

CHEMRING GROUP PLC**RESULTS FOR THE YEAR ENDED 31 OCTOBER 2014**

	2014	2013²
<i>Including discontinued operations</i>		
Revenue	£474.9m	£624.9m
Underlying operating profit ¹	£49.0m	£72.1m
Underlying operating margin ¹	10.3%	11.5%
Underlying profit before tax ¹	£30.3m	£51.6m
Net debt	£135.6m	£248.7m
Underlying earnings per share ¹	12.4p	21.2p
Total dividend per share	4.1p	7.2p
Total operating loss	£(28.2)m	£(36.9)m
Total operating margin	(5.9)%	(5.9)%
Total loss before tax	£(58.9)m	£(57.4)m
Total loss per share	(28.4)p	(25.0)p
<i>Continuing operations</i>		
Revenue	£403.1m	£472.3m
Underlying operating profit ¹	£46.7m	£56.3m
Underlying operating margin ¹	11.6%	11.9%
Underlying profit before tax ¹	£28.1m	£36.5m
Underlying earnings per share ¹	11.6p	15.5p
Total operating profit/(loss)	£25.4m	£(46.7)m
Total operating margin	6.3%	(9.9)%
Total loss before tax	£(5.2)m	£(66.5)m
Total loss per share	(0.7)p	(28.8)p

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

2 Comparative figures have been restated as a result of the adoption of IAS 19 (Revised) *Employee Benefits*.

Strategic highlights

- Post divestments, Chemring is now a far more focused business
- Core competencies in market sectors with leading positions
- Strengthened position on long-term Sensors & Electronics programmes
- Acquisition of 3d-Radar broadens market position in ground penetrating radar

Financial highlights

- Improving operational performance in the second half
- Strategic divestments completed, strengthening the balance sheet
- Improved loan note funding terms and new revolving credit facility put in place
- Significant reduction in net debt and improved working capital management
- FY15 outlook unchanged, timing of Sensors & Electronics orders expected to result in H2 weighting

Michael Flowers, Chemring Group Chief Executive, commented:

“2014 has been an important and challenging year for Chemring, characterised by a stabilisation and subsequent improvement in operational performance, coupled with a strengthened position on major future US, NATO and broader global programmes. Against a backdrop of a subdued defence market, we see clear opportunities for future revenue growth and improving margins, although risks remain due to continued difficulty in predicting the timing of orders.

In 2015, the Group will seek to grow market share in Sensors & Electronics, particularly counter-IED. We are well-positioned on strategic programmes in the US, with success in capturing research and development phases of both counter-IED and chemical detection Programs of Record. Our immediate priorities are to secure orders in NATO and the Middle East for our US Sensors & Electronics products, while continuing to improve the performance of all our manufacturing operations. Overall, the outlook for 2015 is unchanged though the timing of Sensors & Electronics contracts is expected to lead to a weighting towards the second half.”

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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 3,000 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 three strategic product segments: Countermeasures, Sensors & Electronics, and Energetic Systems
- 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 and photography

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 22 January 2015. A recording of the audio webcast will be available later that day. Original high-resolution photography is available to the media by contacting Adam Leviton, MHP Communications: adam.leviton@mhpc.com / tel: 0203 128 8100.

Overview

2014 has been a further year of change for Chemring. Not only have we needed to adapt to lower demand within the international defence market, we have also continued the process of improving the operational efficiency of our business. In addition, we made a number of important disposals, the most significant being the sale of the Group's European munitions businesses, Simmel and Mecar.

The sale of the munitions businesses, whilst dilutive to earnings, took us out of an activity where we had a relatively small market position in a highly-competitive, international market place. The sale relieved the pressure on the Group's balance sheet, which had become over-stretched following the downturn in defence markets, and removed the earnings and cash volatility associated with these businesses. Two additional, smaller disposals further helped to streamline the business, as we exited low margin activities in Germany and the US. As a result, Chemring is now more coherent, with a clear strategy for product development and the pursuit of growth opportunities.

Safety

It is important that we recognise the tragic incident which occurred at Kilgore on 22 February 2014. This resulted in the death of one of our employees, which we deeply regret. Investigation of the incident found that Kilgore had proper processes and procedures in place but that they had not been properly followed. The incident has reinforced the fact that, despite all the safety-related improvements made across the Group in the past decade, we operate in a hazardous industry and paramount to all our operations is safety.

We have ensured there is renewed emphasis on communicating safety at every level, and on auditing our activities to ensure robust compliance. We have implemented a Safety Leadership Programme for all executives, managers and supervisors, aimed at further enhancing our safety culture and embedding safety at the core of our business. Additionally, we have undertaken a review of our operations to ensure our controls reflect best practice, particularly regarding the handling of, and exposure to, energetic materials. Ongoing investment in safety remains our first priority.

Strategy and organisation

A strategic review was completed in 2013, resulting in the divestment of a number of assets in our former Energetic Sub-Systems and Pyrotechnics & Munitions segments during the year. This has resulted in the Group being more focused on the sectors where we are, or can become, market leader. The divestments enabled early repayment of long-term debt, strengthening Chemring's balance sheet. In turn, this has increased our resilience and created greater flexibility to pursue growth opportunities. Our focus remains on maintaining and growing our leading position in Countermeasures, securing orders in Sensors & Electronics whilst positioning for future US Programs of Record, and driving operational excellence in Energetic Systems.

Operations

In looking to the year ahead, it is critical that we consolidate the operational gains made in 2014, particularly at Chemring Energetic Devices and Chemring Ordnance. Delivery performance at Chemring Energetic Devices improved markedly in the second half, with margins returning to acceptable levels, and Chemring Ordnance returned to profitability on the back of consistent manufacturing. At Kilgore, where the 2014 emphasis has been on safety culture and production quality, we must now also focus on operational efficiency in order to drive margins. Throughout our operations, scope exists for further incremental improvements as we share best practice.

Markets and strategic outlook

The global defence market remains subdued and, while the recent trend of substantial declines in defence spending has concluded, US operational funding continues to reduce. Whilst there has been growth in some markets, notably the Middle East, these regions are still modest in scale when compared to NATO defence spending.

Current geopolitical tensions have led to claims that defence expenditure will increase, particularly for items in Chemring's portfolio. Although we are able to ramp-up quickly in support of customer requirements, we are not yet witnessing any wholesale increase in demand.

Outlook

Good progress was made in 2014 with the Group continuing to make structural and financial improvements. As a result, Chemring is now a focused defence technology business with established core competencies in Countermeasures, Sensors & Electronics and Energetic Systems.

While the trading environment remains challenging, Chemring has gained a number of research and development contracts that position the Group for long-term US Programs of Record, particularly in Sensors & Electronics. During this research and development phase, our immediate priority is securing crucial production orders for US Sensors & Electronics products in NATO and the Middle East to offset the pause in manufacturing for the US Department of Defense ("US DoD"). Overall, the outlook for 2015 is unchanged though the timing of Sensors & Electronics contracts is expected to lead to the result being weighted towards the second half.

