16 DECEMBER 2019

CHEMRING GROUP PLC

RESULTS FOR THE YEAR ENDED 31 OCTOBER 2019

		As reported	*At 2018 exchange rates*		
	2019	*Change*	*2019*	*Change*	2018
Continuing operations					
Revenue (£m)	**335.2**	+ 13%	*326.2*	*+ 10%*	297.4
Underlying EBITDA* (£m)	**61.2**	+ 22%	*59.7*	*+ 19%*	50.0
Underlying operating profit* (£m)	**44.0**	+ 42%	*42.6*	*+ 37%*	31.0
Underlying profit before tax* (£m)	**39.4**	+ 58%	*38.2*	*+ 53%*	24.9
Underlying earnings per share* (pence)	**11.2**	+ 62%	*10.9*	*+ 58%*	6.9
Statutory operating profit/(loss) (£m)	**31.3**				(15.9)
Dividend per share (pence)	**3.6**	+ 9%			3.3
Net debt at 31 October 2019 (£m)	**75.7**	- 7%			81.8

Key points

- Overall performance slightly ahead of our initial expectations, reflecting strong Sensors & Information sector performance.

- Safety remains our key priority and, together with enhancing operational stability and efficiency, is driving investment in the Group's manufacturing infrastructure.

- Completed sale of Chemring Military Products and Chemring Defence and closure of Chemring Prime Contracts. Announced sale of Chemring Ordnance on 21 November 2019.

- Australian subsidiary, offline for the majority of the year to enable changeover to F-35 countermeasure manufacturing, received two significant contracts, as previously announced.

- Continued progress on various US Programs of Record. Further delivery orders received under the HMDS IDIQ; successful critical design review on AVCAD led to a further 75 unit order.

- Strong order intake in Countermeasures & Energetics resulted in a Group order book for the continuing business at year end of £449m (2018: £394m), £287m currently due as revenue in FY20, approximately 76% coverage of FY20 targeted revenue.

- Net debt decreased year on year, reflecting strong operating cash generation offset by the start of investment in the Tennessee facility. Net debt: EBITDA fell to 1.24x (2018: 1.64x).

- Board recommending a final dividend of 2.4p per ordinary share, giving a total dividend of 3.6p per ordinary share (2018: 3.3p).

- Board's expectations for FY20 trading performance remain unchanged, with the usual seasonal H2 weighting.

Michael Ord, Group Chief Executive, commented:

"It has been an exceptionally busy year in which we continued to deliver our current mission of building a stronger business. We have implemented significant changes to improve safety, strengthen leadership and corporate governance, and embed continuous improvement across the Group. We have also changed the structure of the business and the way in which we operate. In doing so we are improving the quality of the business and redefining our purpose. Collectively we are changing the culture of Chemring to one of close collaboration, responsible behaviour and belief in our core values of Safety, Excellence and Innovation.

With a number of significant operational and strategic milestones achieved this year we have made real progress; moving away from commoditised product lines to focus on higher quality, sustainable business areas where we have a competitive advantage.

As we continue to develop, over time our focus will move to strategic opportunities that further enhance the Group's growth potential and the delivery of positive returns for all our stakeholders."

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

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)	61.2	(0.6)	60.6
Operating profit (£m)	44.0	(12.7)	31.3
Profit before tax (£m)	39.4	(12.7)	26.7
Tax charge (£m)	(7.9)	4.3	(3.6)
Profit after tax (£m)	31.5	(8.4)	23.1
Basic earnings per share (pence)	11.2		8.2
Diluted earnings per share (pence)	11.0		8.1
Group – discontinued operations:			
Profit/(loss) after tax (£m)	2.7	(3.9)	(1.2)
Segments – continuing operations:			
Sensors & Information EBITDA (£m)	29.3	-	29.3
Sensors & Information operating profit (£m)	26.3	(6.6)	19.7
Countermeasures & Energetics EBITDA (£m)	41.7	-	41.7
Countermeasures & Energetics operating profit (£m)	27.5	(5.5)	22.0

The adjustments to continuing operations comprise:

- amortisation of acquired intangibles of £12.1m (2018: £11.6m)
- loss on the movement in the fair value of derivative financial instruments of £0.6m (2018: £0.4m)
- tax impact on adjustments of £4.3m credit (2018: £13.1m charge)

The discontinued operations loss after tax comprises:

- operating loss of £3.5m (2018: £8.0m profit)
- exceptional items of £1.0m (2018: £72.0m)
- loss on disposal of a subsidiary of £2.8m (2018: £nil)
- tax credit on the above of £6.1m (2018: £1.0m charge)

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 FY19 financial information at the FY18 exchange rates to reflect the movement excluding the impact of foreign exchange. The exchange rates applied are disclosed in note 11.

For further information:

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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 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 2,500 people worldwide, and with production facilities in four countries, Chemring meets the needs of customers in more than fifty countries
- Chemring is now organised under two strategic product segments: 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
The presentation slides and a live audio webcast of the presentation to analysts will be available at the Chemring Group results centre www.chemring.co.uk/investors/results-centre at 09.30 (UK time) on Monday 16th December 2019. The presentation can also be listened to at that time by dialling +44 (0)20 3936 2999 and using the participant access code: 41 49 27. A recording of the audio webcast will be available later that day.

Photography
Original high resolution photography is available to the media by contacting Isabella Grace, MHP Communications: isabella.grace@mhpc.com / tel: +44 (0) 20 3128 8100.

Group overview

The Group has performed slightly ahead of the Board's initial expectations, as announced on 1 November 2019. The Group's revenue was up 13% to £335.2m (2018: £297.4m). Underlying operating profit was up 42% to £44.0m (2018: £31.0m). Underlying earnings per share was up 62% to 11.2p (2018: 6.9p).

Meaningful progress was made during 2019 to improve the quality of Chemring. It has been a busy year for the Group in which significant changes have been implemented in addition to ongoing operational management. These include the introduction of a new safety strategic framework, a Group-wide safety review and strategic plan, and the introduction of new frameworks to strengthen risk management and corporate governance. In addition to a capability review and strengthening of the senior management team, a number of key operational and strategic milestones were achieved.

Following the closure of our UK countermeasures site after the incident in August 2018, the site progressed through a phased restart with chaff and naval decoy lines operational in the first half of the year. Spectral and MTV lines began operations in the third quarter and the overall site reached steady state manufacturing by the end of the financial year, as planned.

The Group made excellent progress on its strategy to move away from commoditised product lines to focus on higher margin and more predictable revenue streams. On 15 November 2018 the Board announced that it had decided to exit the commoditised energetics businesses located in Florida and Derby. These businesses were treated as discontinued operations and shown as held for sale in the 2018 annual report and accounts.

