focus remains on maintaining and growing the Group's market leading position, in particular on key platforms such as the F-35 as it begins to enter service in increasing numbers, and in the important Special Material Decoy market.

The Group's niche propellant and devices businesses in Scotland and Chicago are increasingly securing long-term contracts with customers, supporting greater short and medium-term visibility and providing a framework for long-term planning and investment decisions. Similarly, demand for high quality high explosives has enabled Chemring Nobel in Norway to work proactively with its customer base on long-term contracting models, providing much improved visibility.

In 2021 we will continue the process of modernisation and automation across our sites, and in improving our competitiveness through investment in lean manufacturing capabilities. We will invest in new product development to ensure that our product portfolio remains highly relevant to our customers, and will continue the process of operational alignment to share technology and manufacturing excellence.

Countermeasures & Energetics' order book at 31 October 2020 was £388.7m (2019: £368.7m). The increase is a result of strong order intake in the US and Australia on the F-35 programme. Of the 31 October 2020 order book, approximately £250m is currently expected to be delivered in 2021, representing 92% coverage of expected 2021 revenue.

Performance – discontinued operations

Revenue from discontinued operations fell to £9.5m (2019: £43.4m) and underlying operating loss was £0.1m (2019: £3.5m) primarily as a result of the disposals made in the last two years.

Net debt and cash flow

The Group's net debt at 31 October 2020 was £48.2m (2019: £75.7m), representing a net debt to underlying EBITDA (continuing) ratio of 0.65x (2019: 1.24x). IFRS16 *Leases* has been adopted in 2020, adding £6.5m to opening net debt. Comparators have not been restated.

The financial health of the Group has continued to improve in a number of aspects during the year. Disciplined working capital practices have been maintained to reduce intra-period volatility. No defined benefit pension contributions were required in the year and none are expected in 2021. The Group is working to achieve further improvements over the medium term.

Continuing underlying operating activities generated cash of £82.4m (2019: £63.9m). Continuing cash conversion was 110% (2019: 104%) of continuing underlying EBITDA.

In November 2019 the Group repaid the remaining $83.6m of private placement loan notes via the use of the £136.7m revolving credit facility which runs to October 2022, which reduced interest costs in 2020.

Working capital

Working capital relating to the continuing businesses was £85.1m (2019: £90.5m), a decrease of £5.4m in a year where revenue has grown by 20%. As a percentage of revenue, working capital has decreased by 6% to 21% at 31 October 2020. The improvement reflects our continued focus on commercial contracting, inventory levels and cash management.

In absolute terms all areas of inventory, trade receivables and trade payables have increased as the business has grown. Our focus has been on ensuring this has been executed in a managed and balanced manner and year end trade receivable days of 30 and trade payable days of 26 demonstrate this has been successfully achieved.

Tax

The continuing underlying tax charge totalled £9.1m (2019: £7.9m) on a continuing underlying profit before tax of £51.7m (2019: £39.4m). The effective tax rate on underlying profit before tax for the year was a charge of 17.6% (2019: 20.1%). The decrease in the continuing effective rate of tax on the results of the Group is due to prior year tax adjustments and the geographic mix of profits. We expect the future effective tax rate to return to the low twenties.

The continuing statutory tax charge totalled £8.6m (2019: £3.6m) on a continuing statutory profit before tax of £43.3m (2019: £26.7m). The discontinued underlying tax was £nil (2019: £6.2m credit) on an underlying loss before tax of £0.1m (2019: £3.5m loss).

Retirement benefit obligations

The surplus on the Group's defined benefit pension schemes was £7.6m (2019: £9.6m), measured in accordance with IAS 19 (Revised) *Employee Benefits.*

The surplus relates to the Chemring Group Staff Pension Scheme (the "Scheme"), a UK defined benefit scheme whose assets are held in a separately administered fund. The Scheme was closed to future accrual in April 2012.

The reduction in the surplus has been driven by market movements in the second half of the period following the CV-19 impact on equity and bond markets. The resilience of the Scheme's investment strategy has limited this impact.

The 6 April 2018 triennial valuation showed a technical provisions deficit of £5.8m, which represented a funding level of 94% of liabilities. Deficit recovery payments totalling £6.25m were made prior to 31 December 2018. The Group agreed with the trustees that no further deficit recovery payments are required and the Group was released from the bank guarantee of £7.2m given to the scheme in respect of future contributions. The next actuarial valuation is due as at 6 April 2021 after which the future funding requirements will be reassessed.

Contingent liabilities

The Group is, from time to time, party to legal proceedings and claims, and is involved in correspondence relating to potential claims, which arise in the ordinary course of business.

In addition the following matters, as previously disclosed in earlier annual reports, remained open at year-end:

- UK's Controlled Foreign Company ("CFC") Finance Company exemption
- The Serious Fraud Office (the "SFO") investigation
- The incident that occurred at the Group's countermeasures site in Salisbury on 10 August 2018.

Full details of these are included in note 12.