Board of directors

Michael Flowers was appointed to the Board on 24 June 2014, when he replaced Mark Papworth as Group Chief Executive. Vanda Murray, who joined the Board as a non-executive director on 1 November 2011, has said she will not be seeking re-election and will stand down at the Group's Annual General Meeting on 19 March 2015.

Trading summary

Revenue from continuing operations was £403.1 million (2013: £472.3 million) and, including discontinued operations, was £474.9 million (2013: £624.9 million). This revenue generated an underlying operating profit of £49.0 million (2013: £72.1 million), of which £46.7 million (2013: £56.3 million) related to continuing operations. Including non-underlying items, there was a total operating loss of £28.2 million (2013: £36.9 million).

Including discontinued operations, underlying profit before tax reduced by 41.3% to £30.3 million, resulting in underlying earnings per share of 12.4p (2013: 21.2p).

The continuing operations' order book increased by £85.0 million in the second half of the year. As a result, the closing order book for continuing operations was £486.8 million (2013: £494.9 million).

The Group's net debt was £135.6 million (2013: £248.7 million), with the reduction principally resulting from the receipt of disposal proceeds.

Group results

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

	2014 Underlying £m	2014 Total £m	2013 Underlying £m	2013 Total £m
Revenue				
- continuing operations	403.1	403.1	472.3	472.3
- discontinued operations	71.8	71.8	152.6	152.6
	474.9	474.9	624.9	624.9
Operating profit/(loss)				
- continuing operations	46.7	25.4	56.3	(46.7)
- discontinued operations	2.3	(53.6)	15.8	9.8
	49.0	(28.2)	72.1	(36.9)
Net finance expense	(18.7)	(30.7)	(20.5)	(20.5)
Profit/(loss) before tax	30.3	(58.9)	51.6	(57.4)
Tax	(6.4)	4.0	(10.6)	9.1
Profit/(loss) after tax	23.9	(54.9)	41.0	(48.3)

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

During the year, changes in foreign exchange rates, principally the appreciation of sterling against the US dollar, reduced reported revenue from continuing operations by £19.8 million. At constant exchange rates, revenue from continuing operations was £422.9 million, a reduction of 10.5%.

Following the divestments completed during the year, in particular the sale of the European munitions businesses, Chemring's operating segments were revised to better reflect the Group's composition. Those businesses still owned by the Group from within the former Pyrotechnics & Munitions segment have been combined with those from the Energetic Sub-Systems segment to form a new segment, Energetic Systems. Continuing operations include 3d-Radar, acquired in May 2014, and Chemring Energetic Devices' Clear Lake facility that was divested in January 2014.

An analysis of segmental revenue and underlying operating profit reflecting these new segments is set out below:

	2014	2014		2013	2013
	Revenue	Underlying operating profit		Revenue	Underlying operating profit
	£m	£m		£m	£m
Countermeasures	96.1	9.7		125.0	13.2
Sensors & Electronics	154.4	31.9		211.3	44.7
Energetic Systems	152.6	15.0		136.0	8.5
	403.1	56.6		472.3	66.4
Unallocated corporate costs	-	(9.9)		-	(10.1)
Continuing operations	403.1	46.7		472.3	56.3
Discontinued operations	71.8	2.3		152.6	15.8
Including discontinued operations	474.9	49.0		624.9	72.1
					11.5

Countermeasures revenue decreased by 23.1%, due to reductions in demand from the UK and US as a result of the withdrawal from Afghanistan. Production volumes in the US were also affected by the incident at the Kilgore facility in February 2014, which led to production being suspended while investigations were conducted and regulatory clearance obtained. Following a gradual re-start of production that commenced in March 2014, the facility became fully operational in October 2014. Countermeasures operating margin of 10.1% (2013: 10.6%) reflects the impact of the issues at Kilgore, partially offset by the benefit of headcount reductions and cost saving measures, together with resolution of certain technical problems previously encountered in 2012 on the development of an advanced countermeasure.

Sensors & Electronics revenue reduced by 26.9%, as fulfilment of the major production contract with the US DoD for the supply of the Husky Mounted Detection System ("HMDS") ground penetrating radar was completed. Significant research and development contracts with the US DoD are underway for the next generation of ground penetrating radar and chemical detection systems. The operating margin of 20.7% (2013: 21.2%) reflects the benefit of the release of contract risk reserves on completed US programmes, offset by the impact of lower margin funded research and development activity and a reduced level of higher margin international product sales.

The increase in Energetic Systems revenue reflects improved production throughput at our US operations. Underlying operating profit increased by 76.5% to £15.0 million (2013: £8.5 million), with operating margins benefiting from the operational improvement. This improvement was particularly marked at Chemring Energetic Devices, and at Chemring Ordnance, which returned to profit after a loss-making position in the prior year.

Unallocated corporate costs were £9.9 million (2013: £10.1 million), with the small reduction reflecting further savings from the simplification of the Group's management structure.

Underlying operating profit from continuing operations was £46.7 million (2013: £56.3 million), a decrease of 17.1%. The underlying operating margin was 11.6% (2013: 11.9%).

Discontinued operations comprise the European munitions businesses, Mecar, based in Belgium, and Simmel, located in Italy, and Chemring Defence Germany. All these businesses were sold in May 2014. At the European munitions businesses there were positive order intake signs during the period to the date of disposal, but this was offset by weakness in the naval munitions sector.

The discontinued operations had revenue in the period to disposal of £71.8 million (year to 31 October 2013: £152.6 million) and achieved an operating profit in that period of £2.3 million (year to 31 October 2013: £15.8 million). Their order book at 30 April 2014 was £189.3 million (31 October 2013: £180.6 million).

The total operating loss was £28.2 million (2013: £36.9 million). This includes non-underlying costs of £77.2 million (2013: £109.0 million), which are analysed later in this review.

Net finance expense was £18.7 million (2013: £20.5 million), of which £0.1 million (2013: £0.7 million) related to discontinued operations. In addition, £12.0 million of non-underlying accelerated interest costs were incurred on the repayment of loan note debt.

Underlying profit before tax from continuing operations was £28.1 million (2013: £36.5 million), a decrease of 23.0%. Tax on underlying profit before tax from continuing operations was £5.7 million (2013: £6.5 million), representing an effective tax rate of 20.3% (2013: 17.8%). The tax rate is comparable to the UK corporation tax rate and benefits from the utilisation of research and development tax credits.

Including non-underlying items, the total loss before tax from continuing operations was £5.2 million (2013: £66.5 million). The effective tax rate on the total loss before tax from continuing operations was 73.1% (2013: 16.4%), due to the higher proportion of non-underlying costs that are not deductible for tax purposes.

