

CHEMRING GROUP PLC**FINAL RESULTS FOR THE YEAR ENDED 31 OCTOBER 2013****FINANCIAL PERFORMANCE**

	Year ended 31 Oct 2013	Year ended 31 Oct 2012	Change
Revenue	£624.9m	£740.3m	- 15.6%
Underlying operating profit	£72.1m	£88.3m	- 18.3%
Underlying operating margin	11.5%	11.9%	
Underlying profit before tax	£52.4m	£70.1m	- 25.2%
Net debt	£248.7m	£244.8m	+ 1.6%
Underlying earnings per share	21.6p	28.5p	- 24.2%
Dividend per share - final	3.8p	4.2p	-9.5%
- full year total	7.2p	9.5p	-24.2%
 Total operating (loss)/profit	 £(36.9)m	 £37.0m	
Total operating margin	(5.9)%	5.0%	
Total (loss)/profit before tax	£(56.6)m	£18.8m	
Total (loss)/earnings per share	(24.6)p	6.8p	

Data above relates to continuing operations only.

Underlying measures referred to in this announcement are stated before costs relating to acquisitions and disposals, business restructuring and incident costs, profit on disposal of businesses, items deemed to be of an exceptional nature, impairment of goodwill and acquired intangibles, impairment of assets held for sale, amortisation of acquired intangibles and gains/losses on the movement in the fair value of derivative financial instruments. A reconciliation of underlying and total operating profit is set out in note 4.

HIGHLIGHTS

- Performance Recovery Programme driving operational improvement
- Strategic Planning Process has determined segmental strategic priorities
- Sale of Chemring Energetic Devices' US build-to-print business agreed for \$10.0 million
- Sale process of other non-core businesses underway
- Husky Mounted Detection System transitioning to a long-term capability for the US military
- Chemring is now a more resilient business, with a clear strategic direction

Peter Hickson, Chemring Group Chairman, commented:

"At the end of a year of significant change, Chemring is now a more resilient business, with a clear strategic direction. Much has been achieved by the new management team during the year, with the positive impact of the Performance Recovery Programme beginning to bear fruit. In addition, the Strategic Planning Process has provided a clear view of the market, competitive dynamics and prospects for each of the businesses, as well as identifying the core markets in which the Group will focus investment.

Chemring will continue to drive improvements in operational performance, and pursue the growth opportunities that exist, particularly within non-NATO markets where defence spending is expected to increase. It will also reshape and strengthen its portfolio of businesses through the disposal of non-core activities and technology investment in those businesses that can achieve sustainable growth and margin improvement. Meanwhile, the Board's expectations for the current financial year remain unchanged."

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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 manufacturing business with facilities in seven countries, selling high-technology electronics and energetic products to over sixty countries worldwide.
- Chemring has a diverse portfolio of products protecting military people and platforms against constantly changing threats.
- Operating in niche markets with short product development timescales, Chemring has the agility to react rapidly to urgent customer needs.
- Strong research and development investment in new products and improvements in technology enable Chemring to expand its addressable markets.

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/resultscentre at 09.30 (UK time) on Thursday 23 January 2014. A recording of the audio webcast will be available later that day.

Photography

Original high-resolution photography is available to the media by contacting Ben Griffiths, MHP Communications: ben.griffiths@mhpc.com / Tel: 0203 128 8100.

Overview

At the end of a year of significant change, Chemring is now a more resilient business, with a clear strategic direction. Much has been achieved by the new management team during the year, with the positive impact of the Performance Recovery Programme beginning to bear fruit. In addition, the Strategic Planning Process has provided a clear view of the market, competitive dynamics and prospects for each of the businesses, as well as identifying the core markets in which the Group will focus investment.

Defence markets have remained challenging, and operational issues in certain businesses further impacted the Group's financial performance. In addition, the US Government shutdown in the last month of the financial year meant that government inspectors were not present in a number of the Group's facilities, thus delaying product acceptance and shipment in October 2013.

Performance Recovery Programme

In January 2013, the new management team established a Performance Recovery Programme focused on delivering improvements in operational performance and providing increased resilience to challenging markets. This led to a reorganisation of the Group to ensure swift and effective response to attractive market opportunities. The cost of this reorganisation and restructuring will be approximately £15.0 million, which has predominantly arisen in the year ended 31 October 2013, and will deliver annual savings of approximately £10.0 million from 2014.

The Performance Recovery Programme had five initial areas of focus:

- Simplify the organisational structure.
- Integrate compatible business units and deliver untapped synergies.
- Implement a systematic programme of operational performance improvement.
- Re-focus business development activity.
- Improve cash and cost management.

Chemring's previous organisational structure included significant divisional overhead, and this has been eliminated. Head office and divisional functions have been integrated into a single, tighter central management structure, resulting in a 46% reduction in head office and divisional headcount. The operating businesses have also been reorganised to provide a more effective reporting structure consisting of four strategic product segments: Countermeasures, Sensors & Electronics, Pyrotechnics & Munitions, and Energetic Sub-Systems.

Operational efficiency is improving, but it will take time to resolve all of the Group's operational issues. Clearer reporting lines and more rapid communication with the Group's senior management are delivering improved focus, accountability and responsiveness. Crucially, customers are also benefiting from this streamlined organisation through a more co-ordinated approach to the Group's markets, product portfolio, quality and technology development.

Strategic Planning Process

The Group has undertaken a comprehensive Strategic Planning Process to determine its business strategy. This has provided a clear view for each of Chemring's business units of their current market environment, competitive dynamics and future prospects. It has confirmed strong market-leading positions and the strength of the Group's technology in a number of areas, whilst highlighting new defence and adjacent non-defence opportunities. It has also identified a number of further operational initiatives which will enable the Group to manage the impact of current market challenges.

As a result of this process, a number of business units have been identified as not being part of Chemring's longer-term strategy. As a consequence, several divestment processes are now underway, the outcome of which should lead to a reduction in the Group's debt.

The first of these divestments was in December 2013, with a conditional agreement for the sale of Chemring Energetic Devices' build-to-print business located in Clear Lake, South Dakota to AMTEC Corporation for \$10.0 million (£6.1 million), payable in cash. Completion of the sale, which is conditional upon regulatory approvals and subject to a working capital adjustment, is expected within the next few weeks.

The Group's strategy is to re-position itself for growth through the innovation and exploitation of intellectual property. This will focus on Chemring's core competencies, directing investment into those lines of business which have technologies, products and market positioning that provide the greatest opportunity to achieve sustainable high margins and revenue growth.

The Group's segmental strategies are as follows:

1. Maintain world leadership in countermeasures market

Chemring has a clear lead in expendable decoys, as a result of its customer relationships and manufacturing facilities in its core markets of the US, UK and Australia, combined with advanced technologies in flare, radio frequency and special material decoys. In the face of reduced short-term demand, the Group is integrating Alloy Surfaces and Kilgore to form Chemring Countermeasures USA, in order to reduce costs and raise efficiency levels.

The three strategic priorities for the Countermeasures segment are:

- Complete the integration of Chemring Countermeasures USA. The integration of Alloy Surfaces and Kilgore has already reduced the overhead base and enabled sharing of operational best practice to position Chemring Countermeasures USA for profitable growth as new platforms enter service.
- Maintain a technological lead in core markets. Customers in these markets are the most advanced in the world, and the Group will promote targeted customer-funded development projects to maintain national capabilities to support future military operations.
- Optimise the Group's manufacturing base and routes to market. Current manufacturing capacity is scaled to meet surge levels of demand. This capacity and its utilisation will be optimised to ensure a flexible, efficient and safe manufacturing base to meet customer requirements.

2. Build a world-leading technology base in Sensors & Electronics

Chemring has world-leading technologies in chemical, biological and improvised explosive device ("IED") threat detection, electronic warfare and cyber protection. The Group will invest to extend this portfolio of Sensors & Electronics technology. The key priorities are:

- Ensure critical wins in the US defence market. The US market is the world's largest and the Group will continue to invest to secure its position and win key programmes.
- Build a world-leading technology base across the Group's transatlantic footprint. Chemring's technical centres in the US and UK are well-recognised nationally but do not fully exploit the scale and synergies of its international operations. Chemring will build on existing customer relationships to anticipate user needs and capitalise on its global capability, growing the Group's technology base through targeted investment.
- Leverage Chemring's proven skills and reputation to expand into adjacent areas, for example cyber protection.
- Incubate technologies for non-defence markets.
- Complete the integration of Chemring Detection Systems and NIITEK in the US into a single organisation, Chemring Sensors & Electronic Systems, to leverage technology capabilities, co-ordinate customer interactions and maximise supply chain efficiencies.