Dividends

The Board is recommending a final dividend in respect of the year ended 31 October 2020 of 2.6p (2019: 2.4p) per ordinary share. With the interim dividend of 1.3p per share (2019: 1.2p), this results in a total dividend of 3.9p (2019: 3.6p) per share.

If approved, the final dividend will be paid on 23 April 2021 to shareholders on the register on 6 April 2021. In accordance with accounting standards, this final dividend has not been recorded as a liability as at 31 October 2020.

Board of Directors

On 16 December 2019, we announced that Nigel Young had indicated his intention to retire as a non-executive director when his current appointment came to an end and Nigel therefore stood down from the Board on 30 April 2020. Nigel served as a non-executive director from 1 May 2013 and was the Senior Independent Director from March 2016. During his tenure the Group progressed through a period of significant transformation and the Group is extremely grateful for his guidance and commitment. Nigel's role as Senior Independent Director was assumed by Andrew Davies on 1 May 2020.

Laurie Bowen, non-executive director, assumed the role of Chairman of the Remuneration Committee on 4 March 2020.

With the appointment of Fiona MacAulay as a non-executive director on 3 June 2020 we were able to add to our Board, amongst other attributes, significant experience in operating safely in hazardous environments.

Current trading and outlook

Trading since the start of the current financial year has been in line with expectations.

The Board's expectations for the Group's 2021 performance remain unchanged.

A great deal of work has been done in recent years to produce a more balanced delivery of revenue and profit across the year. The Group expects the balance of its trading performance in 2021 to be similar to 2020 with a slight bias towards the second half of the financial year.

The order book of continuing businesses as at 31 October 2020 was £476m, of which £326m is currently expected to be recognised as revenue in 2021, giving excellent visibility for the full year.

In the longer term, Chemring is well placed, with a robust strategy, market-leading positions across different geographies and sectors, and products and services that are critical to our government and blue-chip customers. This, together with the Group's strong balance sheet, gives the Board confidence that, despite any near-term CV-19 related uncertainty, Chemring's long-term prospects remain strong.

Going concern

The Group's business activities, key performance indicators, and principal risks and uncertainties are described within the 2020 annual report and accounts.

The directors believe that the Group is well placed to manage its business risks successfully, despite the current uncertain economic outlook. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current committed facilities.

As part of a regular assessment of the Group's working capital and financing position, the directors have prepared a detailed bottom-up two year trading budget and cash flow forecast for the period through to October 2022, being at least twelve months after the date of approval of the financial statements. This is in addition to the Group's longer-term strategic planning process. In assessing the forecast, the directors have considered:

- trading risks presented by current economic conditions in the defence market, particularly in relation to government budgets and expenditure;
- the impact of macro-economic factors, particularly interest rates and foreign exchange rates;
- the status of the Group's existing financial arrangements and associated covenant requirements;
- progress made in developing and implementing cost reduction programmes and operational improvements;
- the availability of mitigating actions should business activities fall behind current expectations, including the deferral of discretionary overheads and restricting cash flows; and
- the long-term nature of the Group's business which, taken together with the Group's order book, provides a satisfactory level of confidence to the Board in respect of trading.

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

In addition to the above, the Directors continue to monitor developments with, and potential impact of, CV-19 in the short and medium term and are in particular focussed on the key risks of delays by customers in testing and acceptance of products, disruption to production capacity and efficiency as a result of Government legislation on social distancing measures and the impact of the current situation on the Group's supply chain. The Directors have modelled a severe but plausible downside scenario for CV-19, whereby the Group experiences a 25% reduction in production capacity for a six-month period. Throughout this severe but plausible downside scenario, the Group continues to have significant liquidity headroom on existing facilities and against the RCF financial covenants. The CV-19 outbreak is not currently having any material impact in relation to these risks or any other potential impacts, however, the Directors are monitoring the situation closely.

After consideration of the above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the financial statements.

Long-term viability statement

The directors have assessed the Group's viability over a three-year period to October 2023 based on the above assessment, combined with the Group's strategic planning process, which gives greater certainty over the forecasting assumptions used. Based on this assessment, the directors have a reasonable expectation that the Group will be able to continue in operation and meet all its liabilities as they fall due up to October 2023.

The directors have chosen a three year period to assess viability to reflect the characteristics of the Group's end markets. These range from multi-year contracts such as the US programs of record to shorter term orders, such as those awarded to Roke.

In considering our viability statements we have considered the principal risks and uncertainties discussed in the strategic report and assessed the impact. The impact of CV-19 on viability is clearly a consideration for all companies at this time. Chemring's operations have been designated as critical to the defence and national security industrial base in all territories that we operate. All our businesses remain open with business continuity plans mobilised at every location.

Sensitivity analyses were run to model the financial and operational impact of plausible downside scenarios of these risk events occurring individually or in combination. These included the impacts of a further deterioration in the macroeconomic environment including how CV-19 may impact the economy and future government policy and spending, underperformance in executing the Group's strategy, failure to achieve operational improvement and material movements in foreign exchange rates. Consideration was also given to the plausibility of the occurrence of other individual events that in their own right could have a material impact on the Group's viability.