Including discontinued operations, underlying profit after tax was £23.9 million (2013: £41.0 million), a decrease of 41.7%, and the total loss after tax was £54.9 million (2013: £48.3 million).

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, consistent with past practice, certain items are classed as non-underlying, as set out below:

	2014 £m	2013 £m
Acquisition and disposal related costs	8.6	3.2
Business restructuring and incident costs	7.2	11.7
Impairment of goodwill	45.9	50.9
Impairment of acquired intangibles	10.7	15.7
Impairment of assets held for sale	13.6	8.8
Profit on disposal of businesses	(26.5)	-
Loss on disposal of associate	0.9	-
Intangible amortisation arising from business combinations	16.1	18.8
Loss/(gain) on fair value movements of derivative financial instruments	0.7	(0.1)
Non-underlying items excluded from underlying operating profit	77.2	109.0
Accelerated interest costs	12.0	-
Non-underlying items excluded from underlying profit before tax	89.2	109.0

Acquisition and disposal related costs of £8.6 million related to the disposal of the European munitions businesses and Chemring Defence Germany. Business restructuring and incident costs of £7.2 million include £4.1 million of redundancy costs, together with £1.1 million relating to the Kilgore incident and £0.8 million associated with the relocation of the corporate head office to Roke's site in Romsey.

The sale of the discontinued operations gave rise to an impairment of goodwill of £45.9 million and impairment of acquired intangible assets of £10.7 million, wholly in relation to Simmel. There was an impairment of other net assets of £13.6 million, of which £7.3 million related to Simmel and £6.3 million related to Chemring Defence Germany. Of the profit on disposal of £26.5 million, £26.0 million relates to the divestment of the European operations and £0.5 million to the disposal of the Clear Lake facility. In October 2014, the Group sold its 49% stake in its associate, CIRRA, for a cash consideration of £0.5 million, resulting in a loss on disposal of £0.9 million.

An impairment analysis, based on value-in-use calculations reflecting current conditions in the defence industry, has been conducted and no further impairments are considered to exist at 31 October 2014.

The amortisation of intangible assets arising from business combinations was £16.1 million (2013: £18.8 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.

The cash outflow from non-underlying items was £25.9 million (2013: £12.7 million).

Countermeasures

- Revenue: £96.1 million (2013: £125.0 million)
- Underlying operating profit: £9.7 million (2013: £13.2 million)
- Underlying operating margin: 10.1% (2013: 10.6%)

Revenue in the Countermeasures segment reduced by 23.1%. This was primarily a consequence of continued deferrals in US order placement and the impact of the incident at Kilgore in February 2014.

The closing order book for Countermeasures was £193.3 million, up 20.2% on the previous year, reflecting the receipt of a number of orders in the final quarter of the year. While elements of this order intake are for multi-year delivery reaching into the medium-term, this nonetheless provides support for our view that customer demand has reached minimum sustaining volumes.

The most significant factor in the performance of the Countermeasures segment was the tragic incident that occurred at Chemring Countermeasures USA's Kilgore facility in February 2014, in which an employee was fatally injured. All production was suspended while an investigation took place. Following regulatory clearance, a structured and controlled re-start of production commenced in March 2014. However, re-commissioning of the portion of the facility where the incident occurred and the receipt of appropriate regulatory approvals was not completed until October 2014.

Operational issues at Kilgore have led to poor performance in recent years, which the Group has been actively addressing. A new General Manager of the Kilgore site and a new President of Chemring Countermeasures USA were appointed during the year, and these appointments are driving improvement in process controls and site management. Improving operational performance at Kilgore is expected to enable all overdue orders, which constitute the majority of Kilgore's order backlog, to be fulfilled during 2015.

Uncertainties regarding the US DoD's budget continue to cause significant delays to orders and sales. However, in August 2014, a \$22.2 million order was received for infra-red decoys to be manufactured at Alloy Surfaces' facility, and customer trials are expected to be concluded in early 2015. As an encouraging sign of longer-term prospects, in December 2013 Chemring Countermeasures USA received a \$1.5 million production order for initial supplies to the F-35 Joint Strike Fighter programme.

Chemring Countermeasures UK had an encouraging year, with profit growth driven by operational improvement that is delivering enhanced quality and productivity. Order intake increased significantly, indicating greater confidence within the customer base and providing near-term production volume. The order intake included demand for naval products from NATO customers who, despite budgetary pressures, are seeking new capabilities in missile defence due to growing appreciation of the capability of countermeasures when co-ordinated with other ship defence systems.

Revenue at Chemring Australia reduced as a consequence of lower expenditure by the Australian Defence Force. In October 2014, the Australian Department of Defence extended Chemring Australia's long-term supply contract by a further two years to 2020. In August 2014, Chemring Australia was awarded a contract for the F-35 Joint Strike Fighter demonstration project. This two year project will lead to Chemring Australia becoming qualified as the second supplier of countermeasures for the F-35 Joint Strike Fighter, alongside Kilgore.

While the medium-term outlook for air countermeasures is positive, the near-term remains challenging with NATO and European customers constrained by tight budgets. There was an increase in customer enquiries towards the end of the year, as a result of tensions in the Ukraine and the start of limited operations in response to the threat from Islamic State. However, unless there is a significant escalation in operational tempo, the Group does not expect to see these enquiries converted into material order intake.

As defence budgets are expected to remain constrained, and the introduction of new aircraft subject to delays, we do not anticipate significant near-term market growth unless driven by increased operational needs. However, in the medium-term, the Group's sole-source qualified positions on the major new platforms, F-35 Joint Strike Fighter and Typhoon, and the resulting procurement of war reserves and training rounds for these fleets, have the potential to generate substantial incremental revenue. Furthermore, as these platforms enter service and retiring aircraft are sold in the aftermarket, overall demand for the Group's products expands, providing further opportunities.

Sensors & Electronics

- Revenue: £154.4 million (2013: £211.3 million)
- Underlying operating profit: £31.9 million (2013: £44.7 million)
- Underlying operating margin: 20.7% (2013: 21.2%)

Revenue in the Sensors & Electronics segment reduced by 26.9%. This largely reflected the conclusion of the \$579 million multi-year HMDS ground penetrating radar indefinite delivery, indefinite quantity ("IDIQ") contract, and the transition of activity from urgent operational requirements to customer-funded research and development contracts in support of long-term US DoD Programs of Record. The closing order book for Sensors & Electronics was £77.5 million, down 27.0% on 2013.

Chemring Sensors & Electronic Systems ("CSES") has continued to leverage its technology capabilities following the integration of NIITEK with Chemring Detection Systems in 2013. The multi-year contracts with the US DoD for the supply of HMDS ground penetrating radar and chemical detection systems both performed strongly, with all orders being completed during the period, slightly ahead of expectations. Operational efficiencies and the fulfilment of these two contracts enabled risk reserves to be released.

