Chemring Group

5 JUNE 2019

CHEMRING GROUP PLC

("Chemring" or "the Group" or "the Company")

INTERIM RESULTS FOR THE SIX MONTHS TO 30 APRIL 2019

	As reported		At H1 2018 exchange rates		
	H1 2019	*Change*	*H1 2019*	*Change*	H1 2018
Continuing operations					
Revenue (£m)	139.3	+ 5%	*135.3*	*+ 2%*	133.1
Underlying EBITDA*(£m)	20.3	- 6%	*19.7*	*- 9%*	21.7
Underlying operating profit* (£m)	12.1	+ 4%	*11.6*	*0%*	11.6
Underlying profit before tax* (£m)	9.9	+ 19%	*9.6*	*+ 16%*	8.3
Statutory profit/(loss) before tax (£m)	4.3				(1.1)
Underlying earnings per share* (pence)	2.8p	+ 22%	*2.7p*	*+ 17%*	2.3p
Interim dividend per share (pence)	1.2p	+ 9%			1.1p
Net debt at 30 April (£m)	84.0	- 1%	*80.9*	*- 4%*	84.6

Highlights

- Overall H1 performance in line with our expectations; strong Sensors & Information sector performance, Countermeasures & Energetics sector impacted by previously reported manufacturing issues and planned site recommissioning. Phased restart programme for the UK Countermeasures site remains on track. H1 results included £13m of insurance recoveries, offsetting costs of remediation and site operating costs.
- Safety remains our key priority and together with enhancing operational stability and efficiency is driving investment in the Group's manufacturing infrastructure.
- Australian subsidiary, which has been off-line to enable the change-over to F-35 Lightning II countermeasure manufacturing, received two significant countermeasures contracts, as previously announced.
- Continued progress on various US Programs of Record. Further delivery orders received for the next phase of the HMDS IDIQ, valued at $27m, and a $9m order for the Enhanced Maritime Biological Detector ("EMBD") program.
- Sale of military trading business, Chemring Military Products and closure of Chemring Prime Contracts completed in period. The exit of remaining commoditised energetics businesses is ongoing.
- Board's full year expectations are unchanged, with a significant second-half weighting to revenue, underlying operating profit and cash. Approximately 95% of expected H2 revenue is in the order book or has been delivered to date.

Michael Ord, Chemring Group Chief Executive, commented:

"Significant changes have been implemented in the period to improve safety, strengthen leadership, corporate governance and embed continuous improvement across the Group. Despite the previously announced manufacturing issues that impacted first half financial performance, I have been heartened by the manner in which colleagues from across the entire Group have responded to the challenge of building a stronger and improved business.

The Countermeasures market continues to see growth and significant orders were received in the period; it is against this market strength and our drive to improve safety and operational performance that we will continue to invest to modernise and automate our manufacturing facilities. The phased restart of the UK Countermeasures site remains on track with the site scheduled to be at steady state manufacturing by the end of the current financial year.

Our Sensors & Information sector continues to perform strongly, with US Programs of Record progressing as deliveries on the HMDS IDIQ contract commenced. Elsewhere the sector continues to focus on growth and expanding its product, services and capability offerings.

With 95% of expected H2 revenue in the current order book or delivered to date, the Board's expectations for the current financial year are unchanged."

Notes:

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

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

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

Group – continuing operations:	**Underlying**	**Non-underlying**	**Statutory**
EBITDA (£m)	20.3	-	20.3
Operating profit (£m)	12.1	(5.6)	6.5
Profit before taxation (£m)	9.9	(5.6)	4.3
Tax charge (£m)	(2.0)	1.2	(0.8)
Profit after tax (£m)	7.9	(4.4)	3.5
Basic earnings per share (pence)	2.8p	(1.5p)	1.3p
Diluted earnings per share (pence)	2.7p	(1.5p)	1.2p
Group – discontinued operations:			
Profit/(loss) after tax (£m)	1.0	(4.9)	(3.9)
Segments – continuing operations:			
Sensors & Information EBITDA (£m)	11.7	-	11.7
Sensors & Information operating profit (£m)	10.0	(3.1)	6.9
Countermeasures & Energetics EBITDA (£m)	13.6	-	13.6
Countermeasures & Energetics operating profit (£m)	7.1	(2.5)	4.6

The adjustments to continuing operations comprise:

- amortisation of acquired intangibles of £5.6m (H1 2018: £5.7m, 2018: £11.6m)
- gain on the movement in the fair value of derivative financial instruments of £Nil (H1 2018: £0.1m loss, 2018: £0.4m loss)
- tax impact of adjustments of £1.2m credit (H1 2018: £16.1m charge, 2018: £13.1m charge)

Further details are provided in note 3.

The discontinued operations loss after tax comprises:

- operating loss of £2.0m (H1 2018: £6.5m profit, 2018: £8.0m profit)
- exceptional items of £3.1m loss (H1 2018: £1.1m loss, 2018: £72.0m loss)
- loss on disposal of a subsidiary of £1.8m (H1 2018: £Nil, 2018: £Nil)
- tax credit on the above of £3.0m (H1 2018: £1.2m charge, 2018: £1.0m charge)

Further details are provided in note 9.

EBITDA is defined as operating profit before interest, tax, depreciation and amortisation. Reference to constant currency relates to the re-translation of FY19 financial information at the FY18 exchange rates to reflect the movement excluding the impact of foreign exchange. The exchange rates applied are disclosed in note 14.

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Cautionary statement

This announcement contains forward-looking statements that are based on current expectations or beliefs, as well as assumptions about future events. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. Forward-looking statements often use words such as anticipate, target, expect, estimate, intend, plan, goal, believe, will, may, should, would, could, is confident, or other words of similar meaning. Undue reliance should not be placed on any such statements because they speak only as at the date of this document and, by their very nature, they are subject to known and unknown risks and uncertainties and can be affected by other factors that could cause actual results, and Chemring's plans and objectives, to differ materially from those expressed or implied in the forward-looking statements. There are a number of factors which could cause actual results to differ materially from those expressed or implied in forward-looking statements. Among the factors that could cause actual results to differ materially from those described in the forward-looking statements are: increased competition, the loss of or damage to one or more key customer relationships, changes to customer ordering patterns, delays in obtaining customer approvals for engineering or price level changes, the failure of one or more key suppliers, the outcome of business or industry restructuring, the outcome of any litigation, changes in economic conditions, currency fluctuations, changes in interest and tax rates, changes in raw material or energy market prices, changes in laws, regulations or regulatory policies, developments in legal or public policy doctrines, technological developments, the failure to retain key management, or the key timing and success of future acquisition opportunities or major investment projects. Chemring undertakes no obligation to revise or update any forward-looking statement contained within this announcement, regardless of whether those statements are affected as a result of new information, future events or otherwise, save as required by law and regulations.

Notes to editors

- Chemring is a global business that specialises in the manufacture of high technology products and the provision of services to the aerospace, defence and security markets
- Employing approximately 2,500 people worldwide, and with production facilities in four countries, Chemring meets the needs of customers in more than fifty countries

- Chemring is now organised under two strategic product segments: Sensors & Information and Countermeasures & Energetics
- Chemring has a diverse portfolio of products that deliver high reliability solutions to protect people, platforms, missions and information against constantly changing threats
- Operating in niche markets and with strong investment in research and development ("R&D"), Chemring has the agility to rapidly react to urgent customer needs

www.chemring.co.uk

Presentation
The presentation slides and a live audio webcast of the presentation to analysts will be available at the Chemring Group results centre www.chemring.co.uk/investors/results-centre at 09.30 (UK time) on Wednesday 5 June 2019. The presentation can also be listened to at that time by dialling +44 (0)20 3936 2999 and using the participant access code: 06 14 27. A recording of the audio webcast will be available later that day.

Photography
Original high resolution photography is available to the media by contacting Luke Briggs, MHP Communications: luke.briggs@mhpc.com / tel: +44 (0) 20 3128 8100.

INTERIM MANAGEMENT REPORT

Group overview

The Group has performed in line with the Board's expectations despite the operational challenges experienced in the Countermeasures & Energetics segment and expectations for the full year remain unchanged. The Group's revenue was up 5% to £139.3m (H1 2018: £133.1m, 2018: £297.4m). Underlying operating profit was up 4% to £12.1m (H1 2018: £11.6m, 2018: £31.0m). Underlying earnings per share was up 22% to 2.8p (H1 2018: 2.3p, 2018: 6.9p).