3. *Optimise operational performance of Pyrotechnics & Munitions*

Military pyrotechnics and ammunition are used in both training and active operations. The global market for these products has been heavily impacted by the decline in NATO operations in Afghanistan, leaving many forces' stockpiles full and a target for short-term cuts. The Group's strategic priorities for this segment are:

- Establish operational excellence in pyrotechnics. Chemring's pyrotechnic portfolio includes many products which are infrequently produced, which causes complexity and impacts margins. The Group will rationalise this product range and continue to improve production efficiency.
- Maintain its leading position in large and medium-calibre ammunition niches. Chemring has a strong position in naval and light armoured vehicle ammunition, and will maintain the technologies and relationships which underpin this. The Group will also manage workload across its sites to reduce manufacturing bottlenecks and maximise capacity utilisation.

4. *Focus on performance improvement and near-term market opportunities in Energetic Sub-Systems*

Chemring's Energetic Sub-Systems segment is complex, with a wide variety of products produced infrequently in batch production runs. The market is stable, with significant qualification costs and other barriers to entry, and the segment therefore has the potential to improve margins. However, recent operational challenges have impacted performance. The key priorities for Energetic Sub-Systems are:

- Complete the integration of Hi-Shear with Chemring Energetic Devices, in order to exploit Hi-Shear's strong market position on key programmes such as the PAC-3 missile and the NASA Standard Initiator, whilst eliminating manufacturing bottlenecks by distributing work between sites. The integration will also deliver benefits from sharing best practices, systems and marketing resources.
- Explore non-defence opportunities in civil aerospace, space and other markets.

Trading

Chemring's improving operational performance has been adversely affected by the deteriorating external trading environment, largely as a result of budgetary pressures on global defence spending, which has manifested in delays in order placement in all our markets.

In particular, the US has seen a significant deterioration in defence spending due to the effects of sequestration, continuing resolutions and budget reductions. This was heightened by the shutdown of the US Government in early October 2013, a key month in the Group's delivery schedule. The shutdown resulted in the temporary closure of the Defence Contract Management Agency ("DCMA"), the government agency with responsibility for inspecting and approving products for delivery to the US Department of Defense. This closure impacted deliveries to customers in the last weeks of the financial year but these delays are expected to be resolved in the first quarter of the current financial year.

Consequently, Group revenue for 2013 was £624.9 million, a decrease of 15.6%, generating an underlying operating profit of £72.1 million (2012: £88.3 million). Underlying profit before tax reduced by 25.2% to £52.4 million, resulting in underlying earnings per share of 21.6p (2012: 28.5p).

Order intake for the Group was £534.5 million, 14.5% below revenue. As a result, the closing order book was £675.5 million (2012: £760.9 million), a reduction of 11.2%. The closing order book is lower than the value of £702 million disclosed in the Group's trading update published on 25 November 2013, due to exchange rate fluctuations impacting the valuation of certain orders.

Group results

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

	2013 Underlying £m	2013 Total £m	2012 Underlying £m	2012 Total £m
Revenue	624.9	624.9	740.3	740.3
Segmental operating profit/(loss)	82.2	(26.8)	98.8	47.5
Unallocated corporate costs	(10.1)	(10.1)	(10.5)	(10.5)
Operating profit/(loss)	72.1	(36.9)	88.3	37.0
Share of profit after tax of associate	-	-	0.1	0.1
Finance income	0.2	0.2	0.1	0.1
Finance expense	(19.9)	(19.9)	(18.4)	(18.4)
Profit/(loss) before tax	52.4	(56.6)	70.1	18.8
Tax	(10.6)	9.1	(15.1)	(5.6)
Profit/(loss) after tax	41.8	(47.5)	55.0	13.2

Results shown above are for continuing operations and exclude the results of the marine business, which was sold in July 2012. Underlying measures referred to in this announcement are stated before costs relating to acquisition and disposals, business restructuring and incident costs, profit on disposal of businesses, items deemed to be of an exceptional nature, impairment of goodwill and acquired intangibles, impairment of assets held for sale, amortisation of acquired intangibles and gains/losses on the movement in the fair value of derivative financial instruments. A reconciliation of underlying and total operating profit is set out in note 4.

During the year, changes in foreign exchange rates, principally the appreciation of sterling against the US dollar, increased reported revenues by £8.0 million. At constant exchange rates, revenue was £616.9 million, a reduction of 16.7%.

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

	Revenue £m	2013 Underlying operating profit £m	2013 Underlying operating margin	Revenue £m	2012 Underlying operating profit £m	2012 Underlying operating margin
Countermeasures	125.0	13.2	10.6%	163.2	20.4	12.5%
Sensors & Electronics	211.3	44.7	21.2%	228.9	44.9	19.6%
Pyrotechnics & Munitions	200.6	13.0	6.5%	249.5	21.2	8.5%
Energetic Sub-Systems	88.0	11.3	12.8%	98.7	12.3	12.5%
	624.9	82.2	13.2%	740.3	98.8	13.3%
Unallocated corporate costs		(10.1)			(10.5)	
		72.1	11.5%		88.3	11.9%

Countermeasures revenue decreased by 23.4%, due to lower demand from the UK and US as a result of the continuing drawdown from Afghanistan. In the US, volumes were also impacted by ongoing production delays caused by operational quality issues, most notably at Kilgore. However, the extent of these delays began to reduce towards the end of the year due to the focus on operational improvements. Included within the results is revenue arising from the contract for the supply of aircraft countermeasures to a customer in the Middle East that was highlighted in the 2012 annual report.

Despite headcount reductions and other measures taken to improve efficiency, operating margins decreased to 10.6% (2012: 12.5%), reflecting the high fixed-cost base of the countermeasures production facilities. Development of the advanced countermeasure highlighted in the 2012 annual report is ongoing, with further customer trials due to be conducted in 2014.

Sensors & Electronics revenue reduced by 7.7% to £211.3 million (2012: £228.9 million), despite strong sales of HMDS to the US Department of Defense and growing sales in other markets. Operating margins increased to 21.2% (2012: 19.6%), reflecting the release of contingencies held back prior to customer acceptance of the first delivery order for the Husky Mounted Detection System (“HMDS”) under the indefinite delivery/indefinite quantity (“IDIQ”) contract. In addition, the sales mix at Chemring Technology Solutions was weighted toward higher margin product sales.

Pyrotechnics & Munitions revenue reduced by 19.6% to £200.6 million (2012: £249.5 million), due to lower activity levels resulting from order deferrals by a number of customers. Underlying operating profit decreased by 38.7% to £13.0 million (2012: £21.2 million). Operating margins were impacted by an adverse sales mix, notably lower demand for illumination products, and by the high fixed cost nature of the munitions facilities. Deliveries on the Group’s contract for the supply of vehicle-based mortar systems recommenced in the final quarter of the year, following the resolution of export licence and customer acceptance issues.

Energetic Sub-Systems revenue reduced to £88.0 million (2012: £98.7 million), with deliveries constrained by production issues at Chemring Energetic Devices in the US. Demand from the major customers of the Group’s UK operation, including the UK Ministry of Defence, was also lower. Operating profit of £11.3 million (2012: £12.3 million) resulted in an operating margin of 12.8% (2012: 12.5%). Margins benefited from a reduction in sales of lower margin build-to-print products manufactured at the Clear Lake facility, for which a conditional sale agreement was signed in December 2013.

Unallocated corporate costs were £10.1 million (2012: £10.5 million), reflecting an element of the savings from the simplification of the Group’s management structure and the closure of administrative offices in the UK and US.

As a result of these factors, the Group’s underlying operating profit was £72.1 million (2012: £88.3 million), a decrease of 18.3%. The underlying operating margin was 11.5% (2012: 11.9%).

The total operating loss was £36.9 million (2012: £37.0 million profit). This loss is principally due to the higher level of non-underlying costs of £109.0 million (2012: £51.3 million), which are discussed below.

Net finance expense was £19.7 million (2012: £18.3 million). Included within finance expense is £0.5 million (2012: £0.8 million) in respect of retirement benefit obligations.

Underlying profit before tax was £52.4 million (2012: £70.1 million), a decrease of 25.2%. Including non-underlying items, the total loss before tax was £56.6 million (2012: £18.8 million profit).

Tax on underlying profit before tax was £10.6 million (2012: £15.1 million), representing an effective tax rate of 20.2% (2012: 21.5%). The tax rate is comparable to the UK corporation tax rate, and benefits from the utilisation of research and development tax credits together with the recognition of certain tax losses within the Pyrotechnics & Munitions segment. The effective tax rate on the total loss before tax was 16.1% (2012: 29.8%), due to the higher proportion of non-underlying costs in the total result.