A final order under the HMDS IDIQ had been anticipated in the second half of the financial year. However, in July 2014, it was confirmed that this order would not be placed due to the accelerated rate of troop withdrawal from Afghanistan. The absence of this order, while disappointing, was partly offset by the award of a significant order for HMDS from a customer in the Middle East and by a number of funded research and development contracts. Encouragingly, CSES has continued to receive interest in its ground penetrating radar from other NATO countries, with continued system and spares sales to Canada, Australia, Italy, Turkey and Spain during the year.

The HMDS programme, originally funded as an urgent operational requirement for campaigns in Iraq and Afghanistan, is transitioning into a long-term capability funded by the US DoD's base budget through a Program of Record. In June 2014, we received a \$26.1 million research and development contract in support of this transition, which followed the \$10.6 million contract awarded in October 2013 for the procurement of six HMDS test systems. These contracts enhance the position of HMDS as a long-term capability for the US military.

On 9 May 2014, Chemring completed the strategically important acquisition of 3d-Radar, consolidating its position as a world leader in ground penetrating radar. 3d-Radar, based in Norway, was acquired for a cash consideration of \$3.0 million (£1.8 million). 3d-Radar's technology is not restricted by US International Traffic in Arms Regulations ("ITAR"), enabling Chemring to target opportunities in non-NATO and commercial markets which were previously not accessible. Commercial applications include archaeological surveys, tunnel detection and railway infrastructure surveys. 3d-Radar is benefiting from access to Chemring's sales channels and recently won a number of contracts within the Japanese utility sector.

The chemical and biological detection systems business delivered a strong performance and was awarded a final contract for the supply of Joint Biological Point Detection Systems to the US Army. Participation was secured in all three initial research and development contracts for the Next Generation Chemical Detector Program of Record, to an initial value of \$3.9 million. These are strategically important wins, as this Program of Record is a key future programme in the US chemical, biological, radiological and nuclear detection marketplace. Since 31 October 2014, further awards of \$5.6 million have been received for the next stage of the development programme. CSES has also submitted a proposal for the US DoD's Joint Biological Tactical Detection System, a further key long-term development programme, with announcement of this award expected in 2015.

In the UK, the performance at Chemring Technology Solutions, which incorporates Roke Manor Research ("Roke") and Chemring EOD, was mixed. Revenue reduced as a number of customer procurements were cancelled and production orders from non-NATO customers were subject to delay.

Roke's IED detection capability has been successfully demonstrated to the US Army, and is being considered for integration into the HMDS Program of Record. The Resolve electronic warfare system continues to make progress, with sales during the year to customers in the Middle East and Europe.

Roke's contract research and development business continues to grow through the provision of research, development, consultancy and test services. These enable governments and commercial enterprises to address threats to national security and cyber-attack, and to manage and understand risks inherent in technology change.

Roke continues to capitalise on its investment in non-defence products and technology. The first orders for the SmartSwitch data management product have been received and proof-of-concept trials have commenced. An innovative cyber-protection solution, Perception, has been launched, with technical evaluations underway.

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

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

Energetic Systems

- Revenue: £152.6 million (2013: £136.0 million)
- Underlying operating profit: £15.0 million (2013: £8.5 million)
- Underlying operating margin: 9.8% (2013: 6.3%)

Energetic Systems revenue was £152.6 million, a 12.2% increase from 2013. This increase was a result of the focus on resolving production issues and integrating manufacturing sites, which delivered a marked improvement in operational performance and production volumes. Operating profit and operating margins improved significantly as a result. The closing order book for Energetic Systems was £216.0 million, a reduction of 5.2%. Order intake strengthened in the final quarter of the year, with contract awards for pyrotechnic products from the Middle East and orders on long-standing programmes, including Lockheed Martin's Patriot PAC-3 missile programme.

The integration of Hi-Shear into Chemring Energetic Devices has been completed, enabling synergies to be realised. The priority has been the gaining of customer approvals to enable the transfer of over \$6.0 million of order backlog from Hi-Shear's capacity-constrained facility in California to Chemring Energetic Devices' facility in Illinois. A common enterprise resource planning system is now in place at both sites, enabling improved workflow and customer service levels.

On 24 January 2014, the Group divested Chemring Energetic Devices' build-to-print business located in Clear Lake, South Dakota for £6.2 million (\$10.5 million).

Chemring Ordnance in Florida delivered much improved performance, with increasing consistency and quality in its production processes. This enabled significant growth in revenue compared to the prior year, when manufacturing was halted by a series of production issues. Order intake was substantially ahead of the previous year, and included contracts for the supply of non-standard ammunition to customers in the Middle East and orders for 40mm ammunition.

Chemring Energetics had a challenging year as technical issues associated with pyro-mechanical devices and propellant products impacted performance, particularly in the first half. The technical performance issues associated with the supply of components for the Next Generation Light Anti-Tank Weapon have been overcome, and, while sales under this contract had been delayed, final deliveries were made during the year.

A long-term, sole-source agreement has been signed with Martin-Baker for the continued supply of rocket motors and pyro-mechanical devices for aircrew egress systems. Growth continues in the production of demolition stores, with commissioning of a bespoke manufacturing facility for the supply of plastic block explosive to the UK Ministry of Defence nearing completion. Deliveries under this contract will commence in 2015.

Chemring Defence UK has seen continued deterioration in demand from its NATO customer base. However, during the second half of the year, significant orders were received from Middle East customers, providing essential base load manufacturing activity for 2015.

Overall, demand for our Energetic Systems products is expected to be relatively flat in the near-term. Requirements for military pyrotechnics within NATO have reduced significantly and our focus therefore remains on securing positions in emerging markets, particularly the Middle East. Growth is also being targeted through diversification into non-defence markets, with the development of bespoke products for fire suppression, security and space applications. Against this market backdrop, continued emphasis is being placed on maintaining improvements in operational efficiency and optimising cash conversion.

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 2013 annual report and the 2014 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 risks can be summarised as:

- health and safety risks;
- possible defence budget cuts;
- timing and value of orders;
- political risks;
- operational risks;
- introduction of new products;
- product liability and other customer claims;
- management resource;

- compliance and corruption risks;
- environmental laws and regulations; and
- financial risks.

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

Research and development

Research and development expenditure, including discontinued operations, was £52.0 million (2013: £46.0 million). Continued investment in research and development is a key aspect of the Group's strategy, and internally-funded research and development is expected to be maintained in 2015 as investment in product development continues, particularly within Sensors & Electronics. An analysis of research and development expenditure is set out below:

	2014 £m	2013 £m
Customer-funded research and development	28.5	27.1
Internally-funded research and development		
- expensed to the income statement	11.6	11.5
- capitalised	11.9	7.4
Total research and development expenditure	52.0	46.0

Amortisation of development and patent costs was £6.7 million (2013: £5.9 million), with the increase reflecting a number of previously capitalised projects coming on-stream.