Based on the consolidated financial impact of the sensitivity analyses, including the CV-19 scenario above, and associated mitigating internal controls and risk management actions that are either now in place or could be implemented, the Board has been able to conclude that the Group will be able to maintain sufficient bank facilities to meet its funding needs over the three-year period and those forecasts show compliance with covenants under the revolving credit facility.

Principal risks and uncertainties

The principal risks and uncertainties which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results have, except for the inclusion of CV-19, not changed significantly from those set out in the Group's 2019 annual report and accounts and the 2020 interim report. A detailed description of the Group's principal risks and uncertainties and the ways they are mitigated can be found on pages 38 to 44 of the Group's 2020 annual report and accounts. In summary, the principal risks relate to:

- Health, safety, security and environmental risks
- Strategic risks
- Financial risks
- Operational risks
- People risks
- Legal and compliance risks
- Reputational risks

Management have detailed mitigation plans and assurance processes to manage and monitor these risks.

RESPONSIBILITY STATEMENT OF THE DIRECTORS ON THE ANNUAL REPORT AND ACCOUNTS

The responsibility statement below has been prepared in connection with the Company's full annual report and accounts for the year ended 31 October 2020. Certain parts thereof are not included within this announcement.

We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. the strategic report and directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

This responsibility statement was approved by the Board of directors on 15 December 2020, and has been signed on its behalf by Michael Ord and Andrew Lewis.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 October 2020

			2020			2019
	Underlying performance*	**Non-underlying items***	**Total**	Underlying performance*	Non-underlying items*	Total
	£m	**£m**	**£m**	£m	£m	£m
Continuing operations						
Revenue	**402.5**	**-**	**402.5**	335.2	-	335.2
Operating profit	**54.7**	**(8.4)**	**46.3**	44.0	(12.7)	31.3
Finance expense	**(3.0)**	**-**	**(3.0)**	(4.6)	-	(4.6)
Profit before tax	**51.7**	**(8.4)**	**43.3**	39.4	(12.7)	26.7
Taxation	**(9.1)**	**0.5**	**(8.6)**	(7.9)	4.3	(3.6)
Profit after tax	**42.6**	**(7.9)**	**34.7**	31.5	(8.4)	23.1
Discontinued operations						
(Loss)/profit after tax from discontinued operations (note 4)	**(0.1)**	**0.1**	**-**	2.7	(3.9)	(1.2)
Profit after tax	**42.5**	**(7.8)**	**34.7**	34.2	(12.3)	21.9
Earnings per ordinary share						
Continuing operations						
Basic	**15.1p**		**12.3p**	11.2p		8.2p
Diluted	**14.8p**		**12.0p**	11.0p		8.1p
Continuing operations and discontinued operations						
Basic	**15.1p**		**12.3p**	12.2p		7.8p
Diluted	**14.7p**		**12.0p**	12.0p		7.7p

** Further information about continuing non-underlying items is set out in note 3.*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 October 2020

	2020	2019
	£m	£m
Profit after tax attributable to equity holders of the parent as reported	**34.7**	21.9
Items that will not be reclassified subsequently to profit or loss		
Actuarial (losses)/gains on defined benefit pension schemes	**(1.9)**	1.6
Movement on deferred tax relating to pension schemes	**0.7**	(0.7)
	(1.2)	0.9
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**(0.2)**	(5.2)
Exchange difference reclassified to income statement on disposal of foreign operation	**(1.4)**	-
Tax on exchange differences on translation of foreign operations	**0.5**	0.2
	(1.1)	(5.0)
Total comprehensive income attributable to equity holders of the parent	**32.4**	17.8

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 October 2020

	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2019	2.8	306.2	12.9	1.0	(17.8)	8.5	(7.8)	305.8
Profit after tax	-	-	-	-	-	34.7	-	34.7
Other comprehensive loss	-	-	-	-	(1.6)	(1.9)	-	(3.5)
Tax relating to components of other comprehensive loss	-	-	-	-	0.5	0.7	-	1.2
Total comprehensive (loss)/income	-	-	-	-	(1.1)	33.5	-	32.4
Ordinary shares issued	-	0.5	-	-	-	-	-	0.5
Share-based payments (net of settlement)	-	-	-	-	-	3.6	-	3.6
Dividends paid	-	-	-	-	-	(10.4)	-	(10.4)
Purchase of shares by employee share ownership plan trust	-	-	-	-	-	(2.3)	-	(2.3)
Transactions in own shares	-	-	-	-	-	(4.9)	4.9	-
At 31 October 2020	**2.8**	**306.7**	**12.9**	**1.0**	**(18.9)**	**28.0**	**(2.9)**	**329.6**

	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2018	2.8	305.4	12.9	1.0	(27.2)	7.1	(7.8)	294.2
Profit after tax	-	-	-	-	-	21.9	-	21.9
Other comprehensive income/(loss)	-	-	-	-	1.4	(5.0)	-	(3.6)
Tax relating to components of other comprehensive income/(loss)	-	-	-	-	-	(0.5)	-	(0.5)
Total comprehensive income	-	-	-	-	1.4	16.4	-	17.8
Ordinary shares issued	-	0.8	-	-	-	-	-	0.8
Share-based payments (net of settlement)	-	-	-	-	-	2.5	-	2.5
Dividends paid	-	-	-	-	-	(9.5)	-	(9.5)
Transfers between reserves*	-	-	-	-	8.0	(8.0)	-	-
At 31 October 2019	2.8	306.2	12.9	1.0	(17.8)	8.5	(7.8)	305.8

*Transfer to reclassify exchange differences on translation of foreign subsidiaries included in retained earnings to the translation reserve.