Underlying profit after tax was £41.8 million (2012: £55.0 million), a decrease of 24.0%. Including non-underlying items, the total loss after tax was £47.5 million (2012: £13.2 million profit).

Analysis of non-underlying items

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

	2013 £m	2012 £m
Acquisition and disposal related costs	3.2	8.2
Business restructuring and incident costs	11.7	11.9
Profit on disposal of business	-	(10.3)
Impairment of goodwill	50.9	22.5
Impairment of acquired intangibles	15.7	-
Impairment of assets held for sale	8.8	-
Intangible amortisation arising from business combinations	18.8	20.9
Gain on fair value movements on derivative financial instruments	(0.1)	(1.9)
Total non-underlying items	109.0	51.3

Acquisition and disposal related costs of £3.2 million include £2.1 million in respect of a one-off provision relating to an onerous lease for a business sold in 2003. Business restructuring and incident costs of £11.7 million include costs relating to the major simplification of Chemring's management structure (£4.4 million) and business unit integration and restructuring (£5.5 million), that has been completed as part of the Performance Recovery Programme.

The profit on disposal of business in the prior year related to the sale of the Group's marine business in July 2012.

Following a detailed review, goodwill relating to Hi-Shear of £50.9 million has been fully impaired as a result of lower expectations of future trading performance. In addition, an impairment of £15.7 million of acquired intangibles has been recognised in relation to Chemring Energetic Devices' Clear Lake facility due to a decline in the market for its build-to-print products. In 2012, the goodwill impairment of £22.5 million related to Chemring Ordnance (£6.8 million) and Chemring Energetic Devices (£15.7 million). Impairment analysis is based on value-in-use calculations, with the impairments being primarily driven by business valuations negatively impacted by the challenging conditions facing the defence industry.

In December 2013, conditional agreement was reached for the sale of Chemring Energetic Devices' Clear Lake facility. Assets and liabilities relating to Clear Lake have been classified as held for sale at 31 October 2013, incurring a further impairment charge of £8.8 million.

The amortisation of intangible assets arising from business combinations was £18.8 million (2012: £20.9 million), with the decrease reflecting the fact that certain intangible assets are now fully amortised. This amortisation is treated as non-underlying to improve comparability and understanding of the results given its large size and its non-cash nature.

Countermeasures review

- Revenue: £125.0 million
- Underlying operating profit: £13.2 million
- Underlying operating margin: 10.6%

Revenue in the Countermeasures segment was £125.0 million, down 23.4% on the previous year. This was primarily due to a lower opening order book in the US and UK, resulting from the drawdown from Afghanistan, but also reflected US Department of Defense delays in product acceptance, order funding and awards. Both sequestration and continuing resolution have caused delays to orders and sales, especially in relation to special

material decoys. Further issues were experienced as a result of the US Government shutdown in October 2013. Sales at the Group's Australian operation reduced as a result of lower expenditure by the Australian Defence Force. The closing order book for Countermeasures was £160.8 million, down 24.6% on the previous year, reflecting generally lower order intake, particularly in the US due to the effects of the drawdown from Afghanistan.

The two US countermeasures business units have been integrated to form Chemring Countermeasures USA. This is enabling the Group to reduce overheads, retain the best management talent, reduce costs when volumes are low, and take advantage of synergies. It has also enabled the Group to focus operational and quality improvement resource on the significant challenges at Kilgore. The integration is delivering cost savings and, more importantly, is improving performance to customers.

The US Government shutdown in October 2013 resulted in the closure of the DCMA, the government agency with responsibility for inspecting and approving products for delivery to the US Department of Defense. This closure impacted deliveries in the final weeks of the year, the effects of which were particularly felt at Kilgore, which also continued to be impacted by production quality issues. Further steps are being taken to strengthen the management team at this business, and in the past six months a new General Manager and a new Health, Safety & Environment Manager have been appointed. These appointments are already having a meaningful impact on the business, and relationships with customers have improved significantly as a consequence.

The inclusion of decoy dispensers on the Joint Strike Fighter, with the significant costs associated with embedding these into the airframe and the development of a dedicated suite of flares for this platform, gives confidence that the Group's countermeasures technology will remain a critical element of defensive aids for military aircraft.

The outlook for the air countermeasures market is expected to remain challenging in the short term, with the decline in NATO procurement outpacing growth in non-NATO markets. While Chemring has sole-source qualified positions on the two major new platforms, Joint Strike Fighter and Typhoon, delays in aircraft deliveries and expected in-service dates will lead to the deferment of procurements of war reserves and training rounds for these fleets.

Encouragingly, these delays are driving capability extensions to existing platforms and there is heightened interest in Chemring's countermeasure products from non-NATO customers. There is also a growing capability gap in customers' naval countermeasures, with resulting interest in naval decoys and launchers. However, the timing of orders in the current tight budget environment remains uncertain.

While demand for countermeasures has fallen dramatically in recent years, the Group considers that it is now close to minimum sustaining volumes. This ensures that production lines can be maintained at a high state of readiness to quickly ramp-up output when new threats arise. Chemring's principal customers are maintaining some development effort to ensure their capability against the next generation of threats but until budgets recover, a material improvement in production volumes will be dependent upon new aircraft programmes entering service.

Sensors & Electronics review

- Revenue: £211.3 million
- Underlying operating profit: £44.7 million
- Underlying operating margin: 21.2%

Revenue in the Sensors & Electronics segment was £211.3 million, 7.7% lower than the previous year, and was underpinned by the ongoing fulfilment of the \$579 million multi-year HMDS ground penetrating radar IDIQ contract. The closing order book for Sensors & Electronics was £106.2 million, up 5.5% on 2012, as a result of major orders for HMDS and chemical and biological detection products.

Chemring has integrated two US operations to create a single business unit - Chemring Sensors & Electronic Systems. This integration enables the Group to leverage its technology capabilities, co-ordinate customer interaction and maximise efficiencies within the supply chain.

Trading at Chemring Sensors & Electronic Systems was strong, and included completion of the initial \$161.3 million delivery order placed under the HMDS IDIQ contract. Orders totalling \$141.0 million were placed under this contract during the year, with these orders expected to be fulfilled in the period to May 2014. Encouragingly, the Group has continued to receive interest in its ground penetrating radar from other NATO countries, with sales to Australia, Italy, Turkey and Spain being made during the year.

The HMDS programme has historically been funded as an Urgent Operational Requirement ("UOR"), driven by demand for Iraq and Afghanistan, but is currently transitioning into a long-term capability and is expected to be funded from the US Department of Defense's base budget through a Program of Record.

In October 2013, Chemring Sensors & Electronic Systems was awarded a \$10.6 million contract by the US Army for the procurement of six HMDS test systems. These will be used for advanced testing in preparation for a long-term HMDS procurement from base budget funds. This is a significant development, potentially securing the position of HMDS as a long-term capability for the US military. Both the R-VISOR robot-mounted ground penetrating radar and handheld detection solutions are also expected to transition to Programs of Record during 2014. The operational and logistical life cycle of these systems is expected to be over ten years. The ground penetrating radar technology used in these solutions is being augmented by additional capabilities, including sensors from Chemring Technology Solutions, to enhance performance.

In the UK, Roke Manor Research and Chemring EOD have been integrated to create Chemring Technology Solutions, with the explosive ordnance disposal business reporting alongside Roke's three other sectors of defence, security and technology solutions. Chemring Technology Solutions had a favourable sales mix in the year, weighted towards higher-margin product sales and away from its historical focus on contract-based research and development activity. The Group is raising the profile and level of investment in non-defence products and technology, and a number of concepts are showing early promise.

The long-term outlook for Sensors & Electronics is robust. Many countries acknowledge a significant and growing gap in their capabilities to deal with the persistent and rapidly evolving threat of IEDs. This is resulting in sustained interest in Chemring's detection, jamming and defeat products from both NATO and non-NATO markets. There also continues to be significant interest in the Group's electronic warfare, security and cyber security solutions.

Pyrotechnics & Munitions review

- Revenue: £200.6 million
- Underlying operating profit: £13.0 million
- Underlying operating margin: 6.5%

Pyrotechnics & Munitions revenue was £200.6 million, a 19.6% reduction from 2012. This reduction was partially a consequence of mortar system delivery delays. The closing order book for Pyrotechnics & Munitions was £315.5 million, a reduction of 9.9%. Order intake included a \$42.1 million contract for the procurement and supply of non-standard ammunition for the US Government.