Pensions

The deficit on the Group's defined benefit pension schemes was £21.8 million (2013: £25.1 million), measured in accordance with IAS 19 (Revised) *Employee Benefits*, which was adopted during the year. This adoption led to a reduction in the expected rate of return on pension scheme assets and, therefore, in profit before tax of £0.8 million for the year ended 31 October 2013, with a corresponding increase in the actuarial gain recognised for that year.

The deficit relates to the Chemring Group Staff Pension Scheme (the "Scheme"), a UK defined benefit scheme whose assets are held in a separately administered fund. The Scheme was closed to future accrual in April 2012. A full actuarial valuation for the Scheme as at 6 April 2012 has been prepared and updated to 31 October 2014, using the projected unit credit method. This valuation showed a deficit of £22.0 million (2013: £24.2 million). The reduction reflects the new funding structure agreed with the trustees in June 2013, under which contributions of £8.2 million were paid in the year to 31 October 2014, partly offset by the effect of changes in actuarial assumptions. The Group has given a bank guarantee and letters of credit totalling £21.6 million (2013: £27.2 million) to the Scheme in respect of future contributions, which are progressively reducing as contributions are paid under the new funding structure.

Cash flow

The cash inflow generated from underlying operations was £63.5 million (2013: £68.6 million). A summary of underlying free cash flow is set out below:

	2014 £m	2013 £m
Underlying operating profit	49.0	72.1
Depreciation and (profit)/loss on disposal of property, plant and equipment	16.8	22.3
Amortisation of development costs, patents and licences	6.7	5.9
	72.5	100.3
Increase in working capital	(2.0)	(31.3)
Other movements	(7.0)	(0.4)
Cash generated from underlying operations	63.5	68.6
Expenditure on capitalised development costs	(12.1)	(7.4)
Expenditure on property, plant and equipment	(10.9)	(12.3)
Tax	(3.4)	(0.5)
Interest	(20.6)	(20.4)
Underlying free cash flow	16.5	28.0

Expenditure on property, plant and equipment was £10.9 million, including £1.6 million of improvements at the Kilgore site, with other expenditure comprising various projects related to health and safety improvements and production automation. Expenditure on capitalised development projects was £12.1 million (2013: £7.4 million), of which £9.8 million (2013: £3.8 million) related to the Sensors & Electronics segment, where significant investment continues to be made in preparation for awards under US DoD Programs of Record and for UK product launches planned in 2015.

Tax payments were £3.4 million (2013: £0.5 million), with the comparative figure reflecting the non-recurring benefit of the receipt of tax refunds.

Working capital

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

	2014 £m	2013 £m
Inventories	78.1	73.1
Trade receivables	59.3	39.9
Contract receivables	20.2	41.5
Trade payables	(37.1)	(31.1)
Advance payments	(4.5)	(5.8)
Other items	(46.0)	(56.4)
Working capital	70.0	61.2

Working capital was £70.0 million (2013: £61.2 million). Trade receivables increased as a result of the phasing of sales, however this was offset by a reduction in contract receivables as Sensors & Electronics' US production contracts were completed. Contract-accounted revenues, which include these production contracts, represented 22.0% (2013: 31.7%) of revenue from continuing operations.

Working capital continues to be a key focus area and the operational improvement at sites such as Kilgore will drive greater efficiency, notably through the reduction of inventories. Going forward, the principal drivers of

working capital will be the timing of major production contracts within Sensors & Electronics and the scheduling of production activity within Energetic Systems.

Net debt and covenants

Net debt at 31 October 2014 was £135.6 million (2013: £248.7 million).

The Group's principal debt facilities comprise £161.0 million of private placement loan notes and a £70.0 million revolving credit facility. The revolving credit facility was established in July 2014 and refinanced a previous facility scheduled to mature in April 2015. The facility is with a syndicate of three banks and has a four year term. Together with a smaller US facility, the Group had £75.7 million (2013: £126.8 million) of undrawn borrowing facilities at the year end.

Following receipt of proceeds from the divestment of the European munitions businesses, £14.5 million (\$24.7 million) of the Group's loan notes were repaid at par in June 2014. In September 2014, the Group applied a further £87.2 million (\$142.8 million) of the disposal proceeds to repay loan notes, which led to an accelerated interest payment of £12.0 million being incurred, equivalent to 13.8% of the principal repaid. In view of the non-recurring nature of this payment, it has been disclosed as a non-underlying item. The remaining loan notes are repayable in November 2016 (\$48.9 million), November 2017 (£8.1 million and \$79.8 million), and November 2019 (\$115.9 million).

The Group is subject to two key financial covenants, which are tested quarterly. These covenants relate to the leverage ratio, being the ratio between underlying earnings before interest, tax, depreciation and amortisation ("underlying EBITDA") and debt, and the interest cover ratio between underlying EBITDA and finance costs. The calculation of these ratios involves the translation of non-sterling denominated debt using average, rather than closing, rates of exchange. The revolving credit facility and the loan notes have differing covenant compliance calculations.

In respect of the revolving credit facility established in July 2014 and its predecessor facility, leverage is measured by reference to net debt. The maximum permitted ratio of net debt to underlying EBITDA under the revolving credit facilities was 3.25x at January and April 2014, and 3.00x thereafter. In respect of the loan notes, leverage has historically been measured using total gross debt. This restricted Chemring's ability to divest businesses, given that the resulting loss of underlying EBITDA would not necessarily be accompanied by a reduced gross debt level. In April 2014, Chemring successfully concluded a revision of financial covenants with the loan note holders to enable greater flexibility in the application of disposal proceeds. For the period until January 2015, the revised covenants entitle Chemring to offer a proportion of disposal proceeds to loan note holders to repay outstanding notes at par. To the extent that such an offer was not accepted by note holders, rejected proceeds can be offset against gross debt to derive an adjusted debt value that is used in calculating covenant compliance. Following the receipt of proceeds from the sale of the European munitions businesses in May 2014, leverage under the loan notes is calculated based on the ratio of underlying EBITDA to this adjusted debt value, with such ratio not to exceed 3.00x. As part of the revision to the terms of the loan notes, a leverage test based upon total gross debt has been retained, but at a permanently increased level of 3.75x underlying EBITDA.