CONSOLIDATED BALANCE SHEET
as at 31 October 2020

		2020		2019
	£m	**£m**	£m	£m
Non-current assets				
Goodwill	**108.5**		108.5	
Development costs	**29.8**		26.1	
Other intangible assets	**16.6**		25.3	
Property, plant and equipment	**194.0**		170.0	
Retirement benefit surplus	**7.6**		9.6	
Deferred tax	**15.7**		18.5	
		372.2		358.0
Current assets				
Inventories	**91.3**		78.1	
Trade and other receivables	**62.8**		53.7	
Cash and cash equivalents	**14.7**		1.3	
Derivative financial instruments	**0.4**		0.2	
		169.2		133.3
Assets classified as held for sale		**-**		7.0
Total assets		**541.4**		498.3
Current liabilities				
Borrowings	**-**		(69.2)	
Lease liabilities	**(1.5)**		-	
Trade and other payables	**(97.2)**		(68.3)	
Provisions	**(3.3)**		(4.8)	
Current tax	**(9.1)**		(4.0)	
Derivative financial instruments	**(0.7)**		(0.9)	
		(111.8)		(147.2)
Liabilities directly associated with assets classified as held for sale		**-**		(1.8)
Non-current liabilities				
Borrowings	**(57.5)**		(7.7)	
Lease liabilities	**(3.8)**		-	
Provisions	**(15.7)**		(12.4)	
Deferred tax	**(22.9)**		(23.0)	
Preference shares	**(0.1)**		(0.1)	
Derivative financial instruments	**-**		(0.3)	
		(100.0)		(43.5)
Total liabilities		**(211.8)**		(192.5)
Net assets		**329.6**		305.8
Equity				
Share capital		**2.8**		2.8
Share premium account		**306.7**		306.2
Special capital reserve		**12.9**		12.9
Revaluation reserve		**1.0**		1.0
Translation reserve		**(18.9)**		(17.8)
Retained earnings		**28.0**		8.5
		332.5		313.6
Own shares		**(2.9)**		(7.8)
Total equity		**329.6**		305.8

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 October 2020

	2020	2019
	£m	£m
Cash flows from operating activities		
Cash generated from continuing underlying operations	**82.4**	63.9
Cash impact of continuing non-underlying items	**(3.6)**	(5.3)
Cash (utilised in)/generated from discontinued underlying operations	**(2.6)**	13.7
Cash impact of discontinued non-underlying items	**(1.3)**	(7.1)
Cash flows from operating activities	**74.9**	65.2
Retirement benefit deficit recovery contributions	**-**	(0.4)
Tax received/(paid)	**1.0**	(2.9)
Net cash inflow from operating activities	**75.9**	61.9
Cash flows from investing activities		
Purchases of intangible assets	**(5.2)**	(3.8)
Purchases of property, plant and equipment	**(35.6)**	(41.0)
Customer funding for capital programmes	**0.9**	2.4
Proceeds on disposal of subsidiary	**14.5**	0.7
Net cash outflow from investing activities	**(25.4)**	(41.7)
Cash flows from financing activities		
Dividends paid	**(10.4)**	(9.5)
Purchase of own shares	**(2.4)**	-
Proceeds on issue of shares	**0.5**	-
Finance expense paid	**(3.0)**	(4.9)
Capitalised facility fees paid	**-**	(0.3)
Drawdown of borrowings	**108.0**	-
Repayments of borrowings	**(123.1)**	(18.1)
Repayments of lease liabilities	**(1.7)**	-
Net cash outflow from financing activities	**(32.1)**	(32.8)
Increase/(decrease) in cash and cash equivalents	**18.4**	(12.6)
Cash and cash equivalents at beginning of the year	**(3.3)**	9.6
Effect of foreign exchange rate changes	**(0.4)**	(0.3)
Cash and cash equivalents at end of the year (including bank overdraft)	**14.7**	(3.3)

Notes

1. ACCOUNTS AND AUDITOR'S REPORT

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 October 2020 or 31 October 2019 but is derived from those accounts. Statutory accounts for 2019 have been delivered to the Registrar of Companies, and those for 2020 will be delivered following the Company's Annual General Meeting. The auditor has reported on these accounts; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report, and did not contain any statements required under either section 498(2) or section 498(3) of the Companies Act 2006.

This announcement has been prepared on the basis of the accounting policies set out in the Company's financial statements for the year ended 31 October 2020.

Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards ("IFRSs"), this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to post full financial statements that comply with IFRSs on its website on 15 December 2020 (see note 15 below).