The sale of Chemring Military Products, Inc. and Chemring Defence UK Limited and the closure of Chemring Prime Contracts were all completed during the year, and the sale of Chemring Ordnance, Inc. was announced on 21 November 2019. This concludes our programme of disposals which has reduced the Group's exposure to a significant amount of operational and reputational risk, and enables greater focus on the niche specialist energetic devices and materials businesses in Chicago and Scotland, where the Group has strong intellectual property and high barriers to entry. These businesses enjoyed a stronger year driven by favourable market conditions and the consolidation of our California site into Chicago.

Net debt was £75.7m at the end of the year (2018: £81.8m), the decrease since 31 October 2018 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 £63.9m (2018: £44.7m) represented 104% (2018: 89%) of EBITDA.

The Group's order book at 31 October 2019 was £449m (2018: £394m), of which approximately £287m is scheduled for delivery during 2020, representing cover of approximately 76% of expected FY20 revenue (2018: 70%). The increase since 31 October 2018 is primarily attributable to the F-35 countermeasures order received by our Australian subsidiary and the continued growth in our niche businesses.

Health and safety

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. In the past year we have invested significant effort on the journey to achieve this imperative, and this effort is resulting in the continued improvement in safety performance globally.

We have introduced a new three-year safety strategy and plan across the Group. This has progressed well, with all key milestones of the plan having been met. Revised health, safety and environmental standards and guidelines have been implemented, as have our Fundamental Safety Rules.

The Group KPI of Total Recordable Injury Frequency ("TRIF") has tracked reduction in injuries over the past fourteen months with the rate dropping from 2.77 to 0.79. This KPI monitors the number of recordable injuries per 200,000 man-hours worked over a rolling twelve-month period. In addition, our process safety indicators are driving improvement actions that reduce the potential for an energetic event that could cause harm to our people and facilities.

As part of the plan, we continue to introduce stronger HSE assurance processes that ensure compliance to our standards and benchmarks the business against best practice. This, in addition to our facility surveys and our increased focus on process hazard reviews for both new and legacy assets, will ensure that we design, maintain and operate our processes with the highest levels of integrity.

Governance and ethics

We have taken significant steps to strengthen our governance during the year with the introduction of the Operational Framework and the issue of an updated Code of Conduct. These both underpin our drive to ensure that our employees always do the right thing and that Chemring conducts its business in a responsible and ethical manner.

Group Chief Executive's review

2019 was my first full year as Chief Executive of Chemring and I have been heartened by the positive manner in which our people have embraced the challenge of building a stronger and improved business.

Whilst much has changed since I joined the Group, my initial impressions of our significant capabilities and strengths remain unchanged. The depth and spread of our technology and know-how, the robustness of our market positions across our home markets of the US, the UK, Europe and Australia, and the quality of our people, combine to provide a significant opportunity for future growth.

To remain competitive and successful we must relentlessly deliver on our commitments to all of our stakeholders, be they customers, industry partners, shareholders or employees; it is through this that we will continue to forge greater credibility, trust and belief in the future of Chemring. It was therefore pleasing to report that, despite some operational challenges in the first half of the year, overall performance for the year was in line with our expectations.

Strategy:
The Group's strategy is to deliver profitable growth by operating in markets where we have differentiators such as intellectual property, niche technology and high barriers to entry.

In a number of our markets we are already market leader, or one of the market leaders. This is particularly so in Countermeasures & Energetics and to a growing extent in Sensors & Information as a result of our recent long-term contract wins.

We will maintain and grow our positions in Countermeasures & Energetics, investing in modernisation and automation to improve operational effectiveness and reliability, and to 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 enable high margins.

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 infrastructure and people in order to deliver this strategy.

Structure:
Following a review of the business portfolio the Board concluded that our future focus should be on those niche areas of the market where we have sustainable competitive advantage through incumbent supplier status and high barriers to entry, and where our products and services are underpinned by our rich intellectual property and know-how.

We therefore announced that we would exit the commoditised energetics businesses, located in Derby and Florida, and that we would be reorganised under two high-quality business sectors, Sensors & Information and Countermeasures & Energetics. We also concluded that we would protect and grow our positions across defence, security and commercial sectors and focus on our home markets of the US, the UK, Europe and Australia.

Exiting the commoditised energetics sector was an area of attention during the year and it is therefore very pleasing to report that the sales of Chemring Military Products and Chemring Defence UK and the closure of Chemring Prime Contracts were all completed in year. The sale of the remaining business, Chemring Ordnance, was announced on 21 November 2019 and is expected to complete by the end of Q2 FY20. These disposals will enable a greater focus on our niche specialist energetic devices and materials businesses in Chicago, Scotland and Norway.

We have already seen the benefits of this reorganisation in our Sensors & Information sector, where we have world-leading technologies and development capabilities. The integration of Chemring Technology Solutions (“CTS”) capabilities into Roke’s existing defence business has created a business with extended reach and one that is able to support defence customers, whether government or other defence contractors, at all stages of technical readiness, from pre-concept research and innovation, through to design, manufacture and in-service support. It has also provided the platform to transition our electronic warfare technology created in the UK into the US market. To facilitate this Roke established a US footprint with the incorporation of Roke USA, Inc..

There is growing collaboration between our US and UK businesses and for the first time Roke and Chemring Sensors & Electronic Systems (“CSES”) have a single aligned strategy capturing shared technology development and shared business winning campaigns. This provides a strong foundation for our Sensors & Information sector.

We also have significant opportunities in the Countermeasures & Energetics sector where we are investing in safety, automation, modernisation and capacity expansion in order to meet expected market demand. We are taking steps to consolidate our three geographical countermeasures businesses into a single, global structure that is aligned to our key customers and market opportunities. This move will enable us to more effectively leverage our countermeasures businesses to improve our strategic growth opportunities and market competitiveness. The creation of a single integrated multinational business will be a significant step forward for the Group.

Culture:
The realignment of the sectors has created the opportunity for greater levels of interaction and collaboration across the Group which is both delivering positive results in terms of financial and operational performance, and is assisting the work being done to embed our values based Chemring culture.

The new structure is enabling greater focus on our strategic investments and a more robust implementation of our Operational Framework, which was introduced in January 2019 and is now embedded across the business. This is the reference source to all mandated policies across the Group and is the backbone for our values, behaviours and ways of working, and provides the necessary governance to enable us to operate in a safe, consistent and accountable way.

The longer-term potential

With a number of significant operational and strategic milestones achieved this year, our near-term imperative is to continue on the journey to build a stronger business; however we will balance our focus and actions on both short-term performance and long-term value creation.

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 growing defence budget.