A significant focus in Pyrotechnics & Munitions has been on enhancing operational performance and optimising routes to market, whilst developing a coherent and comprehensive product catalogue. These activities have started to deliver results. At Chemring Ordnance, the Anti-Personnel Obstacle Breaching System ("APOBS") production line has been enhanced, resulting in improved gross margins. The overall staffing and facilities layout at Chemring Ordnance has also been revised to raise efficiency and throughput.

The naval ammunition market remains stable, with revenue at similar levels to 2012. However, order intake has been disappointing due to delays in receipt of significant orders from non-NATO customers, although the Group is confident of receiving these orders during 2014. Nonetheless, the Group received several orders from Middle Eastern customers and grew the level of naval munitions business with the NATO Support Agency.

In seeking to develop its market presence, Chemring has signed a number of strategic agreements focused on technology sharing, co-production and joint marketing.

The outlook for Pyrotechnics & Munitions is mixed. NATO demand is reducing but this is being offset by Chemring's leading positions in naval ammunition and certain large calibre tank and armoured vehicle munitions. The Group will leverage its position in non-NATO markets, particularly where customers are building up national capabilities with new armoured vehicle fleets.

Energetic Sub-Systems review

- Revenue: £88.0 million
- Underlying operating profit: £11.3 million
- Underlying operating margin: 12.8%

Energetic Sub-Systems revenue was £88.0 million, a 10.8% reduction from 2012. This was mainly as a result of the reduction in defence spending in the US and UK. The closing order book for Energetic Sub-Systems was £93.0 million, a reduction of 3.9%.

The Group is integrating Hi-Shear with Chemring Energetic Devices to exploit common technology and production synergies. This integration is resulting in common systems and processes, which will facilitate better management of the operations. In addition, the integration is improving the loading of production facilities to alleviate manufacturing bottlenecks, and has resulted in a more co-ordinated sales force. The combined business will be better able to leverage volume and integrate technology development plans, while also having a streamlined management structure. The combined portfolio of defence and non-military customers provides an opportunity for future growth.

In the UK, Chemring Energetics secured a £9.9 million contract to supply the UK Ministry of Defence with plastic explosive for a four year period commencing in April 2014. This contract strengthens Chemring's position as a leader in the supply of demolition products to the military.

The Energetic Sub-Systems segment is expected to be relatively flat in the near term. Growth will be generated by diversification into non-defence markets, with the development of bespoke products for fire suppression, security and space applications. Defence requirements will continue to reduce within NATO and emphasis will therefore be placed on securing positions in emerging markets, particularly the Middle and Far East.

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 2012 annual report and the 2013 interim report. A detailed description of the Group's principal risks and uncertainties and the ways they are mitigated can be found at Annex 1. These can be summarised as:

- Health and safety risks.
- Risks associated with possible defence budget cuts.
- Risks associated with the timing and value of orders.
- Political risks.

- Operational risks.
- Risks associated with the introduction of new products.
- Risks of product liability and other customer claims.
- Risks associated with the adequacy of management resource.
- Compliance and corruption risks.
- Risks associated with compliance with environmental laws and regulations.
- Financial risks.

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

Research and development

Research and development expenditure was £46.0 million (2012: £59.0 million). The reduction primarily reflects a lower level of customer-funded development projects. Continued investment in research and development is a key aspect of the Group's Performance Recovery Programme, and internally-funded research and development is expected to increase in 2014 as investment is made in product development, particularly within Sensors & Electronics. An analysis of research and development expenditure is set out below:

	2013 £m	2012 £m
Customer-funded research and development	27.1	34.4
Internally-funded research and development		
- expensed to the income statement	11.5	12.3
- capitalised	7.4	12.3
Total research and development expenditure	46.0	59.0

Amortisation of development and patent costs in the year was £5.9 million (2012: £4.6 million), reflecting a number of previously capitalised projects coming on-stream.

Pensions

The deficit on the Group's defined benefit pension schemes, as defined in IAS 19 *Employee Benefits (Revised)*, was £25.1 million (2012: £27.0 million). This principally relates to the Chemring Group Staff Pension Scheme (the "Scheme"), a UK defined benefit scheme whose assets are held in a separately administered fund. The Scheme was closed to future accrual in April 2012. A full actuarial valuation for the Scheme as at 6 April 2012 has been prepared and updated to 31 October 2013, using the projected unit credit method.

The actuarial valuation of the Scheme at October 2013 showed a deficit of £24.2 million, compared to a deficit of £25.9 million in the prior year. Following discussions with the Scheme's trustees, a new funding structure has been agreed. This replaces the previous £20.0 million lump sum funding commitment, which would have fallen due for payment in June 2014, with contributions of £8.2 million in the year ending 31 October 2014 and £5.0 million annually thereafter. The Group has given a bank guarantee and letters of credit totalling £27.2 million (2012: £27.2 million) to the Scheme in respect of future contributions payable. Of these commitments, £20.0 million will progressively reduce as contributions are paid to the Scheme under the new funding structure.

Chemring will implement amendments to IAS 19 *Employee Benefits (Revised)* in its financial statements for the year ending 31 October 2014, and while there will be no resulting cash effect, the net interest cost associated with retirement benefit obligations is expected to increase by approximately £0.9 million per annum.

Chemring's UK employees are now offered membership of a defined contribution pension scheme. The majority of the Group's overseas pension arrangements are also defined contribution, save in those European countries where certain defined benefit pension arrangements are required.

Cash flow

Underlying continuing operating cash flow was £68.6 million (2012: £114.9 million). A summary of underlying Group cash flow from continuing operations is set out below:

	2013 £m	2012 £m
Underlying continuing operating profit	72.1	88.3
Depreciation and loss on disposal of fixed assets	22.3	19.1
Amortisation of development costs, patents and licences	5.9	4.6
Underlying continuing operating profit before interest, depreciation and amortisation	100.3	112.0
(Increase)/decrease in working capital	(31.3)	19.9
Other movements	(0.4)	(17.0)
Underlying operating cash flow	68.6	114.9
Fixed asset expenditure	(19.7)	(41.1)
Tax	(0.5)	(6.1)
Interest	(20.4)	(23.8)
Underlying free cash flow	28.0	43.9

Expenditure on property, plant and equipment and capitalised development projects was £19.7 million (2012: £41.1 million). This includes £1.5 million (2012: £6.9 million) associated with the construction of new facilities at the Group's countermeasure sites in the UK and Australia. Other expenditure comprised numerous projects, including health and safety related projects to upgrade electricity supplies and automate production.

Tax payments were £0.5 million (2012: £6.1 million), reflecting the lower profits of the Group, receipt of refunds in respect of prior periods and timing of payments.

Interest payments reduced due to a lower level of gross debt during the year.

Working capital

An analysis of working capital is set out below:

	2013 £m	2012 £m
Inventories	113.7	113.8
Trade receivables	76.2	90.9
Contract receivables	104.8	87.6
Trade payables	(62.8)	(100.2)
Advance payments	(17.4)	(11.7)
Accruals and deferred income	(48.9)	(45.6)
Other items	(40.0)	(41.5)
Total working capital	125.6	93.3

During September and October 2013, deliveries to customers in the Middle East were delayed due to constraints in available shipping capacity. Working capital at 31 October 2013 was higher as a consequence of these delays; however, this impact has largely unwound during the first quarter of the current financial year. Working capital has also risen due to a reduction in trade payables, reflecting a more sustainable approach towards creditor management. Contract accounting continues to be applied where appropriate and contract accounted revenues represented 38% (2012: 37%) of total revenue.

The Group's working capital is a key focus area for management, and initiatives have been implemented to raise working capital efficiency, notably through the reduction of inventories and contract receivables. Working capital is expected to reduce during 2014, although the profile of certain major contracts is now expected to lead to this reduction being weighted towards the second half of the current financial year.

Net debt, facilities and going concern

Net debt at 31 October 2013 was £248.7 million (2012: £244.8 million). The Group had £126.8 million (2012: £143.9 million) of undrawn borrowing facilities at the year end.

The Group's debt facilities include a £230.0 million revolving credit facility with a syndicate of five banks. The facility, which is unsecured, provides both trade finance and funds for general working capital purposes. The term of this facility is to April 2015, with an option to extend for twelve months. In practice, it is intended that the facility will be refinanced during 2014.

In addition to the revolving credit facility, the Group has fixed interest loan notes in the US, repayable in November 2016 (\$80.0 million), November 2017 (£12.5 million and \$125.0 million) and November 2019 (\$200.0 million). The Group continues to have positive relationships with all its debt providers.