Recent accounting developments

The following International Financial Reporting Committee ("IFRIC") interpretations, amendments to existing standards and new standards were adopted in the year ended 31 October 2020 but have not materially impacted the reported results or the financial position:

- Amendments to IAS19 *Employee Benefits*;
- Annual Improvements to IFRSs 2015–2017 Cycle; and
- IFRIC 23 *Uncertainty over Income Tax Treatments.*

The following IFRIC interpretations, amendments to existing standards and new standards were adopted in the year ended 31 October 2020 and have materially impacted the reported results or the financial position:

- IFRS 16 *Leases*

The Group adopted IFRS 16 *Leases* with effect from 1 November 2019. The standard fundamentally changed the accounting treatment of leased assets, requiring that all material lease liabilities and corresponding 'right-of-use' assets are recognised on the balance sheet. The operating lease rental expense previously charged to operating profit in the income statement has been replaced by a depreciation charge for the 'right-of-use' assets recognised in operating profit and an interest charge on the lease liabilities recognised in finance costs and shown in financing activity within the cash flow. Other than these changes and the practical expedients discussed below, our policy wording for leased assets disclosed in the 31 October 2019 financial statements remains unchanged.

The Group has adopted IFRS 16 using the modified retrospective transition approach, which does not require the restatement of comparative figures.

Adoption of IFRS 16 resulted in right-of-use assets of £6.3m and lease liabilities of £6.5m being recognised on the balance sheet. The weighted average incremental borrowing rate applied to lease liabilities at the date of initial application was 3%. The difference between the lease liability recognised on transition and the operating lease commitments disclosed under IAS 17 at 31 October 2019, discounted using the incremental borrowing rate at the date of initial application, is due to the exclusion of leases relating to low-value assets.

On transition the Group applied the following available practical expedients permitted by the standard:

- the exclusion of leases relating to low-value assets (less than £50,000 when new); and
- the exclusion of short-term leases, being those with a lease term of 12 months or less.

2. SEGMENTAL ANALYSIS – CONTINUING OPERATIONS

Year ended 31 October 2020

	Sensors & Information £m	**Countermeasures & Energetics £m**	**Unallocated £m**	**Group £m**
Revenue	**137.2**	**265.3**	**-**	**402.5**
Segment result before depreciation, amortisation, non-underlying items and discontinued operations	**30.7**	**56.5**	**(12.6)**	**74.6**
Depreciation	**(2.8)**	**(15.7)**	**-**	**(18.5)**
Amortisation	**(0.5)**	**(0.9)**	**-**	**(1.4)**
Segmental underlying operating profit	**27.4**	**39.9**	**(12.6)**	**54.7**
Amortisation of acquired intangibles	**(6.4)**	**(2.5)**	**-**	**(8.9)**
Non-underlying items	**-**	**-**	**0.5**	**0.5**
Segmental operating profit	**21.0**	**37.4**	**(12.1)**	**46.3**

Year ended 31 October 2019

	Sensors & Information £m	Countermeasures & Energetics £m	Unallocated £m	Group £m
Revenue	131.9	203.3	-	335.2
Segment result before depreciation, amortisation, non-underlying items and discontinued operations	29.3	41.7	(9.8)	61.2
Depreciation	(2.3)	(13.5)	-	(15.8)
Amortisation	(0.7)	(0.7)	-	(1.4)
Segmental underlying operating profit	26.3	27.5	(9.8)	44.0
Amortisation of acquired intangibles	(6.6)	(5.5)	-	(12.1)
Non-underlying items	-	-	(0.6)	(0.6)
Segmental operating profit	19.7	22.0	(10.4)	31.3

3. ALTERNATIVE PERFORMANCE MEASURES

The principal Alternative Performance Measures ("APMs") presented are the underlying measures of earnings which exclude discontinued operations, exceptional items, gain or loss on the movement on the fair value of derivative financial instruments, and the amortisation of acquired intangibles. The directors believe that these APMs improve the comparability of information between reporting periods. The term underlying is not defined under IFRS and may not be comparable with similarly titled measures used by other companies.

	2020 **£m**	2019 £m
Gain/(loss) on the movement in the fair value of derivative financial instruments	**0.5**	(0.6)
Impact of non-underlying items on EBITDA	**0.5**	(0.6)
Intangible amortisation arising from business combinations	**(8.9)**	(12.1)
Impact of non-underlying items on profit before tax	**(8.4)**	(12.7)
Tax impact of non-underlying items	**0.5**	4.3
Impact of non-underlying items on continuing profit after tax	**(7.9)**	(8.4)
Non-underlying discontinued operations after tax	**0.1**	(3.9)
Impact of non-underlying items on profit after tax	**(7.8)**	(12.3)
Underlying profit after tax	**42.5**	34.2
Statutory profit after tax	**34.7**	21.9

Amortisation of acquired intangibles
Included in non-underlying items is the amortisation charge arising from business combinations of £8.9m (2019: £12.1m). Amortisation of acquired intangibles arising from business combinations is associated with acquisition accounting under IFRS 3 *Business Combinations*. IFRS requires intangibles to be recognised on acquisition that would not have been capitalised had the business grown organically under Chemring's ownership. As such, these costs are not reflective of the underlying costs of the Group and therefore, in order to provide an explanation of results that is not distorted by the history of business units being acquired rather than organically developed, have been excluded from the underlying measures.