The FY20 National Defense Authorization Act was passed in July 2019 with a base budget for FY20 of $545bn. The President's Budget Request also projects the DoD five-year program to settle at $747bn in FY24, 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.

The UK
The UK is Europe's largest defence market. Chemring sells directly to the MOD and security agencies, as well as to prime contractors.

Expenditure levelled in 2015 but recovery has been slow, with budgets 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.

This pressure on defence spending is likely to remain for the foreseeable future, despite planned increases of over 2% to 2021. 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.

In the security domain, Chemring is a key provider of capability to our clients, and with a growing concern about many national and international threats, our customers are continuing to increase demand for our services.

Europe
Europe combines modern, well-equipped forces with budget-constrained new NATO members on its Eastern borders. European defence spending is returning to growth, with most Western European and Nordic members increasing 2019 and 2020 budgets and projecting additional equipment procurement. The UK, France and Germany remain key contributors to spend and actively contribute to growth in NATO Europe defence spending, with all three investing in aircraft and wider sensors and electronic warfare.

European defence spending currently falls well short of NATO's 2% GDP target, with only five countries in Europe meeting this target in 2018. Major contributors to spend, such as Germany, have committed to reaching 1.5% of GDP by 2024.

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. Its 2019-2020 budget of AUD 38.7bn is an uplift on the previous year, and this is likely to continue as the Commonwealth aims to meet its 2% of GDP target by 2021.

Group financial performance

Order intake for continuing operations for 2019 was up 14.1% to £410.6m (2018: £360.0m), driven by the release of further delivery orders on the HMDS IDIQ contract, orders in Australia for F-35 countermeasures and growth in our niche energetics businesses.

Revenue from continuing operations for the year was up 12.7% to £335.2m (2018: £297.4m), driven by strong performance in the Sensors & Information segment, as deliveries commenced on the HMDS IDIQ contract and Roke enjoyed a strong year.

The underlying operating profit from continuing operations of £44.0m (2018: £31.0m) resulted in an underlying operating margin of 13.1% (2018: 10.4%). The increase in margin primarily reflects the positive impact of the phased restart of our Salisbury site and growth in our niche energetics businesses, combined with a stronger year in Sensors & Information due to increased revenues on the HMDS IDIQ contract and in Roke's information security business.

Insurance recoveries of £15m are included within the result for the year in relation to the incident in 2018 at the Salisbury site. This income offsets site operating costs and the costs of remediation, leaving the UK countermeasures business approximately break-even for the year. The site is expected to operate at a more normal level of activity in 2020.

Foreign exchange translation has provided a minor tailwind on revenue and profit. While exchange rates have been volatile in the year, there has been a strengthening of the US dollar against sterling compared to 2018 with the average rate moving from $1.34 to $1.26. On a continuing constant currency basis, restating the current year at the FY18 average exchange rate, revenue would have been £326.2m and underlying operating profit would have been £42.6m, being a tailwind of £1.4m on 2019's underlying operating profit.

Total finance expense fell significantly to £4.6m (2018: £6.1m). This was driven by the continued focus on reducing intra-period working capital volatility, thus maintaining net debt stability.

This left an underlying profit before tax from continuing operations of £39.4m (2018: £24.9m). The effective tax rate on the underlying profit before tax from continuing operations was 20.1% (2018: 22.9%). The underlying earnings from continuing operations per share was 11.2p (2018: 6.9p).

Statutory operating profit from continuing operations was £31.3m (2018: £15.9m loss) and after statutory finance expenses of £4.6m (2018: £6.1m), statutory profit before tax from continuing operations was £26.7m (2018: £22.0m loss), giving statutory earnings per share from continuing operations of 8.2p (2018: 14.6p loss). The statutory loss from discontinued operations was £1.2m (2018: £65.0m loss), including a loss on disposal of £2.8m relating to the sale of Chemring Military Products, Inc. and Chemring Defence UK Limited, giving a statutory profit of £21.9m (2018: £105.8m loss) from continuing and discontinued operations.

A reconciliation of underlying to statutory profit measures is provided in note 3. The non-underlying costs relate to the amortisation of acquired intangibles and the tax credit associated with this.

Revenue from discontinued operations fell to £43.4m (2018: £138.6m) and underlying operating loss fell to £3.5m (2018: £8.0m profit) primarily as a result of the disposals made in the year.

Tax

The continuing underlying tax charge totalled £7.9m (2018: £5.7m) on a continuing underlying profit before tax of £39.4m (2018: £24.9m). The effective tax rate on underlying profit before tax for the year was a charge of 20.1% (2018: 22.9%). We expect the effective tax rate to remain in the low twenties, notwithstanding any changes to the UK rate which the new government may make.

The continuing statutory tax charge totalled £3.6m (2018: £18.8m) on a continuing statutory profit before tax of £26.7m (2018: £22.0m loss). The decrease in the continuing effective rate of tax on the results of the Group is primarily due to utilisation of tax losses where a deferred tax asset had not been previously recognised.

The discontinued underlying tax credit was £6.2m (2018: £1.8m charge) on an underlying loss before tax of £3.5m (2018: £8.0m profit).

Segmental review – Sensors & Information

Performance

Revenue for Sensors & Information increased significantly by 51% to £131.9m (2018: £87.3m) and underlying operating profit increased by 71.9% to £26.3m (2018: £15.3m), as underlying operating margin improved to 19.9% (2018: 17.5%). The Sensors & Information business in the US has moved into the delivery phase of the HMDS Program of Record and continues to focus on the engineering, manufacturing and development ("EMD") and testing phases of the biological and chemical detection Programs of Record. Roke's information security business continues to grow.

On a constant currency basis revenue would have risen 47% to £128.3m and underlying operating profit would have been up 67% to £25.6m.

The statutory operating profit for the year was £19.7m (2018: £5.2m).

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

The US DoD's Explosive Hazard Detection ("EHD") program, through the Husky Mounted Detection System ("HMDS") program, which is a spiral development program, with concurrent development, trialling, and manufacturing to be undertaken, continues to progress as expected. Under the previously awarded IDIQ sole-source contract vehicles, further delivery orders of $30m were received in the year. The ramp-up to production progressed as planned and customer deliveries were made on schedule in the year.

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 by mid-2021. The new fleet will be comprised of both refurbished and new HMDS and this activity will run alongside technology upgrade programs.

The Joint Biological Tactical Detection System ("JBTDS") program moved into the Biological Point System Assessment phase in March 2018. The DoD is undertaking testing of our product, after which we expect a production decision in early 2020.

In 2018, we bid and won a second biological program, the Enhanced Maritime Biological Detection System ("EMBD"), where the customer is the US Navy. Our initial contract award for Engineering Manufacturing

Development ("EMD") and LRIP was in the form of a $24m IDIQ, against which we received delivery orders of $5m in 2018 and a further delivery order in this year of $9m. The program is expected to be worth up to $100m over five to ten years once in full rate production.