The Group is subject to two key financial covenants, which are tested quarterly, relating to the leverage ratio between underlying earnings before interest, tax, depreciation and amortisation ("underlying EBITDA") and debt, and the interest cover ratio between underlying EBITDA and finance costs. The revolving credit facility and the loan notes have differing covenant compliance calculations, with the primary difference being that the revolving credit facility uses consolidated net debt in calculating the leverage ratio, whereas the loan notes use total gross debt. In June 2013, Chemring successfully concluded a revision of financial covenants with its debt providers. In respect of the revolving credit facility, the maximum permitted ratio of net debt to underlying EBITDA was increased to 3.50x at the April and July 2013 testing dates, and then reduced to 3.25x at the October 2013 and January 2014 testing dates, before reverting to 3.00x thereafter. The basis of calculation of this ratio was also amended so as to translate non-sterling denominated debt using average, rather than closing, rates of exchange. In respect of the loan notes, the permitted ratio of debt to underlying EBITDA was increased to 3.50x for the four quarters mentioned above before reverting to 3.00x thereafter, with this covenant continuing to be based upon total gross debt. This covenant also uses average exchange rates.

The Group complied with these covenants throughout the year, and this compliance is expected by the directors to continue for the foreseeable future. The results of the covenant tests at the year end are detailed below:

	2013	2012
Covenant ratios - revolving credit facility		
Maximum allowed ratio of consolidated net debt to underlying EBITDA	3.25x	3.00x
Actual ratio of consolidated net debt to underlying EBITDA	2.65x	2.14x
Minimum allowed ratio of underlying EBITDA to finance costs	4.00x	4.00x
Actual ratio of underlying EBITDA to finance costs	4.98x	6.71x
Covenant ratios - loan note agreements		
Maximum allowed ratio of consolidated total debt to underlying EBITDA	3.50x	3.00x
Actual ratio of consolidated total debt to underlying EBITDA	2.78x	2.79x
Minimum allowed ratio of underlying EBITDA to finance costs	3.50x	3.50x
Actual ratio of underlying EBITDA to finance costs	5.61x	6.86x

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

	2013	2012
	£m	£m
Loan notes	(259.1)	(261.2)
Revolving credit facility	-	(71.1)
Other loans and finance leases	(3.8)	(8.5)
Gross debt	(262.9)	(340.8)
Cash	14.2	96.0
Net debt	(248.7)	(244.8)

The Group's level of debt, and therefore leverage, reflects the historic development of the Group through acquisition, together with the effect of growth in working capital and the substantial investment in production capacity. The Group continues to work towards a sustained reduction in debt through consistent conversion of operating profit to operating cash flow.

As part of their regular assessment of the business working capital and financing position, the directors have prepared a detailed trading budget and cash flow forecast for a period which covers at least twelve months after the date of approval of the financial statements. In assessing the forecast, the directors have considered:

- Trading risks presented by the current economic conditions in the defence market, particularly in relation to government budgets and spending.
- The impact of macroeconomic factors, particularly interest rates and foreign exchange rates.
- The status of the Group's financial arrangements and associated covenant requirements.
- Progress made in developing and implementing outcomes from the Strategic Planning Process, including the implications of disposing of businesses which do not form part of the Group's longer-term strategy.
- Mitigating actions available should business activities fall behind current expectations, including the deferral of discretionary overheads and restricting cash outflows, together with the potential to dispose of non-core operations.

The long-term nature of the Group's business, taken together with the Group's order book, provide a satisfactory level of confidence to the Board in respect of trading.

The directors have acknowledged the latest guidance on going concern. They have made appropriate enquiries and believe that the Company is well-placed to manage its risks.

Whilst the current volatility in financial markets has created general uncertainty, the Group continues to have working capital headroom. The Group has been in compliance with its revolving credit facility and loan note covenants throughout 2013 and is forecast to be in compliance for the coming twelve months. Additional sensitivity analysis has been prepared with a focus on the April 2014 covenant test date, when the permitted leverage ratios revert to 3.00x, to consider the impact of a reduction in forecast EBITDA. This sensitised scenario includes identified mitigating actions that can be taken if needed and, based on the application of these, shows headroom on all covenant test dates. 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 adopt the going concern basis in preparing the financial statements.

Dividends

The Board is recommending a final dividend for the year of 3.8p (2012: 4.2p). With the interim dividend of 3.4p (2012: 5.3p), paid in August 2013, this results in a total dividend in respect of 2013 of 7.2p (2012: 9.5p). This total dividend is in line with the Group's stated policy of maintaining a dividend that is covered three times by underlying earnings.

Shareholder returns

Underlying basic earnings per share were 21.6p (2012: 28.5p), a decrease of 24.2%. There was a basic loss per share of 24.6p (2012: 6.8p earnings per share).

The total dividend per share of 7.2p (2012: 9.5p) is covered 3.0 times (2012: 3.0 times) by underlying earnings per share.

Shareholders' funds at the year end were £383.8 million (2012: £433.5 million).

Board of directors

A number of changes were made to the Board of directors during the year. Mark Papworth joined as Chief Executive on 5 November 2012, followed by Steve Bowers as Finance Director on 7 January 2013.

Nigel Young, who was Interim Chief Financial Officer between August 2012 and January 2013, became a non-executive director and Chairman of the Audit Committee on 1 May 2013. Andy Hamment, who was previously Group Marketing Director of Ultra Electronics plc, joined the Board as a non-executive director on 1 July 2013. Two non-executive directors retired from the Board during the year: Peter Norriss, who had been a director since May 2004, stepped down at the Annual General Meeting in March 2013, and Roger Freeman, who had been a director since May 2006, retired from the Board on 31 December 2013. The Board is most grateful to both for their valuable contributions over many years.

These changes mean that Chemring has created a substantially new Board in the last two years. This fresh perspective will be important in meeting the challenges and opportunities facing the Group.

Outlook

Real progress has been made in transforming Chemring and the Performance Recovery Programme is eliminating a number of the issues that have dragged down recent performance. The benefits of the programme will come through in 2014 and the Group is better placed as a result.

While sequestration of the US defence budget has been avoided, the difficult market conditions that Chemring experienced in 2013 are expected to continue throughout 2014 and represent the most significant challenge that the Group currently faces. Growth in emerging markets is expected to be offset by defence spending constraints in the US, UK and Europe, and a recovery in the Group's traditional NATO markets is not expected in the medium-term. The current strength of sterling against the US dollar, if sustained, will also impact earnings given the significance of the Group's US operations.

Chemring will continue to drive improvements in operational performance, and pursue the growth opportunities that exist, particularly within non-NATO markets where defence spending is expected to increase. It will also reshape and strengthen its portfolio of businesses through the disposal of non-core activities and technology investment in those businesses that can achieve sustainable growth and margin improvement. Meanwhile, the Board's expectations for the current financial year remain unchanged.

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 2013. 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 International Financial Reporting Standards as adopted by the European Union, 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 Chairman's statement, the strategic report and the performance review include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of directors on 23 January 2014 and has been signed on its behalf by Mark Papworth and Steve Bowers.

SUMMARY FINANCIAL INFORMATION

	Note	2013 £m	2012 £m
Revenue from continuing operations	2		
Countermeasures		125.0	163.2
Sensors & Electronics		211.3	228.9
Pyrotechnics & Munitions		200.6	249.5
Energetic Sub-Systems		88.0	98.7
		624.9	740.3
Revenue from discontinued operations			
Pyrotechnics & Munitions		-	15.1
		624.9	755.4
Total revenue			
		624.9	755.4
Underlying operating profit	3		
- continuing operations		72.1	88.3
- discontinued operations		-	3.1
		72.1	91.4
Total underlying operating profit		72.1	91.4
Underlying profit before tax from continuing operations		52.4	70.1
Underlying basic earnings per ordinary share from continuing operations	5	21.6p	28.5p
Operating (loss)/profit from continuing operations		(36.9)	37.0
(Loss)/profit before tax from continuing operations		(56.6)	18.8
Basic (loss)/earnings per ordinary share from continuing and discontinued operations		(24.6)p	7.9p
Dividends declared per ordinary share	9	7.2p	9.5p
Net debt	7	248.7	244.8
Shareholders' funds		383.8	433.5

Underlying measures referred to in this announcement are stated before costs relating to acquisition and disposals, business restructuring and incident costs, profit on disposal of businesses, items deemed to be of an exceptional nature, impairment of goodwill and acquired intangibles, impairment of assets held for sale, amortisation of acquired intangibles and gains/losses on the movement in the fair value of derivative financial instruments. A reconciliation of underlying and total operating profit is set out in note 4.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 October 2013