Derivative financial instruments
Included in non-underlying items is a £0.5m gain (2019: £0.6m loss) on the movement in fair value of derivative financial instruments. This is excluded from underlying earnings to ensure the recognition of the gain or loss on the derivative matches the timing of the underlying transaction.

Tax
In the year ended 31 October 2020, the tax impact of continuing non-underlying items comprises a £0.5m credit (2019: £4.3m credit) on the above non-underlying items.

Discontinued operations
Further details on the results of discontinued operations are presented in note 4.

4. DISCONTINUED OPERATIONS

A strategic review of the Group's energetics portfolio was conducted during the year ended 31 October 2018. The Board concluded that the future focus within the energetics segment should be on the energetic devices businesses. It therefore made the decision to exit the commoditised energetics businesses.

	2020	2019
	£m	£m
Revenue	**9.5**	43.4
Underlying operating loss from discontinued operations	**(0.1)**	(3.5)
Tax on underlying operating loss from discontinued operations	**-**	6.2
(Loss)/profit after tax from underlying discontinued operations	**(0.1)**	2.7
(Loss)/profit after tax is analysed as:		
Before exceptional items	**(0.1)**	2.7
Exceptional items	**0.1**	(3.8)
Tax on exceptional items	**-**	(0.1)
	0.1	(3.9)
Loss for the year from discontinued operations	**-**	(1.2)

In the year ended 31 October 2020, the loss related to the continued trading activity of Chemring Ordnance, Inc. On 7 May 2020 the Group sold its US subsidiary Chemring Ordnance, Inc. to Nammo Defense Systems Inc., concluding the Group's exit from its commoditised energetics businesses. The consideration of $17m was paid in cash on completion, subject to normal working capital and other closing adjustments.

In 2020 the exceptional items include a gain on disposal of £3.5m relating to the sale of Chemring Ordnance, Inc., an increase to the disposal provision in respect of the disposal of the European Munitions businesses in 2014 of £1.3m and a £2.1m increase to the disposal provisions relating to the exit of the commoditised energetics businesses announced in 2018.

In the year ended 31 October 2019, the sale of Chemring Military Products, Inc. and Chemring Defence UK Limited were completed and Chemring Prime Contracts Limited was closed. The exceptional items included a loss on disposal of £2.8m relating to the sale of Chemring Military Products, Inc. and Chemring Defence UK Limited, an increase to the disposal provision in respect of the disposal of the European Munitions businesses in 2014 of £1.1m, business restructuring costs of £0.8m and a £0.9m exceptional credit relating to the realisation of working capital that was previously impaired in respect of Chemring Ordnance, Inc.

Details of the sale of the subsidiaries

The Group completed the sale of the entire issued stock capital of Chemring Ordnance, Inc. to Nammo Defense Systems, Inc. on 7 May 2020. Under the terms of the agreement, the Group received $17m upon completion of the transaction.

The Group completed the sale of the entire issued stock capital of Chemring Military Products, Inc. to Global Ordnance LLC on 5 April 2019. Under the terms of the agreement, the Group received £1.7m upon completion of the transaction. Deferred consideration of £0.7m was received on the first anniversary of the transaction. A further deferred consideration amount of £0.4m is payable on the second anniversary of the transaction. The Group is entitled to further contingent consideration following the sale of up to £0.8m if certain performance-related and event-driven milestones are achieved by Chemring Military Products, Inc. No value has been assigned to this consideration based on the probability assessment of the associated milestones being reached.

The Group completed the sale of the entire issued share capital of Chemring Defence UK Limited to PWD Group Limited on 24 June 2019. Under the terms of the agreement, the Group received £0.0m upon completion of the transaction. Contingent consideration is payable if certain performance-related and event-driven milestones are achieved by Chemring Defence UK Limited. No value has been assigned to this consideration based on the probability assessment of the associated milestones being reached.

	2020	2020	2019	2019	2019
	£m	**£m**	£m	£m	£m
	Chemring Ordnance, Inc.	**Total**	*Chemring Military Products, Inc.*	*Chemring Defence UK Limited*	*Total*
Consideration received or receivable:					
Cash	**13.8**	**13.8**	1.7	-	1.7
Fair value of deferred consideration	**-**	**-**	1.1	-	1.1
Total disposal consideration	**13.8**	**13.8**	2.8	-	2.8
Net working capital adjustment	**(0.8)**	**(0.8)**	-	-	-
Net assets and liabilities disposed of	**(9.3)**	**(9.3)**	(3.6)	(0.4)	(4.0)
Disposal costs	**(1.6)**	**(1.6)**	(1.1)	(0.5)	(1.6)
Profit/(loss) on disposal before tax	**2.1**	**2.1**	(1.9)	(0.9)	(2.8)
Reclassification of foreign currency translation reserve	**1.4**	**1.4**	-	-	-
Income tax on profit/(loss) on disposal	**-**	**-**	-	-	-
Profit/(loss) on disposal after tax	**3.5**	**3.5**	(1.9)	(0.9)	(2.8)