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

	2014	2013
Covenant ratios - revolving credit facility		
Maximum allowed ratio of net debt to underlying EBITDA	3.00x	3.25x
Actual ratio of net debt to underlying EBITDA	1.93x	2.65x
Minimum allowed ratio of underlying EBITDA to finance costs	4.00x	4.00x
Actual ratio of underlying EBITDA to finance costs	4.28x	4.98x
Covenant ratios - loan note agreements		
Maximum allowed ratio of adjusted debt to underlying EBITDA	3.00x	-
Actual ratio of adjusted debt to underlying EBITDA	2.25x	-
Maximum allowed ratio of total debt to underlying EBITDA	3.75x	3.50x
Actual ratio of total debt to underlying EBITDA	2.31x	2.78x
Minimum allowed ratio of underlying EBITDA to finance costs	3.50x	3.50x
Actual ratio of underlying EBITDA to finance costs	4.39x	5.61x

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

	2014 £m	2013 £m
Loan notes, net of facility fees	(155.6)	(259.1)
Revolving credit facility	-	-
Other loans and finance leases	(1.8)	(3.8)
Gross debt	(157.4)	(262.9)
Cash	21.8	14.2
Net debt	(135.6)	(248.7)

Going concern

During the year, the Group has achieved a substantive reduction in debt levels, and therefore in future financing costs, through the divestment programme and ongoing focus on operational efficiency. The Group continues to work towards further reduction in debt through the consistent conversion of operating profit to operating cash flow. The long-term nature of the Group's business, together with the Group's order book, provides a satisfactory level of confidence to the Board in respect of trading.

As part of their regular assessment of the Group's 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 spends;
- the impact of macroeconomic factors, particularly interest rates and foreign exchange rates;
- the status of the Group's financial arrangements and associated covenant requirements; and
- the availability of mitigating actions should business activities fall behind current expectations, including the deferral of discretionary overheads and restricting cash flows.

Additional sensitivity analysis has been prepared on the forecasts to consider the impact on covenants of any reduction in anticipated levels of underlying 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 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. 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 adopt the going concern basis in preparing the financial statements.

Shareholder returns

Including discontinued operations, underlying earnings per share were 12.4p (2013: 21.2p), a decrease of 41.5%. The total loss per share was 28.4p (2013: 25.0p). For continuing operations, underlying earnings per share were 11.6p (2013: 15.5p) and there was a total loss per share of 0.7p (2013: 28.8p).

Shareholders' funds were £300.3 million (2013: £383.8 million), with the reduction principally resulting from the non-underlying loss on disposal of the European munitions businesses and the related one-off accelerated interest payment incurred in repaying loan notes.

Dividends

The Board is recommending a final dividend in respect of the year to 31 October 2014 of 1.7p (2013: 3.8p). With the interim dividend of 2.4p (2013: 3.4p), this results in a total dividend of 4.1p (2013: 7.2p). This total dividend is in line with the Group's policy of maintaining a dividend that is covered three times by underlying earnings. If approved, the final dividend will be paid on 8 May 2015 to shareholders on the register on 17 April 2015.

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 2014. 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 strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

This responsibility statement was approved by the Board of directors on 22 January 2015, and has been signed on its behalf by Michael Flowers and Steve Bowers.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 October 2014

	2014			2013		
	Underlying performance* £m	Non-underlying items £m	Total £m	Underlying performance* As restated [#] £m	Non-underlying items As restated [#] £m	Total As restated [#] £m
Continuing operations						
Revenue	403.1	-	403.1	472.3	-	472.3
Operating profit/(loss)	46.7	(21.3)	25.4	56.3	(103.0)	(46.7)
Finance income	0.1	-	0.1	0.2	-	0.2
Finance expense	(18.7)	(12.0)	(30.7)	(20.0)	-	(20.0)
Profit/(loss) before tax	28.1	(33.3)	(5.2)	36.5	(103.0)	(66.5)
Tax	(5.7)	9.5	3.8	(6.5)	17.4	10.9
Profit/(loss) after tax	22.4	(23.8)	(1.4)	30.0	(85.6)	(55.6)
Discontinued operations						
Profit/(loss) after tax from discontinued operations	1.5	(55.0)	(53.5)	11.0	(3.7)	7.3
Profit/(loss) after tax	23.9	(78.8)	(54.9)	41.0	(89.3)	(48.3)
Earnings/(loss) per ordinary share						
Continuing operations						
Basic	11.6p	(12.3)p	(0.7)p	15.5p	(44.3)p	(28.8)p
Diluted	11.3p	(12.0)p	(0.7)p	15.2p	(44.0)p	(28.8)p
Continuing operations and discontinued operations						
Basic	12.4p	(40.8)p	(28.4)p	21.2p	(46.2)p	(25.0)p
Diluted	12.1p	(40.5)p	(28.4)p	20.8p	(45.8)p	(25.0)p

* Further information about non-underlying items is set out in note 4.

[#] The restatement relates to the prior period finance expense as a result of the adoption of IAS 19 (Revised) Employee Benefits.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 October 2014

	2014 £m	2013 As restated [#] £m
Loss after tax attributable to equity holders of the parent as reported	(54.9)	(47.5)
Restatement of finance expense on adoption of IAS 19 (Revised)	-	(0.8)
Loss after tax attributable to equity holders of the parent	(54.9)	(48.3)
Items that will not be reclassified subsequently to profit or loss		
Actuarial (losses)/gains on defined benefit pension schemes	(4.8)	1.5
Movement on deferred tax relating to pension schemes	1.1	(0.9)
	(3.7)	0.6
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(14.6)	13.6
Deferred tax on exchange differences on translation of foreign operations	0.5	(1.8)
	(14.1)	11.8
Total comprehensive expense attributable to equity holders of the parent	(72.7)	(35.9)

[#] The restatement relates to the prior period finance expense and actuarial gain as a result of the adoption of IAS 19 (Revised) Employee Benefits.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 October 2014

	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2013	2.0	230.7	12.9	1.3	(26.0)	172.5	(9.6)	383.8
Loss after tax	-	-	-	-	-	(54.9)	-	(54.9)
Other comprehensive expense	-	-	-	-	(6.6)	(11.2)	-	(17.8)
Total comprehensive expense	-	-	-	-	(6.6)	(66.1)	-	(72.7)
Dividends paid	-	-	-	-	-	(12.0)	-	(12.0)
Share-based payments (net of settlement)	-	-	-	-	-	1.2	-	1.2
Transfers between reserves	-	-	-	(0.1)	-	0.1	-	-
At 31 October 2014	2.0	230.7	12.9	1.2	(32.6)	95.7	(9.6)	300.3

	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	-	-	-	-	-	(48.3)	-	(48.3)
Other comprehensive income/(expense)	-	-	-	-	13.6	(1.2)	-	12.4
Total comprehensive income/(expense)	-	-	-	-	13.6	(49.5)	-	(35.9)
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