The Aerosol and Vapor Chemical Agent Detector ("AVCAD") 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 one of two contractors currently selected for this competitive program. In October 2019, following a successful critical design review, we received an order for a further 75 units under the EMD phase of the program. The next customer procurement decision point is expected to be at the conclusion of the EMD phase in early 2021.

The markets for electronic warfare, cyber-security and data science capabilities, in which Roke is a leading participant, have been buoyant in the year. Roke has expanded its offerings resulting in recent wins with the National Crime Agency to tackle child abuse and sexual exploitation, the National Cyber Security Centre to increase resilience of critical national infrastructure and Defence Science and Technology Laboratory ("DSTL") to research and develop new capabilities through the SERAPIS framework. This has driven double digit growth in both revenue and underlying operating profit.

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 electronic warfare, cyber-security and data science, and securing positions on the US DoD Programs of Record.

In the US, focus has turned to the execution phase on contracts. Mobilisation has started, with strong initial deliveries in 2019 on the HMDS program and the focus continues to be ensuring the Virginia and North Carolina facilities are mobilised and resourced to deliver the AVCAD, EMBD, JBTDS and HMDS contracts.

Supporting the UK Government across national security and defence, and non-governmental industries in high-value manufacturing and infrastructure, Roke will continue to focus on their customers' missions: to enable them to deliver competitive advantage, defend their people, assets and secrets, and defeat their adversaries. With a focus on emerging technologies in communications, cyber, automation and data science, Roke will deliver research, engineering and advisory services using its expert people and capabilities. Concurrently, Roke is seeking to expand its capabilities into commercial and international markets over the medium term.

The order book for Sensors & Information at 31 October 2019 was £80.0m (2018: £75.4m), of which £68m is expected to be delivered in 2020, providing 52% cover of expected 2020 revenue.

2020 trading performance for Sensors & Information is expected to show a continuation of the levels of business seen in 2019. No new US Programs are expected to commence in the year.

Segmental review – Countermeasures & Energetics

Performance

Order intake in the year of £276.5m (2018: £250.8m) has continued to be strong, particularly in the significant US market.

Revenue decreased 3% to £203.3m (2018: £210.1m) and the segment reported a 15.1% increase in underlying operating profit to £27.5m (2018: £23.9m). On a constant currency basis revenue would have decreased by 6% to £197.9m and operating profit would have been £26.7m.

The statutory operating profit for the year was £22.0m (2018: £2.8m), the year being impacted by the phased restart of the Salisbury site and the completion of the Australia F-35 production refit.

The phased restart of our UK countermeasures site has progressed as planned with chaff and naval decoy lines operational in the first half of the year. Spectral and MTV lines began to operate in the third quarter as planned, with the overall site at steady state manufacturing at the end of the financial year. The site contributed £21m of revenue and approximately broke even after accounting for insurance recoveries of £15m and remediation costs in 2019, in line with our previous expectations.

Our Australian facility was closed for the majority of the year to be fitted and qualified for F-35 production. The facility upgrade was completed on schedule and to budget. We were pleased to announce that our Australian subsidiary had been awarded two significant contracts: an Undefinitised Contract Action with a Not To Exceed value of US$60.4m and a further (Directed Sole Source) award for US$6.5m. The contracts are from the US DoD to supply countermeasures to the Royal Australian Air Force, US Navy and Foreign Military Sales in support of the F-35 Joint Strike Fighter and other platforms. This award follows a multi-year effort to establish Chemring Australia as a qualified supplier for F-35 countermeasures. The first deliveries against these contracts occurred at the end of our 2019 financial year.

Our niche energetics devices businesses enjoyed a strong year driven by favourable market conditions and the consolidation of our California site into Chicago.

Significant investment is planned over the next two years in our Countermeasures & Energetics businesses to both recapitalise and modernise facilities and invest in capacity to address expected market demand, the most significant investment being the Tennessee capacity expansion programme. The cost of this is currently expected to be approximately £50m and is focused on delivering capacity to meet expected F-35 demand from the US Government.

Opportunities and outlook

After a number of years of weakness in the countermeasures markets that followed the end of the Iraq and Afghanistan conflicts, the outlook for the segment is positive. 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.

The completed phased restart of our UK countermeasures site and completion of the Australia F-35 production refit is expected to increase revenue and operational performance of the segment in 2020.

Countermeasures & Energetics' order book at 31 October 2019 was £368.7m (2018: £318.3m). Of the 31 October 2019 order book, approximately £219m is currently expected to be delivered in 2020, providing 89% cover of expected 2020 revenue.

With a strong order book in place, 2020 trading performance for Countermeasures & Energetics is expected to be positive, albeit with a significant bias towards the second half consistent with historical revenue trends.

Performance – discontinued operations

Revenue for the discontinued commodity Energetics business decreased by 68.7% to £43.4m (2018: £138.6m), generating an underlying operating loss of £3.5m (2018: £8.0m profit), reflecting the disposals during the year.

Net debt and cash flow

The Group's net debt at 31 October 2019 was £75.7m (2018: £81.8m), representing a net debt to underlying EBITDA (continuing) ratio of 1.24x (2018: 1.64x).

The financial health of the Group has improved in a number of aspects during the year. Working capital practices were improved to reduce intra-period volatility and following the defined benefit pension scheme valuation, it was agreed that no further contributions are required until April 2021 when the position will be reassessed. The Group is working to achieve further improvements over the medium term.

Underlying operating activities generated cash of £77.6m (2018: £56.9m), split between continuing £63.9m (2018: £44.7m) and discontinued £13.7m (2018: £12.2m). Continuing cash conversion was 104% (2018: 89%) of continuing underlying EBITDA.

Subsequent to the year end, 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. This is expected to reduce interest costs in 2020 and beyond.

Working capital

Working capital relating to the continuing businesses was £90.5m (2018: £83.7m), an increase of £6.8m. The increase is mainly as a result of the timing of activity in the final quarter of the year, driving a £6.7m increase in inventory, as preparation was made for Q1 deliveries with all sites expected to be operational in H1 FY20.

Trade receivables decreased by £15.1m and trade payables decreased by £5.4m as a result of the timing of activity in the final quarter of the year. Advance receipts from customers increased by £9.6m reflecting improved commercial contracting focus.

Retirement benefit obligations

The surplus on the Group's defined benefit pension schemes was £9.6m (2018: £7.5m), 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. A full actuarial valuation for the Scheme as at 6 April 2018 has been prepared and updated to 31 October 2019, using the projected unit credit method. This valuation showed a surplus of £9.6m (2018: £7.5m). The improvement reflects the effect of changes in actuarial assumptions.