The carrying amounts of assets and liabilities as at the date of sale were:

	Chemring Ordnance, Inc. *7 May 2020*	**Total**	Chemring Military Products, Inc. *5 April 2019*	Chemring Defence UK Limited *24 June 2019*	Total
	£m	**£m**	£m	£m	£m
Trade and other receivables	**10.5**	**10.5**	14.3	3.6	17.9
Total assets	**10.5**	**10.5**	14.3	3.6	17.9
Trade and other payables	**(0.4)**	**(0.4)**	(10.7)	(3.2)	(13.9)
Total liabilities	**(0.4)**	**(0.4)**	(10.7)	(3.2)	(13.9)
Net assets	**10.1**	**10.1**	3.6	0.4	4.0

5. HELD FOR SALE

In the year ended 31 October 2020, the Group sold its US subsidiary Chemring Ordnance, Inc. to Nammo Defense Systems Inc, concluding the Group's exit from its commoditised energetics businesses. The Group therefore had no assets or liabilities classified as held for sale as at 31 October 2020.

6. EARNINGS PER SHARE

Earnings per share is based on the average number of shares in issue, excluding own shares held, of 281,447,284 (2019: 280,061,053). Diluted earnings per share has been calculated using a diluted average number of shares in issue, excluding own shares held, of 288,416,915 (2019: 286,092,818).

The earnings used in the calculations of the various measures of earnings per share are as follows:

	£m	**Basic EPS (pence)**	**2020 Diluted EPS (pence)**	£m	Basic EPS (pence)	2019 Diluted EPS (pence)
Underlying profit after tax	**42.6**	**15.1**	**14.8**	31.5	11.2	11.0
Non-underlying items	**(7.9)**			(8.4)		
Profit from continuing operations	**34.7**	**12.3**	**12.0**	23.1	8.2	8.1
Loss from discontinued operations	**-**	**-**	**-**	(1.2)	(0.4)	(0.4)
Total profit after tax	**34.7**	**12.3**	**12.0**	21.9	7.8	7.7

7. CASH GENERATED FROM OPERATING ACTIVITIES

	2020 £m	2019 £m
Operating profit from continuing operations	**46.3**	31.3
Amortisation of development costs	**1.4**	1.3
Amortisation of intangible assets arising from business combinations	**8.9**	12.1
Amortisation of patents and licenses	**-**	0.1
Loss on disposal of non-current assets	**0.3**	0.7
Depreciation of property, plant and equipment	**18.5**	15.8
Non-cash movement of non-underlying items	**(0.5)**	0.6
Share-based payment expense	**4.0**	2.5
Operating cash flows before movements in working capital	**78.9**	64.4
Increase in inventories	**(12.2)**	(7.9)
(Increase)/decrease in trade and other receivables	**(9.9)**	10.4
Increase/(decrease) in trade and other payables	**25.2**	(2.7)
Increase/(decrease) in provisions	**0.4**	(0.3)
Operating cash flow from continuing underlying operations	**82.4**	63.9
Discontinued operations:		
Operating cash flow from discontinued underlying operations	**(2.6)**	13.7
Cash impact of non-underlying items from discontinued operations	**(1.3)**	(7.1)
Tax paid	**-**	(0.7)
Net cash (outflow)/inflow from discontinued operating activities	**(3.9)**	5.9
Net cash inflow from discontinued investing activities	**14.0**	0.5
Net cash inflow from discontinued operations	**10.1**	6.4

8. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2020 £m	2019 £m
Increase/(decrease) in cash and cash equivalents during the year	**18.4**	(12.6)
Decrease in debt and lease financing due to cash flows	**16.8**	18.4
Decrease in net debt resulting from cash flows	**35.2**	5.8
Effect of foreign exchange rate changes	**(0.6)**	0.5
Lease interest and other non-cash movements	**(0.4)**	-
Amortisation of debt finance costs	**(0.2)**	(0.2)
Movement in net debt	**34.0**	6.1
Adoption of IFRS 16 *Leases*	**(6.5)**	-
Net debt at beginning of the year	**(75.7)**	(81.8)
Net debt at end of the year	**(48.2)**	(75.7)

9. ANALYSIS OF NET DEBT

	As at 1 Nov 2019 £m	Adoption of IFRS 16 *Leases*	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	**As at 31 Oct 2020 £m**
Cash and cash equivalents (including bank overdraft)	(3.3)	-	18.4	-	(0.4)	**14.7**
Debt due within one year (excluding bank overdraft)	(64.6)	-	64.6	-	-	**-**
Debt due after one year	(7.7)	-	(49.5)	(0.2)	(0.1)	**(57.5)**
Lease liabilities	-	(6.5)	1.7	(0.4)	(0.1)	**(5.3)**
Preference shares	(0.1)	-	-	-	-	**(0.1)**
	(75.7)	(6.5)	35.2	(0.6)	(0.6)	**(48.2)**

The Group has adopted IFRS 16 *Leases* using the modified retrospective transition approach, which does not require the restatement of comparative figures. Adoption of IFRS 16 resulted in lease liabilities of £6.5m being recognised.