It has been a busy period for the Group in which significant changes have been implemented in addition to ongoing operational management. These include the introduction of a new safety strategic framework, a Group-wide safety review and strategic plan, and the introduction of new frameworks to strengthen risk management and corporate governance. The Group has also reviewed the capability of its senior leadership team against its needs and strategy over the next three years; there have been changes made to the leadership at six of the Group's operating subsidiaries, and the centralised role of Group Strategy Director has been assumed by the Group Chief Executive.

The Group has also consolidated the electronic warfare capabilities of Chemring Technology Solutions into Roke. This is expected to provide operational and market facing alignment, as well as cost savings.

Net debt was £84.0m at the end of the period (H1 2018: £84.6m, 2018: £81.8m), the increase since 31 October 2018 being largely attributable to the normal seasonality of the Group. Underlying operating cash inflow of £21.9m (H1 2018: £19.1m, 2018: £44.7m) represented 108% (H1 2018: 88%, 2018: 89%) of EBITDA.

The Group's order book at 30 April 2019 was £494m (H1 2018: £363m, 2018: £394m), of which approximately £188m is scheduled for delivery during H2 2019, representing cover of approximately 95% of expected H2 revenue. The increase since 31 October 2018 is primarily attributable to the F-35 Countermeasures order received by our Australian subsidiary and HDMS orders received by our US Sensors & Information business.

Markets

Whilst global defence spending continues to grow, budget priorities within NATO are shifting emphasis from asymmetric operations to near-peer threats. Our strategy remains to target those areas of the market where we have niche market positions and sustainable competitive advantage.

The US remains the largest market for the Sensors & Information sector. Strong positions in Counter Explosive Hazard and Chemical and Biological Detection will be enhanced by market share growth in Electronic Warfare ("EW") and Cyber, levering existing capabilities in autonomy, machine learning, artificial intelligence, cyber resilience and survivability.

The US is moving away from traditional acquisition paths in pursuit of agility as they look to outpace threats, particularly in the intelligence and surveillance domains. Changes in focus are driven by urgent requirements from Europe and elsewhere to close capability gaps; convergence of EW, Signals Intelligence, Cyber and Space, new defence strategies that prioritise near-peer competition and approval for rapid EW force structure growth.

This more agile approach to procurement and the need to pace rapidly evolving, complex threats aligns well with our Sensors & Information strategy.

The Countermeasures & Energetics sector remains robust and Chemring continues to maintain its market leading position in the available air countermeasures market. Growth in the sector over the next five years is primarily being driven by the increasing US requirements coupled with new technologies being developed in the UK that will be shared across the Group's countermeasures businesses.

Sole source positions on several products and platforms in conjunction with high barriers to entry are evident in the strong current and forecast order book. Despite the safety incidents in the sector the forecast remains strong due to good customer engagement and relationships where requirements have been re-scheduled rather than cancelled or lost.

In Energetics the domestic military market in the UK continues to be challenging. This is due to a declining UK defence budget for energetic products and the protracted reorganisation between Frontline Command and DE&S. We have also seen continued erosion in the market for standard military energetic devices globally due to cheaper and lower quality competition from Eastern Europe and the Far East. This trend supports the Group’s decision to exit its commoditised energetics businesses in Derby and Florida. As a result we have refocused our sales and marketing efforts into the high value niche energetics sector.

Our commercial energetic component ranges for maritime, aerospace and fire suppression usage continue to grow year on year and a significant amount of focus and investment has gone into manufacturing capacity, efficiency and product R&D.

Our unique position in supplying energetic components into many of the world’s military aircrew egress systems has continued to provide strong returns, particularly with the hugely successful F-35 Lightning II aircraft and the long-term global participation programme to support this 5th generation fighter through life.

Health and safety

The introduction of the new three year Health and Safety strategy and plan has progressed well, with all key milestones of the plan having been met. Revised HSE standards and guidelines have been implemented, as have our Fundamental Safety Rules which focus on high risk behaviour. The new KPI of recordable injury rates, which are more sensitive than the previous measure of lost time injury rates, has shown a continuous reduction in injuries over the past eight months with the rate dropping from 2.77 to 1.32. This KPI monitors the number of recordable injuries per 200,000 man hours worked over a rolling twelve month period. Our process safety indicators, based on a leading indicator of upset conditions, are driving improvement actions that reduce the potential for an energetic event that could cause harm to our people and to our business.

Over the coming months, and as part of the plan, we will be introducing stronger HSE assurance processes that ensure compliance to our standards and benchmarks the business against best practice. This, in addition to our facility surveys, will ensure that we design, maintain and operate our processes with the highest levels of integrity.

Group financial performance

Order intake for continuing operations for H1 2019 was up 37% to £248m (H1 2018: £181m, 2018: £360m), driven by the release of further deliveries orders on the HMDS IDIQ contract as well as orders in Australia for F-35 countermeasures.

Revenue from continuing operations for the period was up 5% to £139.3m (H1 2018: £133.1m, 2018: £297.4m), driven by strong performance in the Sensors & Information segment, as deliveries commenced on the HMDS IDIQ contract.

The underlying operating profit from continuing operations of £12.1m (H1 2018: £11.6m, 2018: £31.0m), resulted in an underlying operating margin of 8.7% (H1 2018: 8.7%, 2018: 10.4%). The flat margin compared to H1 2018 primarily reflects the operational disruption in a number of the Countermeasures & Energetics facilities, which offset the stronger period in Sensors & Information as increased revenues on the HMDS IDIQ contract drove growth.

Insurance recoveries of £13m are included within the result for the period in relation to the incident in 2018 at the UK Countermeasures site. This income offsets site operating costs and the costs of remediation, leaving the UK Countermeasures business approximately break-even for the period.

Foreign exchange translation has provided a minor tailwind on revenue and profit versus the same period last year. While exchange rates have been volatile in the period, there has been a strengthening of the US Dollar against Sterling compared to the equivalent period in 2018 with the average rate moving from $1.39 to $1.30. On a constant currency basis, restating the current period at the H1 2018 average rate, revenue would have been lower at £135.3m and underlying operating profit would have been £11.6m.

Total finance expense was lower at £2.2m (H1 2018: £3.3m, 2018: £6.1m). This was driven by the continued focus on reducing intra period working capital volatility, thus maintaining net debt stability.

Underlying profit before tax from continuing operations was £9.9m (H1 2018: £8.3m, 2018: £24.9m). The effective tax rate on the underlying profit before tax from continuing operations was 20.2% (H1 2018: 21.7%, 2018: 22.9%). The underlying earnings from continuing operations per share was 2.8p (H1 2018: 2.3p, 2018: 6.9p).

Statutory operating profit from continuing operations was £6.5m (H1 2018: £2.2m profit, 2018: £15.9m loss) and after statutory finance expenses of £2.2m (H1 2018 £3.3m, 2018: £6.1m), statutory profit before tax was £4.3m (H1 2018: £1.1m loss, 2018: £22.0m loss) giving a statutory earnings per share from continuing operations of 1.3p (H1 2018: 6.8p loss, 2018: 14.6p loss). The statutory loss from discontinued operations was £3.9m (H1 2018: £4.2m profit, 2018: £65.0m loss) including a loss on disposal of £1.8m relating to the sale of Chemring Military Products Inc (“CMP”), giving a statutory loss of £0.4m (H1 2018: £14.8m, 2018: £105.8m) from continuing and discontinued operations. The impact of non-underlying items on statutory profit measures is provided in note 3. The non-underlying costs in H1 2019 related to the amortisation of acquired intangibles and the tax credit associated with this.

Revenue from discontinued operations fell to £32.2m (H1 2018: £96.2m, 2018: £138.6m) and underlying operating loss fell to £2.0m (H1 2018: £6.5m profit, 2018: £8.0m profit) primarily as a result of the lower levels of activity on 40mm and NSA product lines and the disposal of CMP prior to the period end.

Segmental Review - Sensors & Information

Performance

Order intake in the period of £79m (H1 2018: £34m, 2018: £109m) has continued to be strong. This was driven by further orders on the US Programs of Record and a strong period at Roke in the UK.