CONSOLIDATED BALANCE SHEET

as at 31 October 2014

	2014	2013
£m	£m	£m
Non-current assets		
Goodwill	119.7	168.3
Development costs	33.2	32.7
Other intangible assets	85.9	135.5
Property, plant and equipment	177.1	222.3
Interest in associate	-	1.5
Deferred tax	31.9	21.7
	447.8	582.0
Current assets		
Inventories	78.1	113.7
Trade and other receivables	90.7	203.9
Cash and cash equivalents	21.8	14.2
Derivative financial instruments	0.7	1.5
Assets held for sale	-	6.7
	191.3	340.0
Total assets	639.1	922.0
Current liabilities		
Borrowings	(0.3)	(0.4)
Obligations under finance leases	(1.0)	(1.6)
Trade and other payables	(86.0)	(176.7)
Provisions	(2.9)	(2.7)
Current tax	(6.7)	(15.4)
Derivative financial instruments	(1.7)	(0.4)
Liabilities held for sale	-	(1.1)
	(98.6)	(198.3)
Non-current liabilities		
Borrowings	(155.6)	(259.4)
Obligations under finance leases	(0.4)	(1.4)
Trade and other payables	(2.0)	(2.3)
Provisions	(24.1)	(10.3)
Deferred tax	(35.5)	(38.8)
Preference shares	(0.1)	(0.1)
Retirement benefit obligations	(21.8)	(25.1)
Derivative financial instruments	(0.7)	(2.5)
	(240.2)	(339.9)
Total liabilities	(338.8)	(538.2)
Net assets	300.3	383.8
Equity		
Share capital	2.0	2.0
Share premium account	230.7	230.7
Special capital reserve	12.9	12.9
Revaluation reserve	1.2	1.3
Translation reserve	(32.6)	(26.0)
Retained earnings	95.7	172.5
	309.9	393.4
Own shares	(9.6)	(9.6)
Equity attributable to equity holders of the parent	300.3	383.8
Total equity	300.3	383.8

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 October 2014

	2014 £m	2013 £m
Cash flows from operating activities		
Cash generated from continuing underlying operations	45.9	80.5
Cash generated from discontinued underlying operations	17.6	(11.9)
Cash generated from underlying operations	63.5	68.6
Acquisition and disposal related costs	(7.5)	(3.8)
Business restructuring and incident costs	(6.4)	(8.9)
Tax paid	49.6	55.9
	(3.4)	(0.5)
Net cash inflow from operating activities	46.2	55.4
Cash flows from investing activities		
Purchases of intangible assets	(12.1)	(7.4)
Purchases of property, plant and equipment	(10.9)	(12.3)
Receipt of finance income	0.2	0.2
Receipts from sales of businesses, net of cash transferred	137.1	-
Acquisition of subsidiary undertaking, net of cash acquired	(1.4)	-
Proceeds on disposal of property, plant and equipment	0.4	-
Net cash inflow/(outflow) from investing activities	113.3	(19.5)
Cash flows from financing activities		
Dividends paid	(12.0)	(14.7)
Finance expense paid	(32.8)	(20.6)
Capitalised facility fees paid	(2.8)	(1.7)
Repayments of borrowings	(102.1)	(79.1)
Repayments of finance leases	(1.6)	(1.7)
Net cash outflow from financing activities	(151.3)	(117.8)
Increase/(decrease) in cash and cash equivalents	8.2	(81.9)
Cash and cash equivalents at beginning of the year	14.2	96.0
Effect of foreign exchange rate changes	(0.6)	0.1
Cash and cash equivalents at end of the year	21.8	14.2

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 2014 or 31 October 2013 but is derived from those accounts. Statutory accounts for 2013 have been delivered to the Registrar of Companies, and those for 2014 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 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 2014.

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 16 February 2015 (see note 11 below).

2. ANALYSIS OF REVENUE

	Continuing £m	Discontinued £m	2014 Total £m	Continuing £m	Discontinued £m	2013 Total £m
Countermeasures	96.1	-	96.1	125.0	-	125.0
Sensors & Electronics	154.4	-	154.4	211.3	-	211.3
Energetic Systems	152.6	-	152.6	136.0	-	136.0
Discontinued operations	-	71.8	71.8	-	152.6	152.6
	403.1	71.8	474.9	472.3	152.6	624.9

3. ANALYSIS OF UNDERLYING OPERATING PROFIT AND PROFIT BEFORE TAX

	Continuing £m	Discontinued £m	2014 Total £m	Continuing £m	Discontinued £m	2013 Total £m
Countermeasures	9.7	-	9.7	13.2	-	13.2
Sensors & Electronics	31.9	-	31.9	44.7	-	44.7
Energetic Systems	15.0	-	15.0	8.5	-	8.5
Discontinued operations	-	2.3	2.3	-	15.8	15.8
	56.6	2.3	58.9	66.4	15.8	82.2
Unallocated corporate costs	(9.9)	-	(9.9)	(10.1)	-	(10.1)
Underlying operating profit	46.7	2.3	49.0	56.3	15.8	72.1
Net finance expense	(18.6)	(0.1)	(18.7)	(19.8)	(0.7)	(20.5)
Underlying profit before tax	28.1	2.2	30.3	36.5	15.1	51.6

4. RECONCILIATION OF TOTAL OPERATING PROFIT/(LOSS) 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 acquisitions and disposals, business restructuring and incident costs, profit/loss on disposal of businesses, items deemed to be of an exceptional nature, impairment of goodwill and acquired intangibles, impairment of assets held for sale, amortisation of acquired intangibles and gains/losses on the movement in the fair value of derivative financial instruments.

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

	2014 £m	2013 £m
Total operating profit/(loss) from continuing operations	25.4	(46.7)
Add back:		
Acquisition and disposal related costs	0.6	2.6
Business restructuring and incident costs	7.2	11.7
Impairment of goodwill	-	50.9
Impairment of acquired intangibles	-	15.7
Impairment of assets held for sale	-	8.8
Profit on disposal	(0.5)	-
Intangible amortisation arising from business combinations	13.5	13.4
Loss/(gain) on the movement in the fair value of derivative financial instruments	0.5	(0.1)
Underlying operating profit from continuing operations	46.7	56.3

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

5. EARNINGS PER SHARE

Earnings per share are based on the average number of shares in issue, excluding own shares held, of 193,296,666 (2013: 193,292,820) and the loss on continuing operations after tax of £1.4 million (2013: £55.6 million). Diluted earnings per share has been calculated using a diluted average number of shares in issue, excluding own shares held, of 193,296,666 (2013: 193,292,820) and the loss on continuing operations after tax of £1.4 million (2013: £55.6 million). No dilution has been recognised for the purposes of basic earnings per share due to there being a loss per share for both the years ended 31 October 2014 and 31 October 2013. Dilution has, however, been recognised in the calculation of underlying earnings per share for the years ended 31 October 2014 and 31 October 2013, using a diluted average number of shares in issue, excluding own shares held, of 197,285,824 (2013: 196,854,505).