	2013			2012		
	Underlying performance* £m	Non- underlying items £m	Total £m	Underlying performance* £m	Non- underlying items £m	Total £m
Continuing operations						
Revenue	624.9	-	624.9	740.3	-	740.3
Operating profit/(loss)	72.1	(109.0)	(36.9)	88.3	(51.3)	37.0
Share of profit after tax of associate	-	-	-	0.1	-	0.1
Finance income	0.2	-	0.2	0.1	-	0.1
Finance expense	(19.9)	-	(19.9)	(18.4)	-	(18.4)
Profit/(loss) before tax	52.4	(109.0)	(56.6)	70.1	(51.3)	18.8
Tax	(10.6)	19.7	9.1	(15.1)	9.5	(5.6)
Profit/(loss) after tax	41.8	(89.3)	(47.5)	55.0	(41.8)	13.2
Discontinued operations						
Profit after tax from discontinued operations	-	-	-	2.1	-	2.1
Profit/(loss) after tax	41.8	(89.3)	(47.5)	57.1	(41.8)	15.3
Earnings/(loss) per ordinary share						
Continuing operations						
Basic	21.6p	(46.2)p	(24.6)p	28.5p	(21.7)p	6.8p
Diluted	21.2p	(45.8)p	(24.6)p	28.1p	(21.4)p	6.7p
Continuing operations and discontinued operations						
Basic	21.6p	(46.2)p	(24.6)p	29.6p	(21.7)p	7.9p
Diluted	21.2p	(45.8)p	(24.6)p	29.2p	(21.4)p	7.8p

* Further information about non-underlying items can be found in note 4.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 October 2013

	2013 £m	2012 £m
(Loss)/profit after tax attributable to equity holders of the parent	(47.5)	15.3
Items that will not be reclassified subsequently to profit or loss		
Actuarial gains/(losses) on defined benefit pension schemes	0.7	(2.7)
Movement on deferred tax relating to pension schemes	(0.9)	0.7
	(0.2)	(2.0)
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	13.6	(20.1)
Deferred tax on exchange differences on translation of foreign operations	(1.8)	0.7
	11.8	(19.4)
Total comprehensive expense attributable to equity holders of the parent	(35.9)	(6.1)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 October 2013

	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 2012	2.0	230.7	12.9	1.3	(39.6)	235.8	(9.6)	433.5
(Loss) after tax	-	-	-	-	-	(47.5)	-	(47.5)
Other comprehensive income/(expense)	-	-	-	-	13.6	(2.0)	-	11.6
Total comprehensive income/(expense)	-	-	-	-	13.6	(49.5)	-	(35.9)
Ordinary shares issued	-	-	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	(14.7)	-	(14.7)
Share-based payments (net of settlement)	-	-	-	-	-	0.9	-	0.9
At 31 October 2013	2.0	230.7	12.9	1.3	(26.0)	172.5	(9.6)	383.8

	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 2011	2.0	230.6	12.9	1.4	(19.5)	254.6	(6.6)	475.4
Profit after tax	-	-	-	-	-	15.3	-	15.3
Other comprehensive expense	-	-	-	-	(20.1)	(1.3)	-	(21.4)
Total comprehensive (expense)/income	-	-	-	-	(20.1)	14.0	-	(6.1)
Ordinary shares issued	-	0.1	-	-	-	-	-	0.1
Dividends paid	-	-	-	-	-	(31.1)	-	(31.1)
Share-based payments (net of settlement)	-	-	-	-	-	(1.8)	-	(1.8)
Transactions in own shares	-	-	-	-	-	-	(3.0)	(3.0)
Transfers between reserves	-	-	-	(0.1)	-	0.1	-	-
At 31 October 2012	2.0	230.7	12.9	1.3	(39.6)	235.8	(9.6)	433.5

CONSOLIDATED BALANCE SHEET

as at 31 October 2013

	2013	2012
£m	£m	£m
Non-current assets		
Goodwill	168.3	214.8
Development costs	32.7	31.0
Other intangible assets	135.5	167.4
Property, plant and equipment	222.3	240.0
Interest in associate	1.5	1.4
Deferred tax	21.7	16.9
	582.0	671.5
Current assets		
Inventories	113.7	113.8
Trade and other receivables	203.9	193.0
Cash and cash equivalents	14.2	96.0
Derivative financial instruments	1.5	1.0
Assets held for sale	6.7	-
	340.0	403.8
Total assets	922.0	1,075.3
Current liabilities		
Borrowings	(0.4)	(74.0)
Obligations under finance leases	(1.6)	(1.7)
Trade and other payables	(176.7)	(201.5)
Provisions	(2.7)	(2.8)
Current tax	(15.4)	(5.2)
Derivative financial instruments	(0.4)	(0.1)
Liabilities held for sale	(1.1)	-
	(198.3)	(285.3)
Non-current liabilities		
Borrowings	(259.4)	(262.1)
Obligations under finance leases	(1.4)	(2.9)
Trade and other payables	(2.3)	(4.3)
Provisions	(10.3)	(4.9)
Deferred tax	(38.8)	(52.7)
Preference shares	(0.1)	(0.1)
Retirement benefit obligations	(25.1)	(27.0)
Derivative financial instruments	(2.5)	(2.5)
	(339.9)	(356.5)
Total liabilities	(538.2)	(641.8)
Net assets	383.8	433.5
Equity		
Share capital	2.0	2.0
Share premium account	230.7	230.7
Special capital reserve	12.9	12.9
Revaluation reserve	1.3	1.3
Translation reserve	(26.0)	(39.6)
Retained earnings	172.5	235.8
	393.4	443.1
Own shares	(9.6)	(9.6)
	383.8	433.5
Equity attributable to equity holders of the parent	383.8	433.5
Total equity	383.8	433.5

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 October 2013

	2013 £m	2012 £m
Cash flows from operating activities		
Cash generated from continuing underlying operations	68.6	114.9
Cash generated from discontinued underlying operations	-	3.3
Cash generated from underlying operations	68.6	118.2
Acquisition and disposal related costs	(3.8)	(5.5)
Business restructuring and incident costs	(8.9)	(10.1)
	55.9	102.6
Tax paid	(0.5)	(6.1)
Net cash inflow from operating activities	55.4	96.5
Cash flows from investing activities		
Dividends received from associate	-	0.1
Purchases of intangible assets	(7.4)	(11.0)
Purchases of property, plant and equipment	(12.3)	(30.1)
Receipt of finance income	0.2	-
Receipts from sales of businesses (net of cash transferred)	-	21.8
Net cash outflow from investing activities	(19.5)	(19.2)
Cash flows from financing activities		
Dividends paid	(14.7)	(31.1)
Finance expense paid	(20.6)	(23.8)
New borrowings	-	12.5
Capitalised facility fees paid	(1.7)	-
Repayments of borrowings	(79.1)	(23.0)
Repayments of finance leases	(1.7)	(1.8)
Purchase of own shares	-	(4.8)
Net cash outflow from financing activities	(117.8)	(72.0)
(Decrease)/increase in cash and cash equivalents	(81.9)	5.3
Cash and cash equivalents at beginning of the year	96.0	91.9
Effect of foreign exchange rate changes	0.1	(1.2)
Cash and cash equivalents at end of the year	14.2	96.0

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 2013 or 31 October 2012 but is derived from those accounts. Statutory accounts for 2012 have been delivered to the Registrar of Companies, and those for 2013 will be delivered following the company's Annual General Meeting. The auditors have 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 s498(2) or s498(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 2013.

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 publish full financial statements that comply with IFRSs on 18 February 2014 (see note 11 below).