Revenue for Sensors & Information increased by 27% to £53.8m (H1 2018: £42.3m, 2018: £87.3m) and underlying operating profit increased to £10.0m (H1 2018: £6.8m, 2018: £15.3m), as underlying operating margin improved to 18.6% (H1 2018: 16.1%, 2018: 17.5%). The Sensors business in the US has moved into the delivery phase of the HMDS Program of Record and continues to focus on the engineering, manufacturing, and development (“EMD”) and testing phases of the biological and chemical detection Programs of Record. Roke’s information-security business continues to grow. On a constant currency basis revenue would have risen 24% to £52.3m and underlying operating profit would have been up 43% to £9.7m.

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

The US DoD’s Explosive Hazard Detection (“EHD”) program, through the Husky Mounted Detection System (“HMDS”) program, which is a spiral development program, with concurrent development, trialling, and manufacturing to be undertaken, continues to progress as expected. Under the previously awarded IDIQ sole-source contract vehicles, further delivery orders of $27m were received in the period. The ramp-up to production progressed as planned and customer deliveries were made on schedule in the first half of the year.

We expect this program to run for the next decade providing a recurring level of business as the US Army moves to its objective of producing and fielding a fleet of 369 HMDS by mid-2021. The new fleet will be comprised of both refurbished and new HMDS and this activity will run alongside technology upgrade programs.

The Joint Biological Tactical Detection System ("JBTDS") program moved into the Biological Point System Assessment phase in March 2018. The DoD will undertake testing of our product for the next 12-18 months, after which we expect a production decision in early 2020.

In 2018, we bid and won a second biological program, the Enhanced Maritime Biological Detection System ("EMBD"), where the customer is the US Navy. Our initial contract award for Engineering Manufacturing Development ("EMD") and LRIP was in the form of a $24m IDIQ, against which we received delivery orders of $5m in 2018 and a further delivery order in this period of $9m. The program is expected to be worth up to $100m over 5-10 years once in full rate production.

The Aerosol and Vapor Chemical Agent Detector ("AVCAD") is progressing through the EMD phase as expected. The EMD and LRIP phases are expected to be worth approximately $16m in the period to 2022. Following this the customer is expected to have a requirement of approximately $800m. Chemring is one of two contractors selected for this program.

The information-security market, in which Roke is a leading participant, was buoyant in the period. Roke's focus on investing in its people ensures it has the right mix of skills to meet market requirements and has supported its success and revenue growth in the period.

Opportunities and outlook

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

In the US, focus has turned to the execution phase on contracts. Mobilisation has started, with strong initial deliveries in H1 2019 on the HMDS program and the focus continues to be ensuring the Virginia and North Carolina facilities are mobilised and resourced to deliver the AVCAD, EMBD, JBTDS and HMDS contracts.

Supporting the UK Government across National Security and Defence, and non-governmental industries in high-value manufacturing and infrastructure, Roke will continue to focus on their customers' missions: to enable them to deliver competitive advantage, defend their people, assets and secrets, and defeat their adversaries. With a focus on emerging technologies in connectivity, cyber, automation and data analytics, Roke will deliver research, design, engineering and advisory services using its high quality people and capabilities. Concurrently, Roke is seeking to expand its capabilities into commercial and international markets.

The order book for Sensors & Information at 30 April 2019 increased since the year end to £99m (H1 2018: £43m, October 2018: £75m). While the Roke business remains a short-cycle order book business, the division has orders of approximately £52m for delivery in the second half of the year.

Segmental Review – Countermeasures & Energetics

Performance – continuing operations

Order intake in the period of £169m (H1 2018: £147m, 2018: £251m) has continued to be strong, particularly in the significant US market.

As expected, revenue decreased by 6% to £85.5m (H1 2018: £90.8m, 2018: £210.1m) and the segment reported an underlying operating profit of £7.1m (H1 2018: £9.1m, 2018: £23.9m). On a constant currency basis revenue would have decreased by 9% to £83.0m and operating profit would have been £6.9m.

The phased restart of our UK Countermeasures site has progressed as planned with chaff and naval decoy lines now operational. Returning spectral and MTV lines to operation in the third quarter is progressing as planned, with the overall site scheduled to be at steady state manufacturing by the end of the current financial year. All other areas of the facility are now operational and we retain our assumption that the site will contribute approximately £30m of revenue and break even after accounting for insurance recoveries and remediation costs in 2019. To date, we have received £13m of insurance proceeds which have offset site operating costs and the costs of remediation, leaving the UK Countermeasures business approximately break-even for the period.

Our Australian facility was closed in H1 2019 to be fitted and qualified for F-35 production. The facility upgrade was completed on schedule and to budget. We were pleased to announce that our Australian subsidiary had been awarded two significant contracts: an Undefinitised Contract Action with a Not To Exceed value of US$60.4m and a further (Directed Sole Source) award for US$6.5m. The contracts are from the US DoD to supply countermeasures to the Royal Australian Air Force, US Navy and Foreign Military Sales in support of the F-35 Joint Strike Fighter and other platforms. This award follows a multi-year effort to establish Chemring Australia as a qualified supplier for F-35 countermeasures.

Our Tennessee and Norway facilities experienced unplanned operational disruption during the period, caused by equipment failure. Rectification work has taken place at both sites, which are both now operational, and plans to recover lost production are in place for the second half. This has however adversely impacted the financial performance of the segment in the first half.

A review of the Tennessee capacity expansion plan has been completed in light of the findings of a Group-wide safety review. As a result, the original plans and budgets have been revised and we now expect the project to run over the next two years and cost approximately £50m (previous guidance $50m).

Opportunities and outlook

After a number of years of weakness in the countermeasures markets that followed the end of the Iraq and Afghanistan conflicts, the outlook for the segment is increasingly positive. Segment focus remains on maintaining and growing the Group's market leading position, in particular on key platforms such as the F-35 as it begins to enter service in increasing numbers, and in the important Special Material Decoy market.

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

Countermeasures & Energetics' order book at 30 April 2019 was £395m (H1 2018: £320m, October 2018: £318m). The increase is as a result of strong order intake in Australia for the F-35 as well as the US and UK, and at constant currency the order book is 26% higher than at 31 October 2018. Of the 30 April 2019 order book, approximately £136m is currently expected to be delivered in the second half of 2019.

Performance – discontinued operations

Revenue for the discontinued commodity Energetics business decreased by 66.5% to £32.2m (H1 2018: £96.2m, 2018: £138.6m), generating an underlying operating loss of £2.0m (H1 2018: £6.5m profit, 2018: £8.0m profit), reflecting the expected decline in 40mm ammunition and non-standard ammunition ("NSA") revenue and the disposal of CMP prior to the period end.

Sales of procured NSA product fell in the period. Due to the externally sourced nature of the products involved, margins on NSA sales are significantly lower than for manufactured product. Supply of NSA products to the US Government contributed £3.7m (H1 2018: £60.6m, 2018: £81.9m) to revenue in the period. In November 2018 the Group announced its intention to exit the commoditised Energetics businesses, located in Derby and Florida, and to focus on the niche specialist energetic devices and materials businesses in Chicago, Scotland and Norway, where the Group has strong intellectual property and high barriers to entry. In April the Group concluded the sale of its military trading business Chemring Military Products Inc. ("CMP") for a cash consideration of $4m. Given the divestment of CMP prior to period end no further NSA revenue is expected.

Net debt and cash flow

Net debt at 30 April 2019 was £84.0m (H1 2018: £84.6m, 2018: £81.8m).

Underlying continuing operating activities generated cash of £21.9m (H1 2018: £19.1m, 2018: £44.7m), reflecting the normal seasonality of the Group's business and the collection of year end receivables. Continuing cash conversion was 108% (H1 2018: 88%, 2018: 89%) of continuing underlying EBITDA showing focus on working capital improvements is delivering positive results.

Working capital

Working capital relating to the continuing businesses was £80.5m (H1 2018: £84.1m, 2018: £83.7m), a decrease of £3.6m. The reduction compared to prior periods is mainly as a result of the timing of activity in the final quarter of the prior period resulting in higher trade receivables.

Debt facilities

The Group's principal debt facilities comprise $83.6m of US private placement loan notes, which are repayable in November 2019, and a £136.7m revolving credit facility. The revolving credit facility is with a syndicate of five banks and runs to October 2022. The Group had £117.3m (H1 2018: £67.6m, 2018: £68.1m) of undrawn borrowing facilities at the half year.

Retirement benefit obligations

The surplus on the Group's defined benefit pension schemes was £7.8m (H1 2018: £3.5m, 2018: £7.5m), measured in accordance with IAS 19 (Revised) Employee Benefits.