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

	Loss £m	Ordinary shares Number 000s	2014 Earnings per share Pence	Loss £m	Ordinary shares Number 000s	2013 Earnings per share Pence
Basic - continuing operations	(1.4)	193,297	(0.7)	(55.6)	193,293	(28.8)
Additional shares issuable other than at fair value in respect of options outstanding	-	-	-	-	-	-
Diluted - continuing operations	(1.4)	193,297	(0.7)	(55.6)	193,293	(28.8)

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/loss 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)/ profit £m	Ordinary shares Number 000s	2014 Earnings per share Pence	(Loss)/ profit £m	Ordinary shares Number 000s	2013 Earnings per share Pence
Basic	(1.4)	193,297	(0.7)	(55.6)	193,293	(28.8)
Non-underlying items	23.8	-	12.3	85.6	-	44.3
Underlying	22.4	193,297	11.6	30.0	193,293	15.5

6. CASH GENERATED FROM UNDERLYING OPERATIONS

	2014 £m	2013 £m
Operating profit/(loss) from continuing operations	25.4	(46.7)
Operating (loss)/profit from discontinued operations	(53.6)	9.8
	(28.2)	(36.9)
Impairment of goodwill	45.9	50.9
Impairment of acquired intangibles	10.7	15.7
Impairment of assets held for sale	13.6	8.8
Amortisation of development costs	6.5	5.5
Intangible amortisation arising from business combinations	16.1	18.8
Amortisation of patents and licences	0.2	0.4
(Profit)/loss on disposal of non-current assets	(0.2)	2.2
Depreciation of property, plant and equipment	17.0	20.1
Loss/(gain) on fair value movements of derivative financial instruments	0.7	(0.1)
Share-based payment expense	1.2	0.9
Employer contributions to retirement benefit obligations	(8.2)	(1.0)
Difference between pension contributions paid and amount recognised in income statement	-	(0.3)
Operating cash flows before movements in working capital	75.3	85.0
Decrease in inventories	2.3	0.1
Decrease/(increase) in trade and other receivables	24.0	(15.9)
Decrease in trade and other payables	(26.8)	(21.0)
(Decrease)/increase in provisions	(1.5)	5.5
	73.3	53.7
Add back non-underlying items:		
Acquisition and disposal related costs	8.6	3.2
Business restructuring and incident costs	7.2	11.7
Profit on disposal of business	(26.5)	-
Loss on disposal of associate	0.9	-
Cash generated from underlying operations	63.5	68.6

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

	2014 £m	2013 £m
Increase/(decrease) in cash and cash equivalents during the year	8.2	(81.9)
Decrease in debt and lease financing due to cash flows	106.5	82.5
Decrease in net debt resulting from cash flows	114.7	0.6
Effect of foreign exchange rate changes	1.3	(2.5)
Amortisation of debt finance costs	(2.9)	(2.0)
Movement in net debt	113.1	(3.9)
Net debt at beginning of the year	(248.7)	(244.8)
Net debt at end of the year	(135.6)	(248.7)

8. ANALYSIS OF NET DEBT

	As at 1 Nov 2013 £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	As at 31 Oct 2014 £m
Cash at bank and in hand	14.2	8.2	-	(0.6)	21.8
Debt due within one year	(0.4)	0.4	(0.3)	-	(0.3)
Debt due after one year	(259.4)	104.5	(2.6)	1.9	(155.6)
Finance leases	(3.0)	1.6	-	-	(1.4)
Preference shares	(0.1)	-	-	-	(0.1)
	(248.7)	114.7	(2.9)	1.3	(135.6)

9. DIVIDEND

The final dividend of 1.7p per ordinary share will be paid on 8 May 2015 to all shareholders registered at the close of business on 17 April 2015. The ex-dividend date will be 16 April 2015. The total dividend for the year will be 4.1p (2013: 7.2p). 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 2014.

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. 2014 ANNUAL REPORT AND ACCOUNTS

The annual report and accounts for the year ended 31 October 2014 will be posted to shareholders on 16 February 2015. They will also be available from that date at the registered office, Roke Manor, Old Salisbury Lane, Romsey, Hampshire, SO51 0ZN, 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 bi-annually 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's key performance indicators also give insight into how these risks and uncertainties are being managed. The Group mitigates certain elements of 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 harm to employees, 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. The Board is committed to ensuring that the Group's leadership operates with health and safety as the top priority, and that the strength of the Group's safety culture and the quality of its protective systems deliver operations where all employees and visitors feel and are absolutely safe.

Chemring's Safety Leadership Programme was attended by the senior management teams of every Group business during 2014. All employees have received a booklet setting out the Group's statements of intent in relation to delivery of its health and safety strategy and the behaviours required of them as individuals. All employees are encouraged to report potential hazards, and to raise any health and safety concerns through the appropriate channels.

The Group continues to invest in state-of-the-art process safety systems and equipment. The Group's safety and loss prevention programmes require detailed pre-construction reviews of process changes and new operations, and safety audits of operations are undertaken on a regular basis. All businesses are expected to pro-actively manage their own risks but, in addition, the most significant site risks at each business and their associated mitigation programmes are reviewed quarterly by the Risk Management Committee.

Health and safety is included on the agenda at every Board meeting and is discussed at the monthly Group Executive Committee meeting.

- **Possible defence budget cuts** – Defence spending levels depend 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. In 2015, UK defence budgets may also be affected by additional spending reviews triggered by the outcome of the May 2015 general election. 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 continues to make progress on developing its routes to market in the Middle East, India and Brazil.

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 redeploy 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 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 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.

To mitigate the order placement dynamics within NATO markets, 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 also continue to pursue long-term, multi-year contracts with their major customers wherever possible.

The Group has undertaken various restructuring projects over the last year, aimed at restoring the profitability of those Group businesses which have suffered most from order delays.

Site optimisation plans continue to be refined to ensure that the Group utilises its manufacturing facilities as efficiently as possible, within the constraints imposed by export control legislation and customer requirements.

- **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 revenue.

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 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 may remove some of the uncertainty regarding export of products.

- **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 operational key performance indicators, in order to provide better visibility on operational performance and to facilitate the identification of potential production and quality issues at an early stage.

The Group insures certain business interruption risks where appropriate.

- **Introduction of new products** – The Group's approach to innovation and continued emphasis on research and development activity means that it 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 Board has been established to review all proposed research and development projects, to ensure that key initiatives are being prioritised and to prevent possible duplication of effort in different parts of the Group. Working groups have been established to drive and co-ordinate technology investment 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 the non-compliance of these products or services with the customer's requirements, due to faults in design or production; the delay or failed supply of the products or the services indicated in the contract; or 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, thereby making it more difficult for the Group to compete effectively.

Material breaches in the performance of contractual obligations may also lead to contract termination and the calling of performance bonds.

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

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

- **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.

Incentivisation arrangements have been streamlined and improved, to ensure that employees are suitably incentivised to deliver key strategic objectives.

- **Compliance and corruption risks** – The Group operates in over fifty countries worldwide, in a highly regulated environment, and is subject to applicable laws and regulations in 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 insurance conditions.

- **Financial risks** – Details of the financial risks to which the Group is potentially exposed and details of mitigating factors are set out in the financial review and note 24 of the Group financial statements within the 2014 annual report.