The 6 April 2018 triennial valuation shows a technical provisions deficit of £5.8m, which represents a funding level of 94% of liabilities. Deficit recovery payments totalling £6.25m, which were the contributions due to be made in the period to 30 June 2019 under the previous deficit recovery plan, were made prior to 31 December 2018. Of this, £0.4m was paid in 2019. After this, 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 last year's annual report, remained open at year-end:

- A dispute between Alloy Surfaces Company, Inc. and the US Army
- 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 2019 of 2.4p (2018: 2.2p) per ordinary share. With the interim dividend of 1.2p per share (2018: 1.1p), this results in a total dividend of 3.6p (2018: 3.3p) per share.

If approved, the final dividend will be paid on 24 April 2020 to shareholders on the register on 3 April 2020. In accordance with accounting standards, this final dividend has not been recorded as a liability as at 31 October 2019.

Board of Directors

On 8 August 2018, Daniel Dayan gave notice of his intention to step down as a non-executive director of the Board and Chairman of the Group's Remuneration Committee. He formally stepped down from the Board on 30 November 2018.

Andrew Davies assumed the role of Chairman of the Remuneration Committee on 8 August 2018. He will be stepping down as Chairman following the Annual General Meeting in March 2020 but will remain on the Remuneration Committee.

Stephen King was appointed as a non-executive director on 1 December 2018 and was appointed as Chairman of the Audit Committee on 1 August 2019.

Laurie Bowen was appointed as a non-executive director on 1 August 2019. She will assume the role of Chairman of the Remuneration Committee following the Annual General Meeting in March 2020.

Nigel Young, who has now served as a non-executive director for nearly seven years, has indicated his intention to retire on 30 April 2020, when his current appointment comes to an end.

Current trading and outlook

The Board's expectations for the Group's 2020 performance from continuing operations remain unchanged.

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

While we continue to work towards a more balanced delivery of revenue and profit, the expected profile of orders, revenue and margins in 2020, combined with routine seasonality within the business, means that the Group expects its trading performance to be weighted towards the second half of the financial year.

The order book of continuing businesses as at 31 October 2019 was £449m, of which £287m is currently expected to be recognised as revenue in 2020.

The Board is focused on continuing to restructure, simplify and build a stronger business with a renewed purpose. With high-technology products and market-leading positions Chemring has the platforms for long-term future growth.

Going concern

The Group's business activities, key performance indicators, and principal risks and uncertainties are described within the 2019 annual report and accounts. 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 2021, 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 timing of delivering key contracts;
- 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 worse case scenarios on the covenant requirements. These scenarios, which sensitised the forecasts for specific identified risks, modelled the reduction in anticipated levels of underlying EBITDA and the associated increase in net debt. These scenarios included significant delays to major contracts. These sensitised scenarios show headroom on all covenant test dates for the foreseeable future.

The directors have acknowledged the latest guidance on going concern. They have made appropriate enquiries and taken into account factors which are detailed in the strategic report within the 2019 annual report and accounts. As a consequence, the directors believe that the Company is well placed to manage its risks.

The directors having considered the forecasts, the risks, and associated mitigating actions, have a reasonable expectation that adequate financial resources will continue to be available for the foreseeable future.

Thus, they continue to support the going concern basis in preparing the financial statements.

Long-term viability statement

The directors have assessed the Group's viability over a three-year period to October 2022 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 2022.

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 below and assessed the impact.

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, underperformance in executing the Group's strategy, failure to improve operational performance, material movements in foreign exchange rates and a change in regulations impacting the Group's internal financing structure. 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 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.

Principal risks and uncertainties

The principal risks and uncertainties which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results have not changed significantly from those set out in the Group's 2018 annual report and accounts and the 2019 interim report. A detailed description of the Group's principal risks and uncertainties and the ways they are mitigated can be found on pages 30 to 36 of the Group's 2019 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 2019. 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 16 December 2019, and has been signed on its behalf by Michael Ord and Andrew Lewis.

CONSOLIDATED INCOME STATEMENT
for the year ended 31 October 2019

	2019			2018		
	Underlying performance* £m	**Non-underlying items* £m**	**Total £m**	Underlying performance* £m	Non-underlying items* £m	Total £m
Continuing operations						
Revenue	**335.2**	**-**	**335.2**	297.4	-	297.4
Operating profit/(loss)	**44.0**	**(12.7)**	**31.3**	31.0	(46.9)	(15.9)
Finance expense	**(4.6)**	**-**	**(4.6)**	(6.1)	-	(6.1)
Profit/(loss) before tax	**39.4**	**(12.7)**	**26.7**	24.9	(46.9)	(22.0)
Taxation	**(7.9)**	**4.3**	**(3.6)**	(5.7)	(13.1)	(18.8)
Profit/(loss) after tax	**31.5**	**(8.4)**	**23.1**	19.2	(60.0)	(40.8)
Discontinued operations						
Profit/(loss) after tax from discontinued operations (note 4)	**2.7**	**(3.9)**	**(1.2)**	6.2	(71.2)	(65.0)
Profit/(loss) after tax	**34.2**	**(12.3)**	**21.9**	25.4	(131.2)	(105.8)
Earnings/(loss) per ordinary share						
Continuing operations						
Basic	**11.2p**		**8.2p**	6.9p		(14.6)p
Diluted	**11.0p**		**8.1p**	6.7p		(14.6)p
Continuing operations and discontinued operations						
Basic	**12.2p**		**7.8p**	9.1p		(37.8)p
Diluted	**12.0p**		**7.7p**	8.9p		(37.8)p

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 October 2019

	2019 £m	2018 £m
Profit/(loss) after tax attributable to equity holders of the parent as reported	**21.9**	(105.8)
Items that will not be reclassified subsequently to profit or loss		
Actuarial gains on defined benefit pension schemes	**1.6**	0.9
Movement on deferred tax relating to pension schemes	**(0.7)**	(0.1)
	0.9	0.8
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	**(5.2)**	5.2
Deferred tax on exchange differences on translation of foreign operations	**0.2**	(0.5)
	(5.0)	4.7
Total comprehensive income/(loss) attributable to equity holders of the parent	**17.8**	(100.3)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 October 2019

	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.