The surplus relates to the Chemring Group Staff Pension Scheme (the "Scheme"), a UK defined benefit scheme whose assets are held in a separately administered fund. The Scheme was closed to future accrual in April 2012. A full actuarial valuation for the Scheme as at 6 April 2018 has been prepared and updated to 30 April 2019, using the projected unit credit method. This valuation showed a surplus of £7.8m (H1 2018: £3.5m, 2018: £7.5m).

The 6 April 2018 triennial valuation shows a technical provisions deficit of £5.8m, which represents a funding level of 94% of liabilities. The Group has agreed with the trustees that deficit recovery payments totalling £6.25m, which were the contributions due to be made in the period to 30 June 2019 under the previous deficit recovery plan, were made prior to 31 December 2018. Of this, £0.4m was paid in H1 2019. After this, no further deficit recovery payments will be required and the Group was released from the bank guarantee of £7.2m given to the scheme in respect of future contributions. The next actuarial valuation is due as at 6 April 2021 after which the future funding requirements will be reassessed.

Contingent liabilities

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

In addition the following matters, as previously disclosed in last year's annual report, remained open at period end:

- A dispute between Alloy Surfaces Company, Inc. and the US Army
- UK's Controlled Foreign Company ("CFC") Finance Company exemption
- The Serious Fraud Office (the "SFO") investigation
- The incident that occurred at the Group's Countermeasures site in Salisbury on 10 August 2018.

Full details of these are included in note 15.

Dividends

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

The Board has also declared an interim dividend in respect of 2019 of 1.2p per ordinary share which will be paid on 13 September 2019 to shareholders on the register on 30 August 2019. In accordance with accounting standards this dividend has not been recorded as a liability as at 30 April 2019.

Medium-term financial objectives

The Group has previously communicated certain medium-term financial objectives and assumptions. The material elements of these are:

- Revenue
    - In Sensors & Information mid single digit % growth, with the potential for step changes as the US Programs of Record commence full rate production
    - In Countermeasures & Energetics a step up in 2020 of c£20m as the UK Countermeasures and Australian sites are recommissioned. Following that, mid single digit % growth driven by the US market, including F-35
- Operating margins - targeting mid to high teen return on sales % at a segmental level
- Capital expenditure - £40-50m for the next three years as investment in safety, automation and catch up capex is needed in the main manufacturing facilities and the capacity expansion project in Tennessee is completed.

Outlook

Approximately 95% of expected H2 revenue is in the current order book or has been delivered to date. The bulk of orders awaited are small routine orders for products or services, with no significant contracts required to be finalised for full year delivery.

The Board's full year expectations are unchanged, with a significant second-half weighting to revenue, underlying operating profit and cash. While there are a number of variables including operational execution risk, Brexit and associated international trade licensing, exchange rates and insurance recoveries in respect of the UK Countermeasures incident which occurred in August 2018, expected deliveries in the second half are well covered by the Group's current order book.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the maintenance and integrity of the Company website.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

a) the Condensed Set of Financial Statements has been prepared in accordance with IAS 34 *Interim Financial Reporting*;

b) the Interim Management Report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and details of principal risks and uncertainties for the remaining six months of the year); and

c) the Interim Management Report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

Michael Ord
Group Chief Executive
5 June 2019

Andrew Lewis
Group Finance Director
5 June 2019

CONDENSED CONSOLIDATED INCOME STATEMENT
for the half year to 30 April 2019

	Note	**Unaudited Half year to 30 April 2019** Underlying performance* £m	Non-underlying items* £m	Total £m	Unaudited Half year to 30 April 2018 Underlying performance* £m	Non-underlying items* £m	Total £m
Continuing operations							
Revenue		**139.3**	**-**	**139.3**	133.1	-	133.1
Operating profit		**12.1**	**(5.6)**	**6.5**	11.6	(9.4)	2.2
Finance expense		**(2.2)**	**-**	**(2.2)**	(3.3)	-	(3.3)
Profit/(loss) before tax		**9.9**	**(5.6)**	**4.3**	8.3	(9.4)	(1.1)
Tax charge on profit/(loss)	5	**(2.0)**	**1.2**	**(0.8)**	(1.8)	(16.1)	(17.9)
Profit/(loss) after tax		**7.9**	**(4.4)**	**3.5**	6.5	(25.5)	(19.0)
Discontinued operations							
Profit/(loss) after tax from discontinued operations	3,9	**1.0**	**(4.9)**	**(3.9)**	5.0	(0.8)	4.2
Profit/(loss) after tax for the period		**8.9**	**(9.3)**	**(0.4)**	11.5	(26.3)	(14.8)

		Unaudited Half year to 30 April 2019 Underlying performance*	Total	Unaudited Half year to 30 April 2018 Underlying performance*	Total
Earnings/(loss) per ordinary share					
Continuing operations					
Basic	6	**2.8p**	**1.3p**	2.3p	(6.8)p
Diluted	6	**2.7p**	**1.2p**	2.3p	(6.8)p
Continuing operations and discontinued operations					
Basic	6	**3.2p**	**(0.1)p**	4.1p	(5.3)p
Diluted	6	**3.1p**	**(0.1)p**	4.0p	(5.3)p

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

CONDENSED CONSOLIDATED INCOME STATEMENT (continued)

for the half year to 30 April 2019

	Note	Underlying performance* £m	Non-underlying items* £m	Audited Year to 31 Oct 2018 Total £m
Continuing operations				
Revenue		297.4	-	297.4
Operating profit/(loss)		31.0	(46.9)	(15.9)
Finance expense		(6.1)	-	(6.1)
Profit/(loss) before tax		24.9	(46.9)	(22.0)
Tax charge on profit/(loss)	5	(5.7)	(13.1)	(18.8)
Profit/(loss) after tax		19.2	(60.0)	(40.8)
Discontinued operations				
Profit/(loss) after tax from discontinued operations	3,9	6.2	(71.2)	(65.0)
Profit/(loss) after tax for the year		25.4	(131.2)	(105.8)

	Note	Underlying performance* £m	Non-underlying items* £m	Audited Year to 31 Oct 2018 Total £m
Earnings/(loss) per ordinary share				
Continuing operations				
Basic	6	6.9p		(14.6)p
Diluted	6	6.7p		(14.6)p
Continuing operations and discontinued operations				
Basic	6	9.1p		(37.8)p
Diluted	6	8.9p		(37.8)p

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the half year to 30 April 2019

	Unaudited Half year to 30 April 2019 £m	Unaudited Half year to 30 April 2018 £m	Audited Year to 31 Oct 2018 £m
Loss after tax attributable to equity holders of the parent	**(0.4)**	(14.8)	(105.8)
Items that will not be reclassified subsequently to profit or loss			
Actuarial (losses)/gains on defined benefit pension schemes	**(0.3)**	1.5	0.9
Movement on deferred tax relating to pension schemes	**0.1**	(0.1)	(0.1)
	(0.2)	1.4	0.8
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	**(5.3)**	(10.1)	5.2
Current tax on items taken directly to equity	**-**	(0.6)	-
Deferred tax on exchange differences on translation of foreign operations	**0.5**	1.6	(0.5)
	(4.8)	(9.1)	4.7
Total comprehensive loss attributable to equity holders of the parent	**(5.4)**	(22.5)	(100.3)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the half year to 30 April 2019

Unaudited half year to 30 April 2019

	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2018	2.8	305.4	12.9	1.0	(27.2)	7.1	(7.8)	294.2
Loss after tax	-	-	-	-	-	(0.4)	-	(0.4)
Other comprehensive loss	-	-	-	-	(3.7)	(1.9)	-	(5.6)
Tax relating to components of other comprehensive loss	-	-	-	-	-	0.6		0.6
Total comprehensive loss	-	-	-	-	(3.7)	(1.7)	-	(5.4)
Ordinary shares issued	-	0.1	-	-	-	-	-	0.1
Share-based payments (net of settlement)	-	-	-	-	-	0.3	-	0.3
Dividends paid	-	-	-	-	-	(6.2)	-	(6.2)
At 30 April 2019	**2.8**	**305.5**	**12.9**	**1.0**	**(30.9)**	**(0.5)**	**(7.8)**	**283.0**