On 19 November 2019, the final tranche of 5.68% Private Placement Loan Notes of $83.6m was repaid. This was funded from the Group's £145m multi-currency Revolving Credit Bank facility. The revolving credit facility is with a syndicate of five banks and was first established in October 2018 and has a four-year initial term with options to extend by a further two years.

The Group had £86.4m (2019: £130.2m) of undrawn borrowing facilities as at 31 October 2020.

The Group is subject to two key financial covenants, which are tested quarterly. These covenants relate to the leverage ratio between "underlying EBITDA" and net debt; and the interest cover ratio between underlying EBITDA and finance costs. The calculation of these ratios involves the translation of non-sterling denominated debt using average, rather than closing, rates of exchange. The Group was in compliance with the covenants throughout the period.

10. DIVIDEND

At the Annual General Meeting on 4 March 2020 the shareholders approved a final dividend in respect of the year ended 31 October 2019 of 2.4p per ordinary share. This was paid on 24 April 2020 to shareholders on the register on 3 April 2020.

An interim dividend in respect of 2020 of 1.3p per ordinary share was paid on 11 September 2020 to shareholders on the register on 21 August 2020.

The Board is recommending a final dividend in respect of the year to 31 October 2020 of 2.6p (2019: 2.4p) per ordinary share. With the interim dividend of 1.3p (2019: 1.2p), this results in a total dividend of 3.9p (2019: 3.6p) per ordinary share. If approved, the final dividend will be paid on 23 April 2021 to shareholders on the register on 6 April 2021. In accordance with accounting standards, this final dividend has not been recorded as a liability as at 31 October 2020.

11. EXCHANGE RATES

The following exchange rates applied during the year:

	Average rate 2020	**Closing rate 2020**	Average rate 2019	Closing rate 2019
US dollar	**1.28**	**1.29**	1.26	1.29
AU dollar	**1.84**	**1.84**	1.82	1.88

For the year ended 31 October 2020 a 10 cent strengthening in the US dollar exchange rate would have increased reported net debt by approximately £4.5m (2019: £5.7m).

12. CONTINGENT LIABILITIES

The Group is, from time to time, party to legal proceedings and claims, and is involved in correspondence relating to potential claims, which arise in the ordinary course of business. In addition, the following matters remain open at year end:

Since 2013, the Group has benefited from the UK's Controlled Foreign Company ("CFC") Finance Company exemption. On 2 April 2019 the European Commission delivered a judgement which concluded in some circumstances the UK's CFC exemption may breach state aid rules. The UK Government disagrees with the conclusion that the UK's CFC rules were partially in breach of EU law, and has therefore applied to the EU courts for annulment of the Commission's decision. Given the early stage of this process, it is too early to determine whether a tax liability is probable. The range of possible outcomes is between £nil and £15m, plus interest.

In accordance with the Serious Fraud Office ("SFO") News Release dated 18 January 2018, an investigation was opened by the SFO into Chemring Group PLC ("CHG") and its subsidiary, Chemring Technology Solutions Limited ("CTSL"), following a self-report made by CTSL. The investigation relates to bribery, corruption and money laundering arising from the conduct of business by CHG and CTSL including any officers, employees, agents and persons associated with them. It is too early to predict the outcome of the SFO's investigation, with which the Group continues to co-operate fully.

On 10 August 2018 an incident occurred at our countermeasures facility in Salisbury. The Group responded immediately to support those who were injured, and maintains appropriate employers' liability insurance that we expect will provide full compensation in due course. We continue to fully support the Health and Safety Executive ("HSE") as it undertakes its investigation. Whilst provisions have been recorded for costs that have been identified, it is possible that additional uninsured costs and, depending on the outcome of the HSE investigation, financial penalties may be incurred. At this stage these costs are not anticipated to be material in the context of the Group's financial statements.

A dispute between Alloy Surfaces Company, Inc. and the US Army, in relation to disputed pricing of a certain historic contract fulfilled by Alloy Surfaces Company, Inc., proceeded to a hearing in front of the US Armed Services Board of Contract Appeals ("ASBCA") in April 2017. During the year, ASBCA issued its decision in relation to this matter in favour of Alloy Surfaces Company, Inc. As a result the contingent liability no longer exists as at 31 October 2020. At 31 October 2019 a provision of £1.0m existed to cover estimated legal costs for the Group with regards to this issue.

13. EVENTS AFTER THE BALANCE SHEET DATE

There were no events after the balance sheet date requiring disclosure.

14. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed. The directors of the Company had no material transactions with the Company during the year, other than in connection with their service agreements.

15. 2020 ANNUAL REPORT AND ACCOUNTS

The annual report and accounts for the year ended 31 October 2020 will be posted on the Company's website, www.chemring.co.uk, on 15 December 2020 and a copy will be posted to shareholders, as required, in advance of the Company's Annual General Meeting on 4 March 2021.