	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 2017	2.8	305.3	12.9	1.1	(24.8)	113.5	(9.6)	401.2
Loss after tax	-	-	-	-	-	(105.8)	-	(105.8)
Other comprehensive (loss)/income	-	-	-	-	(2.4)	8.5	-	6.1
Tax relating to components of other comprehensive income	-	-	-	-	-	(0.6)	-	(0.6)
Total comprehensive loss	-	-	-	-	(2.4)	(97.9)	-	(100.3)
Ordinary shares issued	-	0.1	-	-	-	-	-	0.1
Share-based payments (net of settlement)	-	-	-	-	-	0.1	-	0.1
Dividends paid	-	-	-	-	-	(8.7)	-	(8.7)
Transactions in own shares	-	-	-	-	-	-	1.8	1.8
Transfers between reserves	-	-	-	(0.1)	-	0.1	-	-
At 31 October 2018	2.8	305.4	12.9	1.0	(27.2)	7.1	(7.8)	294.2

CONSOLIDATED BALANCE SHEET
as at 31 October 2019

		2019		2018
	£m	**£m**	£m	£m
Non-current assets				
Goodwill	**108.5**		109.2	
Development costs	**26.1**		24.0	
Other intangible assets	**25.3**		37.6	
Property, plant and equipment	**170.0**		148.1	
Retirement benefit surplus	**9.6**		7.5	
Deferred tax	**18.5**		36.8	
		358.0		363.2
Current assets				
Inventories	**78.1**		71.4	
Trade and other receivables	**53.7**		62.2	
Cash and cash equivalents	**1.3**		9.6	
Derivative financial instruments	**0.2**		0.1	
		133.3		143.3
Assets classified as held for sale		**7.0**		43.7
Total assets		**498.3**		550.2
Current liabilities				
Borrowings	**(69.2)**		-	
Trade and other payables	**(68.3)**		(68.6)	
Provisions	**(4.8)**		(6.7)	
Current tax	**(4.0)**		(0.8)	
Derivative financial instruments	**(0.9)**		(0.3)	
		(147.2)		(76.4)
Liabilities directly associated with assets classified as held for sale		**(1.8)**		(26.9)
Non-current liabilities				
Borrowings	**(7.7)**		(91.3)	
Provisions	**(12.4)**		(14.0)	
Deferred tax	**(23.0)**		(47.1)	
Preference shares	**(0.1)**		(0.1)	
Derivative financial instruments	**(0.3)**		(0.2)	
		(43.5)		(152.7)
Total liabilities		**(192.5)**		(256.0)
Net assets		**305.8**		294.2
Equity				
Share capital		**2.8**		2.8
Share premium account		**306.2**		305.4
Special capital reserve		**12.9**		12.9
Revaluation reserve		**1.0**		1.0
Translation reserve		**(17.8)**		(27.2)
Retained earnings		**8.5**		7.1
		313.6		302.0
Own shares		**(7.8)**		(7.8)
Total equity		**305.8**		294.2

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 October 2019

	2019 £m	2018 £m
Cash flows from operating activities		
Cash generated from continuing underlying operations	**63.9**	44.7
Cash impact of continuing non-underlying items	**(5.3)**	(7.5)
Cash generated from discontinued underlying operations	**13.7**	12.2
Cash impact of discontinued non-underlying items	**(7.1)**	(0.1)
Cash flows from operating activities	**65.2**	49.3
Retirement benefit deficit recovery contributions	**(0.4)**	(7.9)
Tax paid	**(2.9)**	(5.5)
Net cash inflow from operating activities	**61.9**	35.9
Cash flows from investing activities		
Purchases of intangible assets	**(3.8)**	(3.2)
Purchases of property, plant and equipment	**(41.0)**	(18.8)
Acquisition – deferred consideration	**-**	(0.7)
Customer funding for capital programmes	**2.4**	2.6
Proceeds on disposal of property, plant and equipment	**-**	0.4
Proceeds on disposal of subsidiary	**0.7**	-
Net cash outflow from investing activities	**(41.7)**	(19.7)
Cash flows from financing activities		
Dividends paid	**(9.5)**	(8.7)
Finance expense paid	**(4.9)**	(6.0)
Capitalised facility fees paid	**(0.3)**	(0.6)
Drawdown of borrowings	**-**	26.5
Repayments of borrowings	**(18.1)**	(51.9)
Net cash outflow from financing activities	**(32.8)**	(40.7)
Decrease in cash and cash equivalents	**(12.6)**	(24.5)
Cash and cash equivalents at beginning of the year	**9.6**	33.6
Effect of foreign exchange rate changes	**(0.3)**	0.5
Cash and cash equivalents at end of the year (including bank overdraft)	**(3.3)**	9.6

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 2019 or 31 October 2018 but is derived from those accounts. Statutory accounts for 2018 have been delivered to the Registrar of Companies, and those for 2019 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 2019.

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 16 December 2019 (see note 15 below).

Recent accounting developments
The following standards, amendments and interpretations have been issued by the International Accounting Standards Board (IASB) or by the IFRS IC. The Group's approach to these is as follows:

i) The following International Financial Reporting Committee ("IFRIC") interpretations, amendments to existing standards and new standards were adopted in the year ended 31 October 2019 but have not materially impacted the reported results or the financial position:

- Amendments to IFRS 2 *Classifications and Measurement of Share-based Payment Transactions;*
- IFRS 9 *Financial Instruments Recognition and Measurement;*
- Annual Improvements to IFRSs 2014 and 2016 Cycle; and
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration.*

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

Effective for periods beginning on or after 1 January 2019

- IFRS 16 *Leases;*
- Amendments to IAS 19 *Employee Benefits*;
- Annual Improvements to IFRSs 2015-2017 Cycle; and
- IFRIC 23 *Uncertainty over Income Tax Treatments.*

Effective for periods beginning on or after 1 January 2021

- IFRS 17 *Insurance Contracts.*

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

- IFRS 16 *Leases* will impact the measurement, recognition, presentation and disclosure of leases, particularly operating leases where the term is longer than 12 months.

Under IFRS 16 *Leases*, lessees will be required to apply a single model to recognise a lease liability and asset for all leases, including those classified as operating leases under current accounting standards, unless the underlying asset has a low value or the lease term is 12 months or less. The adoption of IFRS 16 will have an impact on the results as each lease will give rise to a right of use asset which will be depreciated on a straight line basis, and a lease liability with a related interest charge. The depreciation and interest will replace the operating lease payments currently recognised as an expense.

The Group intends to apply the modified retrospective approach and measure the right of use assets based on the lease liability value calculated at 1 November 2019, with no restatement of prior periods.

The Group expects to recognise a lease liability and right-of-use asset of £6.9m at 1 November 2019 as a result of applying IFRS 16, with no impact on retained earnings or total cash flows. The impact on the income statement of reclassifying operating costs to finance costs is expected to be immaterial.