Unaudited half year to 30 April 2018

	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2017	2.8	305.3	12.9	1.1	(24.8)	113.5	(9.6)	401.2
Loss after tax	-	-	-	-	-	(14.8)	-	(14.8)
Other comprehensive loss	-	-	-	-	(4.9)	(3.7)	-	(8.6)
Tax relating to components of other comprehensive loss	-	-	-	-	-	0.9	-	0.9
Total comprehensive loss	-	-	-	-	(4.9)	(17.6)	-	(22.5)
Ordinary shares issued	-	0.1	-	-	-	-	-	0.1
Share-based payments (net of settlement)	-	-	-	-	-	0.1	-	0.1
Dividends paid	-	-	-	-	-	(5.6)	-	(5.6)
Transactions in own shares	-	-	-	-	-	-	1.8	1.8
At 30 April 2018	2.8	305.4	12.9	1.1	(29.7)	90.4	(7.8)	375.1

Audited year to 31 October 2018

	Share capital £m	Share premium account £m	Special capital reserve £m	Revaluation reserve £m	Translation reserve £m	Retained earnings £m	Own shares £m	Total £m
At 1 November 2017	2.8	305.3	12.9	1.1	(24.8)	113.5	(9.6)	401.2
Loss after tax	-	-	-	-	-	(105.8)	-	(105.8)
Other comprehensive (loss)/income	-	-	-	-	(2.4)	8.5	-	6.1
Tax relating to components of other comprehensive income	-	-	-	-	-	(0.6)	-	(0.6
Total comprehensive loss	-	-	-	-	(2.4)	(97.9)	-	(100.3)
Ordinary shares issued	-	0.1	-	-	-	-	-	0.1
Share-based payments (net of settlement)	-	-	-	-	-	0.1	-	0.1
Dividend paid	-	-	-	-	-	(8.7)	-	(8.7)
Transactions in own shares	-	-	-	-	-	-	1.8	1.8
Transfers between reserves	-	-	-	(0.1)	-	0.1	-	-
At 31 October 2018	2.8	305.4	12.9	1.0	(27.2)	7.1	(7.8)	294.2

CONDENSED CONSOLIDATED BALANCE SHEET

as at 30 April 2019

	Note	**Unaudited As at 30 April 2019 £m**	Unaudited As at 30 April 2018 £m	Audited As at 31 Oct 2018 £m
Non-current assets				
Goodwill		**108.1**	123.5	109.2
Development costs		**24.6**	31.6	24.0
Other intangible assets		**31.3**	47.9	37.6
Property, plant and equipment		**160.5**	156.7	148.1
Deferred tax		**17.6**	45.6	36.8
Retirement benefit surplus	10	**7.8**	3.5	7.5
		349.9	408.8	363.2
Current assets				
Inventories		**78.2**	95.6	71.4
Trade and other receivables		**60.0**	114.5	62.2
Cash and cash equivalents	13	**6.4**	0.5	9.6
Derivative financial instruments	8	**0.1**	0.4	0.1
		144.7	211.0	143.3
Assets classified as held for sale		**7.9**	-	43.7
Total assets		**502.5**	619.8	550.2
Current liabilities				
Borrowings	13	**(64.1)**	-	-
Trade and other payables		**(77.3)**	(89.5)	(68.6)
Provisions		**(5.1)**	(7.3)	(6.7)
Current tax		**(4.7)**	(5.4)	(0.8)
Derivative financial instruments	8	**(0.4)**	(0.3)	(0.3)
		(151.6)	(102.5)	(76.4)
Liabilities directly associated with assets classified as held for sale		**(7.1)**	-	(26.9)
Non-current liabilities				
Borrowings	13	**(26.2)**	(85.0)	(91.3)
Provisions		**(12.6)**	(6.9)	(14.0)
Deferred tax		**(21.7)**	(50.2)	(47.1)
Preference shares	13	**(0.1)**	(0.1)	(0.1)
Derivative financial instruments		**(0.2)**	-	(0.2)
		(60.8)	(142.2)	(152.7)
Total liabilities		**(219.5)**	(244.7)	(256.0)
Net assets		**283.0**	375.1	294.2
Equity				
Share capital		**2.8**	2.8	2.8
Share premium account		**305.5**	305.4	305.4
Special capital reserve		**12.9**	12.9	12.9
Revaluation reserve		**1.0**	1.1	1.0
Translation reserve		**(30.9)**	(29.7)	(27.2)
Retained earnings		**(0.5)**	90.4	7.1
		290.8	382.9	302.0
Own shares		**(7.8)**	(7.8)	(7.8)
Total equity		**283.0**	375.1	294.2

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the half year to 30 April 2019

	Note	**Unaudited Half year to 30 April 2019 £m**	Unaudited Half year to 30 April 2018 £m	Audited Year to 31 Oct 2018 £m
Cash flows from operating activities				
Cash generated from continuing underlying operations	12	**21.9**	19.1	44.7
Cash generated from discontinued underlying operations	12	**9.4**	2.3	12.2
Cash impact of non-underlying items		**(3.0)**	(1.7)	(7.6)
Cash flows from operating activities		**28.3**	19.7	49.3
Retirement benefit deficit recovery contributions		**(0.4)**	(2.5)	(7.9)
Tax paid		**(2.2)**	(4.1)	(5.5)
Net cash inflow from operating activities		**25.7**	13.1	35.9
Cash flows from investing activities				
Purchases of intangible assets		**(1.7)**	(1.5)	(3.2)
Purchases of property, plant and equipment		**(19.9)**	(7.7)	(18.8)
Acquisition – deferred consideration		**-**	(0.7)	(0.7)
Customer funding for capital programmes		**-**	-	2.6
Proceeds on disposal of property, plant and equipment		**-**	0.4	0.4
Proceeds on disposal of subsidiary		**0.6**	-	-
Net cash outflow from investing activities		**(21.0)**	(9.5)	(19.7)
Cash flows from financing activities				
Dividends paid	7	**(6.2)**	(5.6)	(8.7)
Finance expense paid		**(1.6)**	(3.8)	(6.0)
Capitalised facility fees paid		**(0.3)**	(0.2)	(0.6)
Drawdown of borrowings		**5.0**	-	26.5
Repayments of borrowings		**(4.5)**	(26.5)	(51.9)
Net cash outflow from financing activities		**(7.6)**	(36.1)	(40.7)
Decrease in cash and cash equivalents		**(2.9)**	(32.5)	(24.5)
Cash and cash equivalents at beginning of period/year		**9.6**	33.6	33.6
Effect of foreign exchange rate changes		**(0.3)**	(0.6)	0.5
Cash and cash equivalents at end of period/year		**6.4**	0.5	9.6

NOTES TO THE CONDENSED SET OF FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of preparation
The condensed consolidated financial information for each of the six month periods does not constitute statutory accounts as defined by section 435 of the Companies Act 2006 and have not been delivered to the Registrar of Companies. The half-yearly financial report was approved by the Board of Directors on 5 June 2019. The information for the year ended 31 October 2018 does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. Full accounts for the year ended 31 October 2018, which include an unqualified audit report, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006, have been delivered to the Registrar of Companies.

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 condensed set of financial statements included in the half-yearly financial report has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* as adopted by the European Union.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

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

As part of their regular assessment of Chemring's working capital and financing position, the Directors have prepared a detailed trading 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 cost reduction programmes and operational improvements;
- mitigating actions available should business activities fall behind current expectations, including the deferral of discretionary overheads and restricting cash outflows; and
- the long-term nature of the Group's business which, taken together with the Group's order book, provides a satisfactory level of confidence to the Board in respect of trading.

The Directors have acknowledged the latest guidance on going concern. Management have considered the latest forecasts available to them and additional sensitivity analysis has been prepared on the covenant forecasts to consider the impact on covenants of any reduction in anticipated levels of EBITDA. This sensitised scenario shows headroom on all covenant test dates. After consideration of the above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the half-yearly condensed financial statements.

Alternative Performance Measures ("APMs")
In the analysis of the Group's financial performance and position, operating results and cash flows, APMs are presented to provide readers with additional information. The principal APMs presented are underlying measures of earnings including underlying operating profit, underlying profit before tax, underlying profit after tax, underlying EBITDA, underlying earnings per share, and underlying operating cash flow. In addition, EBITDA, net debt, and constant currency revenues are presented which are also considered to be non-IFRS measures. These measures are consistent with information regularly reviewed by management to run the business, including planning, budgeting and reporting purposes and for its internal assessment of the operational performance of individual businesses.