2. ANALYSIS OF REVENUE

	Continuing £m	Discontinued £m	2013 Total £m	Continuing £m	Discontinued £m	2012 Total £m
Countermeasures	125.0	-	125.0	163.2	-	163.2
Sensors & Electronics	211.3	-	211.3	228.9	-	228.9
Pyrotechnics & Munitions	200.6	-	200.6	249.5	15.1	264.6
Energetic Sub-Systems	88.0	-	88.0	98.7	-	98.7
	624.9	-	624.9	740.3	15.1	755.4

3. ANALYSIS OF UNDERLYING OPERATING PROFIT

	Continuing £m	Discontinued £m	2013 Total £m	Continuing £m	Discontinued £m	2012 Total £m
Countermeasures	13.2	-	13.2	20.4	-	20.4
Sensors & Electronics	44.7	-	44.7	44.9	-	44.9
Pyrotechnics & Munitions	13.0	-	13.0	21.2	3.1	24.3
Energetic Sub-Systems	11.3	-	11.3	12.3	-	12.3
	82.2	-	82.2	98.8	3.1	101.9
Unallocated corporate costs	(10.1)	-	(10.1)	(10.5)	-	(10.5)
	72.1	-	72.1	88.3	3.1	91.4

4. RECONCILIATION OF TOTAL OPERATING (LOSS)/PROFIT TO UNDERLYING OPERATING PROFIT

Underlying measures are used by the Board to monitor the underlying performance of the Group. Underlying measures are stated before costs relating to acquisition and disposals, business restructuring and incident costs, profit on disposal of businesses, items deemed to be of an exceptional nature, impairment of goodwill and acquired intangibles, the impairment of assets held for sale, amortisation of acquired intangibles and gains/losses on the movement in the fair value of derivative financial instruments.

Set out below is a reconciliation of total operating (loss)/profit to underlying operating profit from continuing operations:

	2013 £m	2012 £m
Total operating (loss)/profit from continuing operations	(36.9)	37.0
Add back:		
Acquisition and disposal related costs	3.2	8.2
Business restructuring and incident costs	11.7	11.9
Profit on disposal of business	-	(10.3)
Impairment of goodwill	50.9	22.5
Impairment of acquired intangibles	15.7	-
Impairment of assets held for sale	8.8	-
Intangible amortisation arising from business combinations	18.8	20.9
Gain on the movement in the fair value of derivative financial instruments	(0.1)	(1.9)
Underlying operating profit from continuing operations	72.1	88.3

Further details on the non-underlying items are provided earlier in this announcement.

Total profit before tax and underlying profit before tax also differ by the amounts shown above.

5. EARNINGS PER SHARE

Earnings per share are based on the average number of shares in issue, excluding own shares held, of 193,292,820 (2012: 193,309,230) and the loss on continuing ordinary activities after tax of £47.5 million (2012: £13.2 million profit). Diluted earnings per share has been calculated using a diluted average number of shares in issue, excluding own shares held, of 193,292,820 (2012: 195,792,140) and the loss on continuing ordinary activities after tax of £47.5 million (2012: £13.2 million profit). For the year ended 31 October 2013, no dilution has been recognised for the purposes of basic earnings per share due to there being a loss per share. Dilution has however been recognised in the calculation of underlying earnings per share for the year ended 31 October 2013, using a diluted average number of shares in issue, excluding own shares held, of 196,854,505 (2012: 195,792,140).

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

	Loss £m	Ordinary shares Number 000s	2013 Earnings per share Pence	Earnings £m	Ordinary shares Number 000s	2012 Earnings per share Pence
Basic	(47.5)	193,293	(24.6)	13.2	193,309	6.8
Additional shares issuable other than at fair value in respect of options outstanding	-	-	-	-	2,483	(0.1)
Diluted	(47.5)	193,293	(24.6)	13.2	195,792	6.7

The number of shares in issue differs from the number held by third parties due to the fact that the Company holds some of its shares in treasury.

Reconciliation from basic earnings per share to underlying earnings per share

Underlying basic earnings are defined as earnings before acquisition and disposal related costs, business restructuring and incident costs, profit on disposal of business, items deemed to be of an exceptional nature, impairment of goodwill and acquired intangibles, impairment of assets held for sale, intangible amortisation arising from business combinations and gains/losses on the movement in the fair value of derivative financial instruments. The directors consider this measure of earnings allows a more meaningful comparison of earnings trends.

	Loss £m	Ordinary shares Number 000s	2013 Earnings per share Pence	Earnings £m	Ordinary shares Number 000s	2012 Earnings per share Pence
Basic	(47.5)	193,293	(24.6)	13.2	193,309	6.8
Non-underlying items*	89.3	-	46.2	41.8	-	21.7
Underlying	41.8	193,293	21.6	55.0	193,309	28.5

* Before non-underlying items (see note 4) and tax thereon of £19.7 million (2012: £9.5 million).

6. CASH GENERATED FROM UNDERLYING OPERATIONS

	2013 £m	2012 £m
Operating (loss)/profit from continuing operations	(36.9)	37.0
Operating profit from discontinued operations	-	3.1
	(36.9)	40.1
Impairment of goodwill	50.9	22.5
Impairment of acquired intangibles	15.7	-
Impairment of assets held for sale	8.8	-
Amortisation of development costs	5.5	4.3
Intangible amortisation arising from business combinations	18.8	20.9
Amortisation of patents and licences	0.4	0.3
Loss on disposal of non-current assets	2.2	3.4
Depreciation of property, plant and equipment	20.1	15.9
Gain on fair value movements on derivative financial instruments	(0.1)	(1.9)
Share-based payment expense/(credit)	0.9	(0.1)
Employer contributions towards pension scheme deficit reduction plan	(1.0)	-
Difference between pension contributions paid and amount recognised in income statement	(0.3)	0.6
Operating cash flows before movements in working capital	85.0	106.0
Decrease in inventories	0.1	28.0
Increase in trade and other receivables	(15.9)	(8.2)
Decrease in trade and other payables	(21.0)	(20.2)
Increase in provisions	5.5	2.8
	53.7	108.4
Add back non-underlying items:		
Acquisition and disposal related costs	3.2	8.2
Business restructuring and incident costs	11.7	11.9
Profit on disposal of business	-	(10.3)
Cash generated from underlying operations	68.6	118.2

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

	2013 £m	2012 £m
(Decrease)/increase in cash and cash equivalents during the year	(81.9)	5.3
Decrease in debt and lease financing due to cash flows	82.5	12.3
Decrease in net debt resulting from cash flows	0.6	17.6
Effect of foreign exchange rate changes	(2.5)	1.9
Amortisation of debt finance costs	(2.0)	(1.6)
Movement in net debt	(3.9)	17.9
Net debt at beginning of the year	(244.8)	(262.7)
Net debt at end of the year	(248.7)	(244.8)

8. ANALYSIS OF NET DEBT

	As at 1 Nov 2012 £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	As at 31 Oct 2013 £m
Cash at bank and in hand	96.0	(81.9)	-	0.1	14.2
Debt due within one year	(74.0)	79.1	(3.6)	(1.9)	(0.4)
Debt due after one year	(262.1)	1.7	1.6	(0.6)	(259.4)
Finance leases	(4.6)	1.7	-	(0.1)	(3.0)
Preference shares	(0.1)	-	-	-	(0.1)
	(244.8)	0.6	(2.0)	(2.5)	(248.7)

9. DIVIDEND

The final dividend of 3.8p per ordinary share will be paid on 9 May 2014 to all shareholders registered at the close of business on 22 April 2014. The ex-dividend date will be 16 April 2014. The total dividend for the year will be 7.2p (2012: 9.5p). The final dividend is subject to approval by the shareholders at the Annual General Meeting, and accordingly, has not been included as a liability in the financial statements for the year ended 31 October 2013.

10. 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.

11. 2013 ANNUAL REPORT AND ACCOUNTS

The annual report and accounts for the year ended 31 October 2013 will be posted to shareholders on 18 February 2014. They will also be available from that date at the registered office, Chemring House, 1500 Parkway, Whiteley, Fareham, Hampshire PO15 7AF, and will be posted on the Company's website, www.chemring.co.uk, the following morning.

Annex 1.

PRINCIPAL RISKS AND UNCERTAINTIES

The Board has constituted a Risk Management Committee which meets quarterly to review the key risks associated with the achievement of the annual budget and the three year plan for each business, the most significant health and safety risks identified at each site, and the risk control procedures implemented. The Committee reports biannually to the Audit Committee and the Board, and through this process, the Board has identified the following principal risks currently facing the Group. The mitigating actions taken by the Group management to address these risks are also set out below. The Group also mitigates its risk exposure through an insurance programme that covers property and liability risks, where it is appropriate and cost effective to do so.

- **Health and safety risks** – The Group’s operations which utilise energetic materials are subject to inherent health and safety risks. From time to time, incidents may occur which could result in the temporary shutdown of facilities or other disruption to manufacturing processes, causing production delays and resulting in financial loss and potential liability for workplace injuries and fatalities.

The Board believes that responsibility for the delivery of world class safety standards is an integral part of operational management accountability, and is committed to ensuring the Group’s leadership operates with health and safety as the top priority and that the strength of the Group’ safety culture and the quality of its protective systems deliver operations where all employees and visitors feel and are absolutely safe. A new safety leadership programme has been developed this year, which will be attended by the management teams of every business during 2014.