2. SEGMENTAL ANALYSIS – CONTINUING OPERATIONS

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/(loss)	**19.7**	**22.0**	**(10.4)**	**31.3**

Year ended 31 October 2018

	Sensors & Information Restated £m	Countermeasures & Energetics Restated £m	Unallocated £m	Group £m
Revenue	87.3	210.1	-	297.4
Segment result before depreciation, amortisation, non-underlying items and discontinued operations	18.5	39.6	(8.1)	50.0
Depreciation	(1.7)	(13.5)	(0.1)	(15.3)
Amortisation	(1.5)	(2.2)	-	(3.7)
Segmental underlying operating profit	15.3	23.9	(8.2)	31.0
Amortisation of acquired intangibles	(6.4)	(5.2)	-	(11.6)
Non-underlying items	(3.7)	(15.9)	(15.7)	(35.3)
Segmental operating profit/(loss)	5.2	2.8	(23.9)	(15.9)

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.

	2019 **£m**	2018 £m
Acquisition and disposal related costs	**-**	(4.1)
Business restructuring costs	**-**	(8.1)
Less non-underlying depreciation in business restructuring costs	**-**	0.7
Legal costs	**-**	(12.8)
Change of Chief Executive	**-**	(1.7)
Pension scheme charge in respect of GMP equalisation court ruling	**-**	(0.8)
Loss on the movement in the fair value of derivative financial instruments	**(0.6)**	(0.4)
Impact of non-underlying items on EBITDA	**(0.6)**	(27.2)
Non-underlying depreciation in business restructuring costs	**-**	(0.7)
Impairment of capitalised development costs	**-**	(7.4)
Intangible amortisation arising from business combinations	**(12.1)**	(11.6)
Impact of non-underlying items on profit before tax	**(12.7)**	(46.9)
Tax impact of non-underlying items	**4.3**	(13.1)
Impact of non-underlying items on continuing profit after tax	**(8.4)**	(60.0)
Non-underlying discontinued operations after tax	**(3.9)**	(71.2)
Impact of non-underlying items on profit after tax	**(12.3)**	(131.2)
Underlying profit after tax	**34.2**	25.4
Statutory profit/(loss) after tax	**21.9**	(105.8)

Amortisation of acquired intangibles
Included is the amortisation charge arising from business combinations of £12.1m (2018: £11.6m). Amortisation of acquired intangibles arising from business combinations is associated with acquisition costs 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 £0.6m loss (2018: £0.4m 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.

Acquisition and disposal-related costs
In 2018, acquisition and disposal-related costs of £4.1m related to transaction costs and an earnout payment on the acquisition of Wallop Defence Systems' assets for which no provision was made at the time of acquisition.

Business restructuring costs
In 2018, business restructuring costs of £8.1m related to the non-capital costs/asset write offs and demolition element of the Tennessee capacity expansion programme.

Legal costs
In 2018, legal costs of £12.8m were in relation to ongoing investigations.

Change of Chief Executive
In the year ended 31 October 2018, the costs associated with the change of Chief Executive were £1.7m. As disclosed in the directors' report contained in the 2018 annual report and accounts, Michael Flowers stepped down as Group Chief Executive on 30 June 2018 and Michael Ord was appointed as Group Chief Executive on 1 July 2018.

Pension scheme charge in respect of GMP equalisation court ruling
On 26 October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded that pension schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. An additional liability of £0.8m was recognised in the 2018 results.

Impairment of capitalised development costs
In 2018, an impairment of capitalised product development costs of £7.4m was recognised following the appointment of the new Chief Executive who conducted a strategic review of the Group's product portfolio to rationalise future resources on areas where the Group had a niche position and competitive advantage. The carrying value of the products for which an impairment charge was recognised exceeded the expected future value, hence an impairment charge was recognised in the year.

Tax
In the year ended 31 October 2019, the tax impact of continuing non-underlying items comprises a £4.3m credit (2018: £13.1m charge) on the above non-underlying items.

In the year to 31 October 2018, the tax impact of non-underlying items included a £17.4m charge in respect of the enactment of the US Tax Cuts and Jobs Act on 22 December 2017, and a £4.3m tax credit on the above non-underlying items. These significant one-off tax charges/credits have arisen from a change in legislation, and as such have been removed from underlying results to aid comparability and understanding of the Group's performance.

Discontinued operations
Further details on the results of discontinued operations is 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 resulting in a decision to exit the commoditised energetics businesses. Accordingly, during the year the sale of Chemring Military Products, Inc. and Chemring Defence UK Limited were completed and Chemring Prime Contracts Limited was closed. The sale of the remaining business in discontinued operations, Chemring Ordnance, Inc., was announced on 21 November 2019.

	2019	2018
	£m	£m
Revenue	**43.4**	138.6
Underlying operating (loss)/profit from discontinued operations	**(3.5)**	8.0
Tax on underlying operating (loss)/profit from discontinued operations	**6.2**	(1.8)
Profit after tax from underlying discontinued operations	**2.7**	6.2
Profit after tax is analysed as:		
Before exceptional items	**2.7**	6.2
Exceptional items	**(3.8)**	(72.0)
Tax on exceptional items	**(0.1)**	0.8
	(3.9)	(71.2)
Loss for the year from discontinued operations	**(1.2)**	(65.0)

In 2019 the exceptional items include 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..

In 2018 the exceptional items include the amortisation of acquired intangibles of £2.7m and an impairment loss of £69.3m in respect of the carrying values of Chemring Defence UK Limited, Chemring Ordnance, Inc., B.D.L. Systems Limited and Richmond Electronics and Engineering Limited was recorded.

Amortisation of acquired intangibles arising from business combinations is associated with acquisition costs 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.

A £6.2m tax credit in 2019 is comprised of a £1.3m current year tax credit and a £4.9m credit relating to prior year tax adjustments.

Details of the sale of the subsidiaries

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 is payable on the first anniversary of the transaction. A further deferred consideration amount of £0.4m is payable on the second anniversary of the transaction. All deferred consideration is considered recoverable.

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.

	2019 **£m** *Chemring Military Products, Inc.*	**2019** **£m** *Chemring Defence UK Limited*	**2019** **£m** *Total*
Consideration received or receivable:			
Cash	1.7	-	**1.7**
Fair value of deferred consideration	1.1	-	**1.1**
Total disposal consideration	2.8	-	**2.8**
Net assets and liabilities disposed of	(3.6)	(0.4)	**(4.0)**
Disposal costs	(1.1)	(0.5)	**(1.6)**
Loss on disposal before tax	(1.9)	(0.9)	**(2.8)**
Income tax on loss on disposal	-	-	-
Loss on disposal after tax	**(1.9)**	**(0.9)**	**(2.8)**

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

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

5. HELD FOR SALE

The assets held for sale relate to the commoditised energetics business Chemring Ordnance, Inc. On 21 November 2019 Chemring announced that a conditional agreement had been entered into for the sale of Chemring Ordnance, Inc. to Nammo Defense Systems Inc. The sale, which is subject to regulatory approval by the US authorities, is expected to complete no later than the end of Q2 FY20.