The directors believe that the use of these APMs assist in providing additional information on the underlying trends, performance and position of the Group. APMs are used to improve the comparability of information between reporting periods by adjusting for items that are non-recurring or otherwise non-underlying. Management consider non-underlying items to be:

- amortisation of acquired intangibles;
- material exceptional items, for example relating to acquisitions and disposals, business restructuring costs and legal costs;
- material exceptional items from changes in legislation, for example the GMP equalisation court ruling and the enactment of the US Tax Cuts and Jobs Act;
- gains or losses on the movement in the fair value of derivative financial instruments; and

- the tax impact of all of the above.

Our use of APMs is consistent with the prior year and we provide comparatives alongside all current period figures.

Accounting policies
The accounting policies applied by the Group in this half-yearly financial report are the same as those applied by the Group in its consolidated financial statements for the year ended 31 October 2018.

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

i) The following International Financial Reporting Committee ("IFRIC") interpretations, amendments to existing standards and new standards were adopted in the period ending 30 April 2019 but have not materially impacted the reported results or the financial position:

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

ii) At the date of authorisation of this announcement, the following standards and interpretations that are potentially relevant to the Group and which have not yet been applied in these reported results were in issue but not yet effective (and in some cases had not yet been adopted by the European Union):
Effective for periods beginning on or after 1 January 2019

- IFRS 16 *Leases;*
- Annual Improvements to IFRSs 2015-2017 Cycle; and
- IFRIC 23 *Uncertainty over Income Tax Treatments*

Effective for periods beginning on or after 1 January 2021

- IFRS 17 *Insurance Contracts*

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

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

The impact of IFRS 16 *Leases* is currently being assessed. Under IFRS 16 *Leases*, lessees will be required to apply a single model to recognise a lease liability and asset for all leases, including those classified as operating leases under current accounting standards, unless the underlying asset has a low value or the lease term is 12 months or less. The adoption of IFRS 16 will have a significant impact on the results as each lease will give rise to a right of use asset which will be depreciated on a straight line basis, and a lease liability with a related interest charge. The depreciation and interest will replace the operating lease payments currently recognised as an expense. The impact will depend on the transition approach and the contracts in effect at the time of the adoption. We have assessed the impact of the new standard as at 31 October 2018 assuming a modified retrospective approach and calculated that the finance lease asset and liability coming on balance sheet would be £4.6m.

Critical accounting judgements and sources of estimation uncertainty
When applying the Group's accounting policies, management must make judgements, assumptions and estimates concerning the future that affect the carrying amounts of assets and liabilities at the balance sheet date and the amounts of revenue and expenses recognised during the period. Such judgements, assumptions and estimates are based upon factors including historical experience, the observance of trends in the industries in which the Group operates, and information available from the Group's customers and other external sources.

Critical accounting judgements
Revenue recognition
IFRS 15 *Revenue from Contracts with Customers* recognises revenue on the basis of the satisfaction of performance obligations. The identification of these obligations requires management judgement, particularly with respect to milestone contracts that contain multiple obligations. Additionally, management has to consider whether performance obligations should be recognised at a single point in time, which is generally the case for the sale of products by the Group, or over a period of time, which is more common for certain service contracts.

Key sources of estimation uncertainty
Goodwill impairment
Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit, and to determine a suitable discount rate in order to calculate present value. In reviewing the carrying value of goodwill of the Group's businesses, the Board considers the separate plans and cash flows of these businesses consistent with the requirements of IAS 36 *Impairment of Assets*. The plans and cash flows of these businesses reflect current and anticipated conditions in the defence industry.

Capitalised development costs

IAS 38 *Intangible Assets* requires that development costs, arising from the application of research findings or other technical knowledge to a plan or design of a new substantially improved product, are capitalised, subject to certain criteria being met. Determining the future cash flows generated by the products in development requires estimates which may differ from the actual outcome. In particular, this can depend on the estimation applied to future milestone events to secure long-term positions on production contracts.

Deferred tax assets on tax losses and US interest deductions

Applicable accounting standards permit the recognition of deferred tax assets only to the extent that it is probable that future taxable profits will be available to utilise the tax losses carried forward. The assessment of future taxable profits involves significant estimation uncertainty, principally relating to an assessment of management's projections of future taxable income based on business plans and ongoing tax planning strategies. These projections include assumptions about the future strategy of the Group, the economic and regulatory environment in which the Group operates, future tax legislation, and customer behaviour, amongst other variables.

2. SEGMENTAL ANALYSIS

Period to 30 April 2019 (unaudited)

	Sensors & Information £m	**Countermeasures & Energetics £m**	**Unallocated £m**	**Group £m**
Revenue	**53.8**	**85.5**	**-**	**139.3**
Segment result before depreciation, amortisation and non-underlying items	**11.7**	**13.6**	**(5.0)**	**20.3**
Depreciation	**(1.3)**	**(6.3)**	**-**	**(7.6)**
Amortisation	**(0.4)**	**(0.2)**	**-**	**(0.6)**
Segmental underlying operating profit	**10.0**	**7.1**	**(5.0)**	**12.1**
Amortisation of acquired intangibles	**(3.1)**	**(2.5)**	**-**	**(5.6)**
Segmental operating profit	**6.9**	**4.6**	**(5.0)**	**6.5**

Period to 30 April 2018 (unaudited)

	Sensors & Information £m	Countermeasures & Energetics £m	Unallocated £m	Group £m
Revenue	42.3	90.8	-	133.1
Segment result before depreciation, amortisation and non-underlying items	8.8	17.1	(4.2)	21.7
Depreciation	(0.8)	(6.7)	(0.1)	(7.6)
Amortisation	(1.2)	(1.3)	-	(2.5)
Segmental underlying operating profit	6.8	9.1	(4.3)	11.6
Amortisation of acquired intangibles	(3.2)	(2.5)	-	(5.7)
Non-underlying items	(0.6)	(1.5)	(1.6)	(3.7)
Segmental operating profit	3.0	5.1	(5.9)	2.2

Year ended 31 October 2018 (audited)

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

3. ALTERNATIVE PERFORMANCE MEASURES AND DISCONTINUED OPERATIONS

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

	Unaudited period to 30 April 2019 £m	Unaudited period to 30 April 2018 £m	Audited year ended 31 October 2018 £m
Acquisition and disposal related costs	**-**	(0.5)	(4.1)
Business restructuring costs	**-**	(1.6)	(8.1)
Less non-underlying depreciation in business restructuring costs	**-**	0.7	0.7
Legal costs	**-**	(1.5)	(12.8)
Change of Chief Executive	**-**	-	(1.7)
Pension scheme charge in respect of GMP equalisation court ruling	**-**	-	(0.8)
Loss on the movement in the fair value of derivative financial instruments	**-**	(0.1)	(0.4)
Impact of non-underlying items on EBITDA	**-**	(3.0)	(27.2)
Non-underlying depreciation in business restructuring costs	**-**	(0.7)	(0.7)
Impairment of capitalised development costs	**-**	-	(7.4)
Intangible amortisation arising from business combinations	**(5.6)**	(5.7)	(11.6)
Impact of non-underlying items on operating profit and profit before tax	**(5.6)**	(9.4)	(46.9)
Tax impact of non-underlying items	**1.2**	(16.1)	(13.1)
Impact of non-underlying items on continuing profit after tax	**(4.4)**	(25.5)	(60.0)
Discontinued operations after tax	**(4.9)**	(0.8)	(71.2)
Impact of non-underlying items on profit after tax	**(9.3)**	(26.3)	(131.2)

Acquisition and disposal-related costs
In the year to 31 October 2018, acquisition and disposal-related costs of £4.1m (H1 2018: £0.5m) related to transaction costs and an earnout payment on the acquisition of Wallop Defence Systems' assets for which no provision was made at the time of acquisition.

Business restructuring costs
In the year to 31 October 2018, business restructuring costs of £8.1m (H1 2018: £1.6m) related to the non-capital costs/asset write offs and demolition element of the Tennessee capacity expansion project.

Legal costs
In the year to 31 October 2018, legal costs of £12.8m (H1 2018: £1.5m) were in relation to ongoing investigations.

Change of Chief Executive
In the year to 31 October 2018, the costs associated with the change of Chief Executive were £1.7m (H1 2018: £nil). As disclosed in the directors' report contained in the Annual Report and Accounts 2018, Michael Flowers stepped down as Group Chief Executive on 30 June 2018 and Michael Ord was appointed as Group Chief Executive on 1 July 2018.