All employees now receive a booklet setting out the Group’s statements of intent in relation to delivery of its health and safety strategy and the behaviours required of them as individual employees. All employees are encouraged to report potential hazards, and to raise any health and safety concerns through the appropriate channels.

The Group continues to invest in state-of-the-art process safety systems and equipment. The Group’s safety and loss prevention programmes require detailed pre-construction reviews of process changes and new operations, and routine safety audits of operations are undertaken on a regular basis.

All businesses are expected to proactively manage their own risks but, in addition, the top site risks at each business and their associated mitigation programmes are reviewed quarterly by the Risk Management Committee. Health and safety is included on the agenda at every Board meeting, and is discussed at the monthly Group Executive Committee meeting.

- **Possible defence budget cuts** – Defence spending depends on a complex mix of political considerations, budgetary constraints and the requirements of the armed forces to address specific threats and perform certain missions. As such, defence spending may be subject to significant fluctuations from year to year. Given the large budget deficits and the prevailing economic conditions in many NATO countries, the Group expects there to be continued downward pressure on budgets, and consequently, defence expenditure could be severely impacted.

In recognition of the issues affecting the Group’s traditional NATO markets, business development activities are being focused on non-NATO markets, where defence expenditure is forecast to grow strongly over the next five to ten years. The Group has made good progress on developing its routes to market in India, Saudi Arabia, the United Arab Emirates and Brazil. The Group has established a more focused international sales and business development team, and implemented new processes to ensure that the businesses are successful in “winning every sales opportunity”.

The Group also continually assesses whether its planned organic growth strategies and product developments align with government priorities for future funding. Most product development programmes take between six and twelve months to complete, and this gives the Group the ability to quickly re-deploy engineering staff to product areas where funding is more secure.

The Group continues to closely monitor the position in all the key markets in which it operates.

- **Timing and value of orders** – The Group's profits and cash flows are dependent, to a significant extent, on the timing of award of defence contracts. In general, the majority of the Group's contracts are of a relatively short duration and, with the exception of framework contracts with key customers, do not usually cover multi-year requirements. This means that an unmitigated delay in the receipt of orders could affect the Group's earnings, and achievement of its budget, in any given financial year.

The Group anticipates that delays in the placement of orders by traditional NATO customers, as a result of budgetary constraints, are likely to continue in the short to medium term. If the Group's businesses are unable to continue trading profitably during periods of lower order intake, financial performance will deteriorate and assets may be impaired.

As referred to above, the Group is focusing on the expansion of its business in non-NATO markets, where defence expenditure is forecast to increase.

Maximising order intake remains a key objective for the businesses, and they continue to address this through the strengthening of their sales and marketing resources. The businesses continue to pursue long-term, multi-year contracts with their major customers wherever possible.

The Group has undertaken various restructuring projects over the last year, which were aimed at restoring the profitability of those Group businesses which have suffered most from order delays in recent times. Site optimisation plans are now being developed to ensure that the Group utilises its manufacturing facilities as efficiently as possible, within the constraints imposed by export control legislation and customer requirements.

- **Political risks** – The Group is active in several countries that are suffering from political, social and economic instability. The Group's business in these countries may be adversely affected in a way that is material to the Group's financial position and the results of its operations. In addition, political unrest and changes in the political structure in certain non-NATO countries to which the Group currently sells could impact on their future defence expenditure strategy and the Group's ability to export products to these countries. During periods of unrest, delays in obtaining export licences can result in delayed revenues.

The Group's businesses strive to maintain relationships at all levels within the political structure of certain key countries, in order to ensure that they are aware of and can react to proposed changes, if and when they occur.

The businesses implement financing arrangements for contracts with high risk customers, which are intended to mitigate the impact of a deterioration in the customer's financial position, and in certain circumstances, they may also procure political risks insurance.

The Group is exploring opportunities for collaboration on the establishment of local manufacturing operations in certain countries, which will remove some of the uncertainty regarding export of products.

The planned expansion in non-defence markets should also increase the Group's portfolio of products which are less sensitive from an export control perspective.

- **Operational risks** – The Group's manufacturing activities may be exposed to business continuity risks, arising from plant failures, supplier interruptions or quality issues. These could result in financial loss, reputational damage and loss of future business.

All of the Group's businesses are required to prepare business continuity plans.

The Group has introduced new requirements in relation to the reporting of key performance indicators this year, in order to provide better visibility on operational performance and to facilitate the identification of potential production and quality issues at an early stage.

The Group insures certain business interruption risks where appropriate.

- **Introduction of new products** – The Group's approach to innovation and continued emphasis on research and development activity ensures that the Group is continually adding new products to the range. There is a need to ensure that this new product development is completed in a timely manner, and to a standard which

allows volume manufacturing to be undertaken and the production of products against high reliability and safety criteria to meet customers' requirements. Failure to achieve this may have both financial and reputational impacts.

The Group also needs to ensure that it continues to upgrade its existing product range to compete with emerging technologies and to avoid the risk of obsolescence or loss of business.

The Group has introduced a more focused product development and technology investment approach, in order to ensure that resources are applied appropriately across the Group in support of the three year plan. A Technology Review Board has been established to review all proposed research and development projects to ensure that key initiatives are being prioritised and to eliminate possible duplication of effort in different parts of the Group.

Working groups have been established to drive and co-ordinate the Group's technology growth in certain key areas, such as cyber security.

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

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

The businesses maintain rigorous control of their production processes, monitoring critical parameters on a batch or unit basis. State-of-the-art techniques, including statistical process control or Six Sigma, are applied, and where appropriate, processes are automated to reduce the scope for human operator error. Detailed assessments of incoming components and materials are conducted to ensure compliance with specifications.

Product liability claims from third parties for damage to property or persons are generally covered by the Group's insurance policies, subject to applicable insurance conditions.

- **Management resource** – The Group requires competent management to lead it through the next stage of its development. In challenging markets and difficult times, there is a need to retain and incentivise senior managers and key employees, in order to ensure that the operations of the Group do not suffer from loss of management expertise and knowledge.

As the shape of the Group's business also changes, with an increased focus on electronics, there is a need to ensure that the businesses build an appropriate skill base to enable them to compete successfully in new markets and product areas.

A Group Human Resources Director was appointed during 2013, to oversee the future people strategy.

The Group has introduced a new performance management system for 2014, which will facilitate improved monitoring of individual employees' development objectives and requirements. Alongside this, a talent database is being developed, which will provide improved visibility on skills and resources across the Group, and will open up opportunities for employees to progress their careers within different parts of the Group. Incentivisation arrangements have been streamlined and improved in certain areas of the business, to ensure that employees are suitably incentivised to deliver key strategic objectives.

- **Compliance and corruption risks** – The Group operates in over sixty countries worldwide, in a highly-regulated environment, and is subject to the applicable laws and regulations of each of these jurisdictions. The Group must ensure that all of its businesses, its employees and third parties providing services on its behalf comply with all relevant legal obligations, as non-compliance could result in administrative, civil or

criminal liabilities, and could expose the Group to fines, penalties, suspension or debarment and reputational damage.

The nature of the Group's operations could also expose it to government investigations relating to import-export controls, money-laundering, false accounting, and corruption or bribery.

The Group has a central legal and compliance function which assists and monitors all Group businesses, supported by dedicated internal legal resource in the US. The Group's internal audit activities also incorporate a review of legal risks.

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

- **Environmental laws and regulations** – The Group's operations and ownership or use of real property is subject to a number of federal, state and local environmental laws and regulations, including those relating to discharge of hazardous materials, remediation of contaminated sites, and restoration of damage to the environment.

At certain sites that the Group owns or operates, or formerly owned or operated, there is known or potential contamination for which there is a requirement to remediate or provide resource restoration. The Group could incur substantial costs, including remediation costs, resource restoration costs, fines and penalties, or be exposed to third-party property damage or personal injury claims, as a result of liabilities associated with past practices or violations of environmental laws or non-compliance with environmental permits.

All of the Group's businesses are certified to the environmental management system ISO14001, which requires the setting of environmental goals and objectives focused on local aspects and impacts.

The Group has managed monitoring and remediation programmes at certain sites, for which appropriate financial provision has been made. In certain circumstances, the Group procures environmental liability insurance, subject to applicable insurance conditions.

- **Financial risks** – The Group is exposed to financial risks relating to foreign exchange, interest rates and liquidity, and where appropriate it uses financial instruments to manage these risks. Details of the financial risks to which the Group is potentially exposed are set out in the financial review and note 24 of the financial statements within the 2013 annual report.