6. EARNINGS PER SHARE

Earnings per share is based on the average number of shares in issue, excluding own shares held, of 280,061,053 (2018: 279,768,360). Diluted earnings per share has been calculated using a diluted average number of shares in issue, excluding own shares held, of 286,092,818 (2018: 285,993,316).

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

	£m	**Basic EPS (pence)**	**2019 Diluted EPS (pence)**	£m	Basic EPS (pence)	2018 Diluted EPS (pence)
Underlying profit after tax	**31.5**	**11.2**	**11.0**	19.2	6.9	6.7
Non-underlying items	**(8.4)**			(60.0)		
Profit/(loss) from continuing operations	**23.1**	**8.2**	**8.1**	(40.8)	(14.6)	(14.6)
Loss from discontinued operations	**(1.2)**	**(0.4)**	**(0.4)**	(65.0)	(23.2)	(23.2)
Total profit/(loss) after tax	**21.9**	**7.8**	**7.7**	(105.8)	(37.8)	(37.8)

7. CASH GENERATED FROM OPERATING ACTIVITIES

	2019 £m	2018 £m
Operating profit/(loss) from continuing operations	**31.3**	(15.9)
Amortisation of development costs	**1.3**	3.6
Amortisation of intangible assets arising from business combinations	**12.1**	11.6
Amortisation of patents and licenses	**0.1**	0.1
Loss on disposal of non-current assets	**0.7**	0.2
Depreciation of property, plant and equipment	**15.8**	15.3
Non-cash movement of non-underlying items	**0.6**	35.3
Share-based payment expense	**2.5**	1.1
Operating cash flows before movements in working capital	**64.4**	51.3
(Increase)/decrease in inventories	**(7.9)**	1.6
Decrease in trade and other receivables	**10.4**	0.2
(Decrease) in trade and other payables	**(2.7)**	(8.3)
(Decrease) in provisions	**(0.3)**	(0.1)
Operating cash flow from continuing operations	**63.9**	44.7
Discontinued operations:		
Operating cash flow from discontinued underlying operations	**13.7**	12.2
Cash impact of non-underlying items from discontinued operations	**(7.1)**	(0.1)
Tax paid	**(0.7)**	-
Net cash inflow from discontinued operating activities	**5.9**	12.1
Net cash inflow/(outflow) from discontinued investing activities	**0.5**	(1.2)
Net cash inflow from discontinued operations	**6.4**	10.9

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

	2019	2018
	£m	£m
Decrease in cash and cash equivalents during the year	**(12.6)**	(24.5)
Decrease in debt and lease financing due to cash flows	**18.4**	26.0
Decrease in net debt resulting from cash flows	**5.8**	1.5
Effect of foreign exchange rate changes	**0.5**	(2.0)
Amortisation of debt finance costs	**(0.2)**	(1.3)
Movement in net debt	**6.1**	(1.8)
Net debt at beginning of the year	**(81.8)**	(80.0)
Net debt at end of the year	**(75.7)**	(81.8)

9. ANALYSIS OF NET DEBT

	As at 1 Nov 2018 £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	**As at 31 Oct 2019 £m**
Cash and cash equivalents (including bank overdraft)	9.6	(12.6)	-	(0.3)	**(3.3)**
Debt due within one year (excluding bank overdraft)	-	-	(64.6)	-	**(64.6)**
Debt due after one year	(91.3)	18.4	64.4	0.8	**(7.7)**
Preference shares	(0.1)	-	-	-	**(0.1)**
	(81.8)	5.8	(0.2)	0.5	**(75.7)**

The Group's principal debt facilities comprised $83.6m of private placement loan notes, a £136.7m revolving credit facility and a $10.0m overdraft. In November 2019 the $83.6m of private placement loan notes were repaid in line with the term of the loans. The revolving credit facility was established in October 2018, is with a syndicate of five banks and runs until October 2022. The Group had £130.2m (2018: £68.1m) of undrawn borrowing facilities at the year-end.

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 year.

10. DIVIDEND

At the Annual General Meeting on 21 March 2019 the shareholders approved a final dividend in respect of the year ended 31 October 2018 of 2.2p per ordinary share. This was paid on 18 April 2019 to shareholders on the register on 5 April 2019.

An interim dividend in respect of 2019 of 1.2p per ordinary share was paid on 13 September 2019 to shareholders on the register on 30 August 2019.

The Board is recommending a final dividend in respect of the year to 31 October 2019 of 2.4p (2018: 2.2p) per ordinary share. With the interim dividend of 1.2p (2018: 1.1p), this results in a total dividend of 3.6p (2018: 3.3p) per ordinary share. If approved, the final dividend will be paid on 24 April 2020 to shareholders on the register on 3 April 2020. In accordance with accounting standards, this final dividend has not been recorded as a liability as at 31 October 2019.

11. EXCHANGE RATES

The following exchange rates applied during the year:

	Average rate 2019	**Closing rate 2019**	Average rate 2018	Closing rate 2018
US Dollar	**1.26**	**1.29**	1.34	1.28
AU Dollar	**1.82**	**1.88**	1.74	1.80

For the year ended 31 October 2019 a 10 cent strengthening in the US dollar exchange rate would have increased reported net debt by approximately £5.7m (2018: £5.6m).

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:

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. ASBCA have not issued its decision in relation to this matter, and therefore it is too early to predict the outcome of the hearing. The range of possible outcomes is between £nil to £12.0m. A provision of £1.0m (2018: £1.0m) exists to cover estimated legal costs for the Group with regards to this issue.

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, in which the Group continues to co-operate fully.

On 10 August 2018 an incident occurred at the Group's 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.

13. EVENTS AFTER THE BALANCE SHEET DATE

On 21 November 2019, the Group announced that a conditional agreement had been entered into for the sale of Chemring Ordnance, Inc. to Nammo Defense Systems Inc. The sale, which is subject to regulatory approval by the US authorities, is expected to complete no later than the end of Q2 FY20. The consideration of $17m is payable in cash on completion, subject to normal working capital and other closing adjustments. Chemring Ordnance, Inc. was treated as discontinued and held for sale in the annual report and accounts.

On 19 November 2019 the Group repaid $83.6m of private placement loan notes. This was funded from existing bank facilities and cash.

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. 2019 ANNUAL REPORT AND ACCOUNTS

The annual report and accounts for the year ended 31 October 2019 will be posted on the Company's website, www.chemring.co.uk, on 16 December 2019 and a copy will be posted to shareholders, as required, in advance of the Company's Annual General Meeting on 4 March 2020.