Pension scheme charge in respect of GMP equalisation court ruling
On 26 October 2018, the High Court handed down a judgement involving the Lloyds Banking Group's defined benefit pension schemes. The judgement concluded that pension schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension benefits. We are working with our actuarial advisers to understand the extent to which the judgement crystallises any additional liabilities for the Group UK defined benefit pension scheme. We are early in the evaluation process, but we estimate that the additional liability could be in the region of £0.4m and £1.2m, therefore we recognised £0.8m (H1 2018: £nil) in our 2018 results.

Derivative financial instruments
Included in non-underlying items is a £nil (H1 2018: £0.1m loss, 2018: £0.4m loss) on the movement in fair value of derivative financial instruments. This is excluded from underlying earnings to ensure the recognition of the gain or loss on the derivative matches the timing of the underlying transaction.

Impairment of capitalised development costs
In the year to 31 October 2018, an impairment of capitalised product development costs of £7.4m (H1 2018: £nil) was recognised following the appointment of a new Chief Executive who conducted a strategic review of the Group's product portfolio to rationalise future resources on areas where the Group had a niche position and competitive advantage. The carrying value of the products for which an impairment charge was recognised exceeded the expected future value, hence an impairment charge was recognised in the year.

Amortisation of acquired intangibles
Also included is the amortisation charge arising from business combinations of £5.6m (H1 2018: £5.7m, 2018: £11.6m). Amortisation of acquired intangibles arising from business combinations is associated with acquisition costs under IFRS 3 *Business Combinations*. As such, these costs are not reflective of the underlying activities of the Group and therefore have been excluded from the underlying measures.

Tax
In the period to 30 April 2019, the tax impact of continuing non-underlying items comprises a £1.2m tax credit (H1 2018: £1.3m credit, 2018: £4.3m credit) on the above non-underlying items. In the year to 31 October 2018, the tax impact of non-underlying items also comprised a £17.4m charge (H1 2018: £17.4m charge) in respect of the enactment of the US Tax Cuts and Jobs Act on 22 December 2017. These significant one-off tax charges/credits have arisen from a change in legislation, and as such have been removed from underlying results to aid comparability and understanding of the Group's performance.

Discontinued operations
Further details on the results of discontinued operations is presented in note 9.

4. SEASONALITY OF REVENUE

Revenue for both of the two business segments is more weighted towards the second half of the financial year. This second half weighting arises due to customer behaviours in the defence marketplace, the timing of expected contract activity and planned facility maintenance work programmes, and the acceptance testing of product by customers. **5. TAX**

	Unaudited period to 30 April 2019 £m	Unaudited period to 30 April 2018 £m	Audited year ended 31 October 2018 £m
Underlying tax charge	**(2.0)**	(1.8)	(5.7)
Tax impact of non-underlying items	**1.2**	(16.1)	(13.1)
Total statutory tax charge	**(0.8)**	(17.9)	(18.8)

The continuing statutory tax charge totalled £0.8m (H1 2018: £17.9m, 2018: £18.8m) on a continuing statutory profit before tax of £4.3m (H1 2018: £1.1m loss, 2018: £22.0m loss).

The effective tax rate on underlying profit before tax for the period is a charge of 20.2% (H1 2018: 21.7%, 2018: 22.9%). This is lower than the estimated effective tax rate on underlying profit before tax expected for the full year of 21.5% due to prior year tax adjustments.

The US Tax Cuts and Jobs Act ("TCJA") was substantively enacted on 22 December 2017. The TCJA provides for a reduction in the main rate of US federal corporate income tax from 35% to 21% for accounting periods beginning on or after 1 January 2018, thus first impacting Chemring for its 2019 financial year, however the impact on the deferred tax asset was recognised in 2018 hence the significant charge to non-underlying in prior periods.

6. EARNINGS PER SHARE

Earnings per share are based on the average number of shares in issue, excluding own shares held, of 279,999,500 (H1 2018: 279,642,267, 2018: 279,768,360). Diluted earnings per share has been calculated using a diluted average number of shares in issue, excluding own shares held, of 284,800,433 (H1 2018: 285,755,048, 2018: 285,993,316).

No dilution has been recognised for the purposes of basic earnings per share from continuing operations in April 2018 and 31 October 2018 due to there being a loss per share for the period to 30 April 2018 and 31 October 2018.

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

			Unaudited Half year to 30 April 2019			Unaudited Half year to 30 April 2018
	£m	**Basic EPS (pence)**	**Diluted EPS (pence)**	£m	Basic EPS (pence)	Diluted EPS (pence)
Underlying profit after tax	**7.9**	**2.8**	**2.7**	6.5	2.3	2.3
Non-underlying items	**(4.4)**			(25.5)		
Profit/(loss) from continuing operations	**3.5**	**1.2**	**1.2**	(19.0)	(6.8)	(6.8)

Profit/(loss) from discontinued operations	**(3.9)**	**(1.3)**	**(1.3)**	4.2	1.5	1.5
Total loss after tax	**(0.4)**	**(0.1)**	**(0.1)**	(14.8)	(5.3)	(5.3)

			Audited year to 31 October 2018
	£m	Basic EPS (pence)	Diluted EPS (pence)
Underlying profit after tax	19.2	6.9	6.7
Non-underlying items	(60.0)		
Loss from continuing operations	(40.8)	(14.6)	(14.6)
Loss from discontinued operations	(65.0)	(23.2)	(23.2)
Total loss after tax	(105.8)	(37.8)	(37.8)

7. DIVIDENDS

On 20 April 2018 a dividend of 2.0p per ordinary share was paid to shareholders on the register on 6 April 2018 and an interim dividend of 1.1p per ordinary share was paid on 14 September 2018 to shareholders on the register on 31 August 2018.

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

The Board also declared an interim dividend in respect of 2019 of 1.2p per ordinary share which will be paid on 13 September 2019 to shareholders on the register on 30 August 2019. In accordance with accounting standards this dividend has not been recorded as a liability as at 30 April 2019.

8. FINANCIAL INSTRUMENTS

As at 30 April 2019, there were no significant differences between the book value and fair value (as determined by market value) of the Group's derivative financial instruments.

The fair value of derivative financial instruments is estimated by discounting the future contracted cash flow using readily available market data and represents a Level 2 measurement in the fair value hierarchy under IFRS 7 *Financial Instruments: Disclosures*. As at 30 April 2019, the total fair value of forward foreign exchange contracts recognised in the condensed consolidated balance sheet were an asset of £0.1m (H1 2018: £0.4m, 2018: £0.1m), a current liability of £0.4m (H1 2018: £0.3m, 2018: £0.3m), and a non-current liability of £0.2m (H1 2018: £nil, 2018: £0.2m).

9. DISCONTINUED OPERATIONS

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

	Unaudited Half year to 30 April 2019 £m	Unaudited Half year to 30 April 2018 £m	Audited Year to 31 Oct 2018 £m
Revenue	**32.2**	96.2	138.6
Underlying operating (loss)/profit from discontinued operations	**(2.0)**	6.5	8.0
Tax on underlying operating (loss)/profit from discontinued operations	**3.0**	(1.5)	(1.8)
Profit after tax from underlying discontinued operations	**1.0**	5.0	6.2
Profit after tax is analysed as:			
Before exceptional items	**1.0**	5.0	6.2
Exceptional items	**(3.1)**	(1.1)	(72.0)

Tax on exceptional items	-	0.3	0.8
	(3.1)	(0.8)	(71.2)
(Loss)/profit after tax from discontinued operations	**(2.1)**	4.2	(65.0)
Loss on disposal of the subsidiary after tax – exceptional item	**(1.8)**	-	-
(Loss)/profit from discontinued operations	**(3.9)**	4.2	(65.0)

In the period to 30 April 2019 the exceptional items include an impairment loss of £3.1m in respect of the carrying value of Chemring Defence UK Limited.

In the year to 31 October 2018 the exceptional items include the amortisation of acquired intangibles of £2.7m (H1 2018: £1.1m) and an impairment loss of £69.3m (H1 2018: £nil) in respect of the carrying values of Chemring Defence UK Limited, Chemring Ordnance Inc., B.D.L. Systems Limited and Richmond Electronics and Engineering Limited was recorded.

Amortisation of acquired intangibles arising from business combinations is associated with acquisition costs under IFRS 3 *Business Combinations*. As such, these costs are not reflective of the underlying activities of the discontinued operations and therefore have been treated as exceptional items. Impairment losses have been removed from underlying measures for improved comparability between reporting periods. This is in line with the Group's accounting policy.

The Group completed the sale of the entire issued share capital of Chemring Military Products, Inc., to Global Ordnance LLC on 5 April 2019. Under the terms of the agreement, the Group received £1.7m upon completion of the transaction on 5 April 2019. Deferred consideration of £0.7m is payable on the first anniversary of the transaction. A further deferred consideration amount of £0.4m is payable on the second anniversary of the transaction.

The Group is entitled to further contingent consideration following the sale of up to £0.8m if certain performance related and event driven milestones are achieved by Chemring Military Products, Inc. No value has been assigned to this consideration based on the probability assessment of the associated milestones being reached.

	Unaudited Half year to 30 April 2019 £m
Consideration received or receivable:	
Cash	**1.7**
Fair value of deferred consideration	**1.1**
Total disposal consideration	**2.8**
Net assets and liabilities disposed of	**(3.6)**
Disposal costs	**(1.0)**
Loss on disposal before tax and reclassification of foreign currency translation reserve	**(1.8)**
Reclassification of foreign currency translation reserve	**-**
Income tax on loss	**-**
Loss on disposal after tax	**(1.8)**

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

	5 April 2019 £m
Trade and other receivables	**14.3**
Total assets	**14.3**
Trade and other payables	**(10.7)**
Total liabilities	**(10.7)**
Net assets	**3.6**

10. RETIREMENT BENEFIT SURPLUS

The defined benefit surplus are calculated using an actuarial valuation as at 30 April 2019. In the period to 30 April 2019, retirement benefit surplus improved to a £7.8m surplus (H1 2018: £3.5m, 2018: £7.5m), principally as a result of employer contributions paid in accordance with the funding plan agreed with the trustees of the Chemring Group Staff Pension Scheme in 2015.

11. RELATED PARTY TRANSACTIONS

The Group had no related party transactions during the period requiring disclosure.

12. CASH FLOWS FROM UNDERLYING OPERATIONS

	Unaudited Half year to 30 April 2019 £m	Unaudited Half year to 30 April 2018 £m	Audited Year to 31 Oct 2018 £m
Operating profit/(loss) from continuing operations	**6.5**	2.2	(15.9)
Amortisation of development costs	**0.5**	2.4	3.6
Amortisation of intangible assets arising from business combinations	**5.6**	5.7	11.6
Amortisation of patents and licenses	**0.1**	0.1	0.1
Loss on disposal of non-current assets	**0.6**	-	0.2
Depreciation of property, plant and equipment	**7.6**	7.6	15.3
Non-cash movement of non-underlying items	**-**	3.6	35.3
Loss on the fair value of derivative financial instruments	**0.1**	0.1	-
Share-based payment expense	**0.2**	1.3	1.1
Operating cash flows before movements in working capital	**21.2**	23.0	51.3
(Increase)/decrease in inventories	**(8.3)**	(1.6)	1.6
Decrease/(increase) in trade and other receivables	**2.6**	(0.4)	0.2
Increase/(decrease) in trade and other payables	**6.4**	(1.8)	(8.3)
Decrease in provisions	**-**	(0.1)	(0.1)
Operating cash flow from continuing underlying operations	**21.9**	19.1	44.7
Discontinued operations			
Operating cash flow from discontinued underlying operations	**9.4**	2.3	12.2
Cash impact of non-underlying items from discontinued operations	**(0.2)**	-	(0.1)
Net cash inflow from discontinued operating activities	**9.2**	2.3	12.1
Net cash inflow/(outflow) from discontinued investing activities	**0.6**	(0.9)	(1.2)
Net cash inflow from discontinued operations	**9.8**	1.4	10.9

13. ANALYSIS OF NET DEBT

	As at 1 Nov 2018 £m	Cash flows £m	Non-cash changes £m	Exchange rate effects £m	**As at 30 April 2019 £m**
Cash and cash equivalents	9.6	(2.9)	-	(0.3)	**6.4**
Debt due within one year	-	-	(65.4)	1.3	**(64.1)**
Debt due after one year	(91.3)	(0.2)	65.4	(0.1)	**(26.2)**
Preference shares	(0.1)	-	-	-	**(0.1)**
	(81.8)	(3.1)	-	0.9	**(84.0)**

The Group increased its existing revolving credit facility to £136.7m during the period. The revolving credit facility was first established in October 2018 and has a four-year initial term with options to extend by a further two years.

The Group had £117.3m (H1 2018: £67.6m, 2018: £68.1m) of undrawn borrowing facilities at the half year.

The Group is subject to two key financial covenants, which are tested quarterly. These covenants relate to the leverage ratio between "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. The Group was in compliance with the covenants throughout the period.

14. EXCHANGE RATES

The following exchange rates applied during the year:

	Average rate H1 2019	**Closing rate H1 2019**	Average rate H1 2018	Closing rate H1 2018	Average rate 2018	Closing rate 2018
AU Dollar	**1.80**	**1.85**	1.78	1.82	1.74	1.80
US Dollar	**1.30**	**1.30**	1.39	1.38	1.34	1.28

The translation of foreign currency items in the financial statements are dependent on the prevailing foreign exchange rates. For the period ended 30 April 2019, a 10 cent increase in the US dollar exchange rate would have decreased reported underlying operating profit for the first half of 2019 by approximately £0.6m and decreased reported net debt at 30 April 2019 by approximately £4.2m.

15. CONTINGENT LIABILITIES

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

A dispute between Alloy Surfaces Company, Inc. and the US Army, in relation to disputed pricing of a certain historic contract fulfilled by Alloy Surfaces Company, Inc., proceeded to a hearing in front of the US Armed Services Board of Contract Appeals ("ASBCA") in April 2017. ASBCA is expected to take at least two years to issue its decision in relation to this matter, and therefore it is too early to predict the outcome of the hearing. The range of possible outcomes is between £nil to £12.0m. A provision of £1.1m (H1 2018: £1.0m, 2018: £1.0m) exists to cover estimated legal costs for the Group with regards to this issue.

Since 2013, the Group has benefited from the UK's Controlled Foreign Company ("CFC") Finance Company exemption. The European Commission has launched an investigation into whether the UK's CFC Finance Company exemption breaches state aid rules. No timescale has been set for the review and this could take several years to conclude. On 2 April 2019 the European Commission delivered a judgement which concluded in some circumstances the UK's CFC exemption may breach state aid rules. The UK Government is working to understand the circumstances where it is required to seek repayment of the lost tax from the relevant taxpayers. Given the early stage of this process, it is too early to determine whether a tax liability is probable. The range of possible outcomes is between £nil and £15m, plus interest.

The Serious Fraud Office ("SFO") is currently undertaking a formal investigation into concerns about bribery, corruption and money laundering involving intermediaries who previously represented one of the Group's UK-based subsidiaries, Chemring Technology Solutions Limited ("CTSL"), and its predecessor companies. The investigation commenced following a voluntary report made by CTSL relating to two specific historic contracts, the first of which was awarded prior to the Group's ownership of the business concerned and the second in 2011, neither of which are considered to be material in the context of the Group. It is too early to predict the outcome of the SFO's investigation, in which the Group continues to co-operate fully.

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

16. EVENTS AFTER THE BALANCE SHEET DATE

There are no material post balance sheet events.

17. PRINCIPAL RISKS AND UNCERTAINTIES

The principal risks and uncertainties which could have a material impact on the Group's performance and could cause actual results to differ materially from expected and historical results have not changed significantly from those set out in the Group's 2018 Annual Report and Accounts. A detailed description of the Group's principal risks and uncertainties and the ways they are mitigated can be found on pages 34 to 41 of the 2018 Annual Report and Accounts. These risks can be summarised as:

- health and safety risks;
- environmental laws and regulations;
- possible defence budget cuts;
- timing and value of orders;
- contract-related risks;
- political risks;
- manufacturing risks;
- technology risks;
- Brexit;
- people risks;
- product liability and other customer claims;
- compliance and corruption risks;
- product-related risks;

- cyber-related risks; and
- financial risks.

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

18. CORPORATE WEBSITE

Further information on the Group and its activities can be found on the corporate website at www.chemring.co.uk.

INDEPENDENT REVIEW REPORT TO CHEMRING GROUP PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 April 2019 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Cash Flow Statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 April 2019 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

The impact of uncertainties due to the UK exiting the European Union on our review

Uncertainties related to the effects of Brexit are relevant to understanding our review of the condensed consolidated financial statements. Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. An interim review cannot be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Andrew Campbell-Orde
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5 